

# ***AS PRO KAPITAL GRUPP***

*Consolidated Financial Statements  
for the Year Ended 31 December 2010*

Parent company of the Group	<b>AS Pro Kapital Grupp</b>
Beginning of the financial year	1 January 2010
End of the financial year	31 December 2010
Registration code	10278802
Address	21 Põhja avenue 10414 Tallinn
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E-mail	prokapital@prokapital.ee
Fields of 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)
Auditors	AS Deloitte Audit Eesti
Date of preparation of the financial statements	31 May 2011
Documents enclosed with the annual report	Independent sworn auditor's report Proposal for covering loss 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, which owns subsidiary groups in Estonia (Pro Kapital Eesti AS), Latvia (Pro Kapital Latvia PJSC), Lithuania (Pro Kapital Vilnius Real Estate UAB), Italy (Domina Vacanze S.p.A., Serval S.r.l. (former business name: Domina Hotel Group S.p.A.)), Russia (Pro Kapital Rus OOO), Ukraine (Pro Kapital Ukraine 3AT), and other subsidiaries not belonging into aforementioned subsidiary groups in Italy (P.K. Sicily S.p.A., Immobiliare Novate S.p.A.) and Germany (Pro Kapital Germany GmbH) (hereinafter also referred to as „the Group“) and whose main fields of activity are to coordinate and control the development and implementation of the subsidiaries’ business strategies, to administrate the Group’s financial management, business reporting, and to forward information to investors.

The Group’s business strategy in the Baltic States, Russia and Germany is to invest into real estate properties in locations with substantial development potential, to develop them according to market demand and realize the investment. In addition to the main activities, the Group also offers real estate development and maintenance service to third parties. The Group is primarily focused on establishment of shopping centers, hotels and modern, integrated residential areas, through which the development of living environment and infrastructure of corresponding countries is also supported.

The Group’s business strategy in Italy is focused on development of hotel real estate, sales of hotel suites and villas, and hotels’ management, the business strategy is changed in hotel management field.

The deterioration in the global economic situation in recent years, has had the most negative impact on the Group’s entities involved in hotel management. The aforementioned entities have earned notable losses, due to the Group’s management has decided to focus only in this area on Group-owned hotel management and to terminate third-party owned hotel management. The prior situation has lead to the changes in Group structure. The Group entities who operate group owned hotels will belong to same subsidiary group with the hotel owner. part of the subsidiary involved in hotel management and the rest of the entities involved in hotel management will be disposed of or liquidated. According to the aforementioned structural change, Serval S.r.l. (former business name: Domina Hotel Group S.p.A.) as the parent company of the entities involved in hotel management will provide intergroup management service to the entities involved in hotel management.

In 2010 on average 600 full-time employees were engaged in the Group (2009: 659). Total salaries and wages amounted to 291.6 million EEK (2009: 346.9 million EEK), including payments to the members of the Group entities’ Management Boards and local managements as salaries and bonuses in the amount of 17.3 million EEK (2009: 19.0 million EEK).

The most significant events of the financial year in the Group were as follows.

#### *The Ultimate Parent Company*

On 13 April 2009, AS Pro Kapital Grupp shareholders’ extraordinary meeting decided to issue up to 10 000 000 convertible bonds of the Ultimate Parent Company in nominal value of 10 EEK per convertible bond, and increase conditionally the Ultimate Parent Company’s share capital by up to 10 000 000 shares in nominal value of 10 EEK per share in order to exchange convertible bonds for shares of the Ultimate Parent Company. The bonds shall be offered for subscription until 1 January 2012. Management of the Ultimate Parent Company has the right to offer the above mentioned number of convertible bonds under several subscription periods. The offers of bonds must be carried out so that offers would neither jointly nor separately be deemed as public offering of securities under the terms of the directive 2003/71/EC and applicable laws. The issue price of convertible bond in each separate subscription period is determined by management of the Ultimate Parent Company, but it shall not be less than 4 EUR (appr. 62.6 EEK) per convertible bond. Convertible bonds can be subscribed for in quantity so that the total sum payable based on the issue price is not less than 50 000 EUR (appr. 782.3 th. EEK). The interest rate of convertible bond is 7% per annum from its issue price.



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Convertible bond can be exchanged for share of the Ultimate Parent Company on 31.12.2010, 31.12.2011 and 31.12.2012.

The Ultimate Parent Company's shareholders' pre-emptive right to submit for the convertible bonds and shares issued upon conversion of these bonds are excluded with decision.

On 24 April 2009 the conditional increase of the Ultimate Parent Company's share capital was registered in the Commercial Register.

In accordance with the decision of extraordinary meeting of shareholders of AS Pro Kapital Grupp on 13 April 2009, the Ultimate Parent Company's management offered for subscription 1 500 000 convertible bonds on 27 April 2010 (third subscription period), 900 000 convertible bonds on 9 July 2010 (fourth subscription period), 700 000 convertible bonds on 15 September 2010 (fifth subscription period) and 600 000 convertible bonds on 3 December 2010 (sixth subscription period), with an issue price of 4.5 EUR (appr. 70.4 EEK) per convertible bond. In the third subscription period 840 184 convertible bonds were subscribed, for which the Ultimate Parent Company received 3 781 thousand EUR (appr. 59.2 million EEK) in the reporting period. On 10 August 2010, the issued convertible bonds were registered in the Estonian Central Register of Securities. In the fourth subscription period 536 012 convertible bonds were subscribed, for which the Ultimate Parent Company received 2 412 thousand EUR (appr. 37.7 million EEK) in the reporting period. On 16 September 2010, the issued convertible bonds were registered in the Estonian Central Register of Securities. In the fifth subscription period 422 067 convertible bonds were subscribed, for which the Ultimate Parent Company received 1 899 thousand EUR (appr. 29.7 million EEK) in the reporting period. On 29 November 2010, the issued convertible bonds were registered in the Estonian Central Register of Securities. In the sixth subscription period 569 273 convertible bonds were subscribed, for which the Ultimate Parent Company received 2 562 thousand EUR (appr. 40.1 million EEK) at the beginning of 2011. On 8 March 2011, the issued convertible bonds were registered in the Estonian Central Register of Securities.

On 24 June 2010, shareholders' meeting of Serval S.r.l. (former business name: Domina Hotel Group S.p.A.), a subsidiary of AS Pro Kapital Grupp, decided to cover the loss in amount of 6 737 060 EUR (appr. 105.4 million EEK) for which loss covering reserve conducted in 2010 in amount of 1 099 028 EUR (appr. 17.2 million EEK) was used and decrease the entity's share capital by cancellation of shares in amount of 5 638 032 EUR. At the same time it was decided to increase the entity's share capital by targeted emission up to 300 000 EUR (appr. 4.7 million EEK) by issuing 300 000 shares with nominal value of 1 EUR (appr. 15.6 EEK) per share. Payments to share capital were conducted according to decision.

On 5 July 2010, shareholders meeting of AS Pro Kapital Grupp decided to recall all members of the Supervisory Board at the ultimate Parent company and elect new Supervisory Board due to end of the imminent expiry of the representation term of one member of the Supervisory Board and to equalize the representation terms for all the members of the Supervisory Board. The new approved members of the Supervisory Board of the Ultimate Parent Company are Renato Lorenzo Bullani, Giuseppe Prevosti and Emanuele Bozzone.

On 26 July 2010 AS Pro Kapital Grupp acquired 6.76% additional ownership in subsidiary Immobiliare Novate S.p.A in amount of 613 thousand EUR (appr. 9 590 thousand EEK) for existing ownership of 90.58%.

On 31 December 2010 the sole shareholder of Pro Kapital Ukraine 3AT, a subsidiary of AS Pro Kapital Grupp decided to commence the liquidation proceeding of the subsidiary. At the balance sheet date the liquidation proceeding is not terminated

*Domina Vacanze subsidiary group*

Domina Vacanze S.p.A. as the leader of the timeshare market in Italy, continued development and realization of property as timeshare in both beautiful coastal areas (in Portofino, Porto Rotondo, Porto

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Cervo, Positano, Tremiti in Italy and Sharm El Sheikh in Egypt) as well as in mountains (Courmayeur, Cortina, Corvara, Tarvisio ) and cities (Venice).

On 6 May 2010 the liquidation process of Domina Vacanze GmbH, subsidiary Domina Vacanze, was completed.

On May 26, 2010 Domina Vacanze S.p.A. and Unicredit S.p.A signed a loan agreement with credit limit 1 260 thousand EUR (appr. 19 715 thousand EEK), with interest rate of 3 months Euribor + 1.2% per annum and due date on 31 May 2014. The loan will be used for the renovation of the hotel building situated in Italy, Tarvisio.

The liquidation proceedings initiated by Domina Vacanze S.p.A. before the beginning of the financial period for the subsidiaries Prima Classe S.r.l. and Domina Health & Beauty S.r.l. were not concluded as of the balance sheet date.

*Serval subsidiary group (former business name: Domina Hotel Group subsidiary group)*

During the reporting period the business names of Domina Hotel Group S.p.A and Domina Hotel Italy S.r.l were changed, the new business names are Serval S.r.l. and Multiservice Hotels S.r.l.

On 28 February 2010 Multiservice Hotels S.r.l., a subsidiary of Serval S.r.l. ended business activities as hotel operator in hotel "Domina Hotel Palace" located in Bari in Italy as the result did not meet the objectives proposed. The rental lease of the hotel was sold to extra-group entity.

On 3 March 2010, Serval S.r.l. sold the 100% ownership of Domina Hospitality School S.r.l., a subsidiary of Serval, managing the trainings of the employees, in amount of 30 thousand EUR (appr. 469 thousand EEK). The profit from disposal of subsidiary was 12 thousand EUR (appr. 188 thousand EEK).

On 30 April 2010 Multiservice Hotels S.r.l., a subsidiary of Serval S.r.l. ended business as hotel operation in hotel "Domina Inn Malpensa" located nearby Malpensa airport in Italy as the result did not meet the objectives proposed. The rental agreement of the hotel was terminated and the hotel property was returned to the owners.

On 1 June 2010 Domina Management AS, a subsidiary of Serval S.r.l. sold 100% ownership in its subsidiary Domina Management SIA to Pro Kapital Latvia PJSC in intra-group purchase-sale transaction. The entity manages hotel "Domina Inn Riga" in Latvia, Riga. The decision of the intra-group purchase-sale transaction was related to organize the Group structure and the transaction had no effect on the Group's assets, liabilities and equity.

On 17 June 2010 Domina Hotel Holland B.V, a subsidiary of Serval S.r.l. ended business as hotel operator in hotel "Domina Hotel & Conference Rotterdam", located in the Netherlands, Rotterdam as the result did not meet the objectives proposed. The property of the hotel was returned to the owner but as of the balance sheet date the liquidation proceeding of the entity is not initiated due to differences between the parties related to termination of the rental agreement.

On 30 June 2010 Multiservice Hotels S.r.l., a subsidiary of Serval S.r.l. ended business as hotel operator in hotel "Domina Hotel Capannelle" located in Rome in Italy as the result did not meet the objectives proposed. The rental lease of the hotel was sold to extra-group entity.

On 28 July 2010 Domina Management AS, a subsidiary of Serval S.r.l. sold 100% ownership in Domina Management Sp. z.o.o., a subsidiary operating a hotel in Poland, Poznan, in amount of 1 EUR (appr. 16 EEK). The profit from disposal of subsidiary was 328 thousand EUR (appr. 5 132 thousand EEK).

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On 1 August 2010 Serval S.r.l. sold 100% ownership in its Domina Management AS to AS Pro Kapital Eesti in an intragroup transaction. The entity operates the hotel "Domina Inn Ilmarine", located in Estonia, Tallinn. On 15 November 2010 Domina Management AS ended business as hotel operator in hotel "Domina Inn City", located in Estonia, Tallinn due to the termination of the operating agreement. The intra-group purchase-sale transaction had no effect on the Group's assets, liabilities and equity.

On 22 November 2010, Serval S.r.l. as the sole shareholder of the subsidiary Multiservice Hotels S.r.l., decided to commence the liquidation proceeding of the subsidiary. At the balance sheet date the liquidation proceeding is not terminated.

In 2009, Domina Hotel Hungary KFT, as subsidiary of Serval S.r.l., ended business as hotel operator in hotel "Domina Inn Fiesta" located in Budapest in Hungary as the result did not meet the objectives proposed. On 14 December 2010 the liquidation proceeding of the subsidiary was initiated. At the balance sheet date the liquidation proceeding is not terminated.

Domina Tunisie S.A., a subsidiary of Serval S.r.l., ended the activity in 2007, but as of the balance sheet date the liquidation process has not been started due to the value-added tax was still not refunded by the government.

*Pro Kapital Eesti subsidiary group*

On 11 March 2010, AS Tondi Kvartal, a subsidiary of AS Pro Kapital Eesti, and AS Swedbank signed an appendix to the loan contract concluded on January 16, 2009; the appendix sets 16 January 2012 as the new maturity date of the loan, other loan conditions of the loan contract were not altered.

On 1<sup>st</sup> August 2010, AS Pro Kapital Eesti acquired 100% ownership in Domina Management AS, from Serval S.r.l. as an intergroup transaction. The intergroup sale-purchase agreement does not have an effect on the assets, liabilities and equity of the Group. The Entity which used to operate hotels in Estonia, Tallinn will continue its activities as the operator of the hotel "Domina Inn Ilmarine". Due to the termination of the operating agreement, Domina Management AS terminated operating the hotel "Domina Inn City" on 15 November 2010.

On 22 November 2010, AS Kristiine Kaubanduskeskus, a subsidiary of AS Pro Kapital Eesti and AS Swedbank concluded an appendix to the loan agreement on 23 April 2009; the loan limit was increased by 8 000 thousand EUR (approx. 125 173 thousand EEK) to 67 121 thousand EUR (approx. 1 050 215 thousand EEK), maturity date of the additional loan limit is 23 November 2011, other loan conditions were not altered. The additional loan limit is used for financing the liabilities arising from the investment agreement concluded between AS Kristiine Kaubanduskeskus and Dom na Moike OOO, a subsidiary Pro Kapital Rus OOO.

*Pro Kapital Latvia subsidiary group*

In 2010, Pro Kapital subsidiary group in Latvia continued the development and management of existing real estate projects.

On 15 January 2010 PK Investments SIA, a subsidiary group of Pro Kapital Latvia ended its business as property operator (Domina Shopping Centre, sold in 2007 by the entity) due to the termination of the operating agreement.

On 13 April 2010 the liquidation process of Nekustamo īpašumu sabiedrība A Centrs SIA, a subsidiary of Pro Kapital Latvia PJSC was completed.

On 25 May 2010 the liquidation process of Kugu Real Estate SIA subsidiary Pro Kapital Latvia PJSC 1 was completed.

On 1 June 2010 Pro Kapital Latvia PJSC acquired as an intra-group transaction 100% ownership in Domina Management SIA from Domina Management AS, a subsidiary of Serval S.r.l.. The entity

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

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operates "Domina Inn Riga" in Latvia, Riga. The intra-group purchase-sale transaction had no effect to the Group's assets, liabilities, and equity.

During the reporting period Pasaules tirdzniecības centrs "Rīga" SIA, an entity belonging to the Pro Kapital Latvia subsidiary group carried out division by distribution, Pasaules tirdzniecības centrs "Rīga" SIA (the company being divided) provided part of its property (land) located in Kugu 26, in Riga to Klīversala RE SIA, an entity belonging to the Pro Kapital Latvia subsidiary group (recipient company). During the division the share capital of Pasaules tirdzniecības centrs "Rīga" SIA was decreased and the share capital of Klīversala RE SIA was increased in amount of 212 thousand LVL (appr. 4 672 thousand EEK). After the division Pasaules tirdzniecības centrs "Rīga" SIA continues renting and managing the office building in Elizabetes 2, in Riga. The intra-group purchase-sale transaction had no effect to the Group's assets, liabilities, and equity.

Nekustamo īpašumu sabiedrība Prokurs SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued the sale of renovated apartments situated in Riga, Kugu 26. As of the end of 2010, 6 apartments were not sold, 4 apartments of which were rented out.

Klīversala RE SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued the activities related to confirmation of detailed plan of the project in the Trijādības region in Riga. The detailed plan should be confirmed in 2011. It is planned to build 86 500 m<sup>2</sup> of dwelling areas and 67 200 m<sup>2</sup> of commercial areas at a total amount of 180 million EUR (appr. 2.8 billion EEK) onto the 56 000 m<sup>2</sup> territory.

