AS Pro Kapital Grupp

CONSOLIDATED ANNUAL REPORT 2017

PROKAPITAL

Beginning of the financial year	1 January 2017
End of the financial year	31 December 2017
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Fields of business activity	Activities of holding companies Purchase and sales of real estate Rent and operation of real estate Management of real estate Hotel operations
Auditor	AS Deloitte Audit Eesti

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Corporate profile

AS Pro Kapital Grupp in brief

Established in 1994, AS Pro Kapital Grupp (the Company or Pro Kapital) is one of the leading Estonian real estate company with a focus on development, management and sale of modern large-scale retail and residential real estate in the capitals of Estonia, Latvia and Lithuania. The Company also owns and manages a hotel in Bad Kreuznach, Germany. Since its establishment Pro Kapital has completed over 20 development projects with more than 190 000 square meters of total saleable area. The Company has been one of the first players on the Baltic markets and its projects have been milestones in the Baltic real estate market.

Pro Kapital's operating strategy is to develop prime residential and retail real estate in all three Baltic capitals. The Company adds value through the entire life cycle of the development process, taking a long-term approach.

Pro Kapital is managed by an experienced team of real estate professionals with more than 20 years of Baltic real estate development experience.

AS Pro Kapital Grupp shares are listed on the secondary list of Tallinn Stock Exchange since 23 November 2012 and its shares are traded on Quotation Board of Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) since 13 March 2014. Secured, callable, fixed rate bonds of AS Pro Kapital Grupp are listed on Nasdaq Stockholm Stock Exchange since 8 July 2015.

Vision

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

Mission

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

Statement of the Chairman of the Management Board

In 2017 Pro Kapital continued the development of the new T1 shopping and entertainment centre in Tallinn, which is the Company´s largest single-object development project.

Pro Kapital has paid careful attention to the development of retail market in Europe during last years for evaluating the effect of e-commerce. The notable trends of consumer behaviour show both: the growing readiness to purchase any goods through internet and to use modern “brick-and-mortar” shopping centres as emotional meeting points and platforms for spending free time. Therefor Pro Kapital has put strong efforts to develop T1 Mall of Tallinn in line with the latest trends of worldwide retail real estate industry by focusing to the synergy between classical retail offer, variety of entertainment activities and broad segment of food and beverages.

During the year close to 25 million euros were invested into the project and the works are continuing in the current year. The City of Tallinn continued the detail plan process on the neighbouring land plots to enable the development of Tallinn Joint Passenger Terminal as part of the Rail Baltica project. Such development of public infrastructure, including already established tramline which will connect Tallinn Airport and the shopping centre with the city centre in the future, increases significantly the attractiveness of the whole district that has all potential to become one of the most active business centres of Tallinn in coming years. T1 shopping and entertainment centre is planned to be opened in autumn of this year.

The Company continued development activities also in several of its residential projects in all Baltic capitals.

In Tallinn, in Kristiine City development, the Company has completed four Kristina Houses apartment buildings with construction works going on for the next three buildings. Renovation of a historical building at Marsi 6 converting it into 45 special design loft apartments continued in 2017 and were completed this year. For Kalaranna development the architectural competition was held in 2017 in cooperation with the Estonian Union of Architects. Based on the winning work projecting has started in cooperation with the winning architects.

In Riga construction of River Breeze Residence with 47 exclusive apartments in Kliversala development continued in 2017. The building is completed this April and further stages projecting works are ongoing. Projecting works were continued for Tallinas Residential Complex and for the first stage of office complex in Zvaigznes Quarter.

In Vilnius the first stage of Šaltinių Namai development has been almost sold. In January 2017, the construction works for the second stage residential buildings started. Four buildings of the second stage should be completed in the beginning of 2019.

In 2017 the Company decided to exit hotel operations in Tallinn and in Riga and to concentrate on its core business – development of residential and commercial premises in Baltics.

The general market situation in Baltic capitals remained positive with moderate but stable upward trend that creates a solid base of request for new products in both residential and retail segment. Despite of the grown number of new development projects coming to the market there is a positive price growth outlook for the Company's residential markets based on its strategy to focus on large-scale premium development projects with less competition. Though market in Tallinn and in Vilnius feels currently more favourable for development activity than in Riga.

In 2017 AS Pro Kapital Grupp has issued 2 416 232 new shares and collected more than 4.3 million euros. The proceeds are mainly planned for the development projects of the Company.

For the activity of the Company and development of new projects the Company is seeking to attain attractive mix of financing through combining acceptable level of borrowings from financial institutions, expanding its investor base and attracting additional private equity.

Sales and stock

Estonia

In Estonia real estate market kept stable moderately upward trend in 2017, with price levels, average transaction amount and transaction volume increasing at a steady pace. The Company has completed first four new apartment buildings in Kristina Houses project, where 118 apartments out of 124 have been handed over to the clients at the moment of issuing this report. The presales for the next three building are ongoing with 42 presale agreements signed out of 93 apartments. Renovation of Marsi 6 historical building has been completed in the current year and only 1 apartment out of 45 is unsold.

During 2017, 18 apartments, 17 storage rooms and 24 parking places were sold, producing total sales revenue of 5 067 thousand euros. The remaining sellable stock by the end of 2017 consisted of 18 apartments, 2 business premises, several parking spaces and storage rooms.

Before the sales of the hotel in July, PK Ilmarine Hotel revenues increased by 20% comparing to preceding year. The occupancy rate of the hotel was 76% in 2017, increasing by 6%. Tallinn's hotel produced 1 020 thousand euros revenue. Gross operating profit increased by 30% during 2017 due to higher average rate and effective cost control.

Maintenance segment in Tallinn is focusing on maintenance of residential properties and has earned 1 483 thousand euros revenue in 2017. This year the management of the Company has decided to reorganise its maintenance business and reduce the clients' base. The purpose is to concentrate on providing maintenance services only to the properties developed by the Company in the recent years and to be developed in the future. Although the revenues of the Company will reduce significantly, the profitability of the Company will not have material effect.

In 2018 the Company is focusing on completion of T1 Shopping & Entertainment Centre together with signing of the new rental agreements, construction of new residential buildings in Kristiine City and continuing projecting works of the Kalaranna residential complex.

Latvia

In Latvia the Company continued construction works of the first building in Kliversala District. The presale has resulted in 11 presale agreements out of 47 apartments. The projecting works of the rest of the area as well as of the Tallinas residential quarter and Zvaigznes Quarter were continued.

Rental revenue of Latvian companies amounted to 69 thousand euros in 2017.

Before the sales of the hotel in August, PK Riga Hotel revenues increased by 6% comparing to preceding year. The occupancy rate of the hotel was 64% in 2017, increasing by 23%. Revenue from Riga hotel amounted to 996 thousand euros. Gross operating profit increased by 4% during 2017.

Lithuania

In Lithuania the Company is continuing with the development and sales in Šaltinių Namai residential complex. The Company has successfully finished the first stage and in 2017 the focus was on the construction works of the four second stage residential buildings. 70 presale agreements have been signed for the second stage apartments as at the moment of preparation of current report.

During the year 4 apartments, 3 business premises, 2 storage rooms and 8 parking spaces were sold, producing net revenue of 1 554 thousand euros. The remaining sellable stock by the end of 2017 consisted in total of 4 apartments, 4 business premises, 4 cottages, several parking lots and storage rooms.

Germany

PK Parkhotel Kurhaus in Bad Kreuznach went through renovation process of half of its rooms and some general spaces. The works started in 2016 and ended in spring 2017. Renovation works had affected significantly the results of the hotel in 2016. Year 2017 has shown some improvement: revenues increased by 19%, occupancy by 17%. Total revenue was 3 538 thousand euros and occupancy rate 64% in 2017. Gross operating profit increased by 896% during 2017.
The year 2018 is expected to bring further improvements to PK Parkhotel Kurhaus results.

Projections for 2018

Our current focus is on continuing the development of T1 Shopping & Entertainment Centre in Tallinn and to continue the sales and construction processes in our residential projects in Baltic capitals. Provided the continuation of the positive market sentiment we are speeding up development process mainly in Kristiine City in Tallinn. We expect significant increase in real estate sales activities in 2018 due to completion of new houses. Rental activities will remain minimal enabling the Company to strengthen its focus on its main activity as a real estate developer. Hotel segment will show less results than in the previous periods due to exit of operations in Tallinn and in Riga. Remaining German hotel is expected to continue with moderate increase on revenues and to work on effectiveness and profitability. Maintenance segment will focus on improvement of service standards and effectiveness in serving its customers.

Paolo Michelozzi
CEO
AS Pro Kapital Grupp

18 April 2018

Management report

Main events and key figures in 2017

- On 12 January 2017 Pro Kapital group company PK Invest UAB concluded a contract for construction of four residential apartment buildings and underground parking to be located in Vilnius City, in the existing Šaltinių Namai quarter in the Old Town. The price of the construction contract is 10.8 million euros, excluding VAT and has the duration of 24 months.
- On 3 February 2017 Pro Kapital group company AS Tondi Kvartal and Tarrest LT OÜ concluded a contract for reconstruction of historical caserm building Marsi 6 to an apartment building with 45 flats in Kristiine City. The cost of the construction works will be close to 2.5 million euros without VAT and works shall have the duration of approximately one year.
- On 8 March 2017 the Company prolonged the redemption date of 382 778 PKG6 convertible bonds by two years. New redemption date is 8 March 2019. 186 495 PKG6 convertible bonds were redeemed with issue price of 522 186.00 euros.
- On 6 April 2017 Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the second construction phase of Kristina Houses. In the second phase, another 5-storey residential building with 31 apartments shall be completed. The planned completion of the works is in June 2018 and the price of construction works is slightly over two million euros without VAT. In addition, OÜ Marsi Elu and Nordecon AS have agreed upon option for the two remaining construction phases for 62 additional apartments which will include also completion of utility networks on Sõjakooli and Sammu streets.
- On 3 May 2017 AS Pro Kapital Grupp decided to make a change in the composition of the Supervisory Council of its Latvian subsidiary AS Pro Kapital Latvia. Aivars Blūmiņš was recalled from the Supervisory Council of AS Pro Kapital Latvia and Pro Kapital Head of Legal, Ervin Nurmela was elected as a new Council member. AS Pro Kapital Latvia Supervisory Council shall continue with three members in the following composition: Ernesto Achille Preatoni, Emanuele Bozzone and Ervin Nurmela.
- On 23 May 2017 the Company prolonged the redemption date of 82 950 PKG7 convertible bonds by two years. New redemption date is 25 May 2019. 5 937 PKG7 convertible bonds were redeemed with issue price of 16 623.60 euros.
- On 25 July 2017 the Company concluded a contract for the sale of group hotels PK Ilmarine and PK Riga. The object of the transaction was the sale of both operating activities and real estate of hotels. Transaction concerning Estonian segment involved completion of the sale of 100% shares of OÜ Hotel Management Services (operator of PK Ilmarine Hotel) and sale of real estate used by PK Ilmarine Hotel. The sale of PK Ilmarine Hotel was completed on 25 July 2017. Transaction concerning Latvian segment involved sale of 100% shares of SIA Hotel Management Services (operator of PK Riga Hotel) and 100% shares of SIA Investhotel (owner of real estate of PK Riga Hotel). The

sale of PK Riga Hotel was completed on 22 August 2017. The total amount of hotels sales transaction was 14 114 537 euros.

- On 14 August 2017 the Company prolonged the redemption date of 1 081 076 PKG1 convertible bonds by two years. New redemption date is 13 August 2019. 83 731 PKG1 convertible bonds were redeemed with issue price of 234 446.80 euros.
- On 19 September 2017 Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the third building of second construction phase of Kristina Houses. A 5-storey residential building with 31 apartments shall be completed, which is the sixth building of Kristina Houses development. The planned completion of the works is December 2018 and the price of construction works is slightly over 2.6 million euros without VAT. In addition, OÜ Marsi Elu and Nordecon AS have agreed on option for the seventh building in Kristina Houses development.
- On 19 September 2017 the Company announced a Public Offering of shares of AS Pro Kapital Grupp. AS Pro Kapital Grupp offered up to 6 000 000 shares at price range 1.80 to 2.30 euros, of which 0.20 euros was the nominal value and the rest share premium. The shares were offered from 20 September till 4 October 2017.
- On 6 October 2017 the Supervisory Council of AS Pro Kapital Grupp decided on allocation of the subscribed shares. In total 2 416 232 new shares were allocated to the investors at the issue price of 1.80 euros (0.20 euros as nominal value and 1.60 euros as share premium) for each share. The Management Board of AS Pro Kapital Grupp decided to cancel 3 583 768 shares which were not subscribed for.
- On 19 October 2017 the increase of share capital of AS Pro Kapital Grupp was registered in the Commercial Register. As of 19 October 2017, the number of shares of AS Pro Kapital Grupp is 56 687 954 forming the share capital of 11 337 590.80 euros. 2 416 232 new shares were admitted to trading on the regulated market (secondary list) operated by Nasdaq Tallinn AS.
- On 20 December 2017 an extraordinary shareholders meeting of AS Pro Kapital Grupp took place. It was decided to distribute 850 319.31 euros from retained earnings as profit to the shareholders (0.015 euros per each share). Dividends were paid out on 15 January 2018, after reporting period.

Financial Indicators

Consolidated Statement of Income

	Continuing operations			Continuing and discontinued operations		
in thousands of euros	2017	2016	Change	2017	2016	Change
Revenue	12 077	17 610	-31.4%	14 098	20 652	-31.7%
Gross profit	4 561	4 922	-7.3%	5 380	6 054	-11.1%
EBITDA	2 034	-843	341.3%	2 840	386	635.8%
Operating result	1 797	-1 168	253.9%	2 385	-309	871.8%
EBT	-1 549	-4 482	65.4%	-1 075	-3 808	71.8%
Net result	-953	-4 645	79.5%	-518	-4 025	87.1%
Net result for shareholders	-854	-4 533	81.2%	-419	-3 913	89.3%
Gross profit margin	37.8%	28.0%		38.2%	29.3%	
EBITDA margin	16.8%	-4.8%		20.1%	1.9%	
Operating margin	14.9%	-6.6%		16.9%	-1.5%	
EBT margin	-12.8%	-25.5%		-7.6%	-18.4%	
Net margin	-7.9%	-26.4%		-3.7%	-19.5%	
Net margin to shareholders	-7.1%	-25.7%		-3.0%	-18.9%	
Earnings per share (EPS)	-0.02	-0.09		-0.01	-0.07	
Share closing price (Nasdaq Baltic)	1.82	1.96		1.82	1.96	
P/E ratio	-108.26	-22.90		-199.17	-26.43	

Gross profit margin of the Company increased more than 30% in 2017 comparing to 2016. EBITDA increased significantly due to effect of sales of Tallinn and Riga properties with a positive net effect of 3 045 thousand euros.

