

AS PRO KAPITAL GRUPP

*Consolidated Annual Report
for the Year Ended 31 December 2011*

Parent company of the Group	AS Pro Kapital Grupp
Beginning of the financial year	1 January 2011
End of the financial year	31 December 2011
Registration code	10278802
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Fields of business activity	Activities of holding companies (EMTAK 64200) Buying and selling of own real estate (EMTAK 68100) Renting and operating of own or leased real estate (EMTAK 68200) Management of real estate on a fee or contract basis (EMTAK 68320)
Auditor	AS Deloitte Audit Eesti
Date of preparation of the financial statements	8 March 2012
Documents enclosed with the annual report	Independent certified auditor's report Proposal for profit distribution Revenue allocation by Estonian Classification of Economic Activities 2008

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AS Pro Kapital Grupp (hereinafter also referred to as "the Ultimate Parent Company") is a holding company. As of 31 December 2011 Ultimate Parent Company holds sub-group in Estonia (Pro Kapital Eesti AS), Latvia (Pro Kapital Latvia PJSC), Lithuania (Pro Kapital Vilnius Real Estate UAB), and other subsidiaries not belonging into aforementioned sub-groups in Germany (Pro Kapital Germany GmbH and Domina Tourismus GmbH) (hereafter also referred to as "the Group") and whose main fields of activity are coordination and control the development and implementation of the subsidiaries' business strategies, Group financial management, business reporting and investor relations.

In 2011 on average 118 full-time employees were engaged in the Group (2010: 600). Total salaries and wages amounted to 3.3 million euros (2010: 18.6 million euros), including payments to the members of the Group entities' Management Boards and local managements as salaries and bonuses in the amount of 1.1 million euros (2010: 1.1 million euros).

For the Group the most relevant events of the financial year were as follows.

The Ultimate Parent Company

In connection with euro introduction in Estonia, shareholders meeting of the Ultimate Parent Company decided to decrease share capital by reducing the nominal value of share, after which the AS Pro Kapital Grupp share capital amounted to 31 911 thousand euros consisting of 53 185 422 ordinary shares with a nominal value of 0.6 euros per share.

Demerger by separation

Following the proposal of the Management Board of the Ultimate Parent Company and the approval of the Council and the largest shareholders, it was decided to divide the Ultimate Parent Company by separation. Purpose of the decision was to separate different target markets and business strategies, as business activity in Baltics was focused on residential, business and commercial property developments and in Italy on sale of time sharing and development of projects related to hotel operations business.

On 30 June 2011 the Management Board of the Ultimate Parent Company signed the demerger plan which foresaw the demerger by separation. The company being divided is AS Pro Kapital Grupp and the recipient company is AS Domina Vacanze Holding, which is established in the process of demerger and which receives all investments, receivables and liabilities of AS Pro Kapital Grupp which are related to the Italian subsidiaries and 9 500 thousand euros in cash.

The demerger plan was signed and the assets subject to transferral were evaluated based on the audited 2010 annual financial statements as of 31 December 2010. Accordingly AS Pro Kapital Grupp is required to transfer its net assets to AS Domina Vacanze Holding (assets less liabilities) in the amount equivalent to 74 741 thousand euros (including cash in the amount of 9 500 thousand euros).

It was stated in the demerger plan that the investments transferred is evaluated according to the net book value as of 31 December 2010 using the equity method and changes in the values of the investments that occur between 1 January 2011 and transition date is recognized as profit or loss in the Income Statement of AS Domina Vacanze Holding. Changes in the values of receivables or liabilities taken place between 1 January 2011 and demerger moment is taken into account when calculating the amount of cash to be transferred (when such liabilities decrease the amount of cash transferred decreases, when such receivables inverse the amount of cash increases etc.)

It was agreed upon in the demerger plan that the recipient company will partially receive contributed equity as according to the Income Tax Law § 50 p.2. According to the demerger plan the equity contributions made by the shareholders to AS Pro Kapital Grupp and share premium in the amount of

MANAGEMENT REPORT

102 271 thousand euros is divided as follows: 71 590 thousand euros remain as the share capital of AS Pro Kapital Grupp and 30 681 thousand euros is the share capital of AS Domina Vacanze Holding.

At the extraordinary shareholders' meeting on 16 September 2011 the shareholders of AS Pro Kapital Grupp approved the demerger plan. Due to the decrease in net assets as a result of the demerger by acquisition, in the amount of 74 741 thousand euros the shareholders decided to cover the loss in the amount of 2 938 thousand euros using the mandatory legal reserve and in the amount of 45 089 thousand euros using the share premium and to decrease the share capital by 21 274 thousand euros, until it reached 10 637 thousand euros by lowering the nominal value of shares from 0.6 to 0.2 euros.

The demerger by acquisition and the decreasing of the share capital were registered in the Commercial Register on 23 November 2011. On the same date also AS Domina Vacanze Holding - the company established to manage the Italian assets was registered in the Commercial Register. As a result of the demerger each of the shareholders of acquired shares of AS Domina Vacanze Holding in the amount equivalent to the amount of shares they held in AS Pro Kapital Grupp.

AS Pro Kapital Grupp transferred net assets (assets less liabilities) in the amount of 74 741 thousand euros, of which 3 198 thousand euros was in cash to AS Domina Vacanze Holding on the day of demerger.

In the process of demerger shares in the following associations were also transferred: Domina Vacanze S.p.A., Serval S.r.l., Immobiliare Novate S.p.A. and P.K.Sicily S.p.A. Additionally receivables from and liabilities to the noted associations were transferred. In the process of demerger the liabilities associated with the convertible bonds were divided so that the liability of AS Pro Kapital Grupp remains 11 272 thousand euros and the liability of and AS Domina Vacanze Holding remains 6 844 thousand euros.

Post-demerger AS Pro Kapital Grupp remains active on Estonian, Latvian, Lithuanian and German markets through its subsidiaries and is focused on residential, business and commercial property development. Three hotels (in Riga, Tallinn and in Bad Kreuznach in Germany) which operate under the Domina brand and are situated on Group property remains as part of the Group. Operating the hotels is not of high importance in the Group's strategy.

As a side business the Group offers real estate development and management to third parties.

Convertible bonds

In accordance with the decision of extraordinary meeting of shareholders of AS Pro Kapital Grupp on 13 April 2009, the Ultimate Parent Company's management offered for subscription up to 10 000 000 convertible bonds of Ultimate Parent Company and conditionally increase share capital of the Ultimate Parent Company up to 10 000 000 shares by swapping convertible bonds for Ultimate Parent Company shares.

Subscription for convertible bonds was available till 1 January 2012. During subscription period, the Management Board of the Ultimate Parent Company has the right to arrange multiply subscription rounds. Offer had to be arranged in a way that it would not qualify either jointly or separately as public offering of securities, according to directive 2003/71/EU and applicable laws. Issuing price of convertible bonds was decided separately for every bidding round, with a restriction of minimum price at 4 euro per bond. Minimum subscription amount was 50 000 euros and annual interest rate 7% of issuing price.

Form the above mentioned, the Management Board of the Ultimate Parent Company offered for subscription 600 000 convertible bonds on 3 December 2010 (sixth bidding round) and 1 000 000 convertible bonds on 8 March 2011 (seventh bidding round) with an issue price of 4,5 euros. During sixth and seventh bidding rounds was subscribed 569 273 and 111 111 convertible bonds from which the Ultimate Parent Company received 2 562 thousand and 500 thousand euros accordingly.

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Convertible bonds subscribed during the sixth bidding period were registered in the Estonian Central Register of Securities on 8 March 2011 and subscribed during the seventh round on 25 May 2011.

During the emissions the Ultimate Parent Company has issued convertible bonds in the amount of 4 025 758 euros. Every convertible bond is exchangeable with the share of the Ultimate Parent Company. In accordance with that, the Ultimate Parent Company will issue maximum 4 025 758 shares on a due date. Exact amount of share capital increased will be identified by 31 December 2012, when the last chance to exchange convertible bonds for shares of the Ultimate Parent Company expires.

In connection with the demerger of the Ultimate Parent Company also the split of convertible bonds was arranged. Every subscriber of the convertible bond of the Ultimate Parent Company additionally received a convertible bond (nominal value 0,1 euro) of AS Domina Vacanze Holding, which is exchangeable for one share of AS Domina Vacanze Holding share (nominal value is 0,1 euro). Maturity date of AS Domina Vacanze Holding convertible bond is the same as maturity date of the Ultimate Parent Company bond.

For every convertible bond the Ultimate Parent Company received 4.5 euros (issuing price). As a result of the split every convertible bond of the Ultimate Parent Company carries interest on the par of 2.8 euros and AS Domina Vacanze Holding on 1.7 euros.

The price of 1.7 euros for the convertible bond of AS Domina Vacanze Holding was considered settled as a part of the price received from the initial convertible bond of AS Pro Kapital Grupp. During the demerger AS Domina Vacanze Holding has given total assets, according to demerger plan, corresponding to the issuing price of convertible bond of AS Domina Vacanze Holding.

Every owner of convertible bond of the Ultimate Parent Company has a right, (after the split of the Ultimate Parent Company and convertible bonds) to exchange it for the shares of the Ultimate Parent Company or redemption at 2.8 euros, according to deadlines stipulated in conditions.

Other events

By 14 September 2011 liquidation of subsidiary of the Ultimate Parent Company, Pro Kapital Ukraine 3AT was finished. In regard of this, the business activity of the Group ended in Ukraine.

On 15 September 2011 the Ultimate Parent Company established a subsidiary Pro Kapital Germany Holdings OÜ (holding) with the share capital of 2 500 euros.

On 28 November 2011 the Ultimate Parent Company sold 100% of Pro Kapital Rus OOO shares at the price of 10 thousand Russian roubles (292 euros). Profit from sale of ownership amounted to 6 589 thousand euros. In regard of this, business activity of the Group ended in Russia.

Pro Kapital Eesti sub-group

On 17 March 2011 Pro Kapital Eesti signed a sale agreement of AS Kristiine Kaubanduskeskus business activity with the initial price of 105 000 euros. Final proceeding according to the conditions stipulated in the agreement amounted to 104 997 thousand euros. Agreement became effective on 2 May 2011. Profit from the sale of the business activity amounted to 54 057 euros.

On 17 March 2011 AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ with what they assure in solitary the monetary liabilities of Kristiine Kaubanduskeskus AS, entity belongs to Pro Kapital Eesti sub-group, to Kristiine Keskus OÜ in case Kristiine Kaubanduskeskus AS has violated the confirmations of the sales contract of the shopping centre and if Kristiine Keskus OÜ can justify its claim against Kristiine Kaubanduskeskus AS according to the contract. The guarantee is conditional and the guarantors are responsible in case Kristiine Kaubanduskeskus AS is not able to settle the claim. The guaranteed amount is 5 000 000

MANAGEMENT REPORT

euros. The guarantee is effective for 18 months from the enforcement of the sales contract, i.e. until 2 November 2012.

On 17 March 2011 AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ, to assure solitary potential claims related to the loan agreement concluded on 9 March 2004 between Kristiine Kaubanduskeskus AS and AS Pro Kapital Eesti. The maximum amount of the liability is equal with the amount of potential claim. The guarantee is valid for 72 months from the enforcement of the sales contract, i.e. until 2 May 2017.

On 2 May 2011 Kristiine Kaubakeskus AS, a subsidiary of AS Pro Kapital Eesti, repaid all its bank loans in the amount of 63.4 million euros. The mortgages with pledged loans of Kristiine Kaubanduskeskus AS were removed.

On 27 May 2011 the shareholders' meeting of AS Kristiine Kaubanduskeskus decided to change the business name of the subsidiary. The new name of the company is AS Täismaja. The change of the name was registered in the Commercial Register on 30 May 2011.

On 22 November 2011 a subsidiary of the Ultimate Parent Group called AS Tondi Kvartal and AS Swedbank signed appendix to loan agreement (loan agreement is effective since 16 January 2011), which stipulates new maturity date as 16 January 2013 and an annual interest rate of 6 month Euribor + 2.5%.

Pro Kapital Latvia sub-group

In 2011, Pro Kapital sub-group in Latvia continued the development and management of existing real estate projects.

On 6 May 2011 a subsidiary of Pro Kapital Latvia PJSC called Investhotel SIA and AS Swedbank signed an appendix to loan agreement (loan agreement is effective since 9 October 2002), which stipulates new maturity date 1 May 2015. Other loan conditions remained unchanged.

On 22 July 2011 Pro Kapital Latvia PJSC sold 67% of ownership in subsidiary PK Investments SIA at the price 6 437 euros. Profit from the sale of ownership amounted to 2 736 thousand euros.

A subsidiary of Pro Kapital Latvia called Pasaules tirdzniecības centrs "Rīga" SIA continued management and rental of offices at the address Elizabetes 2, Riga.

A subsidiary of Pro Kapital Latvia called Nekustamo īpašumu sabiedrība Prokurs SIA continued sale of renovated apartment at the address Kugu 26, Riga. By the end of 2011 four apartments remained unsold but all of them were rented out.

Klīversala RE SIA, an entity belonging to the Pro Kapital Latvia sub-group continued the activities related to getting confirmation to detailed plan of the project in the Trijādības region in Riga. The detailed plan is expected to be confirmed in 2012. 86 500 m² of dwelling areas and 67 200 m² of commercial areas are planned onto the 56 000 m² territory.

To the subsidiary of Pro Kapital Latvia called Zvaigznes Centrs SIA belongs 19 000 property in Brīvības area. It is planned to build or renovate 23 600 m² residential and commercial property there but no decision to start construction activities has been made during the reporting period.

In 2011 Tallina Nekustamie Īpašumi SIA, an entity belonging to the Pro Kapital Latvia sub-group continued preparations in developing the downtown area in Riga, a building permit is expected to be received in 2012 after which the construction can begin. It is planned to renovate 25 000 m² of dwelling and commercial areas on the territory owned by the entity.

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A subsidiary of Pro Kapital Latvia called Investhotel SIA continued to rent out hotel "Domina Inn Riga" at the address Pulkveža Brieža 11, Riga to operator called Hotel Management Services SIA, which is also a subsidiary of Pro Kapital Latvia.

Pro Kapital Vilnius sub-group

In 2011, Pro Kapital sub-group in Lithuania continued the development, sale and management of existing real estate projects.

PK Invest UAB, an entity belonging to the Pro Kapital Vilnius sub-group continued to sell the first stage of 2009 completed commercial and dwelling areas in Agnionu, at the border of the old town of Vilnius. During the reporting period 1 610 m² of the area was sold, by the end of 2011 the unsold area was 7 990 m². The second stage of the project, which comprises 13 000 m² of commercial and residential areas, is expected to start in 2012.