Zvaigznes Centrs SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued preparations of developing the Brīvības region in Riga, during the reporting period the decision for starting the construction works was not made. On the entity owned territory it is planned to renovate 4 600 m<sup>2</sup> of dwelling areas and 1 689 m<sup>2</sup> of commercial areas at a total amount of 6 million EUR (appr. 93.9 million EEK).

In 2010 Tallina Nekustamie Īpašumi SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued preparations in developing the downtown area in Riga, a building permit is scheduled to be received in 2011 after which the construction can begin. On the entity owned territory it is planned to renovate 18 000 m<sup>2</sup> of dwelling and commercial areas.

*Pro Kapital Vilnius subsidiary group*

In 2010, Pro Kapital subsidiary 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 subsidiary group continued the sales of first stage of 2009 completed commercial and dwelling areas in Aguonu, at the border of the old town of Vilnius. During the reporting period 4 000 m<sup>2</sup> of the area was sold, at the end of 2010 the unsold area was 9 600 m<sup>2</sup>. In the second stage of the project, which comprises 13 000 m<sup>2</sup> of commercial and dwelling areas, will be started in 2012.

*Pro Kapital Rus subsidiary group*

Dom na Moike OOO, an entity belonging to the Pro Kapital Rus subsidiary group continued the development the hotel project in Saint Petersburg.

During the reporting period Domina Rus OOO, an entity belonging to the Pro Kapital Rus subsidiary group was dealing with presentations of real estate owned by Domina Vacanze subsidiary group in different exhibitions in order to start the property sales in Russia. In 2010, no real estate purchase-sales agreements were concluded.

*Pro Kapital Ukraine subsidiary group*

Due to the changes in the economic situation in the last ten years, Pro Kapital Ukraine 3AT and its subsidiaries PK-1 TOB, PK-2 TOB, PK-3 TOB acquired in 2007, had not commenced substantial business activities.

In 2010 management of the Group decided to renounce the plan related to real estate development in Ukraine.

On 16 February 2010, Pro Kapital Ukraine 3AT decided to commence the liquidation process of PK-1 TOB and PK-2 TOB. As at the balance sheet date, the liquidation process is not completed.

On 16 December 2010, Pro Kapital Ukraine 3AT sold 99% direct ownership and 1% indirect ownership in entity PK-3 TOB with the price 100 thousand Ukrainian grivnas (approx. 149 thousand EEK). Profit from disposal of ownership in a subsidiary amounted to 99 thousand Ukrainian grivnas (approx. 147 thousand EEK).

*P.K. Sicily S.p.A.*

In 2010, P.K. Sicily S.p.A. continued the renovation of tourism and hotel complex named „Domina Home Zagarella” located in Italy, Sicily. According to the preliminary project, renovation of the hotel complex located on the territory of 28 000 m<sup>2</sup> and containing of 24 000 m<sup>2</sup> of hotel areas, will be completed in stages. Partially renovated hotel was opened to clients in June 2010. The renovation Works will continue in 2011. Selling the hotel property as timeshares has also begun, pre-contracts have been concluded in the amount of 13 011 thousand EUR (appr. 203 578 thousand EEK).

During the financial year, the credit limit by Credito Siciliano S.p.A. was increased from 13 000 thousand EUR (appr. 203 406 thousand EEK) to 21 700 thousand EUR (appr. 339 531 thousand EEK) to develop the hotel complex.

*Pro Kapital Germany GmbH*

In 2010, Pro Kapital Germany GmbH continued to rent the hotel named “Kurhaus & Conference Park” located in Germany, Bad Kreuznach to Domina Tourismus GmbH, a subsidiary of Serval S.r.l. (former business name: Domina Hotel Group S.p.A.).

*Immobiliare Novate S.p.A.*

Immobiliare Novate S.p.A. as the owner of 194-room hotel Domina Inn Milano Fiera located near the Milan exhibition centre, opened in 2009, continued its business as hotel operator.

.....  
Paolo Vittorio Michelozzi

AS Pro Kapital Grupp  
Member of the Management Board

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2010

Signed for identification purposes:

AS Deloitte Audit Eesti

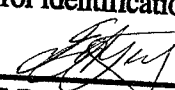
## ASSETS

(Th. EEK)	Note	31.12.2010	Adjusted 31.12.2009	01.01.2009
<b>Current assets</b>				
Cash and bank accounts	2	67 326	110 145	129 978
Shares and securities	7	3	146	11
Receivables				
Trade receivables		231 258	311 276	317 619
Miscellaneous receivables		123 586	182 200	192 098
Accrued income		4 840	12 229	11 269
Prepaid expenses		257 771	300 004	302 770
incl. Prepaid taxes and taxes reclaimable		199 218	210 597	237 071
Inventories	3			
Property held for sale		2 564 974	2 451 442	2 319 349
Other inventories		9 066	196 960	109 693
Total		2 574 040	2 648 402	2 429 042
Non-current assets classified as held for sale	12	783 025	0	0
<b>Total current assets</b>		<b>4 041 849</b>	<b>3 564 402</b>	<b>3 382 787</b>
<b>Non-current assets</b>				
Long-term financial investments				
Shares and securities	7	20 477	37 288	66 394
Miscellaneous long-term receivables	9	53 970	69 857	103 703
Total		74 447	107 145	170 097
Deferred income tax assets	24	505	0	1 712
Tangible assets	10	1 271 874	1 099 947	1 061 249
Investment property	12	47 290	597 817	568 921
Intangible assets	11	29 493	33 555	32 689
<b>Total non-current assets</b>		<b>1 423 609</b>	<b>1 838 464</b>	<b>1 834 668</b>
<b>TOTAL ASSETS</b>		<b>5 465 458</b>	<b>5 402 866</b>	<b>5 217 455</b>

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

AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2010

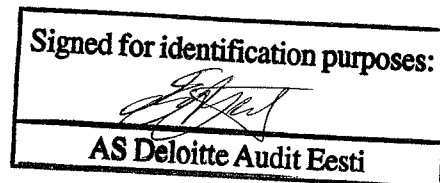
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AS Deloitte Audit Eesti

LIABILITIES AND EQUITY

(Th. EEK)	Note	31.12.2010	Adjusted 31.12.2009	01.01.2009
<b>Current liabilities</b>				
Debt	13	1 303 342	186 747	688 612
Client prepayments		101 245	132 996	163 612
Trade payables		363 568	448 594	403 740
Taxes payable		17 542	24 132	22 008
Accrued expenses		26 680	32 621	26 201
Short-term provisions	14	79 953	10 575	5 557
Prepaid income		2 397	2 153	10 978
<b>Total current liabilities</b>		<b>1 894 727</b>	<b>837 818</b>	<b>1 320 708</b>
<b>Non-current liabilities</b>				
Long-term debt	14	1 318 687	1 989 691	1 102 280
Other long-term liabilities	14	387 718	328 810	141 137
Deferred income tax liability	14	24 798	25 275	35 150
Long-term provisions	14	19 484	30 736	30 083
<b>Total non-current liabilities</b>		<b>1 750 687</b>	<b>2 374 512</b>	<b>1 308 650</b>
<b>Total liabilities</b>		<b>3 645 414</b>	<b>3 212 330</b>	<b>2 629 358</b>
<b>Equity attributable to equity holders of the parent</b>				
Share capital in nominal value	21	531 854	531 854	531 854
Share premium		705 495	705 495	705 495
Reserves	21	45 966	45 966	46 447
Retained earnings		376 085	776 326	907 425
Foreign currency differences		-18 104	-9 075	-2 626
Loss for the financial year		-349 719	-395 033	-131 304
<b>Total equity attributable to equity holders of the parent</b>		<b>1 291 577</b>	<b>1 655 533</b>	<b>2 057 291</b>
Minority interest	20	528 467	535 003	530 806
<b>Total equity</b>		<b>1 820 044</b>	<b>2 190 536</b>	<b>2 588 097</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5 465 458</b>	<b>5 402 866</b>	<b>5 217 455</b>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD 2010



(Th. EEK)	Notes	2010	2009
<b>Operating income</b>			
Revenue	4	903 009	1 014 706
Cost of goods sold	22	814 086	940 061
<b>Gross profit</b>		<b>88 923</b>	<b>74 645</b>
Marketing expenses	22	76 860	103 180
Administrative expenses	22	240 050	276 683
Other income	4	79 069	49 943
Other expenses		147 940	75 546
<b>Operating loss</b>		<b>-296 858</b>	<b>-330 821</b>
Financial income	23	39 943	17 967
Financial expense	23	89 399	76 452
<b>Loss before income tax</b>		<b>-346 314</b>	<b>-389 306</b>
Income tax	24	-3 331	516
<b>Loss for the financial year</b>		<b>-349 645</b>	<b>-388 790</b>
Net loss attributable to:			
Equity holders of the parent		-349 719	-395 033
Minority interest		74	6 243
<b>Other comprehensive profit (loss)</b>			
Loss for retranslation of foreign currency		-9 525	-5 702
<b>Comprehensive loss for the financial year</b>		<b>-359 170</b>	<b>-394 492</b>
Comprehensive loss attributable to:			
Equity holders of the parent		-358 748	-401 482
Minority interest		-422	6 990
Share profit (loss) calculated by equity holders of the parent from net loss for the financial year:	25		
Net loss per share (in EEK)		-6.58	-7.43
Diluted net loss per share (in EEK)		-6.58	-7.43

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



CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD 2010

(Th. EEK)	Notes	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the financial year		-349 645	-388 790
Adjustments:			
Depreciation of tangible assets	10	44 664	37 910
Depreciation of investment property	12	16 179	14 447
Amortization of intangible assets	11	4 148	3 772
Profit / loss from disposal of ownership in a subsidiary (net amounts)	5, 23	-5 472	-9 940
Profit / loss from disposal of tangible assets	10, 11, 12	3 118	-5 290
Impairment loss of long-term investments	7	-1 783	0
Impairment loss of tangible assets	11	0	3
Interest income / expenses (net amounts)	23	82 357	59 898
Change in deferred tax assets	24	-505	1 712
Change in deferred tax liabilities	24	-477	-9 875
Change in provisions	14	58 139	5 671
Changes in foreign currency rates		-28 624	300
Other non-monetary changes (net amounts)	2	20 870	203 715
Change in trade receivables and prepayments		194 669	21 451
Inventory and tangible assets held for sale		-23 790	-179 797
Change in liabilities and prepayments collected		-121 368	-8 559
Income tax paid	24	-5 133	-5 400
<b>Total cash flows used in operating activities</b>		<b>-112 653</b>	<b>-258 772</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash flow from acquisition of subsidiaries	5	-9 590	0
Net cash flow from disposal of subsidiaries	5	111	10 953
Acquisition of tangible assets	10, 11, 12, 22	-362 158	-152 601
Acquisition of assets held under finance lease	10	47 578	1 616
Disposal of tangible assets	10, 11, 12	27 652	10 095
Long-term loans granted		-45	-1 696
Long-term loans returned		300	16 252
Acquisition of short-term financial investments	7	0	-135
Disposal / liquidation of short-term financial investments	7	8	0
Acquisition of long-term financial investments	7	-12 087	-726
Disposal of long-term financial investments	7	30 681	29 832
Interest received		1 616	4 586
<b>Total cash flows used in investing activities</b>		<b>-275 934</b>	<b>-81 824</b>

AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD 2010

Signed for identification purposes:

AS Deloitte Audit Eesti

(Th. EEK)	Note	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Received from issue of convertible bonds	18	153 533	82 014
Repurchase of convertible bonds	18	-6 127	0
Long-term loans raised		536 511	464 493
Repayment of long-term loans		-230 857	-142 917
Financial lease principal paid	19	-14 502	-773
Investments made by minority shareholder into subsidiaries (net amounts)		-1 732	-3 809
Interests paid		-91 058	-78 245
<b>Total cash flows from financing activities</b>		<b>345 768</b>	<b>320 763</b>
<b>Net change in cash</b>		<b>-42 819</b>	<b>-19 833</b>
<hr/>			
<b>CASH AT THE BEGINNING OF THE FINANCIAL YEAR</b>		<b>110 145</b>	<b>129 978</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>		<b>67 326</b>	<b>110 145</b>

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

AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD 2010

Signed for identification purposes:

AS Deloitte Audit Eesti

	Notes	No of shares (pcs)	Nominal value of share (EEK)	Attributable to equity holders of the parent				Minority interest	Total equity
				Share capital	Share premium	Reserves	Retained earnings (accumulated loss)	Foreign currency differences	
(Th. EEK)									
01 January 2009		53 185 422	10	531 854	705 495	46 447	776 121	-2 626	2 057 291
Increase in other reserves				0	0	-205	205	0	0
Change in reserve of convertible bonds	18,21			0	0	7 918	0	0	7 918
Increase of share capital in subsidiaries				0	0	0	0	0	0
Decrease of share capital in subsidiaries				0	0	0	0	0	0
Changes in minority interest due to changes in parent company's participation	5			0	0	0	0	0	0
Changes in minority interest due to liquidation of subsidiary				0	0	0	0	0	0
Change in minority interest due to the declaration of dividends in subsidiaries				0	0	0	0	0	0
Comprehensive loss for the financial year				0	0	0	0	0	0
31 December 2009		53 185 422	10	531 854	705 495	54 160	381 293	-9 075	1 663 727
Adjustments according to IAS 32 (Note 1)						-8 194			-8 194
Adjustments in 31 December 2009		53 185 422	10	531 854	705 495	45 966	381 293	-9 075	1 655 533
Positive goodwill from acquisition of holdings from minority interest in subsidiary	5			0	0	0	-5 208	0	-5 208
Increase of share capital in subsidiaries				0	0	0	0	0	0
Changes in minority interest due to changes in parent company's participation				0	0	0	0	0	0
Changes in minority interest due to liquidation of subsidiary	5			0	0	0	0	0	0
Change in minority interest due to the declaration of dividends in subsidiaries				0	0	0	0	0	0
Comprehensive loss for the financial year				0	0	0	0	0	0
31 December 2010		53 185 422	10	531 854	705 495	45 966	26 366	-18 104	1 291 577

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

## NOTE 1 ACCOUNTING POLICIES

### 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 2010 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 2010, the Group consisted of 42 entities, ten of which are direct subsidiaries of the Ultimate Parent Company (hereinafter also referred to as "the parent companies of the subsidiary groups") and 31 were entities controlled by those subsidiaries. Participation in subsidiaries of the Group is presented in Note 4.

### 2. APPLICATION OF NEW AND REVISED IFRS's

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 case of the require of new or revised international financial reporting standards (IFRS) 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.

All new and revised standards and IFRIC interpretations issued by IASB that affect the Group and which are effective to the reporting periods starting from 1 January 2010 have been implemented by the Group. According to the management board the implementation of the new and revised standards caused no significant changes in the applicable accounting principles neither in the presentation of information in the financial statements.

The new and revised standards or interpretations of a standard which became effective in the financial year are the following:

- IFRS 1 (amended), "First-time Adoption of International Financial Reporting Standards" amendment "Additional Exemptions for First-Time Adopters";
- IFRS 2 (amended), "Share-based Payment";
- IFRS 3 (amended), "Business combinations";
- IFRS 5 (amended), "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 27 (amended), "Consolidated and separate financial statements";
- IAS 39 (amended), "Financial instruments: Recognition and Measurement" amendment "Eligible Hedged Items";
- IFRIC 17 "Distribution of Non-cash Assets to Owners";
- IFRIC 18 "Transfers of Assets from Customers";
- IFRIC 12 "Service Concession Arrangements";
- Amendments in IFRS (issued in April 2009)

IASB has issued an annual omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group's management considers that these amendments to standards will have no material effect in the Group's financial statements.