Consolidated Statement of Financial Position

in thousands of euros	31.12.2017	31.12.2016	Change
Total Assets	175 158	142 314	23.1%
Current Assets	53 229	24 001	121.8%
Non-Current Assets	121 929	118 313	3.1%
Total Liabilities	92 476	62 110	48.9%
Current Liabilities	24 355	19 541	24.6%
Non-Current Liabilities	68 121	42 569	60.0%
Equity	82 682	80 204	3.1%

Assets have increased due to active development activity (most of the effect from construction of T1 shopping mall in Tallinn), which on the other side has influenced also increase in liabilities (financing of development).

Financial Ratios (continuing operations)

	31.12.2017	31.12.2016
Equity ratio	47.2%	56.4%
Debt to equity ratio	83.9%	57.6%
Net debt to capital	41.7%	33.7%
Debt to EBITDA ratio	34.1	-54.8
Current Ratio	2.2	1.2
Return to assets	-0.6%	-3.4%
Return to equity	-1.0%	-5.5%

Formulas used for calculating financial ratios

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

Financial performance

AS Pro Kapital Grupp ended the year 2017 with gross profit of 5 380 thousand euros (2016: 6 054 thousand euros), including 4 561 thousand euros from continuing operations (2016: 4 922 thousand euros). Although total revenues decreased by 30% in 2017, gross profit margin increased more than 35% due to higher profitability in real estate sales and better performance in hotel business. Gross profit margin amounted to 37.8% (2016: 28.0%).

Operating costs were 10% higher in 2017 and constituted 6 339 thousand euros excluding extraordinary influence of 3 045 thousand euros profit from sales of Tallinn and Riga hotel properties and 530 thousand euros loss from changes of investment property in fair value (2016: 5 764 thousand euros excluding extraordinary influence of -599 thousand euros loss from changes of investment property in fair value). Marketing expenses increased by 59% due to active development, administration expenses decreased by 3% comparing to 2016.

Consolidated statement of cash flows

in thousands of euros	2017	2016	Change
Cash flows generated by/ used in operating activities	-5 281	648	-915.0%
Cash flows used in investing activities	-12 199	-9 740	-25.2%
Cash flows generated by financing activities	22 415	8 082	177.3%
Net change in cash and cash equivalents	**4 935**	**-1 010**	**588.6%**

In 2017, the Company's net cash inflow was 4 935 thousand euros (2016: net outflow of 1 010 thousand euros). Cash flow used in operations was 5 281 thousand euros (2016: generated by operations 648 thousand euros).

Cash flow used in investing activities was 12 199 thousand euros (2016: 9 740 thousand euros) including investments made into development of investment property in total amount of 24 772 thousand euros (most of it into Peterburi road shopping centre in Tallinn). The Company received ca 13 million euros from sales of hotel operations in Tallinn and in Riga.

Financing activities generated positive cash flow in amount of 22 415 thousand euros (2016: 8 082 thousand euros). During the year, the Company issued new 2 416 232 shares with an issue price of 1.80 euros per share and collected net cash (issue price minus issue related costs) 4 328 thousand euros. The company sold 15 secured fixed rate bonds with total nominal value of 1.5 million euros with maturity date 1 June 2020 and effective annual interest rate of 8%, collecting net amount of 1 446 thousand euros. The Company redeemed convertible bonds in amount of 0.8 million euros and paid 0.5 million euros for repurchase of shares of the subsidiary. Bank loans were raised in amount of 28.3 million euros, main cash outflow included repayment of bank loans in amount of 7.0 million euros and interest payments for bonds and bank loans of 3.3 million euros.

Financing sources and policies

Pro Kapital Grupp pursues conservative financing policy, targeting for high ratio of equity in its projects, as compared to industry standards. Company's goal is to use external financing in order to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. In general, the Company seeks to maintain such long-term debt levels that are in reasonable proportion to growth in operations and which preserve the Company's credit standing. Bank loans for specific projects are predominantly of middle-term duration, maturing within one to three years. Bank loans repayment schedule is of mixed nature, consisting mainly of fixed payments and to some extent floating payments in dependence on sales volumes.

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

During 2017 the Company has repaid 7.0 million euros of its bank loans and has raised additional 28.3 million euros of bank loans. The Company has 0.2 million euros of bank loans to be repaid in 2018 and 1.6 million euros of bank loans are repayable in 2019.

The Company has issued the total of 29.3 million euros of secured fixed rate bonds with maturity date 1 June 2020 and effective annual interest rate of 8%.

As at 31 December 2017 the Company had 10.3 million euros convertible bonds (current portion: 5.9 million euros; long-term portion: 4.4 million euros) and 1.2 million of non-convertible non-secured bonds (current portion: 0.6 million euros; long-term portion: 0.6 million euros).

Strategy and objectives for 2018

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

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

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

AS Pro Kapital Grupp main objectives for 2018:

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

Segments

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

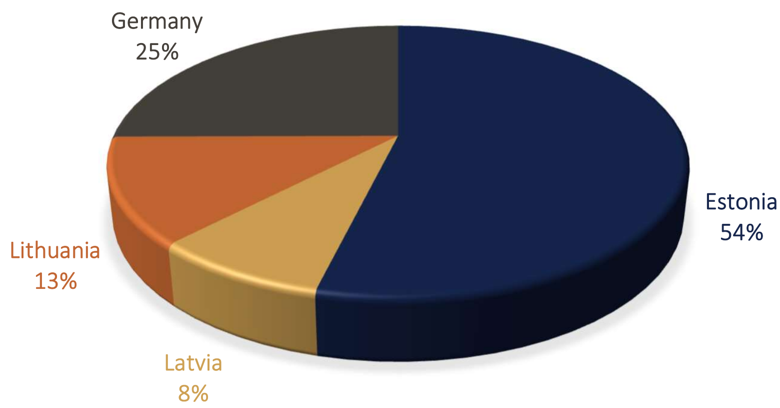
Key financial data of the segments, in thousands of euros

	Revenue			Gross result			Net result		
	2017	2016	Change	2017	2016	Change	2017	2016	Change
Estonia	7 589	7 225	5.0%	3 372	1 376	145.1%	-1 124	-5 818	80.7%
Latvia	1 187	1 527	-22.3%	364	436	-16.5%	550	-713	177.1%
Lithuania	1 784	8 965	-80.1%	631	3 856	-83.6%	-330	3 185	-110.4%
Germany	3 538	2 935	20.5%	1 013	386	162.4%	-171	-462	63.0%

	Gross margin		Net margin	
	2017	2016	2017	2016
Estonia	44.4%	19.0%	-14.8%	-80.5%
Latvia	30.7%	28.6%	46.3%	-46.7%
Lithuania	35.4%	43.0%	-18.5%	35.5%
Germany	28.6%	13.2%	-4.8%	-15.7%

Financial data here includes discontinued operations. Internal transactions are eliminated. Estonian segment includes the financial data of the Parent. Net results are recorded before taxes and include non-controlling interests.

2017 revenue by geographical segments, %



Estonia

The Company's operations in Estonia mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of premises in retail and office properties, and management of cash flow generating retail, office and until 25 July 2017 also hotel property.

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted to 54% compared to 35% of the comparable period last year.

Revenue from Estonia

in thousands of euros	2017	2016	Change
Real Estate	5 067	4 173	21.4%
Rent	19	20	-5.0%
Hotels	1 020	1 613	-36.8%
Other	1 483	1 419	4.5%
Total	7 589	7 225	5.0%

Revenues in real estate segment increased by 21%. Sales revenues are recorded upon signing final notarised sales agreement. In Kristina Houses development project of ten buildings the construction of four apartment buildings have been completed, one of them in 2017. The notary deeds for 118 apartments have been signed of 124 at the moment of the preparation of current report. Three following buildings are under construction and available for presales: 26 agreements have been concluded for the fifth building, 12 agreements for the sixth building and 4 agreements for the seventh building. Marsi 6 construction works were completed in January of the current year and almost all of 45 apartments are sold. During 2017 the total of 18 apartments, 24 parking lots and 17 storage rooms (2016: 32 apartments, 34 parking lots and 23 storage rooms) were sold and stock consisting of 18 apartments and 2 business premises, also several parking spaces and storage rooms were available for sale in Tallinn on 31 December 2017.

Revenue in rent segment dropped by insignificant 5%, as the Company's rental activities are only occasional, renting out the stock available for sale.

Hotel business showed 37% decrease in revenues. In July 2017 the Company sold hotel real estate property and the hotel operating company in Tallinn. Before the sale transaction PK Ilmarine Hotel occupancy rate 76.3% had increased by 6% and gross operating profit increased by 30% comparing to the same period last year.

Other revenues consist mainly of maintenance services provided.

Main events in Estonian segment

- On 3 February 2017 Pro Kapital group company AS Tondi Kvartal and Tarrest LT OÜ concluded the contract for reconstruction of historical caserm building Marsi 6 to an apartment building with 45 flats in Kristiine City. The cost of the construction works was agreed to be 2.5 million euros, to which VAT is applicable. Works were estimated to take one year and the project is completed.
- On 6 April 2017 Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the second construction phase of Kristina Houses. In the second phase a 5-storey residential building with 31 apartments shall be completed. The planned completion of the works is June 2018 and the price of construction works is slightly over two million euros without VAT. In addition, OÜ Marsi Elu and Nordecon AS have agreed on option for the two remaining construction phases for 62 additional apartments which will include also accomplishment of utility networks on Sõjakooli and Sammu streets.
- On 25 July 2017 the Company concluded the contract for the sale of group hotels PK Ilmarine and PK Riga. The object of the transaction was the sale of both operating activities and real estate of hotels. Transaction concerning Estonian segment involved completion of the sale of 100% shares of OÜ Hotel Management Services (operator of PK Ilmarine Hotel) and sale of real estate used by PK Ilmarine Hotel. Sale of PK Ilmarine Hotel was completed on 25 July 2017.
- On 19 September 2017 Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the third building of second construction phase of Kristina Houses. A 5-storey residential building with 31 apartments shall be completed, which is the sixth building of Kristina Houses development. The planned completion of the works is December 2018 and the price of construction works is slightly over 2.6 million euros without VAT. In addition, OÜ Marsi Elu and Nordecon AS have agreed on option for the seventh building in Kristina Houses development.

Latvia

The Company's operations in Latvia mainly consist of the development and sales of apartments in premium residential real estate properties, development of commercial properties and until 22 August 2017 also management of cash flow generating hotel property.

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period was 8% compared to 7% in the comparable period last year.

Revenue from Latvia

in thousands of euros	2017	2016	Change
Rent	69	59	16.9%
Hotels	996	1 395	-28.6%
Other	122	73	67.1%
Total	1 187	1 527	-22.3%

In Latvia there are no residential real estate properties for sale until new developments will be completed. Kliversala project has been issued a building permit for the first building with 47 flats and construction will be completed this spring. At the moment of issuing current report 11 presale agreement have been signed.

The rental revenue in Latvia increased by 17% in 2017.

Revenues of hotel business decreased by 29% in 2017. In August 2017 the Company sold hotel real estate and hotel operating subsidiaries in Riga. Before the sale transaction PK Riga Hotel occupancy rate 75.5% increased by 3% and gross operating profit increased by 4% comparing to comparative period.

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

Main events in Latvian segment

- On 3 May 2017 AS Pro Kapital Grupp decided to make a change in the composition of the Supervisory Council of its Latvian group subsidiary AS Pro Kapital Latvia. Aivars Blūmiņš was recalled from the Supervisory Council of AS Pro Kapital Latvia and Pro Kapital Head of Legal Ervin Nurmela was elected as a new council member. AS Pro Kapital Latvia Supervisory Council shall continue with three members in the following composition: Ernesto Achille Preatoni, Emanuele Bozzone and Ervin Nurmela.
- On 25 July 2017 the Company concluded the contract for the sale of group hotels PK Ilmarine and PK Riga. The object of the transaction was the sale of both operating

activities and real estate of hotels. Transaction concerning Latvian segment involved sale of 100% shares of SIA Hotel Management Services (operator of PK Riga Hotel) and 100% shares of SIA Investhotel (owner of real estate of PK Riga Hotel). Sale of PK Riga Hotel was completed on 22 August 2017.

Lithuania

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

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted to 13% compared to 43% last year.

Revenue from Lithuania

in thousands of euros	2017	2016	Change
Real Estate	1 554	8 729	-82.2%
Rent	87	91	-4.4%
Other	143	145	-1.4%
Total	1 784	8 965	-80.1%

Real estate sales decreased by 82% in 2017 comparing to last year. Sales in 2016 were boosted by completion of K4-1 apartment building as sales revenues are recorded upon signing final notarised sales agreements. In 2017 the total of 4 apartments, 3 business premises, 8 parking lots and 2 storage rooms (41 apartments, 7 business premises, 35 parking spaces and 2 storage rooms in 2016) were sold. As at 31 December 2017, there were 4 apartments, 4 cottages, 4 business premises, 10 storage rooms and several parking lots in stock in Vilnius. Another boost of sales is expected for the beginning of 2019, when four buildings of the second stage will be completed. Currently presale agreements for 70 apartments have been signed.

The Company temporarily rents out some of the properties available for sale. In 2017 rental revenues decreased by 4%.

The Company provides maintenance and other services to its sold and rented out apartments. In 2017 the revenue from maintenance activities has decreased by 1%.

Main events in Lithuanian segment

- On 12 January 2017 Pro Kapital group company PK Invest UAB concluded the contract for construction of four residential apartment buildings and underground parking to be located in Vilnius City, in the existing Šaltinių Namai quarter in the Old Town. The price of the construction contract is 10.8 million euros, excluding VAT and has the duration of 24 months.