On 14 November 2011 a subsidiary of Pro Kapital Vilnius Real Estate UAB called PK Invest UAB and AB Swedbank signed an appendix to loan agreement, which stipulates new maturity date as 7 December 2013 and annual interest rate of 6 month Euribor + 2.4%.

Pro Kapital Germany Holdings OÜ

On 10 November 2011 Pro Kapital Germany Holdings Purchased 100% of ownership in the company Domina Tourismus GmbH for 1 euro. The company is an operator of hotel "Kurhaus & Conference Park" located Bad Kreuznach, Germany.

Pro Kapital Germany GmbH

Pro Kapital Germany GmbH continued to rent out the hotel named "Kurhaus & Conference Park" located in Germany, Bad Kreuznach to Domina Tourismus GmbH, - a subsidiary of Pro Kapital Germany Holdings OÜ.



Paolo Vittorio Michelozzi

AS Pro Kapital Grupp
Member of the Management Board

AS Deloitte Audit Eesti

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands euros)	Notes	31.12.2011	Adjusted 31.12.2010	Adjusted 01.01.2010
Current assets				
Cash and bank accounts	2	8 637	4 303	7 040
Shares and securities	8	0	0	9
Receivables				
Trade receivables		669	14 780	19 894
Miscellaneous receivables		1 874	7 899	11 645
Accrued income		55	309	781
Prepaid expenses		267	16 475	19 174
incl. prepaid taxes and taxes reclaimable		193	12 732	13 460
Inventories	3			
Property held for sale		53 054	164 425	157 200
Other inventories		132	579	12 588
Total		53 186	165 004	169 788
Non-current assets classified as held for sale	12	0	50 044	0
Total current assets		64 688	258 814	228 331
Non-current assets				
Long-term financial investments				
Shares and securities	8	0	1 309	2 383
Miscellaneous long-term receivables	9	152	3 449	4 465
Total		152	4 758	6 848
Deferred income tax assets	28	370	32	0
Tangible assets	10	21 863	81 288	70 299
Investment property	12	26 111	26 111	61 265
Intangible assets	11	288	1 885	2 145
Total non-current assets		48 784	114 074	140 557
TOTAL ASSETS		113 472	372 888	368 888

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY

(in thousand euros)	Notes	31.12.2011	Adjusted 31.12.2010	Adjusted 01.01.2010
Current liabilities				
Short term debt	13	14 002	83 299	11 935
Client prepayments		838	6 471	8 500
Trade payables		724	23 236	28 670
Taxes payable		95	1 121	1 542
Accrued expenses		1 063	1 705	2 085
Short-term provisions	14	1 091	5 110	676
Prepaid income		4	153	138
Total current liabilities		17 817	121 095	53 546
Non-current liabilities				
Long-term debt	14	21 462	84 279	127 165
Other long-term liabilities	14, 17	0	24 780	21 015
Deferred income tax liability	14, 28	1 962	1 585	1 615
Long-term provisions	14	173	1 245	1 964
Total non-current liabilities		23 597	111 889	151 759
Total liabilities		41 414	232 984	205 305
Equity attributable to equity holders of the parent				
Share capital in nominal value	21	10 637	33 992	33 992
Share premium		0	45 089	45 089
Reserves	21	11 330	2 938	2 938
Retained earnings		21 504	46 733	72 313
Foreign currency differences		-1 130	-1 157	-580
Profit (-loss) for the financial year		28 120	-22 351	-25 247
Total equity attributable to equity holders of the parent		70 461	105 244	128 505
Non-controlling interest	20	1 597	34 660	35 078
Total owners' equity		72 058	139 904	163 583
TOTAL LIABILITIES AND OWNERS' EQUITY		113 472	372 888	368 888

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousand euros)	Notes	2011	Adjusted 2010*
Continuing operations			
Operating income			
Revenue	22, 23	17 449	21 051
Cost of goods sold	24	16 407	17 015
Gross profit		1 042	4 036
Marketing expenses	25	352	609
Administrative expenses	25	5 237	4 029
Other income	26	54 280	219
Other expenses	26	1 875	4 600
Operating profit (-loss)		47 858	-4 983
Financial income	27	4 770	2 150
Financial expense	27	2 877	4 204
Profit (-loss) before income tax		49 751	-7 037
Income tax	28	-351	-17
Profit (-loss) for the financial year from continuing operations		50 102	-7 020
Profit (-loss) for the financial year from discontinuing operations	5	6 046	-15 326
Profit (-loss) for the financial year		56 148	-22 346
Net profit (-loss) for the financial year attributable to:			
Equity holders of the parent		28 120	-22 351
Non-controlling interest		28 028	5
Share profit (loss) calculated by equity holders of the parent from net profit (- loss) for the financial year:			
	29		
Net profit (-loss) per share (in euros)		0,53	-0,42
Diluted net profit (-loss) per share (in euros)		0,53	-0,42
Share profit (loss) calculated by equity holders of the parent from profit (- loss) for the financial year from continuing operations:			
Equity holders of the parent		21 931	-7 413
Non-controlling interest		28 171	393
Share profit (loss) calculated by equity holders of the parent from profit (- loss) for the financial year from continuing operations:			
Net profit (-loss) per share (in euros)		0,41	-0,14
Diluted net profit (-loss) per share (in euros)			-0,14

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousand euros)	2011	Adjusted 2010*
Net profit (-loss) for the financial year	56 148	-22 346
Other comprehensive income (-loss), net of income tax		
Loss for retranslation of foreign currency	-62	-609
Profit from revaluation of tangible assets	11 330	0
Other comprehensive profit (loss) for the financial year	11 268	-609
Comprehensive profit (loss) for the financial year	67 416	-22 955
Comprehensive profit (loss) for the financial year attributable to:		
Equity holders of the parent	39 351	-22 928
Non-controlling interest	28 065	-27

* Non-continuing operations (note 5)

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand euros)	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (-loss) for the financial year		56 148	-22 346
Adjustments:			
Depreciation of tangible assets	10	572	3 888
Amortization of intangible assets	11	8	265
Change in fair value of property investment	12	332	0
Profit / loss from disposal of ownership in a subsidiary (net amounts)	6, 27	-2 736	-350
Profit/ loss from discontinuing business activities	5	-6 589	0
Profit / loss from disposal or write-off of tangible assets	10	4	199
Profit / loss from available for sale tangible assets	12, 26	-54 057	0
Change in value of long term investments	8	0	-114
Gain from a bargain purchase of the subsidiary	6	-137	0
Write-down of inventories	3	3 028	-280
Interest income / expenses (net amounts) from continuing operations	27	1 339	1 896
Interest income / expenses (net amounts) from discontinuing operations		244	3 368
Change in deferred tax assets		-370	-32
Change in deferred tax liabilities		-6	-30
Change in provisions	14	835	3 716
Changes in foreign currency rates		-38	-1 829
Other non-monetary changes (net amounts)	2	366	1 334
Change in trade receivables and prepayments		-15 854	12 442
Change in inventory and tangible assets held for sale		4 797	-1 241
Change in liabilities and prepayments collected		-5 243	-7 757
Income tax paid (discontinuing operations)		0	-328
Total cash flows from operating activities		-17 357	-7 199
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flow from acquisition of subsidiaries	6	-22 825	-613
Net cash flow from disposal of subsidiaries	6	6 323	7
Net cash flow from acquisition of subsidiaries (discontinuing operations)	5	-6 218	0
Net cash flow from disposal of subsidiaries (discontinuing operations)	5	-1 043	0
Acquisition of tangible assets	10, 11, 12, 22	-1 322	-23 146
Acquisition of assets held under finance lease		0	3 041
Disposal of tangible assets	10	9	1 767
Disposal of tangible assets held for sale	12	104 997	0
Long-term loans granted		0	-3
Long-term loans returned		1	19
Disposal of short-term financial investments	7	0	1
Acquisition of long-term financial investments	7	0	-773
Disposal of long-term financial investments	7	0	1 961
Interest received		7 641	103
Total cash flows from investing activities		87 563	-17 636

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand euros)	Notes	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES			
Received from issue of convertible bonds	18	3 062	9 812
Repurchase of convertible bonds	18	0	-391
Long-term loans raised		3 144	34 289
Repayment of long-term loans		-70 578	-14 754
Financial lease principals paid	19	0	-927
Investments made by minority shareholder into subsidiaries (net amounts)		4	-111
Interests paid		-1 504	-5 820
Total cash flows from financing activities		-65 872	22 098
Net change in cash		4 334	-2 737
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		4 303	7 040
CASH AT THE END OF THE FINANCIAL YEAR		8 637	4 303

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousand euros)	Notes	No of shares (pcs)	Nominal value of share (EUR)	Attributable to equity holders of the parent					Non-controlling interest	Total equity
				Share capital	Share premium	Reserves	Retained earnings (accumulated loss)	Foreign currency differences		
1 January 2010		53 185 422	0,64	33 992	45 089	2 938	47 066	-580	35 078	163 583
Acquisition of holdings from non-controlling interest in subsidiary	6			0	0	0	-333	0	-280	-613
Increase of share capital in subsidiaries				0	0	0	0	0	2	2
Change in non-controlling interest due to the declaration of dividends in subsidiaries				0	0	0	0	0		
Comprehensive loss for the financial year				0	0	0	0	0	-113	-113
31 December 2010		53 185 422	0,64	33 992	45 089	2 938	24 382	-1 157	34 660	139 904
Share capital conversion into EUR				-2 081	0	0	2 081	0	0	0
Net assets allocated during demerger	5						-74 867	126	-5 011	-79 752
Decrease in share capital to cover the negative equity				-21 274	-45 089	-2 938	69 301	0	0	0
Increase of share capital in subsidiaries				0	0	0	0	0	4	4
Acquisition of holdings from non-controlling interest in subsidiary	6			0	0	0	607	0	-56 279	-55 672
Change in non-controlling interest due to the sale of operating activities	5			0	0	0	0	0	158	158
Comprehensive profit for the financial year				0	0	11 330	28 120	-99	28 065	67 416
31 December 2011		53 185 422	0,20	10 637	0	11 330	49 624	-1 130	1 597	72 058

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



AS Pro Kapital Grupp

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

AS Pro Kapital Grupp (hereinafter also referred to as "the Ultimate Parent Company") is a holding company incorporated and operating in the Republic of Estonia.

The consolidated financial statements as of 31 December 2011 represent the consolidated assets, liabilities, equity, results of operations and cash flows of the Ultimate Parent Company and its subsidiaries (hereinafter also referred together to as "the Group").

As of 31 December 2011, the Group consisted of 23 entities, 5 of which are direct subsidiaries of the Ultimate Parent Company (hereinafter also referred to as "the parent companies of the sub-groups") and 17 were entities controlled by those subsidiaries. Participation in subsidiaries of the Group is presented in Note 4.

1.2. BASIS FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the financial year 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union, and in accordance with Estonian Accounting Act.

The consolidated financial statements are prepared on the accrual basis.

Since 1 January 2011 Estonian became a member of Eurozone and Estonian kroon (EEK) was replaced with euro (EUR). Since that date the Group converted its financial accounting into euros and since 2011 the functional and presentation currency of the Group's Financial Statements is euro. These consolidated financial statements of the Group are compiled in thousands of euros (thousands EUR), if not specifically referred to another unit of measurement.

The principal accounting policies and estimates used in the preparation of the consolidated financial statements, and which are consistent with these applied in prior year, are set in p.1.5.

Use of judgements, estimates and assumptions

According to IFRS, the preparation of the consolidated financial statements assumes judgements, estimates and assumptions to the Group's assets and liabilities which are not readily apparent from other sources as at the balance sheet date and income earned and expenses covered during the reporting period and made by the management board of the Ultimate Parent Company. These estimates are based on historical experience and the up-to-date information about the state of the Group and considering the plans and risks as at the date of the preparation of the consolidated financial statements. The final results of these economic transactions may differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods.

Estimation and decision of management, which influence information presented in financial statements includes following accounting areas:

Classification of real estate

Decision of real estate classification to inventory, property investment or tangible assets 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

course of business. Objects recognized as property investment if purchase objective is gaining profit from rent or rise of market value. Also objects recognized as property investment 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 tangible assets.

Estimation of net realization 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 its 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 property investment

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

Recoverable value of fixed assets

At each balance sheet date, 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 tangible assets

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

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated separately. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.3. CHANGES IN ACCOUNTING PRINCIPLES

The consolidated financial statements have been compiled under principles of consistency and comparability, meaning adherence to the prior principles the accounting policies and representation will be altered only in the case of the requirement of new or revised international financial reporting standards or the interpretations of the standard issued or if a change of the policy provides a more objective overview of the financial position, the economic performance and cash flows of the Group.

Change in presentation of accounting principles for tangible assets group "Land and Buildings"

Compared with the previous year the presentation of accounting principles for tangible assets group Land and Buildings" has changed, The change provides more fair overview on the financial situation of the Group.

In previous periods land and buildings were recognized at cost value, less accumulated depreciation and impairment losses. In reporting period such assets are recognized in balance sheet at their fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses (revaluation model). See Note 10 for details on revaluation made as of 31 December 2011.

According to IAS 8.17 such change in accounting principles should be implemented prospectively and it has no influence on opening balances of the Group financial statements. Revaluation surplus arising from the change in accounting principle applied on "Land and buildings" is presented in owners' equity as reserve.

Change in presentation of accounting principles of Property Investment

During the preparation of current financial statements presentation of accounting principles for property investment were changed. Changes provide more fair overview on the financial situation of the Group.

In previous period property investment were recognized at cost value, less accumulated depreciation and impairment losses. In reporting period such assets are recognized in balance sheet at their fair value.

According to IAS 40 such change in accounting principles should be implemented retrospectively Taking into account the demerger of the Ultimate Parent Company, only those property investment were revalued retrospectively, which are still owned by the Group as of 31 December 2011. For those investment properties that were not in the possession of the Group as of 31 December 2011, no fair values for comparative periods were reliably determinable by alternative means. At comparative periods such investment property was presented at cost less depreciation and any impairment.