At the date of compilation of these consolidated financial statements, the following standards and interpretations were issued which are effective for accounting periods starting after 1 January 2010:

- IFRS 9 "Financial Instruments: Classification and Measurement", is effective for accounting periods starting from 1 January 2013 or later (not adopted by EU at the balance sheet date);
- IFRS 1 (amended) "First-time Adoption of International Financial Reporting Standards" amendments "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters", is effective for accounting periods starting from 1 July 2010 or later;
- IFRS 1 (amended) "First-time Adoption of International Financial Reporting Standards" amendments "Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters", is effective for accounting periods starting from 1 July 2011 or later (not adopted by EU at the balance sheet date);
- IFRS 7 (amended) "Financial instruments: disclosures" amendments "Disclosure – transfers of financial assets" is effective for accounting periods starting from 1 July 2011 or later (not adopted by EU at the balance sheet date);
- IAS 24 (amended) "Related Party Disclosures", is effective for accounting periods starting on or after 1 January 2011 (not adopted by EU at the balance sheet date);
- IAS 32 (amended) "Financial Instruments: Presentation", is effective for accounting periods starting on or after 1 February 2010;
- IAS 12 (amended) "Income Taxes" amendments "Deferred Income Tax: Recovery of Underlying Assets", is effective for accounting periods starting on or after 1 January 2012 (not adopted by EU at the balance sheet date);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", is effective for accounting periods starting on or after 1 July 2010 (not adopted by EU at the balance sheet date);
- IFRIC 14 (amended) "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", is effective for accounting periods starting on or after 1 January 2011 (not adopted by EU at the balance sheet date);
- Effective periods in changes in IFRS (issued in May 2010) vary for standards, majority of the changes are effective for accounting periods starting on or after 1 January 2011 (not adopted by EU at the balance sheet date).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 2010

**3. PRINCIPAL ACCOUNTING POLICIES**

The consolidated financial statements of the Group for the financial year 2010 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 by European Union, and in accordance with the Estonian Accounting Act.

The consolidated financial statements are prepared on the accrual basis.

The functional and presentation currency of the Group's Financial Statements is Estonian kroon (EEK). These consolidated financial statements of the Group are compiled in thousands of Estonian kroons (Th. EEK), 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 out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Ultimate Parent Company and its subsidiaries. Control is achieved, when the parent company has the power to govern the financial and operational policies of an entity, so as to obtain benefits from its activities.

Minority interests of the entities under the control of the Ultimate Parent Company are recorded on a separate line in the consolidated financial statements equity.

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

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 intra-group transactions are eliminated in the consolidated financial statements.

**Business combinations**

Business combinations, except for those conducted between the entities under common control, are recorded using the purchase method. Acquisition cost of acquired business combination is measured at the fair value of net assets (purchase price) plus any costs directly attributable to business combination.

In accordance with purchase method, the acquisition cost is allocated to the fair value of acquired identifiable assets, liabilities and contingent liabilities. Negative difference between cost of acquisition and the fair value of net assets acquired is recognized immediately in the income statement as revenue. Positive difference (goodwill) between cost of acquisition and the fair value of net assets acquired is recognized as an asset in the balance sheet.

Adjusted purchase method is used when increasing the ownership in the subsidiary by acquiring shares from minority shareholders. Based on adjusted purchase method, the acquisition cost of acquired business combination is measured at net assets book value (i.e. as the acquired assets and liabilities were reflected in the acquired company's balance sheet). The difference between the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 2010

acquisition cost and the acquired net assets book value are recorded as equity increase or decrease in the acquiring company.

**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 subsidiary 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 subsidiary 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 Estonia 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.

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 Central Bank of Estonia as applied in the consolidated financial statements are as follows:

(in EEK)	31.12.2010	2010 average	31.12.2009	2009 average
Latvian lats (LVL)	22,0436	22,07748	22,0504	22,16819
Lithuanian litas (LTL)	4,53157	4,53157	4,53157	4,53157
Euro (EUR)	15,6466	15,6466	15,6466	15,6466
Russian ruble (RUB)	0,38325	0,38882	0,35843	0,35478
Ukrainian grivna (UAH)	1,4698	1,4856	1,34978	1,39812

**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.

#### Property 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 the accounting principles attributable to this asset group are implemented from the date of change.

#### Tangible assets

Assets used for rendering services or 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.

Tangible assets on the balance sheet are measured at cost less accumulated depreciation and impairment losses.

For buildings recorded as tangible assets, loan interest accrued from third party loans during the construction period is capitalized.

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 tangible asset group are as follows:

- Buildings in use 2-5% per annum;
- Machinery and equipment 8-20% per annum;
- Other equipment 20-50% 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 recognized at cost, which comprises of purchase price, non-refundable taxes and other expenditures directly related to taking the investment property into use.

For buildings recorded as investment property, loan interest accrued from third party loans during the construction period is capitalized.

On the balance sheet investment properties are recorded at cost less accumulated depreciation and impairment losses.

Depreciation of buildings is calculated on the straight-line method. The annual depreciation rate for buildings is 2 - 5%, land is not depreciated.

In case the usage purpose of the investment property changes, the asset is reclassified on the balance sheet and the accounting principles attributable to this asset group are implemented from the date of change.

#### **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.

Goodwill presents the positive difference between the acquisition cost 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 (including investment property) 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.

For assets with undefined useful life, irrespective of whether indications of possible impairment loss exist, the impairment test is carried out on every balance sheet date, comparing book value and recoverable value of the asset.

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.

In case the recoverable value is lower than the book value, the asset is recorded on the balance sheet at its recoverable value.

Impairment losses are recorded as expenses of the accounting period.

If the recoverable value of assets previously impaired is increased, the previous impairment loss is cancelled by reversing the impairment loss expense in the reporting period.

#### **Impairment of goodwill**

In order to perform impairment test, goodwill is allocated at the time of recognizing business combination to one or more cash generating units, which will presumably benefit from the given goodwill. Impairment test for the cash generating unit, to which goodwill belongs, is carried out in every reporting period, comparing the book value of the unit and relevant goodwill with their 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 this 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.

#### **Investments into subsidiaries (in the Ultimate Parent Company's separate financial statements)**

Investments into subsidiaries that are not held for the purpose of sale are recorded at cost in Parent Company's separate financial statements.

#### **Financial instruments**

##### *Financial instruments held to maturity*

Investments are recognized on a trade date basis and are initially measured at fair value. At subsequent reporting dates, financial instruments that the entity has expressed intention and ability to hold to maturity are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. The effective interest 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 exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

##### *Financial instruments held for sale*

Financial investments other than held-to-maturity securities are classified as either investments held for trading or as available-for-sale, and are measured at fair value. Investments in equity instruments that are not traded on the stock exchange and for which the fair value cannot be reliably measured are recorded at cost, less any discounts.

##### *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 balance sheet are evaluated in light of collectible amounts. Doubtful receivables are recorded as expense for accounting period. Difference between the present and nominal value of collectible amounts is recognized as interest income in the income statements under "Other financial income and expenses" using the corresponding internal interest rate.

*Bank borrowings*

Interest-bearing loans and overdrafts are initially measured at 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 a current period expense, unless the interest expense related to loans obtained to finance development of property or similar assets, in which case the interests are capitalized together with the asset.

*Convertible bonds*

Convertible bonds that are convertible into shares at bondholder's request are initially measured in 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 on the basis of actual interest rates.

*Trade payables*

Trade payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the amount of proceeds received, less direct issuing costs.

**Provisions**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value when the effect is material.

*Pension benefit plans*

Pension benefit plans and other provisions in favor 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 extra political proceedings 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 is recorded based on the requirements of the Commercial Code of Estonia 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.

## Revenue recognition

### *Net sales*

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

In addition to the above, net sales includes revenue at the sales prices of real estate recognized on the basis of related pre-contracts, if the all following conditions apply:

- the real estate object of the related agreement is completed and accepted;
- the client has made contractual down payments according to the payment schedule. The difference between down payment and total contract value is equal to penalties that are applicable in case the contract is declined;
- the agreement stipulates a penalty for declining the agreement, which is large enough to assert that it would be unreasonable for the buyer to decline the agreement.

Revenue from sales is recorded on the accrual basis of accounting in accordance with the revenue principle, 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 main operations of the entities belonging to the Group, is recorded as other income.

### *Financial income*

Interest income is recorded on the accrual basis of accounting 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 (including the cost of depreciation of investment properties) 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 main operations of the entities belonging to the Group, 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 of accounting as financial expenses for 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:

- 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 that 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 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 of accounting.

Assets held under operating lease are not reported on the balance sheet. Rentals payable under operating leases are charged to the income statement 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.

Assets leased under the terms of operating lease are reported similarly to other assets reported on the balance sheet. Rental income from operating leases is recognized 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 "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 statement of comprehensive income 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 resident countries legislation. Deferred income tax liability is accounted from all relevant temporary differences between the tax bases of assets and liabilities and the accountancy 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.

**Subsequent events**

Circumstances that reflect the evaluation of relevant assets and liabilities in the consolidated financial statements are considered, which occurred between the balance sheet date and the date the report was prepared by the management of the Ultimate Parent Company, but are related to the transactions in the reporting period or prior periods. Subsequent events, which do not affect valuation of assets and liabilities, but which will substantially influence the results of the next financial year, are disclosed in the notes to the consolidated financial statements.

**Use of judgements, estimates and assumptions**

The preparation of the consolidated financial statements assumes judgements, estimates and assumptions by the management board of the Ultimate Parent Company 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. 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods.

**Change in accounting policy related to convertible bonds**

Compared to prior year report, the accounting policies related to convertible bonds have been changed in preparation of current report.

The convertible bonds that could be exchanged to shares by the owner were recorded as compound financial instruments, which include a debt component and an equity component in issuing date of the component.

The amendment of IAS 32 16A revised the termination of equity component, due to convertible bonds do not include an equity component and are recorded as a liability in period of 2009-2010 by the Ultimate Parent Company.

The amendment is retrospectively effective and the impact on the annual accounts balances of the Group is as follows:

(Th. EEK)

Balance sheet account	Opening balance 31.12.2009	Adjustment	Adjusted opening balance 31.12.2010
Reserves	54 160	-8 194	45 966
Long-term loans	1 981 497	8 194	1 989 691

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 2010**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, with balances as of 31 December 2010 and 2009, were 67 326 Th. EEK and 110 145 Th. EEK, respectively, comprising cash on hand and bank deposits as of the end of the reporting period. Foreign currency accounts have been retranslated into EEK at the Bank of Estonia 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:

(Th EEK)	2010	2009
Non-monetary increase in short-term liability	34 806	201 085
Non-monetary decrease in short-term liability	-25 244	-15 807
Non-monetary increase in short-term receivables	-13	-10 357
Non-monetary decrease in short-term receivables	11 321	28 794
<b>Total</b>	<b>20 870</b>	<b>203 715</b>

**NOTE 3 INVENTORIES**

Inventory consists of the following components:

(Th EEK)	31.12.2010	31.12.2009
Property held for sale		
Finished property	1 080 564	1 243 313
Unfinished property	1 484 410	1 208 129
Other inventories		
Goods bought for resale	9 062	6 284
Prepayments to suppliers	4	190 676
<b>Total</b>	<b>2 574 040</b>	<b>2 648 402</b>

Prepayments by Group companies in relation to the property held for sale are recorded as prepayments to suppliers.

During the accounting period, inventory write-downs records in previous years were decreased in the amount of 4 422 Th. EEK (in 2009: inventory write-down in the amount of 25 649 Th. EEK due to the net realization value falling below the acquisition cost) (see Note 22).

During the accounting period, interests are capitalized into cost of inventories in the amount of 4 875 Th. EEK (in 2009: 12 898 Th. EEK) (see Note 23).



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## NOTE 4 ENTITIES BELONGING TO THE CONSOLIDATION GROUP

Name of the entity	Shareholder	Country of incorporation	Share of ownership % 31.12.2009	Share of ownership % 31.12.2010	Field of activity
AS Pro Kapital Grupp	Anndare Ltd.	Ireland	57,79%	42,00%	Holding company
	Svalbork Invest OÜ	Estonia	12,86%	12,86%	
	Eurofiduciaria S.r.l.	Italy	0,59%	11,49%	
	A.F.I. American Financial Investments Ltd.	Liechtenstein	9,57%	9,57%	
Pro Kapital Eesti AS	AS Pro Kapital Grupp	Estonia	100,00%	100,00%	Real estate development
Ilmarise Kvartal OÜ	Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate development
Kristiine Kaubanduskeskus AS	Pro Kapital Eesti AS	Estonia	52,00%	52,00%	Real estate development
Tondi Kvartal AS	Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate development
Pro Halduse AS	Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate management
Tallinna Moekombinaat AS	Pro Kapital Eesti AS	Estonia	96,00%	96,00%	Real estate development
Domina Management AS	Pro Kapital Eesti AS	Estonia	0,00%	100,00%	Hotel management (acquired from Servat S.r.l.)
Pro Kapital Vilnius Real Estate UAB	AS Pro Kapital Grupp	Lithuania	100,00%	100,00%	Real estate development
PK Invest UAB	Pro Kapital Vilnius Real Estate UAB	Lithuania	100,00%	100,00%	Real estate development
Domina Management UAB	Pro Kapital Vilnius Real Estate UAB	Lithuania	100,00%	100,00%	Real estate management
Pro Kapital Latvia PJSC	AS Pro Kapital Grupp	Latvia	100,00%	100,00%	Real estate development
PK Latvia SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Nekustamo Īpašumu sabiedrība A Centrs SIA	Pro Kapital Latvia AS	Latvia	51,00%	0,00%	Real estate development (liquidated)
Klīversala RE SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Nekustamo Īpašumu sabiedrība Zvaigznes centrs SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Investhotel SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
PK Investments SIA	Pro Kapital Latvia AS	Latvia	67,00%	67,00%	Real estate development
Kugu Real Estate SIA	Pro Kapital Latvia AS	Latvia	70,00%	0,00%	Real estate development (liquidated)

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Name of the entity	Shareholder	Country of incorporation	Share of ownership % 31.12.2009	Share of ownership % 31.12.2010	Field of activity
Pasaules tirdzniecības centrs "Rīga" SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība Prokurs SIA	Pasaules tirdzniecības centrs "Rīga" SIA	Latvia	70,00%	70,00%	Real estate development
Domina Management SIA	Pro Kapital Latvia AS	Latvia	0,00%	100,00%	Hotel management (acquired from Domina Management AS)
Domina Vacanze S.p.A.	AS Pro Kapital Grupp	Italy	88,75%	88,75%	Real estate development, hotel management
Domina Case Vacanze S.r.l.	Domina Vacanze S.p.A.	Italy	100,00%	100,00%	Real estate development
Domina Hellas E.p.e.	Domina Vacanze S.p.A.	Greece	100,00%	100,00%	Hotel management
Computer Service S.r.l.	Domina Vacanze S.p.A.	Italy	100,00%	100,00%	Other (IT services)
Domina Health & Beauty S.r.l.	Domina Vacanze S.p.A.	Italy	70,00%	70,00%	Real estate development (under liquidation)
Prima Classe S.r.l.	Domina Vacanze S.p.A.	Italy	100,00%	100,00%	Travel services (under liquidation)
Domina Vacanze GmbH	Domina Vacanze S.p.A.	Austria	100,00%	0,00%	Hotel management (liquidated)
Immobiliare Novate S.p.A.	AS Pro Kapital Grupp	Italy	90,58%	97,34%	Real estate development, hotel management
Serval S.r.l. (former name: Domina Hotel Group S.p.A.)	AS Pro Kapital Grupp	Italy	99,82%	99,82%	Hotel management
Domina Management AS	Serval S.r.l.	Estonia	100,00%	0,00%	Hotel management (sold to Pro Kapital Eesti AS)
Domina Management SIA	Domina Management AS	Latvia	100,00%	0,00%	Hotel management (sold to Pro Kapital Latvia PJSC)
Domina Management Sp. z o.o.	Domina Management AS	Poland	100,00%	0,00%	Hotel management (sold)
Multiservice Hotels S.r.l. (former name: Domina Hotel Italy S.r.l.)	Serval S.r.l.	Italy	100,00%	100,00%	Hotel management (under liquidation)
Domina Tourismus GmbH	Serval S.r.l.	Germany	100,00%	100,00%	Hotel management
Domina Hotels Hungary KFT	Serval S.r.l.	Hungary	100,00%	100,00%	Hotel management (under liquidation)
Domina Tunisie S.A.	Serval S.r.l.	Tunisia	99,30%	99,30%	Hotel management
Domina Hotel Holland B.V.	Serval S.r.l.	The Netherlands	100,00%	100,00%	Hotel management