Germany

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

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 25% compared to 14% of the comparable period last year.

Revenue from Germany

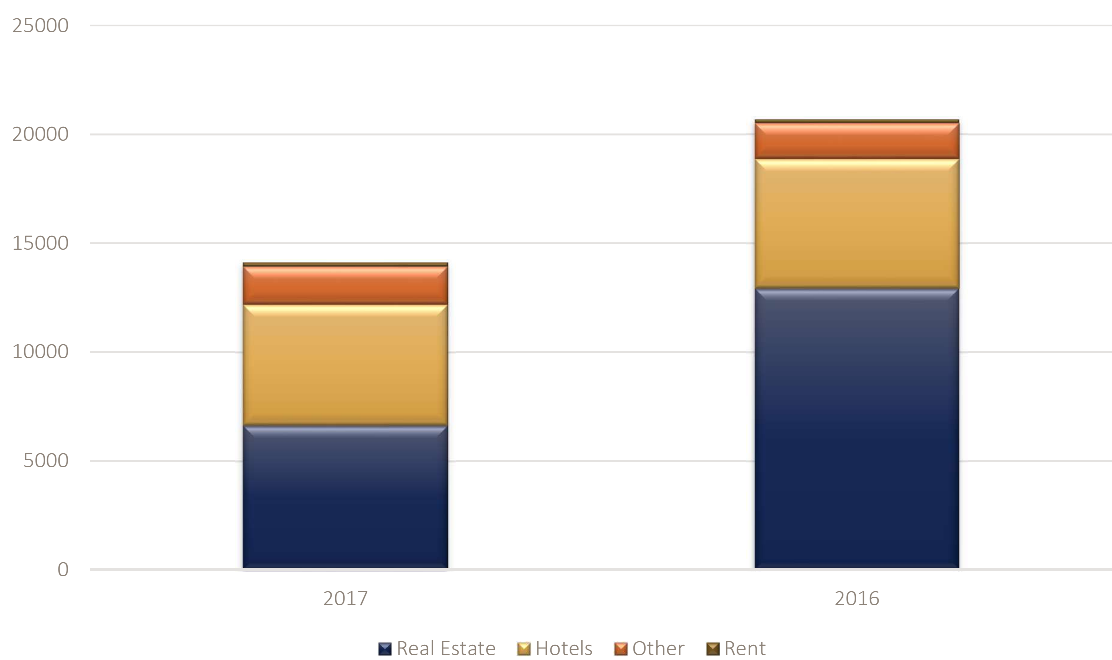
in thousands of euros	2017	2016	Change
Hotels	3 538	2 935	20.5%

The occupancy rate of PK Parkhotel Kurhaus hotel has increased by 17% in 2017 and constituted 63.7% for the year comparing to 54.6% in 2016. The hotel has recovered from negative effect of a renovation process that ended in spring 2017 and results are improving steadily since the end of the works. In German segment, the Company is focusing on its cost structure, targets to increase sales revenue and to work out most effective solutions for serving its customers.

Business lines

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

Revenue by business lines, in thousands of euros



Revenue by business lines

in thousands of euros	2017	2016	Change
Real Estate	6 621	12 902	-48.7%
Rent	175	170	2.9%
Hotels	5 554	5 943	-6.5%
Other	1 748	1 637	6.8%

Revenue in real estate business line has decreased by 49% which is natural taking into account decreasing stock for sale during the period as most of the current projects have been under development. Average price per m^2 sold in 2017 was 1 826 euros/ m^2 (2016: 2 122 euros/ m^2), prices are given without VAT. Decrease in price is influenced by less sales completed in Vilnius were average price is higher than in Tallinn currently developed properties. In 2017 the total of 3 326 m^2 were sold (2016: 5 706 m^2).
The Company is focusing on development of existing land plots, which, in its turn, will expand its sellable asset base. In 2018 the Company will actively continue with sales of current stock and presales of Kristina Houses in Tallinn, Šaltinių Namai Residential Complex in Vilnius and Kliversala first building in Riga.

Rental revenues increased in 2017 but did not have an essential effect on total revenues.

In 2016, the Company operated three hotels: PK Ilmarine Hotel in Tallinn, PK Riga Hotel in Riga and PK Parkhotel Kurhaus in Bad Kreuznach, Germany. In 2017 the Company exited Tallinn and Riga hotel business in July and August. Revenues from hotel business line have decreased only by 7% in 2017 due to positive improvement in German hotel performance.

Occupancy rates, PK hotels, %

	2017	2016	Change
PK Ilmarine Hotel, Tallinn (until exit)	76.3%	75.3%	1.3%
PK Riga Hotel, Riga (until exit)	75.5%	71.1%	6.2%
PK Parkhotel Kurhaus, Bad Kreuznach	63.7%	54.6%	16.7%

Maintenance business line is dependent on the rental spaces maintained by the Company. Space under maintenance in 2017 has increased and was 94 453 m^2 as at 31 December 2017 (31 December 2016: 93 814 m^2). Overall profitability of maintenance services remained on the same level as last year.

On 9 March 2018 the Company announced about intention to reorganise its subsidiary Pro Halduse OÜ and reduce maintenance service business in Estonia. The goal of the maintenance services has been and also will be in the future, to provide good quality maintenance service to the buyers of the apartments and to get feedback of any maintenance issues, to be able to use such information for improvements in future developments. Providing maintenance services to other properties under maintenance has not been the part of the core strategy of the group nor has it provided any significant profit for the group. Therefor it has been decided that the Company will concentrate on providing maintenance services only to the properties developed by Pro Kapital in recent years and to be developed in the future, all maintenance services to other properties will be terminated in the next few months. The influence of the reorganisation of the maintenance service business in Estonia for the group is as follows: based on 2017 financial results the group revenue will decrease by 1 352 thousand euros and gross profit by 155 thousand euros. The reorganization does not have material effect on profitability of the group.

Development projects

Project name	Type	Location	Ownership	Classification
T1 shopping centre	Retail	Tallinn	93%	Investment property
Ülemiste 5	Offices	Tallinn	100%	Investment property
Kristiine City	Residential	Tallinn	100%	Inventories, investment property
Kalaranna District	Residential	Tallinn	100%	Investment property
Tallinas Quarter	Residential	Riga	100%	Investment property
Kliversala District	Residential	Riga	100%	Inventories, investment property
Zvaigznes Quarter	Offices	Riga	100%	Investment property
Šaltinių Namai	Residential	Vilnius	100%	Inventories, investment property

T1 Mall of Tallinn – a new standard of retail and entertainment

Today being under construction, in autumn 2018 the new T1 Mall of Tallinn shall open at the heart of Estonia's capital – a shopping and entertainment centre unlike any other built in Estonia and the Baltics so far. Total building volume is 130 thousand square metres, gross leasable area 55 thousand square meters.

Ülemiste 5, Tallinn

Ülemiste 5 land plot is closely connected to the T1 Mall of Tallinn property situated on Peterburi road 2. It is planned to develop commercial premises with gross leasable area 14 thousand square meters. Currently there is detail plan adopted, but new detail plan is under consideration in collaboration with the city in connection with Rail Baltica terminal.

Kristiine City in Tallinn

Kristiine City is one of the largest residential blocks in the Baltic countries, located in Kristiine borough, a residential area in the City Centre periphery of Tallinn. The unique project foresees impressive red brick buildings smoothly integrated with the modern architecture that will arise over the hill in the centre of the new block, providing a series of apartment and office buildings built on land plots historically occupied by barracks. Overall the project is to middle class individual buyers who prefer to live in the proximity of city centre and appreciate spacious green environment.

Marsi 6 renovation of historical building with special design loft apartments has been completed in the beginning of 2018. Almost all apartments have been sold.

Kristina Houses is a development of ten new apartment buildings in Kristiine City (ca 22 thousand square meters of net sellable area), of which four have been completed. Construction works and presale of the fifth and sixth building are continuing, presale of the seventh building has started.

Kalaranna in Tallinn

The Kalaranna development is located on the most exclusive real estate sea border of central Tallinn. The plans for the real estate property include a beach promenade and a public room with a building solution, turning the region into a valued community space in the city of Tallinn. The total area of the development is close to 30 thousand square meters, most of it residential real estate. Detail plan is in place and projecting works are in progress in collaboration with the winners of architectural competition – Ott Kadarik and Mihkel Tüür.

Tallinas Quarter in Riga

Tallinas street 5/7 is a centrally located area where a new residential development is planned. The project foresees a series of apartment buildings with commercial functions on the first floor. Residential complex will consist of newly constructed buildings and restored historical buildings that will give a special vibe to the area.

Building licence has been issued, technical project is under process.

Kliversala in Riga

The district of Klīversala is located in the most picturesque part of the centre of Riga. A land plot of almost five hectares is located on the peninsula on the Daugava river and Agenskalna bay and faces the towers of Old Riga and President Castle. The property will be developed as an integral residential quarter.

The River Breeze Residence and the adjacent territory have been included in the long-term development strategy of Riga for the period until year 2030 as a high added value territory, which will be developed because it is located within the UNESCO heritage protection area.

River Breeze Residence is a newly constructed residential building – a new landmark of Riga city left bank skyline. It is the first building in Kliversala Quarter – exclusively located residential development on the river Daugava and Agenskalna bay. Construction works of the building will be completed in spring 2018. Projecting works of the following phase have started.

Zvaigznes Quarter in Riga

Office complex to be built on the site of former factory is located at one of the main transport arteries heading through the city – Brīvības street. The project foresees renovation of the existing industrial building into office building during the first phase, and construction of new office and commercial buildings during the second phase. The site is ready for construction, existing building is conserved. In 2017 projecting works for renovation started, technical project is under process.

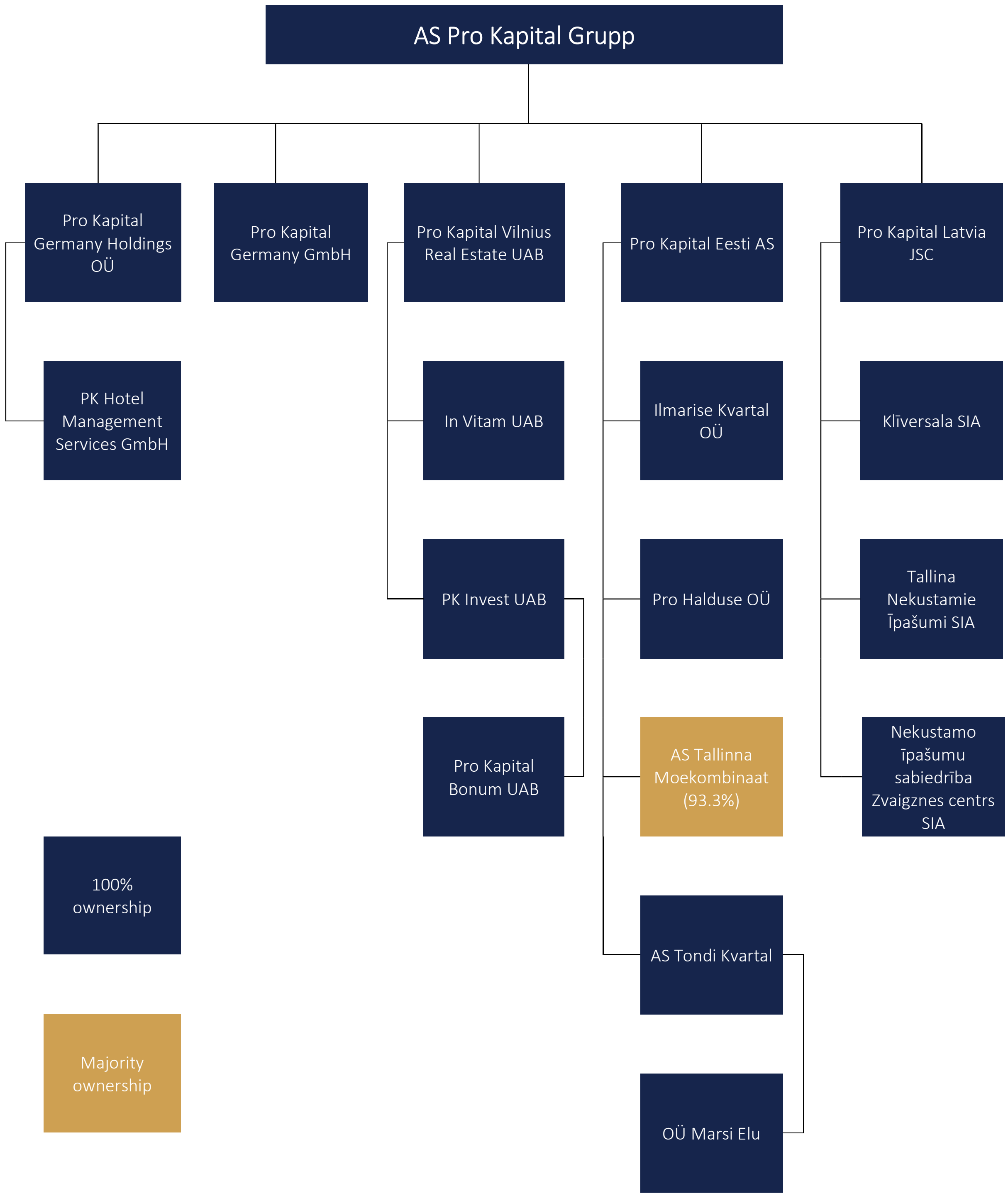
Šaltinių Namai in Vilnius

The first stage of Šaltinių Namai project has been completed: six five floor buildings with attics and 11 private cottages have been built. Residents of Šaltinių Namai quarter are already enjoying the private courtyard, finished landscape works and fully equipped children's playground.

Šaltinių Namai Attico (on the picture) is a prestigious new quarter surrounded by nature in the most tranquil part of Vilnius Old Town – Šaltinių Street. New luxury A-class energy apartments are currently being built in four apartment buildings.

Group structure

As at 31 December 2017



Shares and shareholders

AS Pro Kapital Grupp had 54 271 722 shares on 31 December 2016. During the reporting period the company issued additionally 2 416 232 new shares. As at 31 December 2017 the total of 56 687 954 shares with the nominal value 0.20 euros have been issued. The registered share capital of the Company is 11 337 590.80 euros.