Impact of the change in accounting principles is the following

(in thousand euros)	Opening balance 31.12.2010	Changes in accounting principles		Adjusted 31.12.2010
		Reclassification	Revaluation to fair value	
Balance sheet:				
Inventory	164 511	493	0	165 004
Property investment	3 022	-493	23 582	26 111
Retained earnings	24 036	0	22 697	46 733
Profit (-loss) for the financial year	-22 351	0	0	-22 351
Non-controlling interest	33 775	0	885	34 660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.4. APPLICATION OF NEW AND REVISED IFRS

During the financial year, the Group has adopted all new standards, changes and interpretations of the standards issued by the IASB (International Accounting Standards Board) and the IFRIC (International Financial Reporting Interpretations Committee) and adopted by the European Commission that are applicable to the Group's activities, and are implemented for the reporting period starting on 1 January 2011. It is the management estimate that the implementation of the given standards did not result in significant impact on the financial statements.

The following amendments to the existing standards and interpretations issued are effective for the current period:

- Amendments to IAS 24 *Related Party Disclosures* – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 *Financial Instruments: Presentation* – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- Amendments to IFRS 1 *First-time Adoption of IFRS* – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- Amendments to various standards and interpretations *Improvements to IFRSs (2010)* resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 *IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction* – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

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

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

- 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 Group has elected not to adopt these amendments in advance of their effective dates. The Group anticipates that these amendments will have no material impact on the financial statements of the Group in the period of initial application.

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 publication of financial statements:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2015),

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 *Disclosures of Involvement with Other Entities* (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 *First-time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures – Mandatory Effective Date and Transition Disclosures*, Amendments to IAS 1 *Presentation of financial statements – Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012),
- Amendments to IAS 19 *Employee Benefits – Improvements to the Accounting for Post-employment Benefits* (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 32 *Financial Instruments: presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013).

The Group 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 Group in the period of initial application.

1.5. PRINCIPAL ACCOUNTING POLICIES

Basis of consolidation

These consolidated annual accounts comprises of the financial statements of the Ultimate Parent Company of the Group and its subsidiaries. Subsidiary is considered to be under the control of the parent company when it has the power to govern the financial and operational policies of an entity, so as to obtain benefits from its activities.

Non-controlling interests of the entities under the control of the Ultimate Parent Company are recorded on a separate line in the combined financial statements equity.

Non-controlling interest consists of the equity attributable to minority shareholders as of the business combination date and a proportion of subsidiaries earnings after that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In case the parent company has obtained control over a subsidiary during the accounting period, the financial results of that subsidiary are recorded from the date the control was acquired. If the parent company has sold a subsidiary during the accounting period, the financial results of that subsidiary are included in the consolidated financial statements of the Group up to the date of disposal.

The balances and transactions between Group entities and unrealized profits/losses from intragroup transactions are eliminated in the consolidated financial statements.

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.

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

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

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 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 as appropriate, with the corresponding gain or loss being recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

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. 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.

Discontinuing operations

A discontinued operation is a component of the Group that has either been disposed of, liquidated or demerged, and represents a separate major line of business or geographical area of operations. If any operation is classified as discontinuing, it should be re-presented in the statement of comprehensive income since the beginning of the comparative period.

Foreign currency transactions

The subsidiaries of the Group prepare their financial statements for consolidation purposes in local currencies. Foreign currency transactions are recorded on the basis of the foreign currency exchange rates, prevailing on the date of the transaction, of the Central Banks of sub-group's country of incorporation. At each balance sheet date the monetary balances are recalculated based on the currency rate prevailing at the balance sheet date, of the Central Banks of sub-group's country of incorporation. Non-monetary items recorded at fair value are recalculated based on the currency rate prevailing on the date of the revaluation. Non-monetary items recorded at acquisition price are not recalculated concerning the changes in the foreign currency rate. Gains and losses arising from exchange rate differences are recognized in the income statement for the accounting period.

In consolidation process, assets and liabilities, including the goodwill formed from the acquisition of foreign subsidiaries and revaluations to fair values are recalculated to the reporting currency based on the currency exchange rates prevailing at the balance sheet date of Central Bank of European Union of the country of incorporation of the consolidating company. Income statement lines are recalculated based on the average annual exchange rates. Gains and losses arising from exchange rate differences appeared during the consolidation process are recorded on a separate line in the consolidated company equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Differences of currency translation are recognized as income or expense of the period when the transaction occurred, i.e. in case of disposal or liquidation of a subsidiary.

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

(in euros)	31.12.2011	2011 average	31.12.2010	2010 average
Latvian lat (LVL)	1,42959	1,41583	1,40884	11,41101
Lithuanian lita (LTL)	0,28962	0,28962	0,28962	0,28962
Russian rouble (RUB)	0,023944	0,024459	0,024494	0,024850
Ukraine grivna (UAH)	x	x	0,093937	0,094947

Cash and cash flows

Cash on the balance sheet and cash flow statement 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 for the financial year is adjusted by the effect of non-monetary transactions, changes in assets and liabilities related to business operations, and income and expenses from 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.

Inventories

Inventories are recorded at cost, which comprises purchase price, non-refundable taxes and other direct acquisition expenditures, which are necessary to transfer inventories to their current location and condition. 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, then weighted average cost method is used. Inventories are stated on the balance sheet at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less all estimated costs of

making the sale. Revaluation of inventories to net realizable value is recognized as expense for the accounting period.

Real estate held for sale

Real estate's (land and buildings) that have been acquired and developed to be sold, are presented on the balance sheet as inventories on the line "Property held for sale" and recognized at cost that comprises of acquisition cost of the real estate and direct expenses (design, construction and technical supervision) necessary to bring the property to the current condition. Borrowing costs from third party loans accrued during the construction period until the issuance of the certificate of occupancy are included in the cost value. Depending on the estimate of the stage of completion, finished and unfinished property for sale is distinguished.

In case the net realizable value of the real estate object is less than its cost value, the real estate object is written down to its net realizable value and the impairment is charged as expense for the accounting period.

In case the usage purpose of a real estate objects changes, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tangible assets

Assets used for rendering services or used for administrative purposes and with useful life of over one year are considered to be tangible assets. Tangible assets are recognized at cost, which comprises purchase price, non-refundable taxes and other expenditures directly related to taking the asset into use.

In the balance sheet tangible assets are measured either at fair value (land and buildings) or at cost less accumulated depreciation and impairment losses (machinery and equipment, other fixtures).

Revaluation of land and buildings to fair value 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 of tangible assets commences when the assets are taken into use. Depreciation is calculated on the straight-line method. Depreciation rate to each tangible asset item is determined according to its estimated useful life.

The annual depreciation rates for groups of tangible assets 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.

Investment property

Land and buildings, also equipment related to buildings, that are held to generate rental revenue or with the purpose to increase its market value and which are not used in operations of the Group, are reported on the balance sheet as investment property.

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.

Investment property is initially recognized at cost, which comprises of purchase price, non-refundable taxes and other expenditures directly related to taking the investment property into use.

Subsequently to initial recognition, investment properties are measured using the fair value method.

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.

Intangible assets

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

Franchises, patents, licenses, trademarks and usage rights are recorded on the balance sheet at cost less accumulated amortization and impairment losses. Amortization is calculated on the straight-line method using an annual rate of 20%. Usage rights are amortized using the straight-line method and the maximum length of the amortization period is the period where the asset is being used.

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Goodwill presents the positive difference between the acquisition costs paid by the Ultimate Parent Company and the fair value of the acquired identifiable assets, liabilities and contingent liabilities of the subsidiary on the date of the acquisition. Goodwill is recorded on the balance sheet as intangible asset at cost less impairment losses. Goodwill is not amortized; instead impairment test is carried out annually or more often if necessary. Impairment losses are recognized on the income statement as „Administrative expenses“.

Non-current assets held for sale

Non-current assets are reported as non-current assets held for sale when the assets are held for sale instead of daily use in operating activities. Assets are classified as held for sale when the disposal of assets is very likely and the assets are ready for immediate disposal. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Impairment of assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its limited lifetime tangible and intangible assets to determine whether there are any indications that the assets have suffered an impairment loss. For this purpose, the recoverable value of an asset is estimated.

The recoverable value of the asset is the higher of the present value of the future cash flows from the asset (i.e. value in use) or the fair value of the asset less costs of disposal. In estimating value of use, the estimated cash flows are discounted with a rate which expresses the trends of current market value and specific risks related to assets. If necessary, help of independent experts is used in determining the fair value of the asset.

If the recoverable amount of an assets (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 recognized 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.

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 recognized 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.

Impairment of goodwill

To test for impairment, goodwill must be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or groups of units. Each unit to which the goodwill is so allocated shall be tested against the impairment on annual bases. For that the book value of the unit and associated goodwill is compared with its recoverable value.

If the cash generating unit's recoverable value is lower than the total of the carrying amounts of its combining assets and goodwill, the assets belonging to the group should be written down. The goodwill belonging to the cash generating unit is written down first; further all assets belonging to the unit are written down proportionally. Write-down of goodwill is irreversible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Investments in subsidiaries (in Parent company's unconsolidated annual accounts)

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

Financial instruments

Financial instruments held to maturity

Investments are recognized on a transaction date basis and are initially measured at fair value less transaction costs. Subsequently for financial instruments that the entity has expressed intention and ability to hold to maturity are measured at amortized cost, less any impairment loss by using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts over financial asset's expected life time or a shorter period if appropriate.

Financial instruments held for sale

Available for sale financial assets are non-derivatives that are either designated as available for sale or are not classified as:

- Loans and receivables
- Held-to-maturity investments
- Financial assets at fair value through profit and loss.

Available for sale financial assets that are traded in an active market are stated at fair value at the end of each reporting period. Available for sales equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment at the end of each reporting period.

Interest income calculated using the effective interest method and dividends available for sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available for sale 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.

Loans granted and receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Trade receivables recorded in the balance sheet are evaluated based on collectability expectations. Doubtful receivables are recorded as expense of the accounting period.

Bank borrowings

Interest-bearing loans and overdrafts are initially measured at their fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Financial expenses, including the transaction costs and the settlement costs, are recorded on an accrual basis. Interest expenses are charged to the income statement as an expense of the period, unless the interest expense is related to loans obtained to finance development of property or similar assets, in which case the interests are capitalized as acquisition cost of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Convertible bonds

Convertible bonds that are convertible into shares at bondholder's request are initially measured in their fair value and are subsequently measured at amortized cost, using the effective interest rate method. Interest expense from convertible bonds is recorded in the income statement for the reporting period based on actual interest rates.

Other financial liabilities

Other financial liabilities are initially recognized at cost. The cost of a financial liability includes all transactions costs that are directly attributable to its acquisition. After initial recognition, financial liabilities are measured at amortized cost (except for financial liabilities acquired for resale).

Generally the amortized cost of current financial liabilities is equal to their nominal value; therefore, current financial liabilities are stated in the statement of financial position at the amounts payable.

Non-current financial liabilities are initially recognized at the fair value of the consideration received (less the transactions charges). In subsequent periods the amortized cost of non-current financial liabilities are determined using the effective interest rate method.

Equity instruments

Issued equity instruments are recorded at the amount of proceeds received, less direct issuing costs.

Provisions

Provisions are recognized when the Group has obligation, and it is probable that the Group will be required to settle that obligation in the future. At the balance sheet date provisions are measured based on the management's best estimation on the expenditure required to settle the obligation. Provisions are discounted to their present value if the effect is material.

Pension benefit plans

Pension benefit plans and other provisions in favour of employees are recorded on the balance sheets in accordance with the laws and regulations of the resident country of the subsidiary of the Group.

Other provisions

Potential liabilities and guarantees related to sales of goods and services to clients are recorded at the date of the transaction based on the prior business experience and the probability of the guarantees being realized. Potential liabilities related to litigations and claims are recorded on the balance sheet based on the management's assessment on the probability of each particular claim.

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.

Reserves

Statutory legal reserve of the Ultimate Parent Company 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Revenue recognition

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.

Other income

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

Financial income

Interest income is recorded on the accrual basis and dividend income is recorded when the right for a dividend has occurred.

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.

Administrative 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.

Financial expense

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.

Leases

A lease is classified as finance lease when all the risks and rewards incident to ownership are substantially transferred to the lessee. The criteria of contracts, which lead to a lease being classified as finance lease, are the following:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price, which is expected to be sufficiently lower than the expected fair value at the date the option becomes exercisable, and at the inception of the lease it is reasonably certain that the option will be exercised;
- the lease term covers the majority (over 75%) of the economic life of the asset even if the title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to approximately the fair value (over 90%) of the leased asset;
- the leased assets are of a specialized nature such that only the lessee is able to use them without major modifications being made.

If the above-mentioned conditions are not met, either individually or in combination, the transaction is recorded as operating lease.

The Group as a lessee

An asset held under finance lease is recognized as an asset and a liability of the Group at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

If ownership is to be transferred to the lessee, depreciation is calculated on the regular basis taking into account useful lifetime of the asset. If the leased asset is to be returned to the lessor, then the maximum depreciation period is the leasing period, whereas depreciation is not calculated for the guaranteed residual value.

Lease payments are apportioned between finance charges and reduction of the lease obligation. Financial costs are apportioned for the lease period so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income statement on the accrual basis.

Assets held under operating lease are not reported on the balance sheet. Rentals payable under operating leases are charged to the income statement as cost on a straight-line basis over the term of the relevant lease, irrespectively from disbursements.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Payments due from lessees are allocated to financial income and principal repayments (to decrease the finance lease receivable). Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases. Financial income is recorded in income statement on accrual basis.

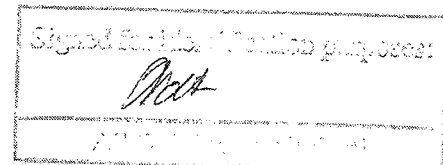
In the balance sheet assets leased under the terms of operating lease are reported similarly to other assets. Rental income from operating leases is recognized as revenue on a straight-line basis over the term of the relevant lease despite timing and amounts of actual collection of rentals.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

"Income Taxes". Potential 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.

Operating segments

The Group discloses its operating segments on basis of internal information used and analysed by the Ultimate Parent Company. The primary decisions are made on country basis. Sales revenue to third parties is monitored for operating segments.

Subsequent Events

Consolidated annual accounts 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 Ultimate Parent Company.

Events after balance sheet date 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 accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. CASH AND NON-MONETARY TRANSACTIONS IN THE CASH FLOW STATEMENT

Cash and bank accounts recorded in the consolidated statement of financial position and statement of cash flows are recorded with balances of 8 637 thousand and 4 303 thousand euros as of 31 December 2011 and 2010 respectively. The balances comprise cash on hand and bank deposits as of the end of the reporting period. Foreign currency accounts have been retranslated into euros at the European Central Bank foreign currency exchange rates prevailing on the balance sheet date.