AS PRO KAPITAL GRUPP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Name of the entity	Shareholder	Country of incorporation	Share of ownership % 31.12.2009	Share of ownership % 31.12.2010	Field of activity
Domina Hospitality School S.r.l.	Serval S.r.l.	Italy	100,00%	0,00%	Other /trainings (sold)
Pro Kapital Rus OOO	AS Pro Kapital Grupp	Russia	100,00%	100,00%	Real estate development
Domina Rus OOO	Pro Kapital Rus OOO	Russia	100,00%	100,00%	Real estate management
Dom na Moike OOO	Pro Kapital Rus OOO	Russia	51,00%	51,00%	Real estate development
Pro Kapital Ukraine 3AT	AS Pro Kapital Grupp	Ukraine	100,00%	100,00%	Real estate development (under liquidation)
PK-1 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	100,00%	Real estate development (under liquidation)
PK-2 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	100,00%	Real estate development (under liquidation)
PK-3 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	0,00%	Real estate development (sold)
Pro Kapital Germany GmbH	AS Pro Kapital Grupp	Germany	100,00%	100,00%	Real estate development
P.K. Sicily S.p.A.	AS Pro Kapital Grupp	Italy	100,00%	100,00%	Real estate development, hotel management

The (consolidated) financial data of the subsidiaries are following (all data presented in the currency of the parent of subsidiary group's country of incorporation, full units):

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Subsidiary	Currency	Cost as of 31.12.2009	Cost as of 31.12.2010	Net assets 31.12.2010	Revenue 2010	Net profit (loss) 2010
AS Pro Kapital Grupp	EEK	X	X 1	291 576 402	903 008 600	-349 719 333
Pro Kapital Eesti AS	EEK	281 340 000	281 340 000	860 511 762	176 204 019	8 316 740
Ilmarise Kvartal OÜ	EEK	4 478 348	4 478 348	45 481 697	6 606 551	-3 666 575
Kristiine Kaubanduskeskus AS	EEK	187 862 164	187 862 164	858 480 880	132 132 042	51 069 909
Tondi Kvartal AS	EEK	68 243 610	68 243 610	108 394 440	10 073 861	-5 587 490
Pro Halduse AS	EEK	418 910	418 910	6 657 682	21 363 143	151 390
Tallinna Mookombinaat AS	EEK	193 154 012	193 154 012	147 071 980	0	-1 099 095
Domina Management AS	EUR	108 650	0	0	1 020 293	-40 215
	EEK	0	16	-5 107 840	10 747 406	-5 107 856
Pro Kapital Vilnius Real Estate UAB	EEK	37 156 121	37 156 121	-12 377 444	101 392 433	-33 218 357
PK Invest UAB	LTL	3 252 633	3 252 633	-9 023 905	21 396 873	-7 242 358
Domina Management UAB	LTL	147 523	147 523	187 292	223 701	47 037
Pro Kapital Latvia PJSC	EEK	159 402 340	159 402 340	175 691 990	36 799 182	-60 580 274
PK Latvia SIA	LVL	133 580	133 580	25 346	4 281	-31 492
Nekustamo īpašumu sabiedrība A Centrs SIA	LVL	37 710	0	0	0	-238
Klīversala RE SIA	LVL	6 688 379	6 688 379	9 507 503	13 300	-194 134
Tallina Nekustamie Īpašumi SIA	LVL	3 019 899	3 319 899	489 126	0	-161 659
Nekustamo īpašumu sabiedrība Zvaigžnes centrs SIA	LVL	1 100 000	1 100 000	422 015	2 950	-118 031
Investhotel SIA	LVL	700 000	700 000	1 119 238	429 915	111 440
PK Investments SIA	LVL	6 698 517	6 698 517	3 847 122	916	-2 513 334
Kugu Real Estate SIA	LVL	2 800	0	0	0	-422
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	7 052 883	7 052 883	7 104 735	591 260	277 569
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	999 320	999 320	1 426 458	37 161	-1 142
Domina Management SIA	EUR	3 189	0	0	0	0
	LVL	0	162 051	-120 753	1 024 055	-282 804
Domina Vacanze S.p.A.	EEK	1 174 446 259	1 174 446 259	707 168 248	361 043 926	-91 618 910
Domina Case Vacanze srl	EUR	1 355 866	1 355 866	83 474	753 593	-8 568
Domina Hellas E.p.e.	EUR	1 197 827	1 197 827	-506 072	0	-69 000
Computer Service S.r.l.	EUR	28 934	28 934	87 368	393 843	3 068
Domina Health & Beauty S.r.l.	EUR	61 571	61 571	0	0	0
Prima Classe S.r.l.	EUR	260 837	260 837	-530 216	0	-6 996
Domina Vacanze GmbH	EUR	1 475 557	0	0	0	0
Immobiliare Novate S.p.A.	EEK	135 366 093	144 956 129	43 004 123	44 069 885	-21 238 154
Serval S.r.l.	EEK	237 112 926	260 333 717	-59 398 662	161 596 859	-60 582 055
Domina Management Sp. z.o.o.	EUR	740 754	0	0	0	0
Multiservice Hotels S.r.l.	EUR	5 027 216	5 027 216	-1 218 853	4 270 515	-1 101 648
Domina Tourismus GmbH	EUR	280 126	280 126	-303 810	3 304 771	-75 879
Domina Hotels Hungary KFT	EUR	1 246 783	1 246 783	-496 683	4 175	-940
Domina Tunisie S.A.	EUR	1 542 657	1 542 657	34 950	0	-5 066
Domina Hotel Holland B.V.	EUR	18 000	1 134 253	-783 508	1 718 250	-880 001
Domina Hospitality School S.r.l.	EUR	150 154	0	0	0	0
Pro Kapital Rus OOO	EEK	4 571	4 571	-99 666 208	0	156 719
Domina Rus OOO	RUB	10 000	10 000	-4 841 183	0	-2 323 696
Dom na Moike OOO	RUB	117 300 000	117 300 000	-1 802 901	0	32 712 069
Pro Kapital Ukraine 3AT	EEK	1 196 779	1 196 779	499 879	0	19 461
PK-1 TOB	UAH	100 000	100 000	4 200	0	-8 700
PK-2 TOB	UAH	100 000	100 000	4 400	0	-8 700
PK-3 TOB	UAH	100 000	0	0	0	-11 800
Pro Kapital Germany GmbH	EEK	391 165	391 165	-147 188	0	669 862
P.K. Sicily S.p.A.	EEK	78 233 000	78 233 000	-46 245 673	20 380 870	-60 473 108

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The consolidated information of the subsidiaries is following for operating activities and business and geographical segments.

The intergroup reporting system is based on geographical segments.

Segment result, assets and liabilities are related to the accounts which are directly associated to the segment and the allocation of which between the segments is sufficiently justified.

*Geographical segments*

The Group operates in Estonia, Latvia, Lithuania, Italy, Germany, Russia and Ukraine.

The Italian subsidiaries belonging to Serval subsidiary group (former company name: Domina Hotel Group) provide hotel management service also in other countries, but considering that the sales of the described services is less than 10% of Group's turnover, the current geographical segments are presented among the figures for the whole Italian geographical segment.

Net profit, assets and liabilities of a segment include records, which are directly related to the particular segment and allocation of which among the segments is sufficiently justified.

(Th. EEK)	Estonia	Latvia	Lithuania	Russia	Ukraine	Germany	Italy	Total
<b>2010</b>								
Revenue	177 726	36 799	101 392	0	0	0	587 092	903 009
Other operating income	1 439	1 273	13	40	0	0	76 304	79 069
Segment operating profit (loss)	10 061	-75 506	-19 758	-14 586	-131	-4 477	-192 461	-296 858
Financial income and expense (net)	-49 617	-430	-9 652	26 510	150	-9	-16 408	-49 456
<b>Operating loss</b>								<b>-346 314</b>
Income tax	0	411	-682	0	0	2	3 600	3 331
Minority interest								-74
<b>Net loss</b>								<b>-349 719</b>
Assets	1 225 407	497 520	325 776	345 151	500	43 562	3 027 542	5 465 458
Liabilities	1 367 891	176 362	163 691	133 855	0	446	1 803 169	3 645 414
Acquisition of tangible assets	248 862	39	429	52 869	0	0	59 959	362 158
Depreciation	-17 919	-5 082	-789	-40	0	-1 872	-39 289	-64 991
<b>2009</b>								
Revenue	198 128	76 385	35 504	0	0	0	704 689	1 014 706
Other operating income	6 013	13 933	596	1 543	0	0	27 858	49 943
Segment operating profit (loss)	-3 340	-27 673	-17 892	-13 655	-285	-4 600	-263 376	-330 821
Financial income and expense (net)	-28 711	1 412	-1 351	-9 698	8	0	-20 145	-58 485
<b>Operating loss</b>								<b>-389 306</b>
Income tax	0	2 294	-2 699	0	0	0	-111	-516
Minority interest								-6 243
<b>Net loss</b>								<b>-395 033</b>
Assets	1 034 040	512 296	437 991	279 448	576	44 983	3 093 532	5 402 866
Liabilities	931 163	127 327	278 839	187 837	135	442	1 678 393	3 204 136
Acquisition of tangible assets	18 104	17	410	45 804	0	61	88 205	152 601
Depreciation	-16 822	-5 720	-666	-36	0	-1 873	-31 012	-56 129

*Business segments*

The Group includes following business segments:

- Sale of property  
Sales of residential, commercial and trade areas, hotels, hotel suites, villas, and time-shares purchased and/or developed by the Group entities.
- Real estate rent  
Rental services provided by the Group entities.
- Real estate development and administration services  
Management services related to the management and development of real estate and also hotel operating services provided by the Group entities to third parties.

(Th. EEK)

Business segment	Fields of activity by Estonian Classification of Economic Activities	Revenue			
		2010	%	2009	%
Sales of real estate	Buying and selling of own real estate (EMTAK 68100)	317 561	35%	260 654	26%
Renting of real estate	Renting of own or leased real estate (EMTAK 68200)	105 139	12%	111 148	11%
Development and management of real estate (incl. Hotel management services)	Management real estate on a fee or contract basis (EMTAK 68320)	480 309	53%	642 904	63%
<b>Total</b>		<b>903 009</b>	<b>100%</b>	<b>1 014 706</b>	<b>100%</b>

**NOTE 5 ACQUISITIONS, DISPOSALS, INCREASES AND DECREASES OF OWNERSHIP IN SUBSIDIARIES**

During the reporting period AS Pro Kapital Grupp acquired ownership of 6.76% in addition to the current 90.58% in Immobiliare Novate S.p.A, which develops the hotel property in Italy, Milan.

The difference in carried at cost of acquired ownership and accounting value of acquired net assets is recorded in AS Pro Kapital Grupp statements as a decrease of equity.

During the reporting period Serval S.r.l disposed 100% ownership in Domina Hospitality School S.r.l, company belonging to the Serval subsidiary group, which trains the employees of the Serval subsidiary group.

During the reporting period Domina Management AS, which belongs in Serval subsidiary group disposed 100% ownership in Domina Management Sp. z.o.o , which operates the hotel in Poland, Poznan.

During the reporting period Pro Kapital Ukraine 3AT disposed 99% direct ownership and 1% indirect ownership in PK-3 TOB, which is established but not operating company in Ukraine.

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

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(Th. EEK)	Acquisition (including change in ownership)			Disposal				
	Immobiliare Novate S.p.A.	Total 2010	Total 2009	Domina Hospitality School S.r.l.	Domina Management Sp.z.o.o.	PK-3 TOB	Total 2010	Total 2009
Cash	0	0	0	306	51	1	358	0
Shares and securities	0	0	0	0	0	147	147	0
Receivables	0	0	0	918	216	1	1 135	0
incl. intra-group	0	0	0	429	10	0	439	0
Tangible assets	0	0	0	77	1	0	78	0
Current liabilities	0	0	0	-1 017	-5 019	-147	-6 183	0
incl. intra-group	0	0	0	-344	-715	0	-1 059	0
Long-term liabilities	0	0	0	-13	-376	0	-389	0
incl. intra-group	0	0	0	0	-376	0	-376	0
Minority interest	4 382	4 382	-3	0	0	0	0	1 013
Positive goodwill in acquisition	5 208	5 208	3	x	x	x	x	x
Profit from disposal of ownership	x	x	x	198	5 127	147	5 472	9 940
Acquisition cost / sales price	9 590	9 590	0	469	0	149	618	10 953
Paid in cash (-) / cash received (+)	-9 590	-9 590	0	469	0	0	469	10 953
Cash at the moment of acquisition (+) / disposal (-)	x	x	0	-306	-51	-1	-358	0
Net cash flow on acquisition / disposal	-9 590	-9 590	0	163	-51	-1	111	10 953

AS PRO KAPITAL GRUPP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 6 SHARES IN SUBSIDIARIES

	Pro Kapital Eesti AS	Pro Kapital Ukraine 3AT	Pro Kapital Rus OOO	Pro Kapital Latvia PJSC	Pro Kapital Vilnius Real Estate UABV	Domina UABV	Serval S.r.l.	P.K. Sicily Sp.A.	Pro Kapital Germany GmbH	Immobiliare Novate Sp.A.	Total
Number of shares 31 December 2009	28 134 000	505 000	1	7 000 000	4 610	60 398 937	5 627 932	5 000 000	1	19 021 598	x
Acquired (extra-group)	0	0	0	0	0	0	299 460	0	0	1 420 275	x
Disposed / cancelled	0	0	0	0	0	0	-5 627 932	0	0	0	x
Number of shares 31 December 2010	28 134 000	505 000	1	7 000 000	4 610	60 398 937	299 460	5 000 000	1	20 441 873	x
Ownership % at the end of the year	100	100	100	100	100	100	99,82	100	100	97,34	x
Ownership % at the beginning of the year	100	100	100	100	100	100	99,82	100	100	90,58	x

(Th. EEK)

Cost as of 31 December 2009	281 340	1 197	5	159 402	37 156	1 174 446	237 113	78 233	391	135 366	2 104 649
Parent company's share of subsidiary's net assets as of 31 December 2009	742 790	441	-90 983	345 812	19 690	702 001	-14 533	14 227	-817	98 401	1 817 029
Acquired cost	0	0	0	0	0	0	4 686	0	0	9 590	14 276
Impairment of goodwill	0	0	0	0	0	0	0	0	0	-5 208	-5 208
Reserve	0	0	0	0	0	0	18 535	0	0	0	18 535
Foreign currency differences	0	40	-8 840	-135	0	0	-94	0	0	0	-9 029
Profit under equity method	8 317	19	157	0	0	0	0	0	670	0	9 163
Loss under equity method	0	0	0	-60 580	-33 219	-91 619	-60 582	-60 473	0	-21 238	-327 711

Parent company's share of subsidiary's net assets as of 31 December 2010	751 107	500	-99 666	285 097	-13 529	610 382	-51 988	-46 246	-147	81 545	1 517 055
Cost as of 31 December 2010	281 340	1 197	5	159 402	37 156	1 174 446	260 334	78 233	391	144 956	2 137 460



According to the decision of shareholders of Serva S.r.l (former company name: Domina Hotel Group S.p.A), a subsidiary of Pro Kapital Grupp, the share capital was decreased during the reporting period by cancellation of shares to cover losses by cancelling 5 638 032 shares with nominal value of 1 EUR (appr. 15.6 EEK) per share. At the same time the entity's share capital was increased per share by targeted emission by issuing 300 000 new shares with nominal value of 1 EUR (appr. 15.6 EEK). The payments were made according to the decision. As of 31 December 2010, the entity's share capital amounted to 300 000 EUR (appr. 4.7 million EEK), consisting of 300 000 shares. 299 460 shares belong to AS Pro Kapital Grupp.

During the reporting period AS Pro Kapital Grupp acquired an ownership of 6.76% in its subsidiary Immobiliare Novate S.p.A.

**NOTE 7 SHARES AND SECURITIES**

(Th. EEK)	Short-term shares	Long-term shares
<b>31.12.2008</b>	<b>11</b>	<b>66 394</b>
Acquisition	135	726
Sale in selling price	0	-29 832
<b>31.12.2009</b>	<b>146</b>	<b>37 288</b>
Acquisition	0	12 087
Sale in selling price	-8	-30 681
Disposal of subsidiary	-147	0
Changes in value	0	1 783
Changes in currency rates	12	0
<b>31.12.2010</b>	<b>3</b>	<b>20 477</b>

Long-term financial statements held for resale are recorded at cost, because their fair value cannot be estimated reliably.

**NOTE 8 LONG-TERM LOANS BETWEEN THE ULTIMATE PARENT AND PARENT COMPANIES OF THE SUBSIDIARY GROUP**

(Th. EEK)	31.12.2010	31.12.2009
<b>Loan granted by the ultimate parent:</b>		
Pro Kapital Latvia	109 283	96 356
Pro Kapital Vilnius	175 613	139 462
Pro Kapital Rus	228 376	188 654
P.K. Sicily	528 307	504 113
Serva	14 387	3 851
Immobiliare Novate	19 846	0
<b>Total</b>	<b>1 075 812</b>	<b>932 436</b>
<b>Loans raised by the ultimate parent:</b>		
Pro Kapital Eesti	923 497	920 331
Domina Vacanze	53 919	58 613
<b>Total</b>	<b>977 416</b>	<b>978 944</b>

The annual interest rate of intra-group loans is up to 6%. The intra-group interest income and expenses in the amount of 80 078 Th. EEK (in 2009: 87 839 Th. EEK) are eliminated from the consolidated financial statements.