Composition of share capital

	31.12.2017	31.12.2016	31.12.2015
Number of shares (pcs)	56 687 954	54 271 722	54 203 938
Nominal value (euros)	0.20	0.20	0.20
Share capital (euros)	11 337 590.80	10 854 344.40	10 840 787.60

On 23 November 2012 the Company's shares started trading on the secondary list of Tallinn's stock exchange. During the period 1 January – 31 December 2017 the shares were trading at the price range 1.81 - 2.75 euros, with the closing price of 1.82 euros per share on 31 December 2017. During the period 219 thousand of the Company's shares were traded with their turnover amounting to 0.46 million euros.

Trading price range and trading amounts of Pro Kapital Grupp shares, 1 January 2015 - 31 December 2017, NASDAQ Baltic Secondary List*

**Source: www.nasdaqbaltic.com*

Trade statistics in euros	31.12.2017	31.12.2016	31.12.2015
High price	2.75	2.65	2.80
Low price	1.81	1.75	1.79
Last price	1.82	1.96	2.23
Average price	2.00	2.11	2.34
Traded volume (pcs)	219 219	331 150	333 897
Turnover (million)	0.46	0.70	0.78
Capitalisation (million)	103.17	106.37	120.87

**Source: www.nasdaqbaltic.com*

Baltic market indexes 1 January - 31 December 2017*

Index/ Equity	31.12.2017	31.12.2016	Change
OMX Baltic Benchmark GI	944.09	788.17	19.78%
B8600PI Real Estate	422.86	413.50	2.26%
PKG1T (euros)	1.82	1.96	-7.14%

**Source: www.nasdaqbaltic.com*

On 13 March 2014 the Company's shares started trading on Frankfurt's stock exchange trading platform Quotation Board. During the period of 1 January – 31 December 2017 the shares were trading at the price range of 1.55- 2.66 euros, with the closing price 2.00 euros per share on 31 December 2017. During the period 131 thousand of the Company's shares were traded with their turnover amounting to 0.28 million euros.

Shareholders

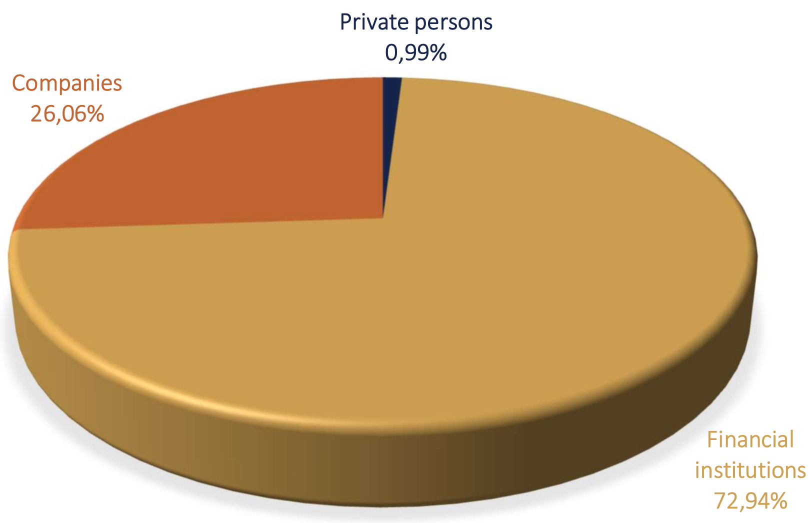
As at 31 December 2017 there were 98 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

Shareholders holding over 5% of the shares as at 31 December 2017:

Shareholders	Number of shares	Participation in %
Nordea Bank Finland Plc Clients	31 633 262	55.80%
Eurofiduciaria S.R.L.	6 640 570	11.71%
Svalbork Invest OÜ	6 008 490	10.60%
Clearstream Banking Luxembourg S.A. Clients	4 652 846	8.21%

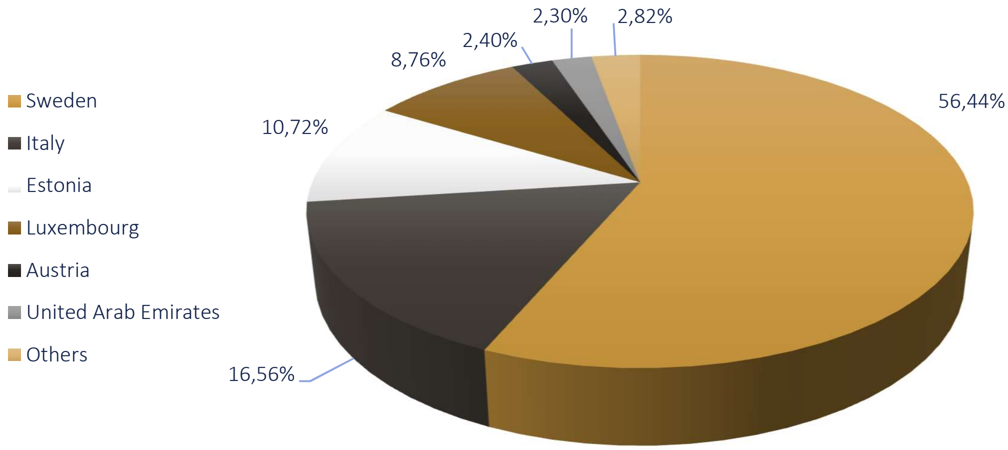
Shareholders split by holders as at 31 December 2017:

Shareholders	Number of shares	Participation in %
Financial institutions	41 350 898	72.94%
Companies	14 774 316	26.06%
Private persons	562 740	0.99%



Shareholders geographical split by residence as at 31 December 2017:

Shareholders	Number of shares	Participation in %
Sweden	31 993 840	56.44%
Italy	9 386 315	16.56%
Estonia	6 077 817	10.72%
Luxembourg	4 968 653	8.76%
Austria	1 360 439	2.40%
United Arab Emirates	1 304 974	2.30%
Others	1 595 916	2.82%



Participation of Member of the Management Board and the Council Members as at 31 December 2017:

Name	Position	Number of shares	Participation in %
Paolo Vittorio Michelozzi	CEO	281 647	0.50%
Allan Remmelkoor	COO	0	0.00%
Emanuele Bozzone	Chairman of the Council	0	0.00%
Petri Olkinuora	Council Member	30 000	0.05%
Pertti Huuskonen	Council Member	26 000	0.05%

Earnings per share (EPS), P/E ratio

Earnings per share for year 2017 were -0.01 euro/share (2016: -0.07 euro/share), for continuing operations -0.02 in 2017 and -0.09 in 2016.

P/E ratio for year 2017 was -199.17 (2016: -26.43), for continuing operations -108.26 in 2017 and -22.90 in 2016.

Other events

Legal overview and developments

To bring out to the investors better the events which might have material financial effect on the Company and its share price and not to burden the reporting with smaller litigation issues, the Company has set the policy to disclose in its reporting pending court litigation disputes which might have material financial effect on the Company and its share price. As per the policy all disputes which might have financial effect of at least 100 000 euros (at once or during the period of one financial year) are disclosed in the reporting.

In the opinion of the Management Board AS Pro Kapital Grupp and its subsidiaries did not have any pending court litigation which might have financial effect of at least 100 000 euros as of the end of the reporting period.

People

At the end of 2017 the Company employed 88 people compared to 121 at the end of 2016. 48 of them were engaged in hotel and property maintenance services (86 at the end of 2016). Decrease in human resources results from exiting hotel operations in Tallinn and in Riga. The total remuneration cost incurred during 2017 was 3.03 million euros compared to 3.03 million euros 2016.

Risks

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

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

Asset risks are covered by effective insurance contracts.

Corporate governance recommendations report

Overview

Corporate governance constitutes of a system of principles for the management of the Company. Such principles are regulated by law, the Articles of Association, the internal rules of the Company and since 1 January 2006, the companies listed on the NASDAQ OMX Tallinn Stock Exchange are recommended to follow the "Corporate Governance Recommendations" issued by the Financial Supervision Authority.

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

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

1. GENERAL MEETING OF SHAREHOLDERS

The Company is a public limited company and has regular General Meetings of Shareholders, a Supervisory Council and a Management Board as the management bodies. The General Meeting of Shareholders is the highest directing body.

1.1. Exercise of shareholders rights

Every shareholder has the right to participate in the general meeting, to speak in the general meeting on topics presented in the agenda, and to present reasoned questions and make proposals. Exercising of the shareholders’ rights is ensured in a way that use of shareholders’ rights are not hindered by unreasonable formalities and the use of rights is made convenient for shareholders. The General Meeting is conducted at the location of the Company. Company enables shareholders to present questions on topics mentioned in the agenda prior to the day of the General Meeting. The Company includes in the notice of calling the General Meeting the e-mail address to which the shareholders can send questions concerning the meeting. As per the corporate governance recommendation the Company guarantees a response to reasoned questions at the General Meeting during the discussion of a related subject or before the holding of the General Meeting giving shareholders enough time for examining the response. If possible, the Company gives its responses to questions presented before holding the General Meeting and publishes the question and response on its website.

During year 2017 no questions as to the topics of the agenda of the shareholders' meetings were presented to the Company either before or during the general meetings.

1.1.1. Company's Articles of Association do not allow granting different types of shares with rights which would result in unequal treatment of shareholders in voting. One type of shares has been issued, giving all shareholders exactly the same rights related to the shares.

1.1.2. Company facilitates the personal participation of shareholders at the General Meeting. When calling the shareholders' meeting a notice period of at least 3 weeks is given for both general and extraordinary shareholders' meetings. In the notice the exact place, date and time of the meeting are stated. Representatives of the Company always participate at the General Meeting and are accessible to the shareholders during the holding of the General Meeting.

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

1.2.1. As per the recommendation, the notice of calling the General Meeting should be sent to shareholders and/or published in daily national newspaper concurrently with making it available on the Issuer's website. The Company is following the recommendation and is publishing the notice of calling the shareholders' meeting in daily national newspaper and making it available on the Company's website and the notice is also published via the NASDAQ OMX Tallinn Stock Exchange system. Shareholders of the Company are notified of calling both an extraordinary shareholders' meeting and general shareholders' meeting immediately after the decision is made to call such a meeting.

As per the recommendation, the notice should indicate the reason for calling the meeting and who made the proposal to call it (e.g. Management Board, Supervisory Council, shareholders or auditor). Information concerning the meeting should be immediately published on Issuer's website. The Company is following this recommendation and summarises in the notices a reason for calling the shareholders' meeting and states the body who is calling the meeting. Information about the meeting is published on the website of the Company.

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

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

The Company is following the recommendation and summarises in the notice the reason for calling the shareholders' meeting. Materials related to the agenda are made available via the webpage of the Company concurrently with the notice of calling the General Meeting. In addition to publishing the notice of calling the general meeting via the Stock Exchange on its website, the Company provides separate links to the Council's and Board's proposals regarding the agenda and regarding the audited annual report.

At the 24 May 2017 AGM, two related-party transactions were decided with two Supervisory Council members. Two service contracts without term were decided to be concluded with Lunacon OY (a company connected to Supervisory Council member Pertti Huuskonen) and with Forbia OY (a company connected to Supervisory Council member Petri Olkinuora) regarding preparation of investor materials and participation at investor meetings with a daily fee of 1 000 euros (net of VAT) plus a success fee of 0.25% (net of VAT) on amounts invested into the Company's share capital by investors actively attracted by the service provider and resulting share capital increase thereof.

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

The shareholders should be permitted to examine information regarding questions shareholders have presented to the Issuer in connection with the holding of the General Meeting if this information is connected with an agenda item of the General Meeting. The Management Board or Supervisory Council has the right to withhold this information, if this is in contravention of the Issuer's interests. In such case, the Management Board and Supervisory Council should justify the withholding of the information.

The Company has indicated in each notice of calling the shareholders' meeting an email for the shareholders to contact in case they have any questions related to the meeting. During year 2017 questions related to clarification of documentation needed to participate at the meeting were presented to the Company. As no questions connected to the agenda topics were presented during 2017, the Company has not published any questions of the shareholders or replies to the shareholders on the website.

Information provided to shareholders is in Estonian and in English.

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

Company is following the recommendation and is publishing materials related to the meeting on the website of the Company.

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

Company is following the recommendation.

1.3. Procedure of the General Meeting

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

During 2017 the Company held 2 (two) shareholders' meeting. The Annual General Meeting of the shareholders took place on 24 May 2017. An extraordinary general meeting was held at the request of one of the shareholders on 20 December 2017.

The Company is following the recommendation and ensures that the General Meeting is conducted in a smooth manner while considering the interests of all interested parties therefore with the approval of all shareholders present at the meeting the Annual General Meeting of the shareholders was held in Estonian and English.

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

Company is following the recommendation. At both, the Annual General Meeting and the extraordinary general meeting of the shareholders Head of Legal Department, Ervin Nurmela, was elected as the Chair of the Meeting.

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

Company held 2 (two) shareholders' meetings in 2017.

The Annual General Meeting of the shareholders took place on 24 May 2017. Chairman of the Supervisory Council Emanuele Bozzone, CEO and Chairman of the Management Board Paolo Vittorio Michelozzi, CFO Angelika Annus and auditor of the company Erki Usin from AS Deloitte Audit Eesti participated at the meeting. Supervisory Council members Petri Olkinuora and Pertti Huuskonen and member of the Management Board Allan Remmelkoor did not participate at this meeting due to other work-related commitments.

The extraordinary general meeting of the shareholders took place on 20 December 2017. CEO and Chairman of the Management Board Paolo Vittorio Michelozzi participated at the meeting. Supervisory Council members and other Management Board members did not participate at this meeting due to other work-related commitments and short notice of calling the meeting. The auditor did not participate due to lack of agenda items warranting his explanation.

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

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

1.3.4. As per the recommendation the profit distribution (or covering the loss) has been considered in General Meeting as a separate agenda topic and a separate resolution has been passed regarding it.

At the 24 May 2017 Annual General Meeting the shareholders decided to cover the loss (agenda item no 3) and at the 20 December 2017 extraordinary general meeting the shareholders decided on profit distribution and payment of dividends.