Line "Other Non-monetary Items (net)" of the consolidated statement of cash flows comprises the following components:

(thousand euros)	31.12.2011	31.12.2010
Non-monetary increase in short-term liability	1 267	2 224
Non-monetary decrease in short-term liability	-1 081	-1 613
Non-monetary increase in short-term receivables	-100	-1
Non-monetary decrease in short-term receivables	280	724
Total	366	1 334

NOTE 3. INVENTORIES

Inventory balance consists of the following components:

(thousand euros)	31.12.2011	31.12.2010
Property held for sale		
Finished property	17 947	69 554
Unfinished property	35 107	94 871
Other inventories		
Goods bought for resale	132	579
Total	53 186	165 004

During the reporting period, inventory write-downs amounted to 3 028 thousand euros (in 2010: decrease of inventory write-down in the amount of 280 thousand euros) due to the net realization value falling below the cost value (refer to Note 24 and 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. ENTITIES BELONGING TO THE CONSOLIDATION GROUP

Name of the entity	Shareholder	Country of incorporation	Share of ownership % 31.12.2010	Share of ownership % 31.12.2011	Field of activity
AS Pro Kapital Grupp	Anndare Ltd.	Ireland	42,00%	41,69%	Holding company
	Svalbork Invest OÜ	Estonia	12,86%	12,86%	
	Eurofiduciaria S.r.l.	Italy	11,49%	11,98%	
	A.F.I. American Financial Investments Ltd.	Liechtenstein	9,57%	9,57%	
AS Pro Kapital Eesti	AS Pro Kapital Grupp	Estonia	100,00%	100,00%	Real estate development
OÜ Ilmarise Kvarital	AS Pro Kapital Eesti	Estonia	100,00%	100,00%	Real estate development
AS Täismaja (former AS Kristine Kaubanduskus)	AS Pro Kapital Eesti	Estonia	52,00%	99,99%	Real estate development
AS Tondi Kvarital	AS Pro Kapital Eesti	Estonia	100,00%	100,00%	Real estate development
AS Pro Halduse	AS Pro Kapital Eesti	Estonia	100,00%	100,00%	Real estate development
AS Tallinna Moeskombinat	AS Pro Kapital Eesti	Estonia	96,00%	96,00%	Real estate development
AS Domina Management	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 development
Pro Kapital Latvia PJSC	AS Pro Kapital Grupp	Latvia	100,00%	100,00%	Real estate development
PK Latvia SIA	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
Kliversala RE SIA	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
Tallina Nekustamie Ipašumi SIA	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
Nekustamo Ipašumu sabiedrība Zvaigznes centrs SIA	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
Investhotel SIA	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
PK Investments SIA	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
Pasaules tirdzniecības centrs "Rīga" SIA	AS Pro Kapital Latvia PJSC	Latvia	67,00%	0,00%	Real estate development (sold)
Nekustamo Ipašumu sabiedrība Prokurs SIA	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
Hotel Management Services SIA (former Domina Management SIA)	Pasaules tirdzniecības centrs "Rīga" SIA	Latvia	70,00%	70,00%	Real estate development
Pro Kapital Germany GmbH	AS Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Hotel management
OÜ Pro Kapital Germany Holdings	AS Pro Kapital Grupp	Germany	100,00%	100,00%	Real estate development
	AS Pro Kapital Grupp	Estonia	0,00%	100,00%	Holding company (founded)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Name of the entity	Shareholder	Country of incorporation	Share of ownership % 31.12.2010	Share of ownership % 31.12.2011	Field of activity
Domina Tourismus GmbH	OU Pro Kapital Germany Holdings	Germany	0,00%	100,00%	Hotel management (acquired)
Pro Kapital Rus OOO	AS Pro Kapital Grupp	Russia	100,00%	0,00%	Real estate development (sold)
Domina Rus OOO	Pro Kapital Rus OOO	Russia	100,00%	x	Real estate development (sold together with Pro Kapital Rus OOO)
Dom na Moike OOO	Pro Kapital Rus OOO	Russia	51,00%	x	Real estate development (sold together with Pro Kapital Rus OOO)
Pro Kapital Ukraine 3AT	AS Pro Kapital Grupp	Ukraine	100,00%	0,00%	Real estate development (liquidated)
PK-1 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	0,00%	Real estate development (liquidated)
PK-2 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	0,00%	Real estate development (liquidated)
Name of the entity separated during demerger	Shareholder (prior demerger)	Country of incorporation	Share of ownership % 31.12.2010	Share of ownership % 31.12.2011	Field of activity
Domina Vacanze S.p.A.	AS Pro Kapital Grupp	Italy	88,75%	0,00%	Real estate development, hotel management
Domina Case Vacanze S.r.l.	Domina Vacanze S.p.A.	Italy	100,00%	x	Real estate development
Domina Hellas E.p.e.	Domina Vacanze S.p.A.	Greece	100,00%	x	Hotel management
Computer Service S.r.l.	Domina Vacanze S.p.A.	Italy	100,00%	x	Other (IT services)
Domina Health & Beauty S.r.l.	Domina Vacanze S.p.A.	Italy	70,00%	x	Real estate development (under liquidation)
Prima Classe S.r.l.	Domina Vacanze S.p.A.	Italy	100,00%	x	Travel services (under liquidation)
Immobiliare Novate S.p.A.	AS Pro Kapital Grupp	Italy	97,34%	0,00%	Real estate development, hotel management
Serval S.r.l.	AS Pro Kapital Grupp	Italy	99,82%	0,00%	Hotel management
Multiservice Hotels S.r.l.	Serval S.r.l.	Italy	100,00%	x	Hotellide management (under liquidation)
Domina Tourismus GmbH	Serval S.r.l.	Germany	100,00%	0,00%	Hotel management (sold)
Domina Hotels Hungary KFT	Serval S.r.l.	Hungary	100,00%	x	Hotel management (under liquidation)
Domina Tunisie S.A.	Serval S.r.l.	Tunisia	99,30%	x	Hotel management
Domina Hotel Holland B.V.	Serval S.r.l.	The Netherlands	100,00%	x	Hotel management
P.K. Sicily S.p.A.	AS Pro Kapital Grupp	Italy	100,00%	0,00%	Real estate development, hotel management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Below are presented the (consolidated) financial figures of the Group companies, whereas the figures of the sub-group are presented in the currency of domicile of the sub-group and converted into the currency domiciled of the Ultimate Parent Company (rounded to full digits).

Subsidiary	Currency	Cost as of 31.12.2010	Cost as of 31.12.2011	Net assets 31.12.2011	Revenue 2011	Net profit (loss) 2011
AS Pro Kapital Grupp	EUR	X	X	70 461 062	17 449 048	28 120 154
AS Pro Kapital Eesti	EUR	17 980 903	17 980 903	109 017 457	10 212 174	28 147 032
OÜ Ilmarise Kvartal	EUR	286 219	286 219	2 531 000	2 623 864	-375 810
AS Täismaja	EUR	12 006 581	65 853 341	115 337 860	3 888 228	60 470 933
AS Tondi Kvartal	EUR	4 364 118	4 364 118	6 647 432	933 376	-280 235
AS Pro Halduse	EUR	26 773	26 773	439 598	1 239 428	14 095
AS Tallinna Moekombinaat	EUR	12 344 791	12 344 791	9 315 097	0	-84 516
AS Domina Management	EUR	1	520 001	84 244	1 375 571	-109 305
Pro Kapital Vilnius Real Estate UAB	LTL	2 374 709	2 374 709	-1 589 893	3 405 962	-893 044
PK Invest UAB	LTL	3 252 633	23 062 633	2 856 950	11 521 058	-2 079 472
Domina Management UAB	LTL	147 523	147 523	156 728	191 138	-30 564
Pro Kapital Latvia PJSC	EUR	10 187 666	10 187 666	13 892 845	3 038 476	-1 238 264
PK Latvia SIA	LVL	133 580	133 580	7 280	4 408	-18 066
Klīversala RE SIA	LVL	6 900 602	6 900 602	9 305 538	16 611	-201 965
Tallina Nekustamie Ipašumi SIA	LVL	3 319 899	3 419 899	-1 590 337	-	-2 179 463
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	LVL	1 100 000	1 200 000	475 959	9 044	-46 056
Investhotel SIA	LVL	700 000	700 000	1 216 469	429 963	97 231
PK Investments SIA	LVL	6 698 517	0	0	-	20 951
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	6 840 660	6 840 660	7 178 065	551 621	73 331
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	999 320	999 320	1 511 965	370 217	85 506
Hotel Management Services SIA	LVL	162 051	560 051	217 025	1 184 649	-60 222
Pro Kapital Rus OOO	EUR	292	0	0	0	-390 485
Domina Rus OOO	RUB	117 300 000	0	0	0	-11 644 696
Dom na Moike OOO	RUB	10 000	0	0	0	-1 572 968
Pro Kapital Ukraine 3AT	EUR	76 488	0	0	0	-9 995
PK-1 TOB	UAH	100 000	0	0	0	-3 800
PK-2 TOB	UAH	100 000	0	0	0	-4 000
Pro Kapital Germany GmbH	EUR	25 000	25 000	5 056 484	435 805	50 186
OÜ Pro Kapital Germany Holdings	EUR	0	2 500	137 353	0	134 853
Domina Tourismus GmbH	EUR	0	1	136 974	0	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. DISCONTINUING OPERATIONS

Disposal

During the reporting period the Ultimate Parent Company sold 100% of Pro Kapital Rus OOO shares at the price of 10 thousand Russian roubles (292 euros). Profit from sale of ownership amounted to 6 589 thousand euros. In regard of this, business activity of the Group ended in Russia.

Liquidation

During the reporting period liquidation of the subsidiary of the Ultimate Parent Company, Pro Kapital Ukraine 3AT was finished. In regard of this, business activity of the Group ended in Ukraine.

Demerger by separation

On 30 June 2011 the Management Board of the Ultimate Parent Company signed the demerger plan which foresaw the demerger by separation. The company being divided is AS Pro Kapital Grupp and the recipient company is AS Domina Vacanze Holding, which is established in the process of demerger and which receives all investments, receivables and liabilities of AS Pro Kapital Grupp which are related to Italian subsidiaries.

The demerger plan was signed and the assets and liabilities subject to transferral were evaluated based on the audited 2010 annual financial statements of AS Pro Kapital Grupp as of 31 December 2010. Accordingly AS Pro Kapital Grupp is required to transfer its net assets to AS Domina Vacanze Holding (assets less liabilities) in the amount equivalent to 74 741 thousand euros. Changes in the values of receivables or liabilities taken place between 1 January 2011 and demerger moment are taken into account when calculating the amount of cash to be transferred.

It was agreed upon in the demerger plan that the recipient company will partially receive contributed equity as according to the Income Tax Law § 50 p.2. According to the demerger plan the equity contributions made by the shareholders to AS Pro Kapital Grupp and share premium in the amount of 102 271 thousand euros is divided as follows: 71 590 thousand euros remain as the share capital of AS Pro Kapital Grupp and 30 681 thousand euros is the share capital of AS Domina Vacanze Holding.

At the extraordinary shareholders' meeting on 16 September 2011 the shareholders of AS Pro Kapital Grupp approved the demerger plan. Due to the decrease in net assets as a result of demerger the net assets turned negative, additional information in Note 21.

In the process of demerger shares in the following associations were also transferred: Domina Vacanze S.p.A., Serval S.r.l., Immobiliare Novate S.p.A. and P.K.Sicily S.p.A. Additionally receivables from and liabilities to the noted associations were transferred. In the process of demerger the liabilities associated with the convertible bonds were divided so that the liability of AS Pro Kapital Grupp remains 11 272 thousand euros and the liability of AS Domina Vacanze Holding remains 6 844 thousand euros.

Post-demerger AS Pro Kapital Grupp remains active on Estonian, Latvian, Lithuanian and German markets through its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The impact of discontinued operations on the Group's financial position

(thousand euros)	Pro Kapital Rus OOO (sold)	Pro Kapital Ukraine 3AT (liquidated)	Entities separated during demerger	2011
Cash and bank accounts	1 043	0	3 020	4 063
Trade receivables and other receivables	853	0	35 211	36 064
Inventories	411	0	105 500	105 911
Long-term financial investments	79	0	4 627	4 706
Deferred income tax asset	0	0	32	32
Tangible assets	22 074	0	48 582	70 656
Intangible assets	0	0	1 578	1 578
Short-term liabilities	-154	0	-36 729	-36 883
Long-term liabilities	-31 053	0	-85 267	-116 320
Non-controlling interest	158	0	-5 011	-4 853
Total assets and liabilities	-6 589	0	71 543	64 954
Paid in cash (-) / received in cash (+)	0	0	-3198	-3 198
Cash at the time of sale (-)	-1 043	0	-3 020	-4 063
Net cash flow on disposal / separation	-1 043	0	-6 218	-7 261
Profit from the sale of discontinued operations	6 589	0	0	6 589
Loss from separation (allocated net assets) presented in equity	0	0	-74 741	-74 741

Cash flow from discontinued operations

(thousand euros)	2 011	2 010
Total cash flows from operating activities	5 107	-18 936
Total cash flows from investing activities	-8 216	11 752
Total cash flows from financing activities	0	6 412
Total cash flow from discontinued operations	-3 109	-772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The impact of discontinued operations on the Group's statement of comprehensive income

(thousand euros)	Pro Kapital Rus OOO (sold)	Pro Kapital Ukraine 3AT (liquidated)	Entities separated during demerger	2011	Pro Kapital Rus OOO (sold)	Pro Kapital Ukraine 3AT (liquidated)	Entities separated during demerger	2010
Revenue	0	0	0	0	0	0	36 662	36 662
Cost of goods sold	0	0	0	0	0	0	35 015	35 015
Gross profit	0	0	0	0	0	0	1 647	1 647
Marketing expenses	0	0	0	0	0	0	-4 303	-4 303
Administrative expenses	-237	-10	0	-247	-934	-8	-10 371	-11 313
Other income	1	0	0	1	2	0	4 832	4 834
Other expenses	0	0	0	0	0	0	-4 855	-4 855
Operating loss	-236	-10	0	-246	-932	-8	-13 050	-13 990
Financial income/loss (net)	-297	0	0	-297	1 340	9	-2 455	-1 106
Profit (loss) for the financial year	-533	-10	0	-543	408	1	-15 505	-15 096
Income tax	0	0	0	0	0	0	-230	-230
Profit (loss) for the financial year	-533	-10	0	-543	408	1	-15 735	-15 326
Profit from the sale of discontinued operations	6 589	0	0	6 589	0	0	0	0
Profit for the financial year from the sale of discontinued operations	6 056	-10	0	6 046	408	1	-15 735	-15 326
Allocation of profit for the financial year:								
Parent's share in profit	6 198	-10	0	6 189	10	1	-14 949	-14 938
Non-controlling interest in profit	-142	0	0	-143	398	0	-786	-388
Earnings per share (in euros)				0,12			-0,28	-0,28
Diluted earnings per share (in euros)				0,12			-0,28	-0,28