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NOTE 9 MISCELLANEOUS LONG-TERM RECEIVABLES

		(Th. EEK)					Interest rate	Comments	
Creditor	Debtor	Contract currency	Receivable as of 31.12.2009	Receivable as of 31.12.2010	Due				
					within 1 year	2-5 years			over 5 years
<b>Pro Kapital Rus:</b>									
Pro Kapital Rus OOO	Pro Kapital Siberia OOO	EUR	1 137	1 216	0	1 216	0	5% Loan	
			1 137	1 216	0	1 216	0		
<b>Pro Kapital Eesti:</b>									
Ilmarise Kvartal OÜ	Different debtors	EEK	860	860	22	165	673	6% Long-term trade receivables	
Tondi Kvartal OÜ	Different debtors	EEK	4 381	4 381	4 381	0	0	5% Long-term trade receivables	
			5 241	5 241	4 403	165	673		
<b>Pro Kapital Vilnius:</b>									
PK Invest UAB	Swedbank AB	EUR	1 565	0	0	0	0	x x	
			1 565	0	0	0	0		
<b>Domina Vacanze:</b>									
Domina Vacanze S.p.A.	Different debtors	EUR	27 883	19 790	0	19 790	0	0% Long-term trade receivables	
Domina Vacanze S.p.A subsidiaries	Different debtors	EUR	16 910	15 117	0	15 117	0	0% Long-term trade receivables	
			44 793	34 907	0	34 907	0		
<b>Serval:</b>									
Serval S.r.l.	Different debtors	EUR	118	80	0	80	0	0% Long-term trade receivables	
			118	80	0	80	0		
<b>P.K. Sicily:</b>									
P.K. Sicily S.p.A.	Different debtors	EUR	17 003	16 929	0	16 929	0	0% Long-term trade receivables	
			17 003	16 929	0	16 929	0		
<b>Total</b>			<b>69 857</b>	<b>58 373</b>	<b>4 403</b>	<b>53 297</b>	<b>673</b>		

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NOTE 10 TANGIBLE ASSETS

(Th. EEK)	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
Cost as of 31.12.2009	804 680	14 043	50 882	179 154	8 063	289 386	28 776	1 374 984
Additions:								
Acquisition	0	5	1 240	5 632	47 578	49 246	7 192	110 893
Capitalized interests	0	0	0	0	0	14 458	0	14 458
Disposals:								
Disposals related to subsidiaries	0	0	-54	-154	0	0	0	-208
Sold	-10 914	0	-1 023	-19 618	-173	0	0	-31 728
Written off	-851	0	-137	-5 674	0	0	0	-6 662
Other changes:								
Reclassification	48 095	0	-511	4 852	-407	-52 029	0	0
Reclassified to/from inventories	95 575	0	11 955	3 474	0	-8 618	0	102 386
Reclassified to/from investment property	-3 787	0	0	0	0	0	-186	-3 973
Foreign currency differences	420	-5	259	-1	0	16 084	1 979	18 736
Cost as of 31.12.2010	933 218	14 043	62 611	167 665	55 061	308 527	37 761	1 578 886
Accumulated depreciation as of 31.12.2009	99 249	11 373	23 929	113 210	1 787	25 489	0	275 037
Additions:								
Depreciation charge (see Note 22)	23 720	745	3 620	11 126	5 453	0	0	44 664
Disposals								
Disposals related to subsidiaries	0	0	-53	-77	0	0	0	-130
Sold	0	0	-435	-6 732	-147	0	0	-7 314
Written off	-161	0	-126	-2 959	0	0	0	-3 246
Other changes:								
Reclassification	0	0	102	300	-402	0	0	0
Reclassified to/from inventories	0	0	0	-639	0	0	0	-639
Reclassified to/from investment property	-3 535	0	0	0	0	0	0	-3 535
Foreign currency differences	428	-5	-4	-8	0	1 764	0	2 175
Accumulated depreciation as of 31.12.2010	119 701	12 113	27 033	114 221	6 691	27 253	0	307 012
Carrying value as of 31.12.2009	705 431	2 670	26 953	65 944	6 276	263 897	28 776	1 099 947
Carrying value as of 31.12.2010	813 517	1 930	35 578	53 444	48 370	281 274	37 761	1 271 874

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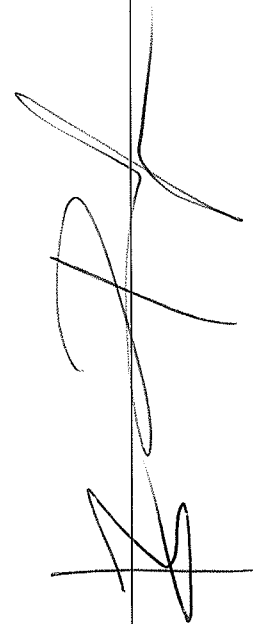
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(Th. EEK)	Land and buildings	Land and buildings of rental assets	Machinery and equipment	Other tangible assets	Other tangible assets (finance lease)	Unfinished construction	Prepayments for tangible assets	TOTAL
<b>Sale and write-off</b>								
Sold assets at cost	10 914	0	1 023	19 618	173	0	0	31 728
Accumulated depreciation of sold assets	0	0	-435	-6 732	-147	0	0	-7 314
Carrying value of sold assets	10 914	0	588	12 886	26	0	0	24 414
Sale price of assets	10 914	0	684	13 086	38	0	0	24 722
Cost of assets written off	851	0	137	5 674	0	0	0	6 662
Accumulated depreciation of assets written off	-161	0	-126	-2 959	0	0	0	-3 246
<b>Profit (loss) from sales and write-offs</b>	<b>-690</b>	<b>0</b>	<b>85</b>	<b>-2 515</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>-3 108</b>

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 28.



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## NOTE 11 INTANGIBLE ASSETS

(Th. EEK)	Goodwill	Patents and trademarks	Licenses	Usage rights	Prepayments for intangible assets	TOTAL
<b>Cost as of 31.12.2009</b>	<b>4 107</b>	<b>11 252</b>	<b>5 810</b>	<b>29 520</b>	<b>2 336</b>	<b>53 025</b>
Additions:						
Acquisition	0	1 202	139	1 664	0	3 005
Disposals						
Sold	0	0	-841	0	-2 336	-3 177
Written off	0	-166	-73	0	0	-239
Other changes:						
Foreign currency differences	0	0	-1	0	0	-1
<b>Cost as of 31.12.2010</b>	<b>4 107</b>	<b>12 288</b>	<b>5 034</b>	<b>31 184</b>	<b>0</b>	<b>52 613</b>
<b>Accumulated depreciation as of 31.12.2009</b>	<b>0</b>	<b>8 882</b>	<b>3 797</b>	<b>6 791</b>	<b>0</b>	<b>19 470</b>
Additions:						
Depreciation charge (see note 22)	0	2 284	667	1 197	0	4 148
Disposals						
Sold	0	0	-362	0	0	-362
Written off	0	-93	-42	0	0	-135
Other changes:						
Foreign currency differences	0	0	-1	0	0	-1
<b>Accumulated depreciation as of 31.12.2010</b>	<b>0</b>	<b>11 073</b>	<b>4 059</b>	<b>7 988</b>	<b>0</b>	<b>23 120</b>
<b>Carrying amount as of 31.12.2009</b>	<b>4 107</b>	<b>2 370</b>	<b>2 013</b>	<b>22 729</b>	<b>2 336</b>	<b>33 555</b>
<b>Carrying amount as of 31.12.2010</b>	<b>4 107</b>	<b>1 215</b>	<b>975</b>	<b>23 196</b>	<b>0</b>	<b>29 493</b>
<b>Sale and write-off</b>						
Sold assets at cost	0	0	841	0	2 336	3 177
Accumulated depreciation of sold assets	0	0	-362	0	0	-362
Carrying value of sold assets	0	0	479	0	2 336	2 815
Sale price of assets	0	0	593	0	2 337	2 930
Cost of assets written off	0	166	73	0	0	239
Accumulated depreciation of assets written off	0	-93	-42	0	0	-135
<b>Profit (loss) from sales and write-offs</b>	<b>0</b>	<b>-73</b>	<b>83</b>	<b>0</b>	<b>1</b>	<b>11</b>

## NOTE 12 INVESTMENT PROPERTY

(Th. EEK)	Held on purpose of the raise of value	Rented out in term of operating lease	Total
<b>Cost as of 31.12.2009</b>	<b>34 273</b>	<b>681 025</b>	<b>715 298</b>
Additions:			
Acquisition	6 934	241 326	248 260
Disposals:			
Sale and write-off	0	-261	-261
Other changes:			
Reclassified from tangible assets	0	3 973	3 973
Reclassified to held for sale	0	-912 806	-912 806
Foreign currency differences	-1	-2	-3
<b>Cost as of 31.12.2010</b>	<b>41 206</b>	<b>13 255</b>	<b>54 461</b>
<b>Accumulated depreciation as of 31.12.2009</b>	<b>1 114</b>	<b>116 367</b>	<b>117 481</b>
Additions:			
Depreciation charge (see Note 22)	132	16 047	16 179
Disposals:			
Sale and write-off	0	-240	-240
Other changes:			
Reclassified from tangible assets	0	3 535	3 535
Reclassified to held for sale	0	-129 781	-129 781
Foreign currency differences	-1	-2	-3
<b>Accumulated depreciation as of 31.12.2010</b>	<b>1 245</b>	<b>5 926</b>	<b>7 171</b>
<b>Carrying value as of 31.12.2009</b>	<b>33 159</b>	<b>564 658</b>	<b>597 817</b>
<b>Carrying value as of 31.12.2010</b>	<b>39 961</b>	<b>7 329</b>	<b>47 290</b>
<b>Sale and write-off</b>			
Sold assets at cost	0	261	261
Accumulated depreciation of sold assets	0	-240	-240
Carrying value of sold assets	0	21	21
Sale price of assets	0	0	0
<b>Profit (loss) from sales and write-offs</b>	<b>0</b>	<b>-21</b>	<b>-21</b>
<b>Fair value</b>	<b>183 672</b>	<b>22 173</b>	<b>205 845</b>

On determining the fair value of investment property, the Group management relied on estimates of independent experts and also intra-group analysts.

Additional information about mortgages set on the Group's investment property is presented in Note 28.

A shopping centre owned by the entity Kristiine Kaubanduskeskuse AS belonging into Pro Kapital Eesti subsidiary group, is the most significant investment property leased out under the terms of an operating lease of the Group.

On 11 March 2011 Kristiine Kaubanduskeskuse AS, a subsidiary of Pro Kapital Eesti, signed a sale and purchase contract of one of its shopping centre, due to which the investment property is the object of the contract is reclassified as non-current asset held for sale (see Note 26).

The rental income and the corresponding direct expenses from investment property, leased out under the terms of operating lease:

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(Th. EEK)	2010	2009
Rental income	92 639	96 059
Direct operating costs		
Maintenance and depreciation	15 841	14 326
Other direct costs	16 659	11 153

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

(Th. EEK)	31.12.2010	31.12.2009
Within 1 year	43 781	100 626
1-5 years	0	287 002
Over 5 years	0	125 574
<b>Total</b>	<b>43 781</b>	<b>513 202</b>

The estimated income from operating lease covered with contracts during following periods does not include the future periods and rent areas, which are not covered with contracts, since the mentioned amounts cannot be estimated with sufficient reliability.

**NOTE 13 DEBT**

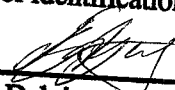
(Th. EEK)	Note	31.12.2010	31.12.2009
Unsecured debt		29 185	18 303
Short-term finance lease liability	19	6 555	793
Redemption of convertible bonds issued in the next period	18	0	6 127
Other short-term debt		22 630	11 383
Current portion of long-term loans and overdrafts	15	1 264 116	158 743
Current portion of long-term loans	16	10 041	9 701
<b>Total</b>		<b>1 303 342</b>	<b>186 474</b>

**NOTE 14 LONG-TERM LIABILITIES**

(Th. EEK)	Note	31.12.2010	Adjusted 31.12.2009
Long-term debt		1 318 687	1 989 691
Non-convertible debts		171 307	122 516
Finance lease obligations	19	31 447	4 134
Long-term loans	16	139 860	118 382
Convertible debt	18	235 547	82 014
Bank loans	15	911 833	1 785 161
Other long-term liabilities	17	387 718	328 810
Deferred income tax liability	24	24 798	25 275
Long-term provisions		19 484	30 736
<b>Total</b>		<b>1 750 687</b>	<b>2 374 512</b>

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**Provisions**


(Th. EEK)	Pension benefit plans	Other provisions	Total
<b>31.12.2009</b>	<b>22 530</b>	<b>18 781</b>	<b>41 311</b>
Provision added	8 844	74 512	83 356
Disposals related to subsidiaries	0	-13	-13
Provision used	-21 397	-3 820	-25 217
<b>31.12.2010</b>	<b>9 977</b>	<b>89 460</b>	<b>99 437</b>
incl. short-term provision	0	79 953	79 953
long-term provision	9 977	9 507	19 484



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NOTE 15 BANK LOANS

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Borrower	Contract currency	Creditor	(Th. EEK)					Interest rate	Maturity date	Collateral
			Loan balance as of 31.12.2009	Loan balance as of 31.12.2010	Loan repayments					
			within 1 year	2-5 years	over 5 years					
Pro Kapital Eesti:										
Pro Kapital Eesti AS	EUR	Swedbank	68 496	64 019	4 713	59 306	0	2.0%+ 6 month EURIBOR	01.11.2013	Note 28
									Sale of	
Kristiine Kaubanduskus AS	EUR	Swedbank	722 385	981 028	981 028	0	0	3.5%+ 6 month EURIBOR	operational activities, but not later than	23.04.2014
Tondi Kvartal AS	EEK	Swedbank	26 795	18 582	18 582	0	0	3.0%+ 6 month EURIBOR	16.01.2012	Note 28
			817 676	1 063 629	1 004 323	59 306	0			
Pro Kapital Latvia:										
Pro Kapital Latvia PJSC	LVL	Swedbank overdraft	20	0	0	0	0	x	x	x
Investhotel SIA	EUR	Swedbank	95 837	91 414	4 418	86 996	0	3.0%+3 month EURIBOR	01.03.2012	Lisa 28
			95 857	91 414	4 418	86 996	0			
Domina Vacanze:										
Domina Vacanze S.p.A	EUR	Unicredit	0	19 715	3 744	15 971	0	1.2%+3 month EURIBOR	31.05.2014	Entity's assets
Domina Vacanze S.p.A	EUR	Meliorbanca	184 620	184 621	25 041	159 580	0	2.0%+3 month EURIBOR	01.01.2016	Note 28
Domina Vacanze S.p.A	EUR	Meliorbanca	47 714	39 940	7 946	31 994	0	2.0%+3 month EURIBOR	01.07.2015	Note 28
Domina Vacanze S.p.A	EUR	Cariparma & Piacenza	5 019	0	0	0	0	x	x	x
Domina Vacanze S.p.A	EUR	Credito Artigiano	25 035	24 369	8 114	16 255	0	2.25%+3 month EURIBOR	30.01.2013	Note 28
Domina Vacanze S.p.A. subsidiaries	EUR	Overdrafts from different credit institutions	11 008	23 263	23 263	0	0	x	x	x
			273 396	291 908	68 108	223 800	0			/