2. MANAGEMENT BOARD

2.1. Duties

2.1.1. The Management Board is making independent day-to-day decision without favouring personal and/or controlling shareholder's interests. The Management Board is making the decisions based on the best interests of the Company and all of its shareholders and ensures the reasonable development of the Company according to goals and strategy set. The Management Board is using its best efforts to ensure that the Company and all companies belonging to the group comply in their activities with current legislation in force. The Management Board ensures that it undertakes proper risk management and internal audit controls in the activities of the Company and those proceeding from its activities. To guarantee proper risk management and internal audit the Management Board: analyses on reoccurring basis the risks connected with the activities and financial objectives of the Company, has prepared adequate internal control provisions and elaborated forms for drawing up financial reports and instructions for drawing up these reports, has organized the system of control and reporting.

2.2. Composition and charge

2.2.1. As of 31 December 2017, the Management Board of the Company has three Management Board members: Paolo Michelozzi, Allan Remmelkoor and Edoardo Preatoni. Paolo Michelozzi has been elected as the Chairman of the Management Board. Management Board Members are selected by the Supervisory Council of the Company based on their expertise in the sector the Company is operating in, in addition candidates' leadership and management experience is taken into account as well as their integrity and their commitment to the Company.

Name	Citizen-ship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Paolo Vittorio Michelozzi	Italian	1961	22.11.2001	Chairman	31.07.2018	281 647
Allan Remmelkoor	Estonian	1971	30.05.2008	Member	16.05.2020	0
Edoardo Axel Preatoni	Italian	1987	01.03.2016	Member	28.02.2019	0

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

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

Mr. Edoardo Axel Preatoni holds a diploma in classical studies from Instituto De Amicis, Milano Italy. Mr. Preatoni has experience in hotel and real estate development business and he is the founder & CEO of Preatoni Real Estate Development LLC in Dubai, UAE.

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

As per the recommendation the Chairman of the Supervisory Council should conclude a contract of service with each member of the board for discharge of their functions. The Company is following the recommendation partially. Members of the Management Board Allan Remmelkoor and Edoardo Preatoni do not have a service contract with the Company. The subsidiary holding companies in Estonia and Latvia and AS Tallinna Moekombinaat and AS Pro Kapital Eesti have concluded service contracts with Allan Remmelkoor. Allan Remmelkoor is also the Management Board member of Estonian and Latvian subgroup holding companies. Member of the Management Board Edoardo Preatoni has not concluded a service contract with any subsidiary of the Company.

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

Company Management Board members do not belong to Management Boards of any other Issuers.

Paolo Vittorio Michelozzi is the Chairman of the Supervisory Council of AS Pro Kapital Eesti (term expires 31 January 2021) and AS Tallinna Moekombinaat (term expires 27 June 2018).

Other management board members do not hold Chairman of Supervisory Council positions in other group companies.

2.2.3. As per the recommendation the bases for Management Board remuneration should be clear and transparent. The Supervisory Council should discuss and review regularly the bases for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Council is guided by evaluation of the work of the Management Board members. Upon evaluation of the work of the Management Board members, the Supervisory Council is taking into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector. Remuneration of members of the Management Board, including bonus schemes, should be such that they motivate the member to act in the best interest of the Issuer and refrain from acting in their own or another person's interest.

Remuneration of Chairman of the Management Board Paolo Michelozzi is determined by the Supervisory Council and agreed in the service contract concluded for three years with the Chairman of the Management Board. Remuneration of the Management Board Member Allan Remmelkoor is determined by the Chairman of the Management Board and approved by the Supervisory Councils of the group's subsidiary holding companies in Estonia and Latvia and by Supervisory Council of AS Tallinna Moekombinaat. There is no remuneration determined for the Management Board Member Edoardo Preatoni.

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

Bonus systems with Management Board Members Paolo Michelozzi and Allan Remmelkoor are agreed, they are performance-related and based on explicit and pre-determined targets being achieved. There is no bonus system agreed with Management Board Member Edoardo Preatoni.

2.2.5. As per the recommendation the bonus scheme of a Management Board member that is connected with the securities of the Issuer, as well as changes in such bonus schemes should be approved at the General Meeting of the Issuer. The exercise date for share option should be determined at the General Meeting of the Issuer. When granting share options, the Issuer should comply with the rules and regulations of the Tallinn Stock Exchange.

The Management Board does not have a bonus scheme connected to the securities of the Company.

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

Paolo Michelozzi and Allan Remmelkoor have severance packages agreed in their service contracts. Severance compensation is not payable in case the Management Board member is recalled due to the breach of his obligations. There is no severance package agreed with Edoardo Preatoni.

2.2.7. As per the recommendation basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) should be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published should be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure. The Chairman of the Supervisory Council should present the essential aspects of the Management Board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting should be presented the differences together with the reasons therefore.

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

2.3. Conflict of interests

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

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

2.3.2. As per the Commercial Code the Supervisory Council has to approve the transactions between the Company and a member of its Management Board.
The Company is following this recommendation.
During 2017 there were no new transactions with CEO and member of the Management Board Paolo Michelozzi.
During 2017 there were no new transactions with member of the Management Board Allan Remmelkoor.
During 2017 there were no transactions with member of the Management Board Edoardo Preatoni.

2.3.3. A member of the Management Board shall strictly adhere to the prohibitions of competition prescribed by the Commercial Code (*Commercial Code § 312*) and shall promptly inform the Supervisory Council of their intention to engage directly or indirectly in an enterprise in the same field of activity as the Issuer. Members of the Management Board may engage in other duties alongside their duties as members of the Management Board only on approval of the Supervisory Board.
Members of the Management Board of the Company Paolo Michelozzi and Allan Remmelkoor do not engage in other active duties alongside their duties as members of the Management Board. Management Board Member Edoardo Preatoni is engaged in activities outside three Baltic countries.

2.3.4. As per the recommendation a member of the Management Board or employee of the Issuer should not demand or take money or other benefits from third parties in connection with their work and should not provide unlawful or ungrounded advantages to third parties in name of the Issuer.
According to the knowledge of members of the Management Board, which is based on the internal control procedures of the Company, the Company is following the recommendation.

2.3.5. Interest of members of the Management Board in other companies who are Company’s business partners, suppliers, clients and other related companies:
Mr. Paolo Vittorio Michelozzi is the sole owner of Latvian company PB11 SIA, which is renting an apartment located in Tallinn to the Company. In addition to his

remuneration, Mr. Paolo Vittorio Michelozzi as the Chairman of the Management Board is compensated for the accommodation costs of living in Tallinn. As of 31 December 2017, Mr. Michelozzi holds 281 647 shares of the Company as a beneficiary holder through Swedbank AS Clients.

Mr. Allan Remmelkoor does not have any interests in companies who are Company's business partners, suppliers, clients and other related companies.

Mr. Edoardo Axel Preatoni does not have any interests in companies who are Company's business partners, suppliers, clients and other related companies.

3. SUPERVISORY COUNCIL

3.1. Duties

3.1.1. The duty of the Supervisory Council is to manage internal control of the Management Board activities. The Supervisory Council participates in making important decisions relating to the activities of the Company. The Supervisory Council acts independently and in the best interests of the Company and all shareholders. The Supervisory Council determines and regularly reviews the Company's strategy, general plan of action, principles of risk management and annual budget. The Supervisory Council together with the Management Board ensures the long-term planning of the Company's activity.

The Supervisory Council has approved on 16 May 2012 the risk management policy of the Company, which is implemented in the Company and all of its subsidiaries. The Supervisory Council also approves the annual budget of the Company. The Supervisory Council has actively discussed the progress of the development projects of the Company and the necessary financing to start with the development projects.

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

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

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

The Company's Supervisory Council meets at least once per quarter, before publication of the Company's quarterly reports and reviews the quarterly report and the Management Board's report of its activities performed during the quarter. The Company publishes important information to the public and its shareholders via the Tallinn Stock Exchange system. In addition to the quarterly and annual report announcements, the Company made 24 announcements in 2017 regarding concluding contracts for the sale of Tallinn and Riga hotels and conclusion of construction contracts and start of construction works in Šaltinių Namai, Vilnius, Marsi 6, Tallinn and various buildings in the Kristina houses development, also, regarding the acquisition of a shareholding in AS Tallinna Moekombinaat, also regarding the public offering of new shares of the Company and the respective results and registration of the capital increase, also regarding prolongation of redemption dates of PKG1, PKG6 and PKG7 convertible bonds, also regarding 2018 financial calendar and change in the 2017 financial calendar, regarding notification of calling the AGM and EGM, amendment of the AGM agenda and resulting decisions of both meetings, as well as regarding the changes in substantial shareholdings and in the composition of Pro Kapital Latvia's Supervisory Council.

The Supervisory Council has established an Audit committee comprising of Emanuele Bozzone and Pertti Huuskonen, both Council members of the Company. The Company has published on its website the existence, duties, membership and position in the organisation of the audit committee members. The Audit committee is an advisory body of the Supervisory Council in matters involving accounting, auditing, risk management, internal control and audit, exercising of oversight and budget preparation and legality of the activities of the Company.

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

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

An audit committee is required to make recommendations or proposals to the Supervisory Council regarding the following issues:

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

The Supervisory Council has established a Remuneration Committee comprising of Emanuele Bozzone and Petri Olkinuora, both Supervisory Council Members. The Remuneration Committee is an advisory body of the Supervisory Council in matters involving remuneration of the Management Board of the Company. The committee has been established to safeguard that the Management Board's remuneration and company performance are linked when they annually assess the results of management of the Company.

In 2017, the Remuneration Committee met four times:
- to discuss the assessment of CEO achieving his 2016 targets,
- to discuss setting the CEO’s targets for 2017,
- to assess ongoing performance of achieving those targets, and
- to discuss to prolong the powers of Allan Remmelkoor.

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

3.2. Composition and charge

3.2.1. The members of the Supervisory Council are elected from persons having sufficient knowledge and experience for participation in the work of the Supervisory Council. Upon the election of a member of the Supervisory Board, the nature of the Supervisory Board’s and the Issuer’s activities, the risks of conflict of interests and if necessary the age of the potential member shall be taken into account. The membership of the Supervisory Board shall be sufficiently small to ensure efficient management and sufficiently large to involve necessary know-how.

Pursuant to articles of association of AS Pro Kapital Grupp the Supervisory Council consists of at least 3 (three) to maximum 7 (seven) members. The Annual General Meeting of the shareholders which took place on 17 June 2016 prolonged the powers of members of the Supervisory Council until 5 July 2019. There are three Supervisory Council members.

Information about the members of the Supervisory Council:

Name	Citizen-ship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Emanuele Bozzone	Swiss	1964	05.07.2010	Chairman	05.07.2019	0
Pertti Huuskonen	Finnish	1956	13.04.2012	Member	05.07.2019	26 000
Petri Olkinuora	Finnish	1957	13.04.2012	Member	05.07.2019	30 000

Mr. Emanuele Bozzone holds a degree in economics and trade. Mr. Bozzone has a vast experience in finance. He has been a manager and independent consultant in the finance field since 1999. Mr. Bozzone is a Swiss licensed fiduciary. From 2010 Mr. Bozzone is a director, wealth manager and partner in Regis Invest SA in

Lugano, Switzerland. Additionally, he is a sole director, founder and partner in EBCO Fiduciaria SA in Chiasso, Switzerland. Mr. Bozzone is also holding a senior managing position in EBCO Trustees Sagl in Chiasso, Switzerland.

Mr. Pertti Huuskonen holds M.Sc. (Eng.) and eMBA degrees. Mr. Huuskonen has a vast experience in planning and preparation of mergers and acquisitions. Mr. Huuskonen has *inter alia* considerable experience in developing modern service concepts in the field of real estate and executing business, in planning and leasing of commercial premises, land consolidation, property transaction and property development. Mr. Huuskonen has been a member of the Board of Directors of Technopolis Plc. since 2008-2012 (whereas he was the full-time Chairman of the Board of Directors of Technopolis Plc. during 2008-2011). Since 2011 he is holding several positions (including the Chief Executive Officer) in the investment and consulting company Lunacon Oy (investments and consulting), which is a Company owned by Mr. Huuskonen. He is also a member of the Board of Kaleva Oy, the largest media Company in North Finland, and the Chairman of the Board of Suomen Hoivatilat Oyj (day care & senior living facilities, listed in Nasdaq Helsinki) and Chairman of the board of Lehto Group Oyj (mid-size construction company operational in Finland, listed in Nasdaq Helsinki). Previously Mr. Huuskonen has *inter alia* been the President and CEO of Technopolis Plc. (1985-2008), the chairman of the supervisory council of Technopolis Ülemiste AS (2010-2011), a member of the Board of Detection Technology Oy (2002-2007) and also a Chairman of the Board of Partnera Oy (180 million euros investment company operational in Finland). Mr. Huuskonen is also an Academic Executive Advisor and Lecturer in Oulu Business School (since 2011) and the Honorary Consul of Sweden in Oulu Province, Finland (1997-2011).

Mr. Petri Olkinuora holds M.Sc. (construction engineering) and MBA degrees. Mr. Olkinuora has a long and successful career as the CEO of Citycon Oyj (a Helsinki based listed property Company) (in 2002-2011) and a profound experience in international real estate, acquisition, finance and development. His current positions of trust include among others: the Deputy Chairman of Northern Horizon Capital A/S (Danish asset manager) (since 2011) and Deputy Chairman of Restamax Oyj (listed restaurant company) (since 2012), a member of the Board of A-Insinöörit Oy (engineering company) (since 2011), Tapiolan jalkapallostadion Oy (arena developer) (since 2012), Koja-Yhtiot Oy (ventilation systems maker for buildings and ships) (since 2004), Rapal Oy (software company) (since 2002) and Chairman of East Finland Real Estate Oy (outlet centre developer). Mr. Olkinuora is also a Supervisory Council member of Hartela-Yhtiöt Oy (Finnish construction company and developer) (since 2013). Mr. Olkinuora is also running his own investment business within Forbia Oy, which is providing advisory services in property and construction related companies (since 2011). Mr. Olkinuora has also, *inter alia*, served as the Deputy Chairman (2002-2003) and a Board Member

(2007-2009) of the Board of Finnish Association for Building Owners RAKLI ry, member of the Board of European Public Real Estate Association EPRA (2006-2009) and a founding member of the Board of Finnish Green Building Association ry (2010-2012).