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. ACQUISITIONS, DISPOSALS, INCREASES AND DECREASES OF OWNERSHIP IN SUBSIDIARIES

The effect of acquisition and disposal and increase and decrease in ownership of subsidiaries' shares to the Group consolidated financial statements is presented below:

(thousand euros)	Acquisition (including change in ownership)				Disposals		
	AS Täismaja	Domina Tourismus GmbH	Total 2011	Total 2010	PK Investments SIA	Total 2011	Total 2010
Share (%) 31.12.2010	52,00%	0	x	x	67,00%	x	x
Acquired	47,99%	100,00%	x	x	0,00%	x	x
Disposed	0,00%	0,00%	x	x	-67,00%	x	x
Share (%) 31.12.2011	99,99%	100,00%	x	x	0,00%	x	x
Cash	0	173	173	0	114	114	23
Shares and securities	0	0	0	0	0	0	9
Receivables	0	191	191	0	10 175	10 175	73
Inc intra-group	0	0	0	0	7 288	7 288	28
Inventories	0	88	88	0	0	0	0
Tangible assets	0	163	163	0	0	0	5
Short-term liabilities	0	-468	-468	0	-4 759	-4 759	-395
Inc intra-group	0	0	0	0	-102	-102	-68
Long-term liabilities	0	-10	-10	0	0	0	-25
Inc intra group	0	0	0	0	0	0	-24
Non-controlling interest	54 454	0	54 454	280	-1 825	-1 825	0
Goodwill and gain on bargain purchase	0	-137	-137	0	x	x	x
Profit (loss) in acquisition (equity)	-607	0	-607	333	x	x	x
Profit from disposal of ownership	x	x	x	x	2 736	2 736	350
Acquisition cost / sales price	53 847	0	53 847	613	6 441	6 441	40
Paid in cash (-) / cash received (+)	-22 998	0	-22 998	-613	6 437	6 437	30
Cash at the moment of acquisition (+) / disposal (-)	x	173	173	x	-114	-114	-23
Net cash flow on acquisition / disposal	-22 998	173	-22 825	-613	6 323	6 323	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. SHARES IN SUBSIDIARIES

	AS Pro Kapital Eesti	Pro Kapital Latvia PJSC	Pro Kapital Vilnius Real Estate UAB	Pro Kapital Germany GmbH	Pro Kapital Germany Holdings	Pro Kapital Rus OOO	Pro Kapital Ukraine 3ATV Vacanze S.p.A.	Domina S.r.l.	Serval S.p.A.	P.K. Sicily S.p.A.	Immobiliare Novate S.p.A.
Number of shares 31 December 2010	28 134 000	7 000 000	4 610	1	0	1	505 000	60 398 937	299 460	5 000 000	20 441 873
Acquired	0	0	0	0	1	0	0	0	0	0	0
Disposed / cancelled	0	0	0	0	0	-1	-505 000	0	0	0	0
Separated during demerger	0	0	0	0	0	0	0	0	0	0	0
Number of shares 31 December 2011	28 134 000	7 000 000	4 610	1	1	0	0	-60 398 937	-299 460	-5 000 000	-20 441 873
Ownership % at the end of the year	100	100	100	100	100	0	0	0	0	0	0
Ownership % at the beginning of the year	100	100	100	100	0	100	100	88,75	99,82	100	97,34

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19.12.2011

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	AS Pro Kapital Eesti	AS Pro Kapital Latvia PJSC	Pro Kapital Vilnius Real Estate UAB	Pro Kapital Germany GmbH	OÜ Pro Kapital Germany Holdings	Pro Kapital Rus OOO Ukraine 3AT	Domina Vacauze S.p.A.	Serval S.r.l.	P.K. Sicily S.p.A.	Immobiliare Novate S.p.A.	Total
(thousand euros)											
Cost as of 31 December 2010	17 981	10 188	2 375	25	0	0	77	16 638	5 000	9 264	136 609
Parent company's share of subsidiary's net assets as of 31 December 2010	70 702	18 221	-865	-9	0	-6 370	32	39 011	-3 323	5 212	119 655
Acquired at cost	0	0	0	0	2	0	0	0	0	0	2
Negative goodwill at acquisition	607	0	0	0	0	0	0	0	0	0	607
Revaluation of tangible assets	2 569	3 651	94	5 016	0	0	0	0	0	0	11 330
Change in unrealized foreign exchange rate differences	0	251	1	0	0	-381	30	0	0	0	-99
Realized foreign exchange rate differences	0	0	0	0	0	552	-30	0	0	0	522
Profit from the equity method	28 147	0	0	50	135	0	0	0	0	0	28 332
Loss from the equity method	0	-1 238	-893	0	0	-390	-10	0	0	0	-2 531
Profit / loss from disposal / liquidation (without exchange rate)	0	0	0	0	0	6 589	0	0	0	0	6 589
Liquidated (cost of acquisition)	0	0	0	0	0	0	-77	0	0	0	-77
Liquidated (book value)	0	0	0	0	0	0	-22	0	0	0	-22
Separated during demerger (cost of acquisition)	0	0	0	0	0	0	0	-75 061	-16 638	-9 264	-105 963
Separated during demerger (book value)	0	0	0	0	0	0	0	-39 011	3 323	-5 212	-37 944
Parent company's share of subsidiary's net assets as of 31 December 2011	102 025	20 885	-1 663	5 057	137	0	0	0	0	0	126 441
Cost value as of 31 December 2011	17 981	10 188	2 375	25	2	0	0	0	0	0	30 751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. SHARES AND SECURITIES

(thousand euros)	Short-term shares	Long-term shares
31.12.2009	9	2 383
Acquisition	0	772
Sale in selling price	0	-1 961
Disposal of subsidiary	-9	0
31.12.2010	0	1 309
	0	-1 309
31.12.2011	0	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. MISCELLANEOUS LONG-TERM RECEIVABLES

Creditor	Debtor	Contract currency	(thousand euros)					Interest rate	Comments	
			Receivable as of 31.12.2010	Receivables as of 31.12.2011	Due					
					within 1 year	2-5 years	over 5 years			
Pro Kapital Rus:										
Pro Kapital Rus OOO	Pro Kapital Siberia OOO	EUR	78	0	0	0	0	x	x	
			78	0	0	0	0			
Pro Kapital Eesti:										
OÜ Ilmarise Kvartal	Different debtors	EEK	55	54	2	6	46	6%	Long-term trade receivables	
AS Tondi Kvartal	Different debtors	EEK	280	0	0	0	0	x	x	
			335	54	2	6	46			
Pro Kapital Vilnius:										
PK Invest UAB	Swedbank AB	EUR	0	100	0	100	0	0%	Deposit due 7.12.2014	
			0	100	0	100	0			
Entities separated during demerger:										
Total	Different debtors	EUR	3 318	0	0	0	0	x	x	
			3 318	0	0	0	0			
Total			3 731	154	2	106	46			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. TANGIBLE ASSETS

As of 31 December 2011 Group's land and buildings was valued into their fair value based on the valuation of independent expert. The valuation, which confirms to International Valuation Standards, was determined by reference to discounted cash flow method.

For additional information concerning finance lease obligations is presented in Note 19. For additional information concerning mortgages set to Group's tangible assets is presented in Note 31.

(thousand euros)	Land and buildings	Land and buildings (improvements of rental assets)	Machinery and equipment	Other tangible assets	Other tangible assets (finance lease)	Unfinished construction	Prepayments for tangible assets	TOTAL
	Fair value	Fair value	Cost value	Cost value	Cost value	Cost value	Cost value	
Fair value or cost value as of 31.12.2010	59 644	897	4 002	10 716	3 519	19 718	2 413	100 909
Additions:								
Related to the acquisition of subsidiary	0	0	0	398	0	0	0	398
Acquisition	0	0	12	28	0	651	298	989
Capitalized interests	0	0	0	0	0	246	0	246
Revaluation:								
Increase (decrease) in fair value	12 878	0	0	0	0	0	0	12 878
Reversal of accumulated depreciation	-1 955	0	0	0	0	0	0	-1 955
Disposals:								
Related to the disposal of subsidiary (discontinued operation)	-433	0	-264	-18	0	-20 823	-2 737	-24 275
Related to demerger	-46 384	0	-2 425	-8 520	-3 519	0	0	-60 848
Disposal	0	0	-6	-3	0	0	0	-9
Write-off	0	0	-9	-213	0	0	0	-222
Other changes:								
Reclassified to/from inventories	-2 807	0	0	0	0	0	0	-2 807
Reclassified to/from investment property	0	0	0	-14	0	0	0	-14
Foreign currency differences	43	14	14	15	0	208	26	320
Fair value or cost value as of 31.12.2011	20 986	911	1 324	2 389	0	0	0	25 610

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(thousand euros)	Land and buildings	Land and buildings (improvements of rental assets)	Machinery and equipment	Other tangible assets	Other tangible assets (finance lease)	Unfinished construction	Prepayments for tangible assets	TOTAL
Accumulated depreciation as of 31.12.2010	7 650	774	1 728	7 300	428	1 741	0	19 621
Additions:								
Related to the acquisition of subsidiary	0	0	0	235	0	0	0	235
Current period depreciation charge	373	42	108	49	0	0	0	572
Disposals:								
Related to the disposal of subsidiary (discontinued operations)	-432	0	0	-9	0	-1 760	0	-2 201
In connection with demerger by separation	-5 552	0	-1 055	-5 231	-428	0	0	-12 266
Disposals	0	0	-2	-2	0	0	0	-4
Write-off	0	0	-9	-205	0	0	0	-214
Revaluation:								
Reversal of accumulated depreciation	-1 955	0	0	0	0	0	0	-1 955
Other changes:								
Reclassified to/from inventories	-100	0	0	0	0	0	0	-100
Reclassified as tangible assets ready for sale	0	0	0	-9	0	0	0	-9
Foreign currency differences	16	12	6	15	0	19	0	68
Accumulated depreciation as of 31.12.2011	0	828	776	2 143	0	0	0	3 747
Carrying amount 31.12.2010	51 994	123	2 274	3 416	3 091	17 977	2 413	81 288
Fair value or carrying amount 31.12.2011	20 986	83	548	246	0	0	0	21 863
Disposition and write off								
Sold assets at cost	0	0	6	3	0	0	0	9
Accumulated depreciation of sold assets	0	0	-2	-2	0	0	0	-4
Carrying value of sold assets	0	0	4	1	0	0	0	5
Sale price of assets	0	0	8	1	0	0	0	9
Cost of assets written off	0	0	9	213	0	0	0	222
Accumulated depreciation of assets written off	0	0	-9	-205	0	0	0	-214
Profit (loss) from sales and write-offs	0	0	4	-8	0	0	0	-4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. INTANGIBLE ASSETS

(thousand euros)	Goodwill	Patents and trademarks	Licenses	Rights	TOTAL
Cost as of 31.12.2010	263	785	322	1 993	3 363
Additions:					
Acquisitions	0	0	0	1	1
Disposals:					
In connection with demerger by separation	0	-755	-322	-1 951	-3 028
Written-off	0	-8	0	0	-8
Other changes:					
Reclassified as tangible assets ready for sale	0	0	0	-13	-13
Cost as of 31.12.2011	263	22	0	30	315
Accumulated depreciation as of 31.12.2010	0	708	259	511	1 478
Additions:					
Current period depreciation charge	0	1	0	7	8
Disposals:					
In connection with demerger by separation		-680	-259	-511	-1 450
Written off	0	-8	0	0	-8
Other changes:					
Reclassified as tangible assets ready for sale	0	0	0	-1	-1
Accumulated depreciation as of 31.12.2011	0	21	0	6	27
Carrying value as of 31.12.2010	263	77	63	1 482	1 885
Carrying value as of 31.12.2011	263	1	0	24	288
Disposals and written off					
Cost of written off assets	0	8	0	0	8
Accumulated depreciation of write off assets	0	-8	0	0	-8
Gain/Loss from disposals and write-offs	0	0	0	0	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. INVESTMENT PROPERTY

(thousand euros)	Held for the purpose of value increase	Rented out under the terms of operating lease	Total
Fair value as of 31.12.2010	26 023	88	26 111
Acquisitions	332	0	332
Loss from the change in fair value	-332	0	-332
Fair value as of 31.12.2011	26 023	88	26 111

The most important investment property is at Peterburi Road 2, Tallinn belonging to the subsidiary of the Ultimate Parent Company called AS Tallinna Moekombinaat. The fair value of the property amounts to 24 300 euros. It is intended to develop it into a shopping centre.

. As of 31 December 2011 assessing the fair value of investment property the management of the Group was based on valuation reports of independent real estate appraisers. Also retrospective presentation was made. The valuation, which confirms to International Valuation Standards, was in majority determined by reference to recent market transactions and arms' length term. In few instances where appropriate also discounted cash flow method was used in determination of fair value of Group's investment property.

On 17 March 2011 AS Täismaja (former AS Kristiine Kaubanduskeskus), a subsidiary of the Ultimate Parent Company, signed a contract to sell its shopping centre business activity. Therefore the related investment property in book value of 50 044 thousand euros was reclassified as tangible assets held for sale as of 31 December 2010. According to conditions stipulated in the agreement, sales price amounted to 104 997 thousand euros. Contract became effective on 2 May 2011. Profit from disposal amounted to 54 057 thousand euros (refer to note 26).

Rental income from operating lease of investment property and corresponded direct costs

(thousand euros)	2011	2010
Rental income	6	5 921
Direct operating costs		
Maintenance and depreciation	44	1 012
Other direct costs	0	1 065

Rental income of future periods from investment property leased out under the terms of an operating lease:

(thousand euros)	31.12.2011	31.12.2010
Within 1 year	680	2 798
1-5 years	0	0
Over 5 years	0	0
Total	680	2 798

The estimated income from future period operating leases covered with contracts does not include the future periods and rent charges, which are not covered with contracts, since the amounts cannot be estimated with sufficient reliability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. SHORT TERM DEBT

(thousand euros)	Note	31.12.2011	31.12.2010
Unsecured debt		9 600	1 865
Current portion of finance lease liability	19	0	419
Other short-term debt		9 600*	1 446
Current portion of long-term bank loans and overdrafts	15	4 402	80 792
Current portion of long-term loans	16	0	642
Total		14 002	83 299

*9 520 thousand euros is payable to related party, see Note 30.