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Borrower	Contract currency	Creditor	(Th. EEK)					Interest rate	Maturity date	Collateral
			Loan balance		Loan repayments					
			as of	as of	2-5		over			
			31.12.2009	31.12.2010	within 1 year	years	5 years			
Pro Kapital Vilnius:										
PK Invest UAB	EUR	Swedbank	231 892	150 011	150 011	0	0	4.4%+6 month EURIBOR	07.12.2011	Note 28
			231 892	150 011	150 011	0	0			
Pro Kapital Rus:										
Dom na Moike OOO	EUR	Swedbank	78 591	0	0	0	0	x	x	x
			78 591	0	0	0	0			
Serval:										
Domina Tourismus GmbH	EUR	Volksbank Bad Kreuznach	0	525	349	176	0	5.1%	30.09.2013	Entity's assets
			0	525	349	176	0			
Immobiliare Novate:										
Immobiliare Novate S.p.A. Credito Artigiano	EUR		164 167	158 731	29 646	93 880	35 205	1.25% +3 month EURIBOR	31.12.2017	Note 28
Immobiliare Novate S.p.A. Credito Artigiano	EUR		78 233	78 233	5 294	33 314	39 625	1.5% +3 month EURIBOR	31.03.2020	Note 28
Immobiliare Novate S.p.A. Credito Artigiano overdraft	EUR		686	1 967	1 967	0	0	x	x	x
			243 086	238 931	36 907	127 194	74 830			
P.K. Sicily:										
P.K. Sicily S.p.A.	EUR	Credito Siciliano S.p.A.	203 406	339 531	0	339 531	0	1.35% +3 month EURIBOR	30.01.2013	Note 28
			203 406	339 531	0	339 531	0			
Total			1 943 904	2 175 949	1 264 116	837 003	74 830			

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 16 LONG-TERM LOANS

Borrower	Contract currency	Creditor	(Th. EEK)					Interest rate	Maturity date	Collateral
			Loan balance as of		Loan repayments					
			31.12.2009	31.12.2010						
			within 1 year			2-5 years	over 5 years			
Pro Kapital Rus:										
Pro Kapital Rus OOO	RUB	Odega Anshalt	0	16 365	0	0	16 365	8%	09.04.2015	Entity's assets
Dom na Moike OOO	RUB	Odega Anshalt	108 534	116 298	0	116 298	0	3%+LIBOR	31.12.2013	Entity's assets
			108 534	132 663	0	116 298	16 365			
Serval:										
										Entity's assets
		Sinai Company for								
Serval S.r.l.	USD	Touristic Development	4 344	4 684	4 684	0	0	0%	31.12.2011	Entity's assets
Serval S.r.l.	EUR	Domina Vip Travel S.r.l.	5 357	5 357	5 357	0	0	0%	31.12.2011	Entity's assets
			9 701	10 041	10 041	0	0			
Immobiliare Novate:										
Immobiliare Novate S.p.A.	EUR	Minority shareholders	9 848	7 197	0	0	7 197	0%	x	Entity's assets
			9 848	7 197	0	0	7 197			
Total			128 083	149 901	10 041	116 298	23 562			

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 17 OTHER LONG-TERM DEBT

Borrower	Contract currency	Creditor	(Th. EEK)				Interest rate	Comments
			Loan balance as of 31.12.2009	Loan balance as of 31.12.2010	Liability repayments			
					within 1 year	2-5 years over 5 years		
Domina Vacanze:								
Domina Vacanze S.p.A. Customers	EUR		204 085	178 842	0	178 842	0	The volume of timeshare sales agreements concluded with customers, 59.4 million EEK of which has been received from customers (prepayments)
Domina Vacanze S.p.A. subsidiaries	EUR	Different creditors	5 300	5 300	0	5 300	0	
			209 385	184 142	0	184 142	0	Other long-term debt
P.K. Sicily:								
P.K. Sicily S.p.A. Customers	EUR		119 425	203 576	0	203 576	0	The volume of timeshare sales agreements concluded with customers, 144.0 million EEK of which has been received from customers (prepayments)
			119 425	203 576	0	203 576	0	
Total			328 810	387 718	0	387 718	0	

Signed for identification purposes:

AS Deloitte Audit Eesti

## AS PRO KAPITAL GRUPP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 2010

## NOTE 18 CONVERTIBLE BONDS

	13.05.1999		13.08.2009		20.01.2010		10.08.2010		16.08.2010		29.11.2010	
Registration date of bonds issued												
Issue price of bond (EUR)	x		4.50		4.50		4.50		4.50		4.50	
Issue price of bond (EEK)	50.00		70.41		70.41		70.41		70.41		70.41	
Bond return per annum (% from issue price)	6%		7%		7%		7%		7%		7%	
Bond interest payment frequency	Once a year		Twice a year		Twice a year		Twice a year		Twice a year		Twice a year	
Latest date for the repurchase of bonds	20.01.2010		13.08.2013		20.01.2014		10.08.2014		16.08.2014		29.11.2014	
Latest date for the exchange of bonds to shares	10.01.2010		31.12.2012		31.12.2012		31.12.2012		31.12.2012		31.12.2012	
Discount rate (%)	11%		7%		7%		7%		7%		7%	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Number of convertible bonds at the beginning of period	122 537	122 537	1 164 807	0	0	0	0	0	0	0	0	0
Number of convertible bonds issued	0	0	0	1 164 807	382 304	0	840 184	0	536 012	0	422 067	0
Number of repurchased bonds	-122 537	0	0	0	0	0	0	0	0	0	0	0
Number of convertible bonds at the end of period	0	122 537	1 164 807	1 164 807	382 304	0	840 184	0	536 012	0	422 067	0
incl. repurchase of convertible bonds in the following period	0	122 537	0	0	0	0	0	0	0	0	0	0
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
(Th. EEK)	6 127	6 127	82 014	0	0	0	0	0	0	0	88 141	6 127
Number of convertible bonds at the beginning of period	0	0	0	82 014	26 918	0	59 157	0	37 740	0	29 718	0
Principal of convertible bonds issued	-6 127	0	0	0	0	0	0	0	0	0	0	0
Repurchased bonds in repurchase price	0	6 127	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
Principal of the bonds issued at the end of the period	0	6 127	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
incl. repurchase of convertible bonds in the following period	0	6 127	0	0	0	0	0	0	0	0	0	0
	0	6 127	0	0	0	0	0	0	0	0	0	0
	0	6 127	0	0	0	0	0	0	0	0	0	0
Short-term portion of liabilities on the balance sheet	0	6 127	0	0	0	0	0	0	0	0	0	0
Long-term portion of liabilities on the balance sheet	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0
	0	0	82 014	82 014	26 91							

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The issuance of convertible bonds of AS Pro Kapital Grupp in 1999 is redeemed in accordance with the terms of issue, for the issue price, on 20 January 2010. Redemption fees are paid to the owners in cash because the owners did not exercised the right to exchange the convertible bonds for the Ultimate Parent Company share 1:1.

According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the period 2009-2010 can be converted to shares of the Ultimate Parent Company on 31 December 2010, 31 December 2011 and 31 December 2012 with the rate one convertible bond per share. As of 31 December 2010 the owners of the bonds have not used the right.

During the reporting period the interest expense of the convertible bonds was paid in amount of 10 292 Th. EEK (2009: 2 585 Th. EEK) and interest paid for the convertible bonds was in the amount of 5 432 Th. EEK (2009: 368 Th. EEK).

**NOTE 19 LEASE OBLIGATIONS****Finance lease – Group as the lessee**

The equipment is acquired under the terms of finance lease. During the accounting period principals of finance lease were repaid in the amount of 14 502 Th. EEK (2009: 773 Th. EEK) and interest of finance lease in the amount of 568 Th. EEK (2009: 24 Th. EEK) were paid.

Principals of finance lease for the following periods:

(Th. EEK)	Minimum amount of finance lease payments	Interest expense	Net present value of minimum amount of finance lease payments
<b>Finance lease obligations as of 31.12.2009</b>			
Within 1 year	899	106	793
1 – 5 years	3 582	251	3 331
Over 5 years	844	41	803
<b>Total</b>	<b>5 325</b>	<b>398</b>	<b>4 927</b>
<b>Finance lease obligations as of 31.12.2010</b>			
Within 1 year	7 978	1 423	6 555
1 – 5 years	33 011	3 018	29 993
Over 5 years	1 529	75	1 454
<b>Total</b>	<b>42 518</b>	<b>4 516</b>	<b>38 002</b>

Average interest rate of long-term finance lease differs by contracts remaining between is 5-7% per annum. Contract currency is EUR.

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

**Operating lease – Group as the lessee**

An administrative building located in Riga, Latvia is rented under the terms of an operating lease and is the most significant leased property. During the accounting period, principals of operating lease in the amount of 8 631 Th. EEK (2009: 13 010 Th. EEK) were repaid.

Operating lease payments for the following periods:

(Th. EEK)	31.12.2010	31.12.2009
Within 1 year	8 098	8 428
1 – 5 years	17 493	25 593
<b>Total</b>	<b>25 591</b>	<b>34 021</b>

**Operating lease – Group as the lessor**

The group is a lessor in operating lease of investment property, a leasehold administrative building and other assets belonging to the Group.

During the accounting period, rental income in the amount of 105 139 Th. EEK (2009: 111 148 Th. EEK) was earned from the assets rented out under the terms of operating lease. Direct costs corresponding to the rental income constituted 46 584 Th. EEK (2009: 42 992 Th. EEK).

Rental income from operating lease for the next periods:

(Th. EEK)	31.12.2010	31.12.2009
Within 1 year	43 781	100 626
1 – 5 years	0	287 002
Over 5 years	0	125 574
<b>Total</b>	<b>43 781</b>	<b>513 202</b>

Additional information about investment property leased out in terms of operating lease is presented in Note 12.

**NOTE 20 MINORITY INTEREST**

The minority interest of the Group as of 31 December 2010 amounts to 528.5 million EEK (31.12.2009: 535.0 million EEK) and consists of the minority shareholders' portions in the equity of the subsidiary groups' and the minority shareholder's portion in the equity of the subsidiary groups' parent companies. Minority interests in the amount of 413.0 million EEK (31.12.2009: 388.5 million EEK) arises from the Estonian subsidiary group; 37.4 million EEK (31.12.2009: 57.5 million EEK) arises from the Latvian subsidiary group; - 0.3 million EEK (31.12.2009: -6.1 million EEK) arises from the Russian subsidiary group; 77.4 million EEK (31.12.2009: 89.0 million EEK) arises from the Domina Vacanze S.p.A.; -0.1 million EEK (31.12.2009: 0 million EEK) arises from Serval S.r.l and 1.1 million EEK (31.12.2009: 6.1 million EEK) arises from the minority interest in Immobiliare Novate S.p.A.

**NOTE 21 EQUITY***Share capital*

The share capital in the amount of 531 854 Th. EEK consists of 53 185 422 ordinary shares at a nominal value of 10 EEK per share. According to the articles of association, the maximum number of shares allowed to be issued is 90 000 000.

There were no changes in share capital during the financial year and the previous period.

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

On 13 April 2009, AS Pro Kapital Grupp shareholders' extraordinary meeting decided to issue up to 10 000 000 the Ultimate Parent Company's convertible bonds in nominal value of 10 EEK per bond, and increase conditionally the Ultimate Parent Company share capital up to 10 000 000 shares in nominal value

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of 10 EEK per share due to exchange convertible bonds for shares of the Ultimate Parent Company. On 24 April 2009 the conditional increase of the Ultimate Parent Company's share capital was registered in Commercial Register (see Note 18).

As of 31 December 2010 the owners of convertible bonds have not exercised the right to exchange bonds to shares of AS Pro Kapital Grupp.

*Reserves*

Reserves in the amount of 45 966 Th. EEK (adjusted 31.12.2009: 45 966 Th. EEK) consist of the statutory legal reserve in the amount of 45 966 Th. EEK (31.12.2009: 45 966 Th. EEK), required according to the Estonian Commercial Code § 336.

*Treasury shares*

On 30 October 2008, the shareholders' meeting of AS Pro Kapital Grupp decided to allow the entity to acquire 1 000 000 own shares with repurchase price of 60 EEK per share during the period of five years. The Management Board has the right to repurchase own shares in several offer rounds. Acquiring own shares will not cause 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. According to the shareholders' decision the Management Board is obligated to dispose the shares or make a proposal on the shareholders' meeting to decrease the share capital, during the three years' time after the acquiring of own shares. As of 31 December 2010 and 2009, the Ultimate Parent Company has not exercised the right to repurchase the shares.

**NOTE 22 COST OF GOODS SOLD, MARKETING EXPENSES, AND ADMINISTRATIVE EXPENSES****Cost of goods sold:**

(Th. EEK)	2010	2009
Personnel expenses	188 198	198 366
Depreciation of tangible assets (see Note 10)	29 893	22 089
Depreciation of investment property (see Note 12)	16 179	14 447
Write down of inventories, (-) reversal of write down (see Note 3)	-4 422	25 649
Other	584 238	679 510
<b>Total</b>	<b>814 086</b>	<b>940 061</b>

**Marketing expenses:**

(Th. EEK)	2010	2009
Personnel expenses	9 867	25 833
Depreciation of tangible assets (see Note 10)	13	9
Other	66 980	77 338
<b>Total</b>	<b>76 860</b>	<b>103 180</b>

**Administrative expenses:**

(Th. EEK)	2010	2009
Personnel expenses	93 524	122 734
Depreciation of tangible assets (see Note 10)	14 758	15 812
Depreciation of investment property (see Note 11)	4 148	3 772
Impairment of non-current assets	0	3
Write down of inventories (see Note 3)	37	0
Other	127 583	134 362
<b>Total</b>	<b>240 050</b>	<b>276 683</b>



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## NOTE 23 FINANCIAL INCOME AND EXPENSE

## Financial income:

(Th. EEK)	2010	2009
Interest income	4 762	7 990
Gain from disposal of subsidiary	5 472	9 940
Gain from exchange rate differences	27 273	0
Other financial income	2 436	37
<b>Total</b>	<b>39 943</b>	<b>17 967</b>

## Financial expense:

(Th. EEK)	2010	2009
Interest expense	87 119	67 888
Interest expense of convertible bonds	10 292	2 585
Interest expense of loans and overdrafts	96 160	91 612
Interest expense of capitalized acquisition cost of tangible assets	-14 458	-13 411
Interest expense of capitalized acquisition cost of inventories	-4 875	-12 898
Loss from currency exchange	0	1 923
Other financial expense	2 280	6 641
<b>Total</b>	<b>89 399</b>	<b>76 452</b>

## NOTE 24 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, Italy, Germany, Russia and Ukraine, the applicable tax rates in these countries in year 2010 were 15%, 15%, 27.5%, 15%, 20% and 25% (2009: 15%, 20%, 27.5%, 15%, 20% and 25%) on taxable earnings respectively.

(Th. EEK)	31.12.2010	31.12.2009
Loss before income tax (consolidated)	-346 314	-389 306
Estimated income tax respective to the tax rates	-68 184	-47 790
Corrections of estimated income tax:		
Non-deductible expenses (+)	78 513	90 218
Non-taxable income and tax incentive	-49 368	-82 183
Deductions (-)	-2 921	-1 340
Reversal loss carry forward (+)	46 272	48 735
<b>Income tax expenses</b>	<b>4 312</b>	<b>7 640</b>
Deferred income tax expense (details as follows)	289	1 335
Deferred income tax returns (details as follows)	-1 270	-9 491
<b>Effect on income statement</b>	<b>3 331</b>	<b>-516</b>
<b>Income tax paid (-)</b>	<b>-5 133</b>	<b>-5 400</b>

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## Deferred income tax asset and liability (net) movements:

(Th. EEK)	Accelerated tax depreciation	Revaluation of investment property	Deferred tax losses	Total
<b>31 December 2009</b>	<b>20 552</b>	<b>5 560</b>	<b>-837</b>	<b>25 275</b>
Effect on income statement:	-83	-682	-216	-981
Income tax expense during the reporting period	0	0	289	289
Income tax reclaims during the reporting period	-83	-682	-505	-1 270
Exchange rate differences	-1	0	0	-1
<b>31 December 2010</b>	<b>20 468</b>	<b>4 878</b>	<b>-1 053</b>	<b>24 293</b>

## Deferred income tax balances

(Th. EEK)	31.12.2010	31.12.2009
Deferred income tax liability (+)	24 798	25 275
Deferred income tax assets (-)	-505	0
<b>Total</b>	<b>24 293</b>	<b>25 275</b>

## Contingent income tax

The Group's retained earnings as of 31 December 2010 constituted 26 366 Th. EEK (31.12.2009: 381 293 Th. EEK). The maximum possible amount of income tax liability, which could be handled as contingent liability and which could realize as a net dividend on the payout of all retained earnings, is 5 537 Th. EEK (31.12.2009: 80 072 Th. EEK). 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 the payout cannot exceed the retained earnings as of 31 December 2010.

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 698 576 Th. EEK because the Ultimate Parent Company has received potentially payable dividends from its subsidiary Pro Kapital Latvia PJSC, who 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 possible income tax free amount that could be considered as contingent asset and could be paid as net dividend is 185 698 Th. EEK (31.12.2009: 185 698 Th. EEK).