The nature of the Supervisory Council's and the Company's activities, the risks of conflict of interests and the age of Supervisory Council members has been taken into account when proposing to elect them to the Supervisory Council.

3.2.2. At least half of the members of the Supervisory Council of the Issuer should be independent. If the Supervisory Council has an odd number of members, then there may be one independent member less than the number of dependent members. An independent member is a person, who has no such business, family or other ties with the Issuer, a company controlled by the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a member of a directing body of these companies, that can affect their decisions by the existence of conflict of interests. The independence requirements are presented in the annex of the Corporate Governance Recommendations. No more than two previous members of the Management Board having been members of the Management Board of the Issuer or a company controlled by the Issuer within the past three (3) years shall be members of the Supervisory Board at the same time.

According to the belief of the Management Board this recommendation is followed.

Mr. Emanuele Bozzone – the Chairman of the Supervisory Council is not considered an independent member of the Council due to the formality of him being also the Chairman of the Supervisory Council of Pro Kapital Latvia JSC and the Member of the Council of the following group companies: AS Tondi Kvartal, AS Tallinna Moekombinaat, and AS Pro Kapital Eesti.

Mr. Pertti Huuskonen - is considered an independent Council member.

Mr. Petri Olkinuora - is considered an independent Council member.

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

According to the belief of the Management Board of the Company this recommendation is followed. The Chairman of the Supervisory Council, Mr. Emanuele Bozzone, holds a senior management position in 3 other companies, none of them listed companies. Mr. Huuskonen holds 3 Supervisory Council positions, 2 of them as Chairman in listed companies and a CEO position in a non-listed company. In addition to serving on the Company's Supervisory Council, Mr. Olkinuora holds 8 Supervisory Council appointments, 1 as Chairman, 2 as Deputy Chairman (1 out of these in a listed company).

3.2.4. As per the recommendation upon determination of the remuneration of members of the Supervisory Council, the General Meeting should take into consideration the duties of the Supervisory Council and their scope and the economic situation of the Company. Based on the nature of the Chairman of the

Supervisory Council's work, the related requirements of that work may be taken into consideration upon determination of remuneration amount.

According to the belief of the Management Board of the Company this recommendation is followed.

3.2.5. The amount of remuneration of a member of the Supervisory Council should be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).

The amount and procedure of payment of remuneration of a member of the Supervisory Council was decided by the Annual General Meeting of the shareholders which took place on 17 June 2016.

Council members are paid 25 000 euros per year (gross). Chairman of the Council is paid 27 500 euros per year (gross). In addition, a fee of 600 euros (gross) is paid to the Council member for each attended meeting. Council members are reimbursed their travel and accommodation expenses relating to participation in the Council meetings and in the meetings of the committees. Supervisory Council members are not entitled to any compensation for termination.

No other remuneration or bonuses are paid to members of the Supervisory Council.

3.2.6. As per the recommendation if a member of the Supervisory Council has attended less than half of the meetings of the Supervisory Council, this should be indicated separately in the Corporate Governance Recommendations Report.

During 2017 in total 11 meetings of the Supervisory Council were held. All Supervisory Council Members attended 10 meetings of the Supervisory Council and the Chairman did not participate in one of the meetings due to a prior other commitment.

3.3. Conflict of interests

3.3.1. Members of the Supervisory Council should prevent conflict of interests from arising through their activities. Members of the Supervisory Council should give preference to interests of the Company over their own or those of a third party upon his word as a member of the Supervisory Council. Members of the Supervisory Council should not use business offers addressed to the Issuer for their personal interests. The Supervisory Council should operate in the best interests of the Issuer and all shareholders.

According to the belief of the Management Board of the Company this recommendation is followed.

3.3.2. A Supervisory Council member candidate should inform other members of the Supervisory Council about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Council should promptly inform the Chairman of the Supervisory Council and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year should be indicated in the Corporate Governance Recommendations Report along with their resolutions. The persons close to a member of the Supervisory Council are spouses, a minor child and a person having shared a household with them for at least one year. Persons connected with a member of the Supervisory Council are civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or person close to them or which is made for their benefit or the benefit of a person close to them and which economic interests are to a significant extent similar with their economic interests or the economic interests of a person close to them.

According to the belief of the Management Board of the Company this recommendation is followed. No conflict of interest had occurred during the financial year of 2017.

3.3.3. A member of the Supervisory Council should resign or be removed if their conflict of interests is of material and permanent nature.

No conflict of interest occurred in the financial year 2017 and no Supervisory Council Member resigned.

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

According to the belief of the Management Board of the Company this recommendation is followed.

3.3.5. Interest of members of the Supervisory Council in other companies which are Company's business partners, suppliers, clients and other related companies.

Mr. Emanuele Bozzone does not have any interests in companies which are Company's business partners, suppliers, clients and other related companies.

Mr. Pertti Huuskonen is the sole owner of company Lunacon OY which as of 31 December 2017 holds 26 000 shares of the Company.

Mr. Petri Olkinoura holds as of 31 December 2017 30 000 shares of the Company.

4. CO-OPERATION OF MANAGEMENT BOARD AND SUPERVISORY COUNCIL

4.1. Management Board and Supervisory Council co-operate closely for the purpose of better protection of Company's interests. The basis of this co-operation is first of all the open exchange of ideas between and within the Management Board and Supervisory Board. The Management Board and Supervisory Council jointly develop plans and principles of activities and strategy of the Company. The Management Board operates under strategic guidelines provided by the Supervisory Council and discusses its strategic management questions with the Supervisory Council regularly.

The Management Board and Supervisory Council division of tasks are regulated in the Articles of Association of the Company. The Supervisory Council is a directing body of the Company which plans the activities of the Company, organizes the management of the Company and supervises the activities of the Management Board. The Supervisory Council should notify the general meeting of shareholders of the results of supervision. The Supervisory Council should approve the budget of the Company.

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

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

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

Such right was granted by the shareholders meeting held on 17 June 2016, according to which the Supervisory Board may, within three years as of the approval of the wording of the Articles of Association (which was approved by the shareholders meeting held on 17 June 2016), increase the share capital of the company by 1 200 000 euros. Payment for the shares issued by the Supervisory Board may be made by monetary or non-monetary contributions pursuant to the resolution of the Supervisory Board. Valuation of the non-monetary contributions shall be performed pursuant to law and the Articles of Association.

On 19 September 2017, the Supervisory Council adopted six resolutions regarding the increase of share capital by 1 200 000 euros by issuing 6 000 000 shares with six different nominal values. The Company relayed this resolution in a Stock Exchange announcement also on 19 September 2017 regarding the public offering of shares and increase of share capital of AS Pro Kapital Grupp. In total, 2 416 232 new shares were allocated to the investors with the issue price of 1.80 euros (0.20 euros as the nominal value and 1.60 euros as share premium) for each share. The management board of AS Pro Kapital Grupp decided to cancel 3 583 768 shares, which were not subscribed for. Among other investors, member of the management board Paolo Michelozzi, member of the supervisory council Petri Olkinuora, and member of the supervisory council Pertti Huuskonen (through a company Lunacon OY owned by him) also participated in the subscription of the shares, each subscribing respectively 29 000, 30 000 and 13 447 shares. As a result of the subscription of new shares the share capital of AS Pro Kapital Grupp was increased by 483 246.40 euros, i.e. in total, AS Pro Kapital Grupp received gross proceeds of 4 349 217.60 euros for the subscribed shares. As of 19 October 2017, the amount of share capital of AS Pro Kapital Grupp is 11 337 590.80 euros, which is represented by 56 687 954 shares.

The Management Board is a directing body of the Company which represents and directs the Company. The Management Board should, in directing the Company, act in compliance with the articles of association and lawful orders of the Supervisory Council. Each member of the Management Board may represent the Company alone in all legal acts. The Management Board should appoint and dismiss the Company's directors and person responsible for accounting (the executive management). The Management Board should approve the scope of authority of such persons.

4.2. The Management Board and the Supervisory Council ensure that the mutual exchange of data should be adequate and efficient. The Management Board informs the Supervisory Council regularly of all material circumstances, which pertain to planning of the Company's activities, business activities, risks connected with its activities and management of those risks. The Management Board should separately call attention to such changes in the business activities of the Company deviating from plans and purposes set formerly and indicate the reasons of such changes. The information should be delivered promptly and should cover all material circumstances. The Supervisory Council has specified the conditions for the delivery of information by the Management Board and its content. The Management Board sends data necessary for the Supervisory Council decision making, including the annual accounts, the annual accounts of the consolidation group and the auditor's report to the Supervisory Council in sufficient time before the Supervisory Council meeting.

4.3. The Members of the Management Board and Supervisory Council observe the rules of confidentiality upon organization of the mutual exchange of data ensuring above all the control over the transfer of price sensitive information. The Management Board has ensured the observance of the rules of confidentiality by employees of the Company, who access such information. Management Board has established rules on handling insider information, established the circle of permanent insiders as well as temporary insiders and persons discharging managerial responsibilities along with persons closely associated with them and rules for submitting insider declarations to the Company and appointed a responsible person to handle the insiders register on an ongoing basis.

5. PUBLICATION OF INFORMATION

5.1. The Company treats all shareholders equally and notifies all shareholders equally of material circumstances. Upon notification of shareholders and investors the Issuer shall use proper information channels, including his own web site. The equal treatment of shareholders principle shall not affect the Issuer's right to delay publication of inside information and to deliver the unpublished inside information to persons entitled to receive it.

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

5.2. The web site of the Issuer shall be clear in structure and published information shall be easy to find. Published information shall also be available in English. The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called financial calendar. The Issuer shall also publish this notice on his web site.

The web-site of the Company has an 'About the Company' section with an overview of its management, Supervisory Council and its committees and news and in addition to that an investor's section with subheadings of 'Shareholders', 'Info from Nasdaq', 'Financial reports' and 'Presentation' and information is published both in Estonian and English. The Company is following the recommendation and is publishing the investor's calendar through the stock exchange and on its website.

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

-report on Corporate Governance Recommendations;
-date, place, and agenda of the General Meeting and other information related to the General Meeting;
-articles of association;
-general strategy directions of the Issuer as approved by Supervisory Council;
-membership of the Management Board and Supervisory Council;
-information regarding the auditor;
-annual report;
-interim reports;
-agreements between shareholders concerning concerted exercise of shareholders rights (if those are concluded and known to the Issuer);
-other information, published on the basis of these Corporate Governance Recommendations.

The Company is following the recommendation and is publishing the required information on its website under the heading 'Shareholders' and 'Financials'. The

Company’s legal documentation is in the relevant section under the heading ‘Shareholders’. Information about the auditor is under the respective heading under ‘About the Company’ The Corporate Governance report is published as part of the annual report.

According to the knowledge of the Company there are no agreements between shareholders concerning concerted exercise of shareholders rights.

5.4. As per the recommendation, the Management Board and the Supervisory Council should describe the management practices of the Issuer including their compliance with these Corporate Governance Recommendations in the annual report presented to General Meeting. If the management of the Issuer deviates from the management structure described in these Corporate Governance Recommendations the Management Board and Supervisory Council should justify the deviation. The Management Board and the Supervisory Council should also describe in the report presented at the General Meeting any circumstances required under these Corporate Governance Recommendations. Corporate Governance Recommendations shall be presented as separate chapter of management report.

The Company is following this recommendation and is including in the annual report the overview of compliance with the Corporate Governance Recommendations as a separate chapter.

5.5. As per the recommendation, if the Issuer notifies financial analysts or other persons of facts or estimates related to the Issuer, it should also publish this information to shareholders on the Issuer’s web-site. Inside information disclosed at the General Meeting in response to questions presented by shareholders or other means and which has not been formerly disclosed should be published by the Issuer immediately after holding of the General Meeting.

The Company has not notified financial analysts of any estimates which have not been made public during the listing of the Company’s shares or thereafter. The Company also publishes a respective Stock Exchange notice as well as the detailed minutes of its General Meetings either on the day of the date when the meeting was held or the following day, thus disclosing any information discussed at such General Meetings.

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

5.6. As per the recommendation the Issuer should organize the exchange of information with journalists and analyst after a careful consideration. The Issuer should refrain from compromising the independence of the analyst or the Issuer's independence from analyst when communicating with analysts. The Issuer should disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website. The Issuer should not arrange meetings with analysts and presentations organized for investors directly before dates of publishing a financial report (interim reports, annual report).

According to the belief of the Management Board of the Company this recommendation is followed.

6. FINANCIAL REPORTING AND AUDIT

6.1. Reporting

6.1.1. As per the recommendation, Issuers should publish annually its annual report and within a fiscal year its interim reports. The Management Board should draw up annual accounts, which should be audited by the auditor and the Supervisory Council. On meeting of the Supervisory Council, where the annual account is reviewed, the auditor of the Issuer should participate upon invitation of the Supervisory Council. Members of the Management Board of the Issuer and other persons belonging to management should leave the meeting during the auditor reports the most material conclusions of audit. The shareholders should be presented with the annual report signed by members of the Management Board and the Supervisory Council for examination. Together with annual report, the Supervisory Council should make available to shareholders the written report concerning the annual report specified in § 333 subsection 1 of Commercial Code. The Company is following this recommendation.

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

There are no companies in which the Company has participation, which do not belong to the group.

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

The Company is following this recommendation.

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

6.2.1. Together with notice of calling the General Meeting the Supervisory Council should make available to shareholders the information on a candidate for auditor, including information on their business connections specified below. If there is a desire to appoint an auditor who has audited Issuers reports on previous financial year the Supervisory Council should pass judgment on their work. Before the Supervisory Council presents a candidate of auditor for election in a General meeting, the Supervisory Council should require from a candidate for auditor an overview of what kind of connection pertaining to work, economic connection or other connection possibly affecting the independence of the auditor exists between the auditor, its management body and the auditors in charge on one side and the Issuer and its management body on other side. The Supervisory Council should describe in its evaluation report to judgment of the auditors work *inter alia* the services (including advisory services) that the auditor has provided to the Issuer during the preceding year or should provide during the next year. Also, the remuneration the Issuer has paid or shall pay to the auditor should be published. If the Supervisory Council makes a proposal to elect a new auditor it should justify to the General Meeting its reasons for terminating the contract with previous auditor.