NOTE 14. LONG TERM DEBT

(thousand euros)	Notes	31.12.2011	31.12.2010
Long-term debt		21 462	84 279
Non-convertible debts		0	10 948
Finance lease liability	19	0	2 010
Long-term loans	16	0	8 938
Convertible debt	18	11 272	15 054
Bank loans	15	10 190	58 277
Other long-term liabilities	17	0	24 780
Deferred income tax liability	28	1 962	1 585
Long-term provisions		173	1 245
Total		23 597	111 889

Provisions

(thousand euros)	Employees' pension plan	Other provisions	Total
31.12.2010	638	5 717	6 355
Provision added	0	861	861
Disposals related to demerge	-638	-5 288	-5 926
Provision used	0	-26	-26
31.12.2011	0	1 264	1 264
incl. short-term provision	0	1 091	1 091
long-term provision	0	173	173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. BANK LOANS

Borrower	Creditor	Contract currency	(thousand euros)					Interest rate	Maturity date	Collateral
			Loan balance as of		Loan repayments					
			31.12.2010	31.12.2011	Within 1 year	2-5 years	Over 5 years			
Pro Kapital Eesti:										
AS Pro Kapital Eesti	AS Swedbank	EUR	4 092	2 141	191	1 950	0	2,0% + 6 month EURIBOR	1.11.2013	Note 31
AS Täismaja	AS Swedbank	EUR	62 699	0	0	0	0	x	x	x
AS Tondri Kvartal	AS Swedbank	EUR	1 188	605	605	0	0	2,5% + 6 month EURIBOR	16.07.2013	Note 31
			67 979	2 746	796	1 950	0			
Pro Kapital Latvia:										
Investhotel SIA	AS Swedbank	EUR	5 842	4 623	315	4 308	0	3,0% + 3 month EURIBOR	1.05.2015	Note 31
			5 842	4 623	315	4 308	0			
Pro Kapital Vilnius:										
PK Invest UAB	AB Swedbank	EUR	9 587	7 200	3 279	3 921	0	2,4% + 6 month EURIBOR	7.12.2014	Note 31
			9 587	7 200	3 279	3 921	0			
Pro Kapital Germany Holdings:										
Domina Tourismus GmbH	Volksbank Bad Kreuznach	EUR	0	23	12	11	0	5,1%	30.09.2013	Company assets
			0	23	12	11	0			
Entities separated during demerger:										
Total	Different credit institutions	EUR	55 661	0	0	0	0	x	x	x
			55 661	0	0	0	0			
Total			139 069	14 592	4 402	10 190	0			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. OTHER LONG TERM LOANS

Borrower	Contract currency	Creditor	(thousand euros)					Interest rate	Maturity date	Collateral
			Loan balance as of 31.12.2010	Loan balance as of 31.12.2011	Loan repayments					
					Within 1 year	2-5 years	Over 5 years			
Pro Kapital Rus:										
Pro Kapital Rus OOO	RUB	Odega Anshalt	1 046	0	0	0	0	x	x	x
Dom na Moike OOO	RUB	Odega Anshalt	7 433	0	0	0	0	x	x	x
			8 479	0	0	0	0			
Entities separated during demerge:										
Total	EUR	Different issuers	1 101	0	0	0	0	x	x	x
			1 101	0	0	0	0			
Total			9 580	0	0	0	0			

NOTE 17. OTHER LONG TERM DEBT

Entity	Contract currency	Crditor	(thousand euros)					Interest rate	Comments	
			Loan balance as of 31.12.2010	Loan balance as of 31.12.2011	Loan repayments					
					Within 1 year	2-5 years	Over 5 years			
Entities separated during demerge:										
Total	EUR	Clients	24 780	0	0	0	0	x	x	
			24 780	0	0	0	0			
Total			24 780	0	0	0	0			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. CONVERTIBLE BONDS

Registration date of bonds issued	13.05.1999	13.08.2009	20.01.2010	10.08.2010	16.08.2010	29.11.2010	08.03.2011	25.05.2011	
Issue price of bond (EUR) before/after demerger	x	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	
Bond return per annum (% from issue price)	6%	7%	7%	7%	7%	7%	7%	7%	
Latest date for redemption of bonds	20.01.2010	13.08.2013	20.01.2014	10.08.2014	16.08.2014	29.11.2014	08.03.2015	25.05.2015	
Latest date for the conversion of bonds to shares	10.01.2010	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	
Discount rate (%)	11%	7%	7%	7%	7%	7%	7%	7%	Total
	2011	2011	2011	2011	2011	2011	2011	2011	2010
Number of convertible bonds at the beginning of period	0	1 164 807	382 304	840 184	536 012	422 067	0	0	3 345 374
Number of convertible bonds issued	0	0	0	0	0	0	569 273	111 111	1 287 344
Number of repurchased bonds	0	0	0	0	0	0	0	0	680 384
Number of convertible bonds at the end of period	0	1 164 807	382 304	840 184	536 012	422 067	569 273	111 111	2 180 567
	2011	2011	2011	2011	2011	2011	2011	2011	2010
(thousand euros)									
Number of convertible bonds at the beginning of period	0	5 242	1 720	3 781	2 412	1 899	0	0	15 054
Principal of convertible bonds issued	0	0	0	0	0	0	2 562	500	3 062
Repurchased bonds in repurchase price	0	0	0	0	0	0	0	0	9 812
Change in price of convertible bonds related to demerger	0	-1 980	-650	-1 428	-911	-718	-968	-189	0
Principal of the bonds issued at the end of the period	0	3 262	1 070	2 353	1 501	1 181	1 594	311	15 054
Short-term portion of liabilities on the balance sheet	0	0	0	0	0	0	0	0	0
Long-term portion of liabilities on the balance sheet	0	3 262	1 070	2 353	1 501	1 181	1 594	311	15 054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On 13 April 2009 extraordinary shareholders meeting of the Ultimate Parent Company decided to issue 10 000 000 convertible bonds and raise share capital conditionally up to 10 000 000 shares, for the purpose of debt swap. Bonds subscription period ended on 1 January 2012.

The Ultimate Parent Company issued convertible bonds in the amount of 4 025 758 euros.

In connection with the demerge of the Ultimate Parent Company, a split of convertible bonds was also arranged. Every subscriber of the convertible bond of the Ultimate Parent Company additionally received convertible bond (nominal value 0,1 euro) of AS Domina Vacanze Holding, which is exchangeable for one share AS Domina Vacanze Holding share (nominal value is 0,1 euro). Maturity date of AS Domina Vacanze Holding convertible bond is the same as maturity date for the Ultimate Parent Company bond.

For every convertible bond, the Ultimate Parent Company has received 4.5 euros (issuing price). As a result of demerger every convertible bond of the Ultimate Parent Company carries interest from the principle amount of 2.8 euros and AS Domina Vacanze Holding carries interest on 1.7 euros.

After the demerger the owner of convertible bond of the Ultimate Parent Company has a right to exchange against the share of the Ultimate Parent Company or to redeem for 2,8 euros, according to deadlines stipulated in conditions. The last due date for the bond holders to convert the bonds into shares of the Ultimate Parent Company is 31 December 2012. As of 31 December 2011 and 31 December 2010 no bond owner has used its option right.

Reporting period interest expense of convertible bonds amounted to 1 174 thousand euros (2010: 658 thousand euros) and 998 thousand euros of interest were paid on cash bases. (2010: 347 thousand euros).

NOTE 19. LEASES

Finance lease – Group as the lessee

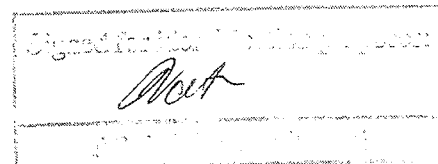
Assets and related liabilities purchased under the finance lease were disposed from the Group as a result of the demerger. No principals and interest were paid during the reporting period (in 2010 927 thousand and 36 thousand euros were paid respectively)

Finance lease principle payments for the following periods

(thousand euros)	Minimum payments of finance lease	Interest expense	Net present value of minimum payments of finance lease
Finance lease obligations as of 31.12.2010			
Within 1 year	510	91	419
1 – 5 years	2 110	193	1 917
Over 5 years	98	5	93
Total	2 718	289	2 429
Finance lease obligations as of 31.12.2011			
Within 1 year	0	0	0
1 – 5 years	0	0	0
Over 5 years	0	0	0
Total	0	0	0

Additional information about non-current assets acquired under the terms of finance lease is presented in Note 10.

Member of the Management Board



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

reduction of the nominal value of shares. In Commercial registry decrease in share capital was registered on 8 August 2011, after what the share capital of AS Pro Kapital Grupp amounted to 31 911 thousand euros consisting of 53 185 422 ordinary shares with a nominal value of 0.6 euros per share.

On 16 September 2011 due to the need to cover loss, caused by the demerger of the Ultimate Parent Company and decrease of net assets shareholders decided to decrease the share capital by 21 274 thousand euros to 10 637 thousand euros by lowering the nominal value of share from 0.6 to 0.2 euros.

No changes in share capital occurred during preceding reporting periods.

AS Pro Kapital Grupp ordinary share entitles the owner to receive dividends as declared and to vote at general shareholders meeting (one share – one vote). No preference shares have been issued by the Ultimate Parent Company.

On 3 April 2009 extraordinary shareholders' meeting of AS Pro Kapital Grupp AS decided to issue up to 10 000 000 convertible bonds of the Ultimate Parent Company and conditionally increase the share capital of the Ultimate Parent Company up to 10 000 000 shares for swapping convertible bonds into the Ultimate Parent Company shares. Conditional increase of the share capital was registered by the Commercial Register on 24 April 2009.

Convertible bonds were offered for subscription until 1 January 2012. During the emission AS Pro Kapital Grupp issued 4 025 758 convertible bonds altogether. Every convertible bond is exchanged for a share of the Ultimate Parent Company. In accordance with that the maximum issue of the Ultimate Parent Company shares can be 4 025 758 shares. Exact amount of share capital increased will be identified by 31 December 2012, when is the due date to exchange convertible bonds for share of the Ultimate Parent Company.

As of 31 December 2011 and 31 December 2010 option owners of convertible bonds have not exercised their option to convert the bonds in the shares of AS Pro Kapital Grupp.

Reserves

Reserves in the amount of 11 330 thousand euros (31.12.2010: - 2 938 thousand euros) consist of revaluation reserve of tangible assets. The reserve was formed as a result of a change in accounting principles (refer to note 1). As of 31 December 2010 the balance of 2 938 thousand euros consisted of statutory legal reserve of the Ultimate Parent Company and required by § 336 of the Estonian Commercial Code.

On 16 September 2011 due to the need to cover the loss caused by the demerger of the Ultimate Parent Company and decrease of net assets, shareholders decided to cover losses by using statutory legal reserves in the amount of 2 938 thousand euros.

The right to repurchase the shares

On 30 October 2008 the shareholders' meeting of AS Pro Kapital Grupp decided to allow the entity during the five year period to acquire 1 000 000 own shares with the repurchase price of 3,83 euros (originally 60 Estonian kroons) per share. The Management Board has the right to repurchase own shares in several sets. Acquiring own shares do not result in the decrease of net assets below the total amount of share capital and reserves of which the payments to shareholders are not permitted by the law and articles of association. The Management Board is obligated to dispose the shares or make a proposal to the shareholders' meeting to decrease the share capital, during the period of three years since the acquisition of own shares. As of 31 December 2011 and 2010, the Ultimate Parent Company has not exercised the right to repurchase the shares and due to the demerger the Ultimate Parent Company has no intention to exercise the repurchase right also in the future.

Paid-in equity by shareholders according to the Income Tax Act § 50 p.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

According to the demerger plan the equity contributions made by the shareholders to AS Pro Kapital Grupp and share premium in the amount of 10 2271 thousand euros was divided as follows: 71 590 thousand euros remained as the share capital of AS Pro Kapital Grupp and 30 681 thousand euros remained as the share capital of AS Domina Vacanze Holding.

NOTE 22. 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 Group is exercised in Estonia, Latvia, Lithuania and Germany. Operations discontinued in Russia, Ukraine and Italy.

	Estonia	Latvia	Lithuania	Germany	Russia	Ukraine	Italy	Total discontinued operations	Less	Continuing operations
2011										
Revenue	10 569	3 038	3 406	436	0	0	0	17 449	0	17 449
Other income	54 087	146	0	47	1	0	0	54 281	1	54 280
Operating profit (-loss) of segments	51 501	-3 916	-57	330	-236	-10	0	47 612	-246	47 858
Financial income/loss (net)	6 004	2 626	-520	0	75	0	0	8 185	6 292	1 893
Profit before income tax								55 797	6 046	49 751
Income	0	-330	-24	3	0	0	0	-351	0	-351
Non-controlling interest								28 028	-143	28 171
Net profit								28 120	6 189	21 931
2010										
Revenue	11 779	2 356	6 480	436	0	0	36 662	57 713	36 662	21 051
Other income	92	81	1	45	2	0	4 832	5 053	4 834	219
Operating profit (-loss) of segments	974	-4 889	-1 263	195	-932	-8	-13 050	-18 973	-13 990	-4 983
Financial income/loss (net)	-1 417	-19	-617	-1	1 340	9	-2 455	-3 160	-1 106	-2 054
Loss before income tax								-22 133	-15 096	-7 037
Income	0	26	-43	0	0	0	230	213	230	-17
Non-controlling interest								5	-388	393
Net loss								-22 351	-14 938	-7 413

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Estonia	Latvia	Lithuania	Germany	Russia	Ukraine	Italy	Total segments
31.12.2011								
Assets	59 413	26 544	18 403	9 112	0	0	0	113 472
Liabilities	25 919	6 047	8 050	1 398	0	0	0	41 414
Acquisition of fixed assets	349	17	1	0	955	0	0	1 322
Depreciation	-182	-258	-19	-120	-1	0	0	-580
31.12.2010								
Assets	101 900	31 797	20 821	2 784	22 059	32	193 495	372 888
Liabilities	87 424	11 272	10 462	28	8 555	0	115 243	232 984
Acquisition of fixed assets	15 940	43	28	0	3 379	0	3 756	23 146
Depreciation	-1 145	-325	-50	-120	-2	0	-2 511	-4 153

NOTE 23. REVENUE

(thousand euros)	2011	2010
Sale of real estate	7 490	7 310
Rent of real estate	4 138	7 472
Real estate development and management (incl. hotel management service)	5 821	6 269
Total	17 449	21 051