## NOTE 25 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:

In period 01.01.2010 - 31.12.2010	$(53\,185\,422 \times 12/12) = 53\,185\,422$
In period 01.01.2009 - 31.12.2009	$(53\,185\,422 \times 12/12) = 53\,185\,422$

## Net profit/loss per share (in EEK):

2010	$-349\,719\,333 / 53\,185\,422 = -6.58$
2009	$-395\,033\,083 / 53\,185\,422 = -7.43$

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The convertible bonds (see Note 18) did not have a dilutive effect on earnings in 2010 and 2009, and therefore they have not been included in the calculation of the diluted net loss per share and the diluted loss per share equals the net loss per share indicator.

**NOTE 26 SUBSEQUENT EVENTS**

As of 1 January 2011 Estonian official currency is Euro, which changed the functional and presentation currency of the Group and Entities located in Estonia. The change in functional currency is effective for the next period. As of 1 January 2011 the Entities, which functional currency was changed from EEK to EUR, will convert all the accounting balances. Account balances as of 31 December 2010 will be converted to euros according to the currency rate of regulation of European Union Council with official currency rate 15.6466 EEK/EUR.

On 5 January 2011 Pro Kapital Latvia PJSC disposed in intergroup transaction 25% ownership (75% remained) in Pro Kapital Latvia subsidiary group entity Zvaigznes Centrs SIA to Pro Kapital Latvia subsidiary group entity SIA PK Investments. The intergroup purchase-sale transaction has no influence to the assets, liabilities and equity of the Group.

On 5 January 2011 Pro Kapital Latvia PJSC disposed in intergroup transaction 24.73% ownership (75.27% remained) in Pro Kapital Latvia subsidiary group entity Pasaules tirdzniecības centrs "Rīga" SIA to Pro Kapital Latvia subsidiary group entity SIA PK Investments. The intergroup purchase-sale transaction has no influence to the assets, liabilities and equity of the Group.

According to the decision of AS Pro Kapital Grupp shareholders' extraordinary meeting held on 13 April 2009 the Ultimate Parent Company's management offered for subscription 1 000 000 convertible bonds on 8 March 2011 (seventh subscription) with an issue price of 4.5 EUR (appr. 70.4 EEK) per each convertible bond issued. 111 111 convertible bonds were noted in seventh subscription for which the Ultimate Parent Company's received was 500 Th EUR (appr. 7.8 million EEK) in the beginning of the 2011. Issued convertible bonds were noted in Estonian Central Register of Securities on 25 May 2011.

On 17 March 2011, Kristiine Kaubanduskeskus AS, a subsidiary of AS Pro Kapital Eesti, signed a contract for selling of its shopping center in the amount of 105 000 Th. EUR (appr. 1 642 893 Th. EEK). According to the terms of contract the price could change in insignificant amount. The contract entered into force on 2 May 2011. As of 31 December 2010 the book value of the property investment, which is part of disposed operating activities, was 783 025 Th. EEK.

On 17 March 2011 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 subsidiary group, to Kristiine Keskus OÜ in case Kristiine Kaubanduskeskus AS has violated the confirmations of the vendor in the contract of sales of the shopping center and according to the contract Kristiine Keskus OÜ can lodge to rise a claim with Kristiine Kaubanduskeskus AS for infracting the contractual confirmations. The guarantee is conditional and the guarantors are responsible in case Kristiine Kaubanduskeskus AS is not able to pay the claim. The guaranteed amount is 5 000 000 EUR (appr. 78.2 million EEK). 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 probable claims related to loan agreement concluded on 9 March 2004

between Kristiine Kaubanduskeskus AS and AS Pro Kapital Eesti. The maximum amount of the liability is 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 18 April 2011 the sole shareholder of P.K. Sicily S.p.A, a subsidiary of AS Pro Kapital Grupp to cover the losses of the entity in amount of 3 642 771 EUR (appr. 57.0 million EEK) by decreasing the entity's

share capital from 5 000 000 EUR (appr. 78.2 million EEK) to 1 357 229 EUR (appr. 21.2 million EEK) by cancelling 3 642 771 shares in nominal value of 1 EUR (15.6 EEK).

At the same time the equity was increased by share issue up to 5 000 000 EUR (appr. 78.2 million EEK), issuing 3 642 771 shares in nominal value of 1 EUR (appr. 15.6 EEK) per share. According to the decision the payments were made from the reserve contributed in 23 February 2011 by the sole shareholder.

On 2 May 2011 Kristiine Kaubakeskus AS, subsidiary of AS Pro Kapital Eesti, repaid all the bank loans in the amount of 63.4 million EUR (appt. 992.0 million EEK). The mortgages of granting the loans of Kristiine Kaubanduskeskus AS were removed.

## NOTE 27 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 families and the companies in which they hold majority interest or have significant influence.

### In 2010

#### *Intra-group transactions*

The Group companies decided to provide each other with rent and management, accounting, marketing, and administration services. Such transactions amounted to 23.5 million EEK in 2010.

The intra-group loans are disclosed in Note 8. The interest income and expenses from intra-group loans amounted to 80.1 million EEK.

All intra-group transactions have been eliminated from the consolidated financial statements.

#### *Transactions with shareholders*

The subsidiaries of Pro Kapital Latvia group have given short-term loans to Svalbork Invest OÜ, the shareholder of the Parent company. As of 31 December 2010 there were loan receivables in the amount of 81.7 million EEK and interest receivables in the amount of 12.7 million EEK. Interest income from loans was in amount of 3.1 million EEK.

AS Pro Kapital Grupp transactions with Parent company's convertible bonds and balances as of 31 December 2010:

(th. EEK)

	Convertible bonds (Issue price)				31.12.2010
	31.12.2009	Purchase from Parent Company	Sale back to the Parent company	Purchase/sale (net) from others	
Shareholder of Parent company					
Anndare Ltd.	0	0	0	38 859	38 859
Svalbork Invest OÜ	6 127	0	-6 127	0	0
Eurofiduciar S.r.l.	54 794	87 264	0	1 674	143 732

As of 31 December 2010 Anndare Ltd has made prepayment for convertible bonds to be issued by AS Pro Kapital Grupp in amount of 11 827 thousand kroons.

(th. EEK)

	Interest of convertible bonds				Paid after balance sheet date
	31.12.2009	calculated	paid	31.12.2010	
Shareholder of Parent company					
Anndare Ltd.	0	733	0	733	-733
Svalbork Invest OÜ	368	0	-368	0	0
Eurofiduciar S.r.l.	1 482	6 775	-3 384	4 873	-4 873

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During the accounting period AS Pro Kapital Grupp purchased from Eurofiducia S.r.l, the Parent company's shareholder, 6,76 % share in subsidiary Immobiliare Novate S.p.A. with price 613 th. EUR (approximately 9 590 th. EEK) and obtained Eurofiduciaria S.r.l.'s claim to Immobiliare Novate S.p.A. in amount of 169 th. euro (approximately 2 651 th. EEK).

*Transactions with management*

In 2010, the salaries and bonuses paid to the concern's members of the Management Board and the executive managements amounted to 17.3 million EEK. No other transactions or provisions occurred with the members of the management.

As of 31 December 2010, Giuseppe Prevosti, the member of the Supervisory Council of AS Pro Kapital Grupp, and its related parties held 2.06%; Renato Bullani, member of the Supervisory Council AS Pro Kapital Grupp, held 0.25% of the shares of AS Pro Kapital Grupp; other members of the management did not hold the shares of AS Pro Kapital Grupp in significant quantities.

**In 2009***Intra-group transactions*

The Group companies provided each other with rent and management, accounting, marketing, and administration services. Such transactions amounted to 49.2 million EEK in 2009. The intra-group loans are disclosed in Note 8. The interest income and expenses from intra-group loans amounted to 87.8 million EEK.

All intra-group transactions have been eliminated from the consolidated financial statements.

*Transactions with shareholders*

The subsidiaries of Pro Kapital Latvia group have given short-term loans to Svalbork Invest OÜ, the shareholder of the Parent company. As of 31 December 2009 there were loan receivables in the amount of 82.0 million EEK and interest receivables in the amount of 9.6 million EEK. Interest income from loans was in amount of 3.4 million EEK.

AS Pro Kapital Grupp transactions with Parent Company's convertible bonds and balances as of 31 December 2009:

(th. EEK)

Shareholder of Parent company	Convertible bonds (issue price)				31.12.2009
	31.12.2008	Purchase from Parent Company	Sale back to the Parent company	Purchase/sale (net) from others	
Svalbork Invest OÜ	6 127	0	0	0	6 127
Eurofiduciaria S.r.l.	0	54 794	0	0	54 794

(th. EEK)

Shareholder of Parent company	Interests of convertible bonds				Paid after balance sheet date
	31.12.2008	calculated	paid	31.12.2009	
Svalbork Invest OÜ	368	368	-368	368	-368
Eurofiduciaria S.r.l.	0	1 482	0	1 482	-1 482

*Transactions with management*

In 2009, the salaries and bonuses paid to the concern's members of the Management Board and the executive managements amounted to 19.0 million EEK. No other transactions or provisions occurred with the members of the management.

As of 31 December 2009, the Supervisory Council, the Management Board and the executive managements of the AS Pro Kapital Grupp did not hold the shares of AS Pro Kapital Grupp in significant quantities.

## AS PRO KAPITAL GRUPP

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## NOTE 28 COLLATERALS AND PLEDGED ASSETS

NOTE 26 COLLATERALS AND THEIR BOOK VALUE						(Th. EEK)	(Th. EEK)
Name of the pledge	Name of the beneficiary	Obligation amount as of 31.12.2010	Collateral description	Owner of collateral	Type of asset	Book value of collateral as of 31.12.2010	
Kristiine Kaubanduskus AS	Swedbank	981 028	Kalaranna 1, Tallinn	Pro Kapital Eesti AS	Unfinished construction (inventories)	0	
			Ülemiste road 5, Tallinn	Pro Kapital Eesti AS	Investment property	0	
			Seebi 24a/ Tondi 53b, Tondi tn 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare tee 56/58, Tallinn	Tondi Kvartal AS	Unfinished construction (inventories)	0	
			Põhja avenue. 23, Tallinn	Ilmarise Kvartal OÜ	Land and buildings	0	
			Peterburi road 2, Tallinn	Tallinna Moekombinaat AS	Investment property	0	
			Endla 45,Tulika 35, 33a/37a and Kotkapoja 7, 9, 11, Tallinn	Kristiine Kaubanduskus AS	Investment property	0	
Tondi Kvartal AS	Swedbank	18 582	Tondi 51, Tallinn	Tondi Kvartal AS	Finished construction (inventories)	0	
			Guarantee contract	AS Pro Kapital Grupp	Entity's assets	0	
Pro Kapital Eesti AS	Swedbank	64 019	Põhja avenue21a, 21b, 21 (703/6962), Tallinn	AS Pro Kapital Eesti	Land and buildings	0	
			Põhja avenue 21 (6259/6962), Tallinn	Ilmarise Kvartal OÜ	Finished construction (inventories)	0	
Investhotel SIA	Swedbank	91 414	Pulkveza Brieza Str. 11, Riia	Investhotel SIA	Land and buildings	0	
			Guarantee contract	AS Pro Kapital Grupp	Other assets	0	
				AS Pro Kapital Grupp	Entity's assets	0	
PK Invest UAB	Swedbank	150 011	Aguonu str.10, Vilnius	PK Invest UAB	Finished construction (inventories)	0	
			Guarantee contract	AS Pro Kapital Grupp	Unfinished construction (inventories)	0	
				AS Pro Kapital Grupp	Entity's assets	0	
Domina Vacanze S.p.A	Credito Artigiano Bank	24 369	Cianderils, Largo delle Poste 39, Cortina d'Ampezzo (BL)	Domina Vacanze S.p.A.	Land and buildings	0	
			Via Priesnig 10, Tarvisio	Domina Vacanze S.p.A.	Unfinished construction (inventories)	0	
			Via A. Maffei 1, Milan	Domina Vacanze S.p.A.	Land and buildings	0	
Immobiliare Novate S.p.A.	Credito Artigiano Bank	236 964	Via Don Orione 18/20, Milan	Immobiliare Novate S.p.A.	Land and buildings	0	
P.K. Sicily S.p.A.	Credito Siciliano S.p.A.	339 531	Resort Domina Home Zagarella, Santa Flavia, Palermo	P.K.Sicily S.p.A.	Unfinished construction (inventories)	0	
			P.K.Sicily S.p.A. shares	AS Pro Kapital Grupp	Securities	0	
			Guarantee contract	AS Pro Kapital Grupp	Entity's assets	0	
Total		2 130 479				0	

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

- To Hotel Blijdorp B.V. to assure the rental liabilities to Serval S.r.l. related to the hotel, located in Rotterdam, rental agreement concluded between Serval S.r.l. and Hotel Blijdorp B.V. The guarantee letter is only to assure the rental payments in amount up to 2 300 000 EUR (appr. 36.0 million EEK);
- To Swedbank to assure the potential liability of Klīversala RE SIA, an entity belonging to Pro Kapital Latvia subsidiary group for Swedbank in amount of 5 681 334 LVL (appr. 125.2 million EEK), as Swedbank has issued a guarantee letter in the same amount to VAS „Privatizācijas aģentūra” to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra”.

## NOTE 29 RISK MANAGEMENT

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

### *Business risk*

The business risk of the Group depends on the development of the real estate markets in Baltic States, Italy and Russia, and on the development of the tourism sector in Europe as well as in Egypt.

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

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

In order to diversity the business risk, the Group has expanded its business activities into new areas with large development potential, it has continued to develop real estate projects in Sicily (Italy) and Russia.

Taking into consideration the capacity of the real estate projects and favorable position, it can be presumed, that the subsidiary groups are able to retain their position in the market.

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

### *Interest risk*

Main interest risk rises from long-term liabilities of the Group. In general the interest rates of loans raised by the entities belonging to Group are fixed through Euribor plus a risk margin (Notes 15 and 16). 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 Group's management estimate the expenses related to interest diversification (fixed interest rate) are exceeding the possible losses from the change of interest rate. The estimate based on the Group's financing strategy in the short-term. As of 31.12.2010 the interest bearing liabilities amounted to 47.0% (31.12.2009: 39.7%) from the total of Group capital structure.

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

Due to the fact that Group's liabilities are predominantly in euro (Notes 15, 16 and 17) and majority of Group's income comes from euro based contracts, the Group's management estimates the currency risk to be unimportant and does not consider the usage of financial instruments for diversification proper.

*Credit risk*

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

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

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

Based on the assumption of Group's management experience and the analysis of the economic environments' development trends, discounts are made to cover possible losses, if necessary.

According to the estimation of the Group's management the need for further grounding of credit risk resulted from above is minimal.

*Liquidity risk*

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group constantly monitors proportion of short-term liabilities and current assets. The Group's working capital has been positive: as of 31.12.2010 the current assets exceeded short-term liabilities by 2.1 times (31.12.2009: 4.3 times).

Group's financial liabilities according to the due date:

(Th. EEK)

	Note	31.12.2010	Repayment of liabilities			Adjusted as of 31.12.2009	Repayment of liabilities		
			within 1 year	2-5 years	over 5 years		within 1 year	2-5 years	over 5 years
Bank loans	15	2 175 949	1 264 116	837 003	74 830	1 943 904	158 743	1 698 982	86 179
Long-term loans	16	149 901	10 041	116 298	23 562	128 083	9 701	118 382	0
Finance lease liabilities	19	38 002	6 555	29 993	1 454	4 927	793	3 331	803
Convertible bonds	18	235 547	0	235 547	0	88 141	6 127	82 014	0
Trade payables		363 568	363 568	0	0	448 594	448 594	0	0
Other debt		534 523	146 805	387 718	0	407 521	78 711	328 810	0
<b>Total</b>		<b>3 497 490</b>	<b>1 791 085</b>	<b>1 606 559</b>	<b>99 846</b>	<b>3 021 170</b>	<b>702 669</b>	<b>2 231 519</b>	<b>86 982</b>



*Fair value*

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

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

*Capital risk management*

The purpose of capital risk management is to provide the Group's sustainability and to ensure profit for the shareholders through optimal structure of capital.

The Group uses foreign and equity capital for financing business activities and monitors percentage of equity of total assets in editing financial structure and in assessment of risk. As of 31.12.2010 the equity constitutes 33.3 % (31.12.2009: 40.5 %) 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.