The Company is following this recommendation.

AS Deloitte Audit Eesti was elected as the auditor of the Company for the financial year of 2017 at the Company's AGM of 24 May 2017. The fee payable to the auditor for the audit of the Company and its subsidiaries for the financial year of 2017 is in amount of 45 700 euros (net of VAT).

Besides provision of audit services AS Deloitte Audit Eesti rendered also translation and advisory services to the Company in financial year 2017 in the total amount of 5 380 euros (net of VAT).

6.2.2. As per the recommendation, before entering a contract for auditing services with an auditor, the Management Board should present the Supervisory Council with the draft contract for approval. In a contract to be concluded with an auditor, above all the auditor's functions, timetable and remuneration should be agreed upon. The Issuer should not conclude a contract, where it is indicated that disclosure of remuneration payable for auditing is breach of contract. Pursuant to the contract the auditor obliges to promptly inform the Chairman of the Supervisory Council of any danger to the independence or professionalism of their work that becomes evident during the course of their work, unless the danger is promptly eliminated. Pursuant to the contract, the auditor should oblige to promptly inform the Supervisory Council of any material circumstances that become known to them that may affect the work of the Supervisory Council and management of the Issuer. The contract to be concluded with an auditor should not in any manner hinder the auditor's evaluation of the Issuer's activities.

The Company is following this recommendation.

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

As of listing of the Company shares on NASDAQ OMX Tallinn Stock Exchange, the Company has followed this recommendation.

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

The Company is following this recommendation. The lead auditor was present at the Company's 2017 AGM to enable shareholders to ask questions about the results of the audit.

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

The Company's annual accounts are audited in accordance with international auditing standards.

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

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

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

The Company is following this recommendation.

7. HUMAN RESOURCE POLICY

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

8. DIVIDEND POLICY

8.1. The Company has historically been financing its operations mainly from retained earnings. Hence there have been limited dividend payments in the past. For the year 1998 dividends in amount of 345 123 euros were paid and for 2004 dividends in amount of 2 039 501 euros were paid. The declaration and payment by the Company of dividends and their amount depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management to be relevant at the time of making a dividend payment proposal. The Supervisory Board has the right to amend such proposal by the Management Board and the proposal is ultimately to be approved by the General Meeting of Shareholders.

On 20 December 2017, the extraordinary general meeting of shareholder decided to distribute 850 319.31 euros from retained earnings as profit to the shareholders (0.015 euros per share X 56 687 954 shares). Dividends were paid out to shareholders on 15 January 2018. Also, on 17 January 2018 the Company issued a positive profit warning for 2018 via a stock exchange announcement.

Management declaration

The Management Board declares and confirms that according to their best knowledge, the year 2017 consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by European Union, present a true and fair view of consolidated assets, liabilities, financial situation and loss or profit of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Paolo Michelozzi
Chief Executive Officer
Chairman of the Management Board
18 April 2018

Allan Remmelkoor
Chief Operating Officer
Member of the Management Board
18 April 2018

Edoardo Preatoni
Member of the Management Board
18 April 2018

Consolidated financial statements

Consolidated statement of financial position

in thousands of euros	Notes	31.12.2017	31.12.2016
ASSETS			
Current assets			
Cash and cash equivalents	8	10 317	5 382
Current receivables	9	4 888	4 475
Inventories	10	38 024	14 144
Total current assets		53 229	24 001
Non-current assets			
Non-current receivables		37	42
Property, plant and equipment	11	7 435	18 336
Investment property	12	114 140	99 660
Intangible assets		317	275
Total non-current assets		121 929	118 313
TOTAL ASSETS		175 158	142 314
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	13	6 738	8 261
Customer advances		7 224	2 226
Current payables	14	10 091	8 502
Tax liabilities		132	547
Short-term provisions		170	5
Total current liabilities		24 355	19 541
Non-current liabilities			
Non-current debt	15	62 527	38 040
Other non-current payables		3 437	804
Deferred income tax liabilities	26	2 058	3 360
Long-term provisions		99	365
Total non-current liabilities		68 121	42 569
TOTAL LIABILITIES		92 476	62 110
Equity attributable to owners of the Company			
Share capital in nominal value	19	11 338	10 854
Share premium	19	5 661	1 816
Statutory reserve	19	1 082	1 082
Revaluation surplus	19	3 256	9 462
Retained earnings		60 369	59 104
Loss for the financial year		-419	-3 913
Total equity attributable to owners of the Company		81 287	78 405
Non-controlling interest	20	1 395	1 799
TOTAL EQUITY		82 682	80 204
TOTAL LIABILITIES AND EQUITY		175 158	142 314

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

Consolidated statement of comprehensive income

in thousands of euros	Notes	2017	2016
CONTINUING OPERATIONS			
Operating income			
Revenue	21	12 077	17 610
Cost of sales	22	-7 516	-12 688
Gross profit		4 561	4 922
Marketing expenses	23	-822	-445
Administration expenses	23	-5 256	-5 131
Other operating income	24	4 114	183
Including net result from fair value adjustments	12	*530*	*0*
Other operating expenses	24	-800	-697
Including net result from fair value adjustments	12	*0*	*-599*
Operating profit/ loss		1 797	-1 168
Finance income	25	6	12
Finance cost	25	-3 352	-3 326
Loss before income tax		-1 549	-4 482
Income tax	26	596	-163
Loss from continuing operations		-953	-4 645
DISONTINUED OPERATIONS			
Profit from discontinued operations	27	435	620
Loss from continuing and discontinuing operations		-518	-4 025
Attributable to:			
Owners of the Company		-419	-3 913
Non-controlling interests		-99	-112
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Net change in properties revaluation reserve		-4	0
Total comprehensive loss for the year		-522	-4 025
Attributable to:			
Owners of the Company		-423	-3 913
Non-controlling interests		-99	-112
Earnings per share			
From continuing and discontinued operations			
Basic (euros per share)	28	-0.01	-0.07
Diluted (euros per share)	28	-0.01	-0.07
From continuing operations			
Basic (euros per share)	28	-0.02	-0.08
Diluted (euros per share)	28	-0.02	-0.08

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

Consolidated statement of cash flows

in thousands of euros	Note	2017	2016
Cash flows from operating activities			
Loss for the year		-518	-4 025
Adjustments for:			
Depreciation and amortisation of non-current assets		455	695
Gain from disposal/ write off of property, plant and equipment	11	-3 045	-4
Change in fair value of property, plant and equipment		-26	30
Change in fair value of investment property	12	-530	599
Loss from disposal of shares of subsidiaries	24	346	0
Finance income and costs	25	3 460	3 499
Change in deferred tax assets and liabilities		-557	-107
Other non-monetary changes (net amounts)		12 967	409
Movements in working capital:			
Change in receivables and prepayments		-408	-2 862
Change in inventories	10	-23 880	-1 707
Change in liabilities and prepayments		6 556	4 185
Change in provisions		-101	-64
Net cash used in/ generated by operating activities		-5 281	648
Cash flows from investing activities			
Payments for property, plant and equipment	11	-281	-1 206
Payments for intangible assets		-52	-2
Proceeds from disposal of property, plant and equipment	11	6 651	7
Payments for investment property	12	-24 772	-8 552
Proceeds from disposal of shares of subsidiaries	7	6 357	0
Less cash balances of disposed subsidiaries	7	-108	0
Interests received		6	13
Net cash used in investing activities		-12 199	-9 740
Cash flows from financing activities			
Proceeds from increase of share capital	19	4 328	0
Net changes related to non-controlling interests	7,20	-480	276
Proceeds from bonds	18	1 446	12 637
Redemption of convertible bonds	18	-773	-123
Redemption of non-convertible bonds	18	0	-1 000
Proceeds from borrowings		28 260	2 961
Repayment of borrowings		-7 048	-3 310
Interests paid		-3 318	-3 359
Net cash generated by financing activities		22 415	8 082
Net change in cash and cash equivalents		4 935	-1 010
Cash and cash equivalents at the beginning of the period	8	5 382	6 392
Cash and cash equivalents at the end of the period	8	10 317	5 382

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

Allkirjastatud identifitseerimiseks:
AS Deloitte Audit Eesti

PROKAPITAL

Consolidated statement of changes in equity

in thousands of euros	Share capital	Share premium	Statutory reserve	Properties revaluation reserve	Retained earnings	Attributable to equity owners of the parent	Non-controlling interests	Total equity
1.12.2016	10 841	1 669	1 082	9 462	58 743	81 797	1 635	83 432
Increase of share capital	13	147	0	0	0	160	0	160
Changes in non-controlling interests	0	0	0	0	361	361	276	637
Comprehensive loss for the period	0	0	0	0	-3 913	-3 913	-112	-4 025
31.12.2016	10 854	1 816	1 082	9 462	55 191	78 405	1 799	80 204
Increase of share capital	484	3 845	0	0	0	4 329	0	4 329
Distribution of dividends	0	0	0	0	-850	-850	0	-850
Changes in non-controlling interests	0	0	0	0	-174	-174	-305	-479
Changes in revaluation reserve	0	0	0	-6 202	6 202	0	0	0
Comprehensive loss for the period	0	0	0	-4	-419	-423	-99	-522
31.12.2017	11 338	5 661	1 082	3 256	59 950	81 287	1 395	82 682

Changes in non-controlling interests are described in note 7 and note 20. Changes in revaluation reserve are described in note 19.

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

Notes to the consolidated financial statements

Note 1. General information

The consolidated financial statements of AS Pro Kapital Grupp (hereinafter the Parent) and its subsidiaries (hereinafter the Group or Company) for the financial year ended 31 December 2017 were signed by the Management Board at 18 April 2018.

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

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

Since 23 November 2012, the shares of AS Pro Kapital Grupp are listed on NASDAQ OMX Tallinn (Nasdaq Baltic) Stock Exchange secondary list. Starting from 13 March 2014, the shares of AS Pro Kapital Grupp have been traded on the Quotation Board of Frankfurt Stock Exchange, part of the Open Market segment at Frankfurt Stock Exchange (Frankfurter Wertpapierbörse). On 8 July 2015 the secured callable fixed rate bonds were listed on Nasdaq Stockholm Stock Exchange.

At the end of reporting period the main shareholders of the Parent are the following:

Shareholder	Country of incorporation	Ownership 31.12.2017	Ownership 31.12.2016
Nordea Bank Finland Plc Clients	Finland	46.99%	52.57%
Eurofiduciaria S.R.L.	Italy	12.24%	12.89%
Svalbork Invest OÜ	Estonia	11.07%	11.05%
Clearstream Banking Luxembourg S.A. Clients	Luxembourg	10.07%	2.04%

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

Note 2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 Amendments to IFRSs affecting amounts reported in the financial statements

Accounting policies applied in the year 2017 are consistent with those followed in the preparation of the Group`s annual financial statements for the year ended 31 December 2016.

Amendments to the existing standards and new standards and interpretation effective for current financial period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted in EU are effective for the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's consolidated financial statements.

Standards and amendments to the existing standards issued by IASB and adopted in EU but not yet effective

At the date of authorisation of these consolidated financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

  IFRS 9 "Financial Instruments" replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

  Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments. The change in measurement category of different financial assets is expected to have no impact on their carrying amount on initial application.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis. The management has assessed the Group's current impairment principles for financial assets and estimated there to be no material impact which would require any adjustment in financial statements.

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities. As the Group is not using hedge accounting instruments, the change is expected to have no impact on financial statements.

Own credit - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. The change is expected to have no impact on Group's financial statements.

- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),

  IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Management of the Group has analysed the potential change and apart from providing more extensive disclosures found no material impact on Group financial statements as there is no active business that can be affected in a wide scale. Still the situation will change at the end of 2018 when new and large shopping mall will be opened. As of today, that impact is still unknown.

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

  Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

  The Group has not yet analysed the full impact of IFRS 16 but the overall potential impact is considered immaterial because of the following:

  a) The Group has very limited number of contracts where it is in the position of lessee, mostly a few company cars; and

  b) IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

  The Group has planned to apply IFRS 9; 15 and 16 on their effective dates and not earlier. Also modified retrospective approach (with adjustments on initial application and with no restatement of 2017) is considered to be applied.

- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

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

New standards and amendments to the existing standards issued by IASB but not yet adopted in EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU (the effective dates stated below is for IFRS in full):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

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

Hedge accounting for a portfolio of financial assets and liabilities whose principals have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

Note 3. Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

The principal accounting policies are set out below.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent and entities controlled by the Company (its subsidiaries). Control is achieved where the Parent:
- has power over the investee;
- is exposed to variable returns from its involvement with the investee;
- has the ability to use its power to affect its return.

The Parent reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of subsidiary begins when the Parent obtains control over the subsidiary and ceases when the Parent loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Investments into subsidiaries are recorded at cost in separate financial statements of the Parent. In case of need cost value is adjusted with impairment losses.

Changes in the Group's ownership interests in existing subsidiaries

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

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

3.4 Business combinations

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

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

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

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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

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

3.5 Goodwill

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

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

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

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

3.6 Foreign currencies

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified form equity to profit or loss on repayment of the monetary items.

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

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

Also, when the country, where foreign operations are running is adopting the euro as functional currency, the accumulated proportionate foreign exchange differences associated with the location are reclassified to profit and loss.

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

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

3.7 Cash and cash flows

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

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

3.8 Inventories

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

Transfers from inventory to investment property shall be made when, the property no longer meets the definition of inventory and there is a change in use, evidenced that the assets are hold for capital appreciation.

3.9 Property, plant and equipment

Land and buildings held for supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

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

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

Freehold land is not depreciated.

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

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

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

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

- Buildings in use 2 to 5% per annum;

- Machinery and equipment 8 to 20% per annum;
- Other fixtures 20 to 50% per annum.

3.10 Investment property

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

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property. In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied. When development of a part or entire investment property starts with the aim to sell developed product, this part or entire investment property is reclassified as inventory on the day construction agreement for this development is signed.