NOTE 24. COST OF GOODS SOLD

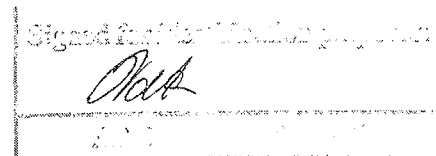
(thousand euros)	2011	2010
Sale of real estate	9 685	7 733
Rent of real estate	1 928	2 977
Real estate development and management (incl. hotel management service)	4 794	6 305
Total	16 407	17 015

(thousand euros)	2011	2010
Personnel expenses	736	763
Depreciation of tangible assets (see Note 10)	510	1 439
Amortization of intangible assets (see Note 11)	1	0
Write down of inventories, (-) reversal of write down (see Note 3)	3 028	-282
Other	12 132	15 095
Total	16 407	17 015

NOTE 25. MARKETING AND ADMINISTRATIVE EXPENSES

Marketing expenses:

(thousand euros)	2011	2010
Personnel expenses	38	15
Other	314	594
Total	352	609



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Administrative expenses:

(thousand euros)	2011	2010
Personnel expenses	2 399	1 656
Depreciation of tangible assets (see Note 10)	62	199
Amortization of intangible assets (see Note 11)	7	2
Write down of inventories, (-) reversal of write down (see Note 3)	0	2
Negative goodwill (see Note 6)	-137	0
Other	2 906	2 170
Total	5 237	4 029

NOTE 26. OTHER INCOME AND EXPENSES

Other income:

(thousand euros)	2011	2010
Penalties and fines	21	72
Gain from the sale of tangible assets (see Note 10)	4	11
Gain from the sale of tangible assets held for sale (see Note 12)	54 057	0
Reversal of provision of doubtful debts	7	0
Other operating income	191	136
Total	54 280	219

Other expenses:

(thousand euros)	2011	2010
Property and local taxes	420	461
Penalties and fines	18	451
Loss from the change of fair value (of investment properties)	332	0
Loss from the sale of tangible assets	0	4
Loss from the sale of intangible assets	0	2
Provision for expenses connected with pending law suit (see Note 33)	700	3 585
Provision of doubtful debts	349	38
Other operating expenses	56	59
Total	1 875	4 600

NOTE 27. FINANCIAL INCOME AND EXPENSE

Financial income:

(thousand euros)	2011	2010
Interest income	1 514	2 150
Gain from disposal of subsidiary	2 736	0
Gain from exchange rate differences	520	0
Total	4 770	2 150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Finance expense:

(thousand euros)	2011	2010
Interest expense	2 853	4 046
Interest expense of convertible bonds (see Note 18)	1 174	658
Interest expense of loans and overdrafts	1 433	3 388
Interest expense initially capitalized as tangible assets (see Note 10)	246	0
Loss from exchange rate differences	0	30
Other financial expense	24	128
Total	2 877	4 204

NOTE 28. 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".

In accordance with income tax laws in Latvia, Lithuania and Germany, the applicable tax rates in these countries in year 2011 were 15%, 15%, 15% (2010: 15%, 15%, 15%) on taxable earnings respectively.

(thousand euros)	31.12.2011	31.12.2010
Profit / Loss before income tax (consolidated)	49 751	-7 037
Estimated income tax respective to the tax rates	129	-1 366
Corrections of estimated income tax:		
Non-deductible expenses (+)	152	1 004
Non-taxable income and tax incentive	-924	-164
Used tax losses (-)	-20	-20
Forwarded tax losses (+)	686	555
Income tax expenses	23	9
Effective tax rate	0.05%	X
Deferred income tax expense (details as follows)	0	18
Deferred income tax returns (details as follows)	-374	-44
Effect on income statement	-351	-17
Income tax paid (-)	0	0

Deferred income tax asset and liability (net) movements:

(thousand euros)	Accelerated tax depreciation	Revaluation of fixed assets	Deferred tax losses	Total
31 December 2010	1 308	312	-67	1 553
Effect on income statement:	-19	-24	-331	-374
Income tax expense of the reporting period	0	0	0	0
Income tax reclaims of the reporting period	-19	-24	-331	-374
Impact on equity	0	1548	0	1548
Transferred in connection with demerger	-1165	0	32	-1133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Exchange rate differences	2	0	-4	-2
31 December 2011	126	1 836	-370	1 592

Deferred income tax balances

(thousand euros)	31.12.2011	31.12.2010
Deferred income tax liability (+)	1 962	1 585
Deferred income tax assets (-)	-370	-32
Total	1 592	1 553

Contingent income tax

Retained earnings of the Group amounted to 49 624 thousand euros as of 31 December 2011 (24 382 thousand euros adjusted as of 31 December 2010). The maximum possible amount of income tax liability, which could be treated as contingent liability and which could realize as net dividend distribution of all retained earnings, is 10 421 thousand euros (as of 31 December 2010 thousand 5 120 thousand euros). 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 of 31 December 2011.

The Ultimate Parent Company 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 Ultimate Parent Company has received dividends from its subsidiary Pro Kapital Latvia PJSC, which is the resident and taxable person in Republic of Latvia. The part of the profit related to payable dividends is taxed with income tax in Republic of Latvia. The maximum related possible income tax free amount that could be considered as contingent asset and could be paid as net dividend is 11 868 thousand euros (31.12.2010: 11 868 thousand euros).

NOTE 29. 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:

Average number of shares:

Period 01.01.2011 - 31.12.2011	$(53\,185\,422 \times 12/12) = 53\,185\,422$
Period 01.01.2010 - 31.12.2010	$(53\,185\,422 \times 12/12) = 53\,185\,422$

Net profit/loss per share in euros:

2011 year	$28\,120\,154 / 53\,185\,422 = 0,53$
2010 year	$-22\,351\,139 / 53\,185\,422 = -0,42$

The convertible bonds (see Note 18) do not have dilutive effect on earnings in 2011 and 2010, and therefore they have not been included in the calculation of the diluted net profit/loss per share and the diluted net profit/loss per share equals the net profit/loss per share indicator.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are considered to be transactions with the higher level Ultimate Parent Company within the Group, shareholders, the members of the Supervisory Council and the Management Board, their intermediate family members and the companies in which they hold control or have significant influence.

Balances and transactions between the Ultimate Parent Company and its subsidiaries, which are related parties of the Ultimate Parent 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.

(in thousand euros)

Transactions with related parties	2011	2010
Owners holding significant influence		
Interest income	148	202
Received interest (-)	-764	0
Issued loans	477	0
Repaid loans issued (-)	-5 222	0
Granted claims	23 412	0
Acquisition of shares	42 811	613
Interest expense	945	480
Paid interest (-)	-764	-240
Received claims	0	169
Issued convertible bonds	3 062	5 577
Repurchased convertible bonds (-)	0	-391
Members of the Management Board and Council salaries	1 155	1 106
Other related parties		
Goods and services sold	5	1 502
Disposal of real estate	2 615	0

Receivables from related parties	31.12.2011	31.12.2010
Owners holding significant influence		
Loan receivables	477	5 222
Interest receivables	33	812
Other related parties		
Other receivables	6	0
Total	516	6 034

Payables to related parties	31.12.2011	31.12.2010
Owners holding significant influence		
Outstanding loans (convertible bonds)	8 726	11 670
Outstanding interest (from convertible bonds)	539	358
Other outstanding amounts	9 520	0
Total	18 785	12 028

Holdings in the Ultimate Parent Company	31.12.2011	31.12.2010
Members of the Council and individuals related to them	8.61%	2.31%

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 been provided loans to related parties at rates comparable to the average commercial rate of interest. The loans to related parties are unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31. COLLATERAL AND PLEDGED ASSETS

Name of the pledge	Name of the beneficiary	(thousand euros)		Collateral description	Owner of collateral	Type of asset	Book value of collateral as of 31.12.2011
		Obligation amount as of 31.12.2011	(thousand euros)				
AS Tondi Kvartal	AS Swedbank	605		Tondi street 51, Tallinn Guarantee contract	AS Tondi Kvartal AS Pro Kapital Grupp	Finished construction (inventories) Entity's assets	1 781 x
AS Pro Kapital Eesti	AS Swedbank	2 141		Põlva avenue, 21, 21a, 21b-1, Tallinn Põlva avenue 21, 23 Tallinn	AS Pro Kapital Eesti OÜ Ilmarise Kvartal	Land and buildings Finished construction (inventories)	6 100 1 205
Investhotel SIA	AS Swedbank	4 623		Pulkveza Brieza Str. 11, Rīga Trijadības street 5, Rīga Guarantee contract	Investhotel SIA Investhotel SIA Kliversala RE SIA AS Pro Kapital Grupp	Land and buildings Other assets Unfinished construction (inventories) Entity's assets	6 099 4 792 8 911 x
PK Invest UAB	AB Swedbank	7 200		Aguonu str. 10, Vilnius Guarantee contract	PK Invest UAB AS Pro Kapital Grupp	Finished construction (inventories) Unfinished construction (inventories) Entity's assets	13 536 3 849 x
Total		14 569					46 273

Signed for internal control purposes
MA
AS Pro Kapital Grupp

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition to guarantee letters related to the bank loans of the Group, AS Pro Kapital Grupp has issued the following guarantee letters as of the balance sheet date:

- Guarantee letter with up to 2 300 thousand euros limit to Hotel Blijdorp B.V to secure rental payments for hotel located in Rotterdam, proceeding from rental contract concluded between Serval S.r.l. and Hotel Blijdorp B.V.
- Guarantee letter to AS Swedbank to secure potential liability of Pro Kapital Latvia subsidiary Klīversala RE SIA in the amount of 5 681 thousand Latvian lats (ca 8 121 thousand euros). In the same amount AS Swedbank has issued guarantee letter to VAS „Privatizācijas aģentūra” to secure investment liabilities proceeding from contract concluded by Klīversala RE SIA and VAS „Privatizācijas aģentūra”.
- AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ of which they assure in solitary the monetary liabilities of Kristiine Kaubanduskeskus AS, entity belongs to Pro Kapital Eesti sub-group. In case Kristiine Kaubanduskeskus AS will violate the confirmations given in the contract of sales of the shopping centre Kristiine Keskus OÜ can lodge a claim with Kristiine Kaubanduskeskus AS. The guarantee is conditional and the guarantors are responsible only if Kristiine Kaubanduskeskus AS is unable to settle the claim. The guaranteed amount is 5 000 000 euros (approx. 78.2 million Estonian kroons). The guarantee is effective for 18 months from the enforcement of the sales contract, i.e. until 2 November 2012
- Guarantee letter to OÜ Kristiine Keskus to secure (jointly with AS Pro Kapital Eesti) possible claims against OÜ Kristiine Keskus raising from a loan contract concluded between AS Pro Kapital Eesti and AS Kristiine Kaubanduskeskus on 9 March 2004. The guarantee letter is limited with the maximum sum of potential claim. The guarantee is effective for 72 month since concluding the sales- purchase agreement, e.g. until 2 May 2017.

NOTE 32. 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. Risk management system is called to mitigate aforementioned risks and reduce potential negative impact on the Group. Main purpose of the risk management is to preserve the equity and going concern of the Group.

Business risk

The business risk of the Group is associated with the developments of the real estate market in the Baltics.

The global financial crisis and the accompanying economic crisis in the recent years have negatively affecting development of the real estate sector. Even though global economy shows some signs of economic growth, the positive impact on the real estate development sector usually occurs with a delay.

Decrease in real purchasing power, increase in real estate loan interest rates and other similar factors are considered a risk that in turn could decrease 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 income from development activities, property management services and operating hotels in the upcoming years. Changes in financial markets could reduce the Group's business opportunities to involve external financing for business operations and to refinance existing financial liabilities.

Taking into consideration the capacity of the Group real estate projects and favourable locations it can be presumed, that the Group entities are able to retain their position on the market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The management of the Group is on the opinion that the on-going effects of the economic crisis cannot be assessed reliably however the management believes that all necessary measurement have been implemented to provide a sustainable development of the Group.

Interest risk

Interest risk is mostly associated with the long-term liabilities of the Group. In general the interest rates of bank loans raised by the Group entities are fixed with Euribor plus a risk margin (refer to Note 15). The interest rates of convertible bonds is fixed (refer to Note 18). Interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. The minimum use of financial instruments is used to diversify the interest risk. According to the management estimate of the Group the expenses related to interest diversification (fixed interest rate) are exceeding the potential losses from the change in interest rates. This estimation is based on the Group's financing strategy in the short run. As of 31.12.2011 the variable interest bearing liabilities amounted to 12.8% (31.12.2010: 39,9%) of total capital structure of the Group.

The Group's sensitivity to interest rates has decreased during the reporting period due to significant reduction in variable rate debt instruments. If interest rates of floating rate liabilities had been 1% higher or lower and all other variables were held constant, the Group's net profit would be decrease or increase by 95 thousand euros respectively.

Currency risk

Entities belonging to the Group perform transactions in currency of their domicile country; currency risk arises from transactions in currencies not related with euro. To mitigate the currency risk, all relevant contracts of the Group are concluded in euros or in currencies related to euro. Thus the main currency risk is related with devaluation of currencies related with euro, against which the Group is not protected.

Due to the fact that Group's liabilities are predominantly in euro (Notes 15 and 18) and majority of Group's income comes from euro based contracts, the management of the Group estimates the currency risk to be immaterial and does not consider proper the usage of financial instruments for diversification.

Credit risk

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

In general the sales of real estate are financed by clients' prepayments. In case of sales of the real estate in installments, the creditworthiness of each client is analysed separately. The legal title of the property belongs to the Group entities until the debt is settled in full. Occasionally it may happen that the legal title is transferred to the buyer but then a mortgage is set in favour of the Group entity.

During the reporting period the deterioration of real estate rent payment discipline of customers has occurred, however the Group has not had to bear significant credit losses.

Based on the experience of the Group's management and developments in economic environment, allowances are made to cover possible credit losses, if necessary.

In conclusion the management of the Group considers further need to mitigate the credit risk to be remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Liquidity risk

Liquidity risk expresses the potential risk that the Group can fail to meet its financial obligations if the Group's financial position will change. The Group constantly monitors proportion between short-term liabilities and current assets. As of 31 December 2011 the working capital of the Group's is positive and the current assets exceeded short-term liabilities by 3.6 times (as of 31 December 2010 by 2.1 times).