**NOTE 30 LAW SUITS**

*Parent company*

On 27 May 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter of which 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 amount of 2 300 000 EUR (appr. 36.0 million EEK) or in the amount stated by the court. As an alternative claim, Aprisco B.V claims overdue rental payments in amount of 904 106 EUR (appr. 14.1 million EEK) with accumulated interest for default.

The Management Board of AS Pro Kapital Grupp does not recognize the claim and claims 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 524 000 EUR (appr. 8.2 million EEK), not the potential damage.

As of 31 December 2009 AS Pro Kapital Grupp had no ongoing legal proceedings.

*Pro Kapital Latvia subsidiary group*

As of 31 December 2010, the parent entity of Pro Kapital Latvia subsidiary group has no ongoing legal proceeding. A legal proceeding ended during the reporting period: it was related to the former employees claim against the entity in matter of the commission fees in total amount of 360 641 Latvian lats (appr. 7 952 th. EEK), and the entity added a claim against the annulment of the appendix of the employment agreement.

On 14 April 2008, the Riga city court called claim against the entity without any legal basis, and the court satisfied the counterclaim of the entity. Afterwards on 12 May 2008 the employee submitted the claim to appeal the decision of the Riga city court. On 29 January 2009, the court annulled the decision of the Riga city court, and dismissed the employee's claim against the entity as well as the entity's claim against the employee.

On 17 April 2009, both parties submitted the decision to cassation. Entity has asked the cancellation of decision made by district court and entity's claim for recognized the agreement appendix as void. Employee has asked the cancellation of decision made by the district court and that the aforementioned commissions to be paid out.

On 15 December 2010 the Supreme Court made a judgment not to proceed the cassation and circuit courts judgment entered in force. The judgment of the Supreme Court is not appealable.

As of 31 December 2010, the entity of Pro Kapital Latvia subsidiary group PK Investments SIA has one ongoing legal arbitration proceeding. On 31 July 2009, the entity submitted an application to Swedish Chamber of Commerce Court of Arbitration with claim against KanAM Grund Kapitalanlagegesellschaft mbH with content to pay 400 000 EUR (appr. 6 259 thousand EEK) and interest amounting to 27 930 EUR (appr. 437 thousand EEK) under the sale contract of Domina Shopping Centre, which KanAM Grund Kapitalanlagegesellschaft mbH held improperly.

In its response to Arbitration KanAM Grund Kapitalanlagegesellschaft mbH announced, that it does not recognize the claim and filed an appeal to Swedish Chamber of Commerce Court of Arbitration for arbitration proceeding against PK Investments SIA for compensation in amount of 8 000 Th. EUR (125 173 Th. EEK) with argument that entity has failed to improve the construction waste in Domina Shopping Centre.

According to the Swedish Chamber of Commerce Court of Arbitration judgment in 31 January 2011, PK Investments SIA has to compensate the caused damages and legal costs to KanAM Grund Kapitalanlagegesellschaft mbH in total amount of 3 800 Th. EUR (appr. 2 671 Th. LVL, i.e 58 878 Th. EEK) and in addition improve the defects of the construction. The possible cost of mentioned construction works is being clarified.

The aforementioned claim of PK Investments SIA against KanAM Grund Kapitalanlagegesellschaft mbH was not satisfied.

The Management Board of PK Investments SIA considers the claim to be unjustified and proceeding for the admission of the judgment of the Swedish Chamber of Commerce Court of Arbitration is in the process in the Riga city court.

PK Investments SIA is the third person included in the legal process in SIA Inxet Latvia claim against KanAM Grund Kapitalanlagegesellschaft mbH for compensation in amount of 150 Th. LVL (appr. 3 306 Th. EEK) because the repairment work made in Domina Shopping center disturbed the business operations and increased the profit of SIA Inxet Latvia. First instance court did not satisfy the claim of SIA Inxet Latvia. In case the proceeding continues and if the claim of SIA Inxet Latvia will be satisfied, there is a potential possibility that KanAM Grund Kapitalanlagegesellschaft mbH will file a claim against PK Investments SIA, who was the operator of the shopping centre and who organized the repairmen works.

The consolidated report of the Group as of 31 December 2010 consist of potential liabilities in amount of 2 671 Th. LVL (appr. 58 878 EEK) for executing the court ruling and for other potential claims in amount of 70 Th. LVL (appr. 1 543 Th. EEK).

As of 31 December 2009 Pro Kapital Latvia subsidiary group entities had two aforementioned ongoing legal proceedings.

*Pro Kapital Vilnius subsidiary group*

As of 31 December 2010, the entities of Pro Kapital Vilnius subsidiary group had one ongoing legal proceeding, related to termination of the preliminary contract of sale of real estate and return of the prepayment received from a client.

The Group management estimates that the unfinished law suit has no significant effect on the business operations of the Pro Kapital Vilnius subsidiary group companies.

As of 31 December 2009 Pro Kapital Vilnius subsidiary group had no ongoing legal proceedings.

*Domina Vacanze subsidiary group*

As of 31 December 2010, the entities of Domina Vacanze subsidiary group have 62 unfinished legal proceedings, 4 of which are related to monetary and non-monetary claims of former employees related to termination of the employment relationship, 25 are related to termination of the real estate preliminary sales contracts and the return of money, 6 of which are related to quality services provided by Domina Vacanze subsidiary group, 11 of which are related to unpaid invoices of Domina Vacanze subsidiary group entities for goods and services of law quality and 16 of which are related to client claims related to income received from the sub-lease of clients' timeshares by the Domina Vacanze subsidiary group.

The legal proceedings connected to the real estate are based on the client's request not to terminate the preliminary contract despite of the violation of the conditions by the client or to receive back the agreed payments that are not refundable based on the agreement conditions.

The consolidated Annual report of the group as of 31 December 2010 includes potential liabilities for satisfying possible claims in the amount of 427 th. EUR (appr. 6 681 th. EEK).

As of 31 December 2009, the entities of Domina Vacanze subsidiary group had 33 unfinished legal proceedings, 28 of which are related to termination of the real estate preliminary sales contracts and the return of money, and 5 are related to quality of the services provided by Domina Vacanze subsidiary group.

*Serval subsidiary group*

As of 31 December 2010, the entities of Serval subsidiary group had three unfinished legal proceedings, one of which are related to a former employee's monetary and non-monetary claims against the entity in relation to lay off of the employee, and two are related to claims of consultancy companies for services which are contracted, however the services have not been provided.

According to the Group management estimates, the above described unfinished law suits have no significant effect on the business operations of the Serval subsidiary group companies.

As of 31 December 2009, the entities of Serval subsidiary group have seven ongoing legal proceedings.

There was no other Court or Arbitration Court proceedings initiated that could significantly affect the business operations of the Group companies.

## NOTE 31 FINANCIAL STATEMENTS OF THE ULTIMATE PARENT COMPANY

*Balance Sheet*

## ASSETS

(Th. EEK)	31.12.2010	Adjusted 31.12.2009	01.01.2009
<b>Current assets</b>			
Cash and bank accounts	3 528	3 008	2 767
Accounts receivables			
Accounts receivable	1 486	0	0
Miscellaneous receivables			
Short-term receivables from the Group entities	96 738	86 815	49 738
Other short-term receivables	704	714	0
Total	97 442	87 529	49 738
Accrued income			
Interests	45	9	0
Prepaid expenses			
Prepaid taxes and reclaimable taxes	14	0	569
Prepaid expenses	36	33	3 041
Total	50	33	3 610
<b>Total current assets</b>	<b>102 551</b>	<b>90 579</b>	<b>56 115</b>
<b>Non-current assets</b>			
Long-term financial investments			
Shares in subsidiaries	2 137 460	2 104 649	2 030 105
Long-term receivables from the Group entities	1 078 812	938 331	848 179
Total	3 216 272	3 042 980	2 878 284
Tangible assets (net)	5	20	38
<b>Total non-current assets</b>	<b>3 216 277</b>	<b>3 043 000</b>	<b>2 878 322</b>
<b>TOTAL ASSETS</b>	<b>3 318 828</b>	<b>3 133 579</b>	<b>2 934 437</b>

## LIABILITIES AND OWNER'S EQUITY

(Th. EEK)	31.12.2010	Adjusted 31.12.2009	01.01.2009
<b>Current liabilities</b>			
Short-term debt	11 827	6 127	0
Trade payables	125	167	175
Miscellaneous liabilities			
Payables to Group entities	142 980	119 958	822 246
Tax payables	0	122	394
Accrued expenses	7 584	2 841	552
<b>Total current liabilities</b>	<b>162 516</b>	<b>129 215</b>	<b>823 367</b>
<b>Non-current liabilities</b>			
Long-term debt	235 547	82 014	5 851
Other long-term liabilities			
Payables to Group entities	1 008 373	978 944	865 220
Long-term provisions	410	253	101
<b>Total non-current liabilities</b>	<b>1 244 330</b>	<b>1 061 211</b>	<b>871 172</b>
<b>Total liabilities</b>	<b>1 406 846</b>	<b>1 190 426</b>	<b>1 694 539</b>
Share capital in nominal value	531 854	531 854	531 854
Share premium	705 495	705 495	705 495
Reserves	45 966	45 966	46 242
Retained earnings / accumulated deficit	659 838	-43 693	20 971
Profit / loss for the financial year	-31 171	703 531	-64 664
<b>Total owner's equity</b>	<b>1 911 982</b>	<b>1 943 153</b>	<b>1 239 898</b>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>3 318 828</b>	<b>3 133 579</b>	<b>2 934 437</b>

**Income Statement**

(Th. EEK)	2010	2009
<b>Operating income</b>		
Revenue	5 529	5 907
Cost of goods and services sold	-43	-107
<b>Gross profit</b>	<b>5 486</b>	<b>5 800</b>
Marketing expenses	-9	-128
Administrative expenses	-18 755	-23 054
Other income	0	2
Other expense	-8	-11
<b>Operating loss</b>	<b>-13 286</b>	<b>-17 391</b>
Financial income and expense	-17 885	720 922
Financial income and expense from subsidiaries shares	0	738 839
Interest expense	-54 032	-57 567
Profit / loss from change in currency exchange rate	-15	6 962
Other financial income and expense	36 162	32 688
<b>Profit / loss before income tax</b>	<b>-31 171</b>	<b>703 531</b>
Income tax	0	0
<b>Profit / loss for the financial year</b>	<b>-31 171</b>	<b>703 531</b>

*Statement of cash flows*

(Th. EEK)	2010	2009
<b>OPERATING ACTIVITIES</b>		
Profit /loss for the financial year	-31 171	703 531
Adjustments:		
Depreciation of tangible assets	15	18
Interest income and expense (net)	17 870	24 879
Dividend income	0	-745 814
Change in provisions	157	152
Change in receivables and prepayments made	-2 543	4 708
Changes in payables and prepayments collected	-274	-202
<b>Cash flow used in operating activities</b>	<b>-15 946</b>	<b>-12 728</b>
<b>INVESTING ACTIVITIES</b>		
Increase of share capital or acquisition of subsidiaries	-9 590	-19 558
Loans granted	-143 783	-95 194
Repayments of loans granted	30 120	16 820
Interest received	2 233	2 398
Interest paid	-20 219	-3 627
<b>Cash flows used in investing activities</b>	<b>-141 239</b>	<b>-99 161</b>
<b>FINANCING ACTIVITIES</b>		
Loans raised	173 105	130 103
Repayments of loans raised	-15 400	-17 973
<b>Cash flows from financing activities</b>	<b>157 705</b>	<b>112 130</b>
<b>Net change in cash</b>	<b>520</b>	<b>241</b>
<b>CASH AT THE BEGINNING OF THE FINANCIAL YEAR</b>	<b>3 008</b>	<b>2 767</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>3 528</b>	<b>3 008</b>

AS PRO KAPITAL GRUPP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD 2010

Signed for identification purposes:

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*Statement of changes in equity*

(Th. EEK)	Share capital	Share premium	Reserves	Retained earnings / accumulated deficit	Profit / loss for the financial year	Total
<b>Balance as of 31 December 2008</b>	<b>531 854</b>	<b>705 495</b>	<b>46 242</b>	<b>20 971</b>	<b>-64 664</b>	<b>1 239 898</b>
Cost of subsidiaries shares	X	X	X	X	X	-2 030 104
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	2 847 497
<b>Adjusted unconsolidated equity 31 December 2008</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>2 057 291</b>
Change in the convertible bonds reserve	0	0	7 918	0	0	7 918
Allocation of net loss	0	0	0	-64 664	64 664	0
Result of the financial year	0	0	0	0	703 531	703 531
<b>Balance as of 31 December 2009</b>	<b>531 854</b>	<b>705 495</b>	<b>54 160</b>	<b>-43 693</b>	<b>703 531</b>	<b>1 951 347</b>
Adjustment (change in convertible security reserve)			-8 194			-8 194
<b>Adjusted balance as of 31 December 2009</b>	<b>531 854</b>	<b>705 495</b>	<b>45 966</b>	<b>-43 693</b>	<b>703 531</b>	<b>1 943 153</b>
Cost of subsidiaries shares	X	X	X	X	X	-2 104 649
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	1 817 029
<b>Adjusted unconsolidated equity 31 December 2009</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>1 655 533</b>
Allocation of net loss	0	0	0	703 531	-703 531	0
Result of the financial year	0	0	0	0	-31 171	-31 171
<b>Balance as of 31 December 2010</b>	<b>531 854</b>	<b>705 495</b>	<b>45 966</b>	<b>659 838</b>	<b>-31 171</b>	<b>1 911 982</b>
Cost of subsidiaries shares	X	X	X	X	X	-2 137 460
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	1 517 055
<b>Adjusted unconsolidated equity 31 December 2010</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>1 291 577</b>



## INDEPENDENT SWORN AUDITOR'S REPORT

To the shareholder of AS Pro Kapital Grupp:

We have audited the accompanying consolidated annual accounts (page 9 to 68) of AS Pro Kapital Grupp (hereinafter referred to as "the Parent") and subsidiaries (hereinafter together referred to as "the Group"), which comprise the statement of financial position as at 31 December 2010, 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*

The Management Board of the Parent is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by European Commission, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated annual account that are free from material misstatement, whether due to fraud or error.

### *Sworn Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated annual accounts. The procedures selected depend on the sworn auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the sworn auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated annual accounts.

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

### *Basis for Qualified Opinion on Consolidated Financial Statements*

The Group has consolidated a subsidiary Multiservice S.r.l.. We were unable to obtain sufficient appropriate audit evidence for consolidated other income in amount of 31 052 933 Estonian kroons and consolidated other expenses in amount of 30 601 965 Estonian kroons arising from the aforementioned subsidiary.

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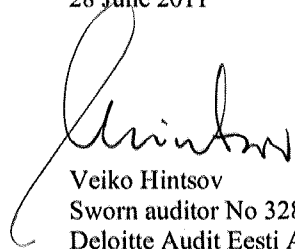
*Basis for Qualified Opinion on Financial Position of the Parent*

Our audit was conducted for the purpose of forming an opinion on the consolidated annual accounts of the Group. The Estonian Accounting Act requires the disclosure of separate financial statements of the ultimate parent company as an integral part of such consolidated annual accounts. As of 31 December 2010 the unconsolidated balance sheet of the Parent, which is disclosed in Note 31 in the consolidated annual accounts, comprises financial investments into subsidiaries at their cost value 2 137 460 thousand Estonian kroons. According to IAS 36 "Impairment of Assets", the management of the entity shall assess at each reporting date whether there is any indication that entity's assets may be impaired; if such an indication exists, the management shall estimate the recoverable amount of the asset. As of 31 December 2010 the parent company has not performed the impairment test on the described financial investments.

*Qualified Opinion*

In our opinion, except for the potential effects of the matters referred to in the preceding paragraphs, the consolidated annual accounts present fairly, in all material respects, the financial position of the Group as of 31 December 2010, 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 by European Commission.

28 June 2011



Veiko Hintsov  
Sworn auditor No 328  
Deloitte Audit Eesti AS  
License No 27

AS PRO KAPITAL GRUPP

PROPOSAL FOR COVERING LOSS

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The Management Board of AS Pro Kapital Grupp proposes to cover the loss for the year 2010 in the amount of 349 719 333 EEK from prior years retained earnings.

31 May 2011

  
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Paolo Vittorio Michelozzi  
Member of the Management Board

AS PRO KAPITAL GRUPP

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

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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:

	2010 (Th. EEK)
Activities of head offices (EMTAK 70101)	5 529
<b>Total</b>	<b>5 529</b>