Financial liabilities of the Group by due dates:

(thousand euros)

	Note	Repayment of liabilities				Repayment of liabilities			
		31.12.2011	within 1 year	2-5 years	over 5 years	31.12.2010	within 1 year	2-5 years	over 5 years
Bank loans	15	14 592	4 402	10 190	0	139 069	80 792	53 494	4 783
Long-term loans	16	0	0	0	0	9 580	642	7 433	1 505
Finance lease liabilities	19	0	0	0	0	2 429	419	1 917	93
Convertible bonds	18	11 272	0	11 272	0	15 054	0	15 054	0
Trade payables		724	724	0	0	23 236	23 236	0	0
Other debt		11 849	11 849	0	0	34 162	9 382	24 780	0
Total		38 437	16 975	21 462	0	223 530	114 471	102 678	6 381

Fair value

Based on the estimates made by the Group 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 with optimal capital structure and thus to ensure return to shareholders and sustainability of the Group.

To finance its business activity the Group is using loan capital as well as owners' equity. The financial structure is monitored and used to assess associated risks. As of 31.12.2011 the equity constitutes 63.5 % (31.12.2010: 37.5 %) of total assets.

For obtaining and improving capital structure the Group has possibility to regulate dividends payable, to return shareholders contributions to share capital, to issue new shares, or to sell assets to decrease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33. LITIGATIONS

Ultimate parent company

As of 31 December 2011 the AS Pro Kapital Grupp had one pending court case.

On 27 May 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter with what AS Pro Kapital Grupp assures the rental liabilities of the Serval S.r.l 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 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. Aprisco 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 1776 thousand euros with accumulated interest for default or in the amount of 1 409 thousand euros with accumulated interest for default.

The Management Board of AS Pro Kapital Grupp does not recognize the claim and states that the guarantee was given to Hotel Blijdorp B.V and not to Aprisco B.V and AS Pro Kapital Grupp was not informed for the transfer of the guarantee letter and therefore Aprisco B.V cannot file the claim related to the guarantee letter. The Management Board of AS Pro Kapital Grupp claims alternatively that according to the guarantee letter Aprisco B.V can claim only unpaid rental payments in amount of 406 thousand euros with accumulated interest for default and which could increase by 282 thousand euros in case the rental lowering agreement between Serval S.r.l. and Aprisco B.V. is found to be unbinding.

As of 31 December 2011 the Group's consolidated statement included potential liabilities related to the court case in the amount of 700 thousand euros.

As of 31 December 2010 the Group had the same court case in process.

As of 31 December 2009 AS Pro Kapital Grupp had no on-going legal proceedings.

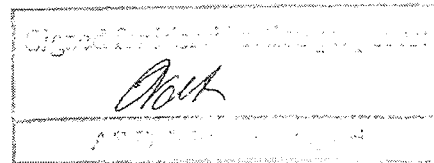
Pro Kapital Estonia sub-group

As of 31 December 2011 the subsidiary has three pending court cases.

AS Täismaja (formerly AS Kristiine Kaubanduskeskus) filed a case to Harju District court in order to receive rental debts from the following entities:

OÜ Donum Trading – in the amount of 15 thousand euros, with accumulated interest for default
OÜ Nordwell – in the amount of 15 thousand euros, with accumulated interest for default
OÜ Trendmaker - in the amount of 46 thousand euros, with accumulated interest for default
OÜ Lossi Arenduse – in the amount of 33 thousand euros, with accumulated interest for default

On 28 November 2011 the court ruled against OÜ Lossi Arenduse. The demand is on compulsory execution.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On 16 January 2012 the court ruled against OÜ Donum Trading. Negotiation regarding the payments is in process.

AS Täismaja is involved in one law suit as a third party.

The Management Board of AS Pro Kapital Grupp does not recognize the claims to have any material impact on the business activity of the companies in the Pro Kapital Estonia sub-group.

As of 31 December 2010 AS Pro Kapital Estonia sub-group had no pending court cases.

Pro Kapital Latvia sub-group

As of 31 December 2011 the Pro Kapital Latvia sub-group has three pending court cases.

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 entity's loss should be 60 thousand Latvian latts smaller (approx. 86 thousand euros). Pro Kapital Latvia PJSC disputed the decision. The trial court left the claim unsatisfied. The entity appealed and the hearing is set on 1 March 2012.

SIA Hotel Management has one pending court case regarding recalling prior member of the Board, Inese Tomase, and compensating her average pay. On 25 October 2011 the entity filed a counterclaim based on Notes 1.3 and 4 of the employment contract which Inese Tomase used to file her claim and demands leaving Ms Tomase's claim left unsatisfied and returning her income received without legal basis in the amount of 19 thousand Latvian latts (approx. 27 thousand euros).

SIA Pasaules tirdzniecības centrs "Rīga" filed a court case against PJSC „Poligons“ regarding the compensation for rental payments, contract fee and legal fees. On 11 May 2006 the court satisfied the claim and ruled for the debtor to pay 5 thousand Latvian latts (approx. 7 thousand euros). On 30 May 2006 the court declared the debtor's bankruptcy as of 31 December 2004. On 20 January 2011 the court reset the appeal date for verdict made on 11 May 2006 and the trustee in bankruptcy filed for appeal.

On 9 March 2009 PJSC „Poligons“ trustee in bankruptcy filed a case against SIA Pasaules tirdzniecības centrs "Rīga" demanding that the debt in the amount of 0.8 thousand Latvian latts (approx. 1.1 thousand euros) and the contract fine in the amount of 15.3 thousand Latvian latts (approx. 22 thousand euros) resulting from the contract between the entities be settled. On 30 August 2010 the court left the case against the entity unsatisfied. On 1 October 2011 the trustee in bankruptcy appealed. On 9 November 2011 the court decided to join both appeals into one case.

The Management Board of AS Pro Kapital Grupp does not recognize the claims to have any material impact on the business activity of the companies in the Pro Kapital Latvia sub-group.

As of 31 December 2010 a subsidiary of Pro Kapital Latvia called PK Investments SIA has one pending legal arbitration proceeding.

The pending arbitrage dispute between PK Investments SIA and KanAM Grund Kapitalanlagegesellschaft GmbH has no significance from the point of view of Pro Kapital Latvia sub-group as PK Investments SIA is no longer part of the sub-group as of 31 December 2011. Pro Kapital Latvia PJSC has completed all monetary liabilities to PK Investments SIA and transferred the company to a third party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Pro Kapital Vilnius sub-group

As of 31 December 2011 the entities of Pro Kapital Vilnius sub-group have two pending court cases.

UAB „Apskaitos ir mokesčių konsultacijos“ is failed a claim to the Vilnius court to be returned prepayment for an apartment sale contract. PK Invest UAB filed a counter claim for the withdrawal from the contract to be annulled. On 2 March 2011 the court ruled in favour of UAB „Apskaitos ir mokesčių konsultacijos“ and left the claim of PK Invest UAB unsatisfied. PK Invest UAB appealed for the verdict to be dismissed.

UAB “Natalex” filed a claim to the Vilnius court to be returned prepayment for an apartment sale contract. PK Invest UAB found that UAB “Natalex” had breached the contract and the prepayment has been netted with the fine held against UAB “Natalex”. In the above case no court verdict has been reached.

The Management Board of AS Pro Kapital Grupp does not recognize the claims to have any material impact on the business activity of the companies in the Pro Kapital Vilnius sub-group.

As of 31 December 2010 the Pro Kapital Vilnius sub-group companies had one previously mentioned case pending with UAB „Apskaitos ir mokesčių konsultacijos“.

Domina Tourismus GmbH

As of 31 December 2011 Domina Tourismus GmbH had one pending court case regarding labour dispute, which the Group management estimates that has no material impact on the business operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34. FINANCIAL STATEMENTS OF THE ULTIMATE PARENT COMPANY

Statement of financial position

ASSETS (thousand euros)	31.12.2011	31.12.2010
Current assets		
Cash and bank accounts	419	225
Accounts receivables		
Accounts receivable	126	95
Miscellaneous receivables		
Short-term receivables from the Group entities	2 682	6 183
Other short-term receivables	316	45
Total	2 998	6 228
Accrued income		
Interests	0	3
Prepaid expenses		
Prepaid taxes and reclaimable taxes	36	1
Prepaid expenses	2	2
Total	38	3
Total current assets	3 581	6 554
Non-current assets		
Long-term financial investments		
Shares in subsidiaries	28 196	136 609
Long-term receivables from the Group entities	59 340	68 949
Total	87 536	205 558
Total non-current assets	87 536	205 558
TOTAL ASSETS	91 117	212 112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

LIABILITIES AND OWNER'S EQUITY (thousand euros)	31.12.2011	31.12.2010
Current liabilities		
Short term debt	0	756
Trade payables	64	8
Miscellaneous liabilities		
Payables to the Group entities	2 998	9 138
Accrued expenses	670	485
Short term provisions	700	0
Total current liabilities	4 432	10 387
Non-current liabilities		
Long-term debt	11 272	15 054
Other long-term liabilities		
Payables to the Group entities	104 824	64 447
Long-term provisions	36	26
Total non-current liabilities	116 132	79 527
Total liabilities	120 564	89 914
Share capital in nominal value	10 637	33 992
Share premium	0	45 089
Reserves	0	2 938
Retained earnings / accumulated deficit	-31 200	42 171
Profit / loss for the financial year	-8 884	-1 992
Total owners' equity	-29 447	122 198
TOTAL LIABILITIES AND OWNERS' EQUITY	91 117	212 112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Income statement

(thousand euros)	2011	2010
Revenue	554	353
Cost of goods and services sold	0	-3
Gross profit	554	350
Marketing expenses	-7	0
Administrative expenses	-2 227	-1 199
Other expenses	-700	0
Operating loss	-2 380	-849
Financial income and expense	-2 466	-1 143
Financial income and expense from subsidiaries shares	-55	0
Interest expense	-5 203	-3 453
Impairment loss from financial investments	-4 038	0
Profit / loss from change in currency exchange rate	0	-1
Other financial income and expense	2 792	2 311
Profit / loss before income tax	-8 884	-1 992
Profit / loss for the financial year	-8 884	-1 992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of cash flows

(thousand euros)	2011	2010
OPERATING ACTIVITIES		
Profit /loss for the financial year	-8 884	-1 992
Adjustments:		
Depreciation of tangible assets	1	1
Interest income and expense (net)	2 411	1 142
Loss from the liquidation of long-term financial investment	55	0
Impairment loss from financial investments	4 038	0
Change in provisions	710	10
Change in receivables and prepayments made	-648	-163
Changes in payables and prepayments collected	-2 564	-17
Cash flow used in operating activities	-4 881	-1 019
INVESTING ACTIVITIES		
Increase of share capital or acquisition of subsidiaries	-3	-613
Separation of subsidiaries (demerger)	-3 198	0
Loans granted	-35 302	-9 190
Repayments of loans granted	6 808	1 925
Interest received	511	143
Cash flows used in investing activities	-31 184	-7 735
FINANCING ACTIVITIES		
Loans raised	41 494	11 063
Repayments of loans raised	-3 365	-984
Interest paid	-1 870	-1 292
Cash flows from financing activities	36 259	8 787
Net change in cash	194	33
CASH AT THE BEGINNING OF THE FINANCIAL YEAR	225	192
CASH AT THE END OF THE FINANCIAL YEAR	419	225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



Statement of changes in equity

(thousand euros)	Share capital	Share premium	Reserves	Retained earnings / accumulated deficit	Profit / loss for the financial year	Total
Balance as of 31 December 2009	33 992	45 089	3 461	-2 793	44 964	124 713
Adjustments (change in convertible bonds reserve)						
Adjusted unconsolidated equity			-523			-523
31 December 2009	33 992	45 089	2 938	-2 793	44 964	124 190
Cost of subsidiaries shares						
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	-134 512
Adjusted unconsolidated equity						
31 December 2009						
Allocation of net loss						
Result of the financial year						
Balance as of 31 December 2010	33 992	45 089	2 938	-2 793	44 964	105 808
Adjusted balance as of 31 December 2010	33 992	45 089	2 938	44 964	-44 964	0
Cost of subsidiaries shares						
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	0	-1 992	-1 992
Adjusted unconsolidated equity						
31 December 2010						
Decrease in equity						
Decrease in equity	-2 081	0	0	2 081	0	0
Transferred due to demerger	-21 274	-45 089	-2 938	69 301	0	0
Allocation of net loss	0	0	0	-142 761	0	-142 761
Result of the financial year	0	0	0	-1 992	1 992	0
Balance as of 31 December 2011	10 637	0	0	0	-8 884	-8 884
Cost of subsidiaries shares (incl. impairment losses)						
Book value of the shares in subsidiaries calculated on equity method	X	X	X	-31 200	-8 884	-29 447
Adjusted unconsolidated equity						
31 December 2011						
	X	X	X	X	X	70 461

MANAGEMENT BOARD'S SIGNATURES TO THE ANNUAL REPORT FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2011

On 8 March 2012, the Management Board has prepared the management report and the annual accounts of AS Pro Kapital Grupp.

By signing the annual report, all members of the Management Board validate the fair presentation of the annual report.

Name	Position	Signature	Date
Paolo Vittorio Michelozzi	Member of the Board		8 March 2012
Allan Remmelkoor	Member of the Board		8 March 2012

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

We have audited the accompanying consolidated annual accounts (page 8 to 70) of AS Pro Kapital Grupp, which comprise the statement of financial position as at 31 December 2011, 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 Annual Accounts

Management Board of the parent company of the Group is responsible for the preparation and fair presentation of these annual accounts 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 annual account 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 annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

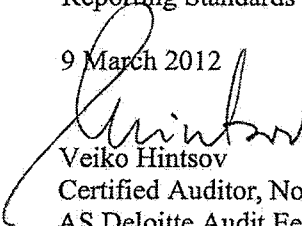
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 annual accounts.

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 annual accounts present fairly, in all material respects, the financial position of AS Pro Kapital Grupp as at 31 December 2011, 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.

9 March 2012



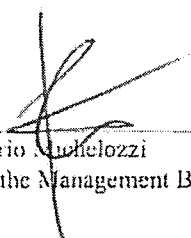
Veiko Hintsov

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

PROPOSAL FOR PROFIT DISTRIBUTION

AS Pro Kapital Grupp management makes a proposal to allocate the Group profit of 2011 in the amount of 28 120 154 euros to retained earnings.

8 March 2012



Paolo Vittorio Michelozzi
Member of the Management Board

REVENUE ALLOCATION BY THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES
(EMTAK 2008)

The Ultimate Parent Company's revenue for the reporting period is allocated by the fields of activities according to the Estonian Classification of Economic Activities 2008 as follows:

	2011 (thousand euros)
Holding company activities (EMTAK 64200)	554
Total	554