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

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

3.11 Intangible assets (excluding goodwill)

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

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

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

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

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

3.12 Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

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

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

3.14 Financial instruments

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

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

3.15 Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other gain and losses’ line item.

Held-to-maturity investments

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

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

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

AFS financial assets that are traded in an active market are stated at fair value at the end of each reporting period. Also, AFS equity instruments that are not traded in an active market are stated at fair value at the end of each reporting period, only if, the management considers that fair value can be reliably measured.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.16 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Compound instruments

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

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

Financial liabilities

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

Other financial liabilities

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

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

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

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

3.17 Provisions

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

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

3.18 Contingent liabilities

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

3.19 Statutory reserve

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

3.20 Revenue recognition

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

Net sales

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

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

Rental income

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

Other income

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

Dividend and interest income

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

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

3.21 Expenses

Cost of sales

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

Marketing expenses

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

Administration expenses

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

Other expenses

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

Finance cost

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

3.22 Leasing

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

The Group as lessee

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

The Group as lessor

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

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

3.23 Taxation

Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends. Income tax should be calculated also on other payments made from equity that are exceeding the monetary or non-monetary contributions made to the equity. The tax rate applicable is 20/80 from taxable amount since 1 January 2015.

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

Other subsidiaries

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

3.24 Segment reporting

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

3.25 Subsequent events

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

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

Note 4. Critical accounting judgements and key sources of estimation uncertainty

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

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

4.1 Critical judgements in applying accounting policies

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

Classification of real estate

Real estate classification to inventory, investment property or property, plant and equipment is done based on management's intention over the future use of the object (see Note 10; 11 and 12). Property is recognized as inventory, if the objective of purchase is connected with development of environment, it is sale or resale during ordinary course of business. Objects are recognized as investment property if purchase objective is gaining profit from rent or rise of market value. Also, objects are recognized as investment property if it is intended to keep them for long time and which have several purposes of use.

The Group takes into account the following considerations when reviewing the strategy and which were decisive to the transfer of some of the properties:

- there has been no development of such properties over the past 10 years;
- during the upcoming 5+ years perspective the Group has no intention to start developing these properties;
- there are no current plans to sell these properties in the near future;
- the essence of these properties is to be held for capital appreciation;
- an average operating cycle of the Group is usually about 2 years, very complex projects can take up to 4 years, which is less than 5+ years perspective.

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

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated individually. Overdue receivables are evaluated on case-by-case basis in respect to their collectability (see Note 9).

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

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets Notes 9, 10, 11, 12 include details of their nature and their carrying amount through the end of the reporting period.

Estimation of net realisation value of inventories

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

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

Fair value of investment property

As of balance sheet date the investment properties are measured at their fair value. In determination of the fair value estimations of management are used, and if needed opinion of independent certified real estate appraisers. In determination of the fair value two methods are used: discounted cash flow method and comparative transaction price method, whichever is more appropriate considering the circumstances.

Recoverable value of property, plant and equipment

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

Useful life of property, plant and equipment

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

Note 5. Entities belonging to the Group

Please see also Group structure in the management report.

Name of the Entity	Country of incorporation and operation	Proportion of ownership interest and voting power held by the Group 31.12.2017	31.12.2016	Principal activity
AS Pro Kapital Grupp	Estonia	See Note 1		Holding activities, parent
Held directly by AS Pro Kapital Grupp:				
AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Vilnius Real Estate UAB	Lithuania	100.00%	100.00%	Real estate development
Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
OÜ Pro Kapital Germany Holdings	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Germany GmbH	Germany	100.00%	100.00%	Real estate development
Held directly by AS Pro Kapital Eesti:				
OÜ Ilmarise Kvartal	Estonia	100.00%	100.00%	Real estate development
AS Tondi Kvartal	Estonia	100.00%	100.00%	Real estate development
OÜ Pro Halduse (former AS Pro Halduse)	Estonia	100.00%	100.00%	Real estate management
AS Tallinna Moekombinaat	Estonia	93.35%	91.95%	Real estate development
Hotel Management Services OÜ (former AS Domina Management)	Estonia	0.00%	100.00%	Hotel management
Held directly by AS Tondi Kvartal:				
OÜ Marsi Elu	Estonia	100.00%	100.00%	Real estate development
Held directly by Pro Kapital Vilnius Real Estate UAB:				
PK Invest UAB	Lithuania	100.00%	100.00%	Real estate development
In Vitam UAB (former Domina Management UAB)	Lithuania	100.00%	100.00%	Real estate management
Held directly PK Invest UAB:				
Pro Kapital Bonum UAB	Lithuania	100,00%	100,00%	Real estate development
Held directly by Pro Kapital Latvia PJSC:				
Klīversala SIA	Latvia	100.00%	100.00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Latvia	100.00%	100.00%	Real estate development
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	Latvia	100.00%	100.00%	Real estate development
Investhotel SIA	Latvia	0.00%	100.00%	Real estate development
Hotel Management Services SIA (former Domina Management SIA)	Latvia	0.00%	100.00%	Hotel management
Held directly by OÜ Pro Kapital Germany Holdings:				
PK Hotel Management Services GmbH (former Domina Tourismus GmbH)	Germany	100.00%	100.00%	Hotel management

Below are presented the financial figures of the Group companies:

in thousands of euros	Cost 31.12.2017	Cost 31.12.2016	Revenue for 2017	Profit/loss for 2017	Net Assets 31.12.2017	Net Assets 31.12.2016
AS Pro Kapital Eesti	17 981	17 981	809	5 891	116 075	110 184
OÜ Ilmarise Kvartal	286	286	136	156	3 137	2 981
AS Tondi Kvartal	4 364	4 364	384	256	23 026	22 770
OÜ Marsi Elu	458	458	4 638	422	895	473
OÜ Pro Halduse	27	27	1 548	24	645	621
AS Tallinna Moekombinaat	13 375	12 895	0	-1 369	20 426	21 795
Hotel Management Services OÜ	N/A	270	1 023	113	N/A	184
Pro Kapital Vilnius Real Estate UAB	2 375	2 375	6	-163	1 930	2 093
PK Invest UAB	6 679	6 679	764	865	3 388	2 523
Pro Kapital Bonum UAB	800	800	905	540	1 429	2 489
In Vitam UAB	43	43	145	20	92	72
Pro Kapital Latvia PJSC	10 188	10 188	99	4 727	12 985	8 258
Klīversala SIA	9 819	9 819	169	519	17 234	16 715
Tallina Nekustamie Īpašumi SIA	6 589	6 589	0	-153	976	1 129
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	2 500	2 500	15	-155	621	776
Investhotel SIA	N/A	996	378	-152	N/A	1 894
Hotel Management Services SIA	N/A	797	998	397	N/A	503
OÜ Pro Kapital Germany Holding	971	202	0	0	968	199
Pro Kapital Germany GmbH	25	25	436	-39	2 836	2 872
PK Hotel Management Services GmbH	966	201	3 723	-132	69	-564

On 25 July 2017 the Company concluded the contract for the sale of group hotels PK Ilmarine and PK Riga. The objective of the transaction was the sale of both operating activities and real estate of hotels. Transaction concerning Estonian segment involved completion of the sale of 100% shares of OÜ Hotel Management Services (operator of PK Ilmarine Hotel) and sale of real estate used by PK Ilmarine Hotel. Sale of PK Ilmarine Hotel was completed on 25 July 2017. Transaction concerning Latvian segment involved sale of 100% shares of SIA Hotel Management Services (operator of PK Riga Hotel) and 100% shares of SIA Investhotel (owner of real estate of PK Riga Hotel). Sale of PK Riga Hotel was completed on 22 August 2017.

Note 6. Segment reporting

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

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

The business activity of the Group is exercised in Estonia (sale of real estate, rent, hotel operating until 25 July 2017 and real estate maintenance), Latvia (sale of real estate, rent, hotel operating until 22 August 2017 and real estate maintenance), Lithuania (sale of real estate, rent and maintenance) and Germany (hotel operating).

in thousands of euros	PKG Holding	Estonia	Latvia	Lithuania	Germany	Total
2017						
Revenue	0	6 566	189	1 784	3 538	12 077
Other operating income & expenses (net)	0	1 570	1 600	-16	160	3 314
Including fair value adjustments	*0*	*519*	*11*	*0*	*0*	*530*
Segment operating profit (loss)	-1 471	2 552	815	-90	-9	1 797
Finance income and cost (net))	-4 634	2 125	-434	-239	-164	-3 346
Profit (loss) before income tax	-6 105	4 677	381	-329	-173	-1 549
Income tax	0	0	617	-21	0	596
Profit (loss) from continuing operations	-6 105	4 677	998	-350	-173	-953
Profit from discontinuing operations	0	304	131	0	0	435
Non-controlling interest	0	-99	0	0	0	-99
Net profit (loss) for the financial year attributable to owners of the Company	-6 105	5 080	1 129	-350	-173	-419
31.12.2017						
Assets	2 768	108 640	37 551	19 171	7 028	175 158
Liabilities	40 849	35 770	9 628	4 912	1 317	92 476
Acquisition of non-current assets (excluding investment properties)	25	46	12	11	239	333
Disposal of non-current assets	0	-6 267	-7 562	0	0	-13 829
Depreciation and amortisation	-1	-114	-139	-28	-173	-455

in thousands of euros	PKG Holding	Estonia	Latvia	Lithuania	Germany	Total
2016						
Revenue	0	5 608	102	8 965	2 935	17 610
Other operating income & expenses (net)	7	-542	-27	-65	113	-514
Including fair value adjustments	*0*	*-501*	*-25*	*-73*	*0*	*-599*
Segment operating profit (loss)	-1 307	-1 364	-1 013	3 109	-593	-1 168
Finance income and cost (net)	-4 913	2 439	-254	-473	-113	-3 314
Profit (loss) before income tax	-6 220	1 075	-1 267	2 636	-706	-4 482
Income tax	0	0	74	-237	0	-163
Profit (loss) from continuing operations	-6 220	1 075	-1 193	2 399	-706	-4 645
Profit from discontinuing operations	0	443	177	0	0	620
Non-controlling interest	0	-112	0	0	0	-112
Net profit (loss) for the financial year attributable to owners of the Company	-6 220	1 630	-1 016	2 399	-706	-3 913
31.12.2016						
Assets	919	80 809	35 914	18 060	6 612	142 314
Liabilities	39 165	9 852	9 480	2 532	1 081	62 110
Acquisition of non-current assets (excluding investment properties)	0	75	5	2	1 124	1 206
Depreciation and amortisation	-2	-154	-217	-38	-284	-695

Note 7. Changes in ownership in subsidiaries

On 24 January 2017 Pro Kapital group company AS Pro Kapital Eesti concluded the contract for purchase of minority shareholding of its subsidiary AS Tallinna Moekombinaat in amount of 300 000 of the A-shares of AS Tallinna Moekombinaat for 480 thousand euros, which represents 1.40% of all AS Tallinna Moekombinaat shares. After acquisition AS Pro Kapital Eesti holds 93.35% of AS Tallinna Moekombinaat shares.

Changes in minority shareholding	AS Tallinna Moekombinaat
Minority (%) as at 31.12.2016	8.05%
Purchase of minority shares	-1.40%
Minority (%) as at 31.12.2017	6.65%

Value of minority shareholding in thousands of euros	
Non-controlling interest as at 31.12.2016	1 799
Effect of repurchase of non-controlling interest	-305
Loss for the reporting period	-99
Non-controlling interest as at 31.12.2017	1 395

On 25 July 2017 the Company concluded the contract for the sale of group hotels PK Ilmarine and PK Riga. The objective of the transaction was the sale of both operating activities and real estate of hotels. Transaction concerning Estonian segment involved

completion of the sale of 100% shares of OÜ Hotel Management Services (operator of PK Ilmarine Hotel) and sale of real estate used by PK Ilmarine Hotel. Sale of PK Ilmarine Hotel was completed on 25 July 2017. Transaction concerning Latvian segment involved sale of 100% shares of SIA Hotel Management Services (operator of PK Riga Hotel) and 100% shares of SIA Investhotel (owner of real estate of PK Riga Hotel). Sale of PK Riga Hotel was completed on 22 August 2017.

in thousands of euros	Hotel Management Services OÜ	Hotel Management Services SIA	Investhotel SIA	Total
ASSETS				
Current assets				
Cash and cash equivalents	6	102	0	108
Current receivables	203	437	50	690
Inventories	4	9	0	13
Total current assets	213	548	50	811
Non-current assets				
Non-current receivables	0	417	2 362	2 779
Property, plant and equipment	51	27	4 628	4 706
Total non-current assets	51	444	6 990	7 485
TOTAL ASSETS	264	992	7 040	8 296
LIABILITIES AND EQUITY				
Current Liabilities				
Current debt	6	0	1 715	1 721
Customer advances	14	25	0	39
Current payables	23	8	378	409
Tax liabilities	13	7	12	32
Short-term provisions	45	53	51	149
Total current liabilities	101	93	2 156	2 350
Non-current liabilities				
Non-current debt	5	0	0	5
Total non-current liabilities	5	0	0	5
TOTAL LIABILITIES	106	93	2 156	2 355
NET ASSETS DISPOSED OF	158	899	4 884	5 941
Consideration received in cash and cash equivalents	158	137	6 062	6 357
Consideration received, non-cash	0	416	620	1 036
GAIN/ LOSS ON DISPOSAL	0	-346	1 798	1 452

Note 8. Cash and cash equivalents

in thousands of euros	31.12.2017	31.12.2016
Cash at hand	34	34
Bank accounts	10 283	5 348
Total	10 317	5 382

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

Note 9. Current receivables

in thousands of euros	31.12.2017	31.12.2016
Trade receivables	1 315	545
Receivables from related parties (Note 29)	2	11
Other receivables	52	27
Accrued income	35	69
Prepaid expenses	3 484	3 823
Total	4 888	4 475

The most significant change has taken place in trade receivables that have increased by 770 thousand euros. The reason to that is completion of an apartment building in December in Tallinn and intensive notary sales agreements conclusion at the end of the year – although the sales were recorded in 2017, part of the payments were received in the beginning of 2018.

Prepaid expenses include prepaid taxes consisting mainly of VAT due to development activities.

Note 10. Inventories

in thousands of euros	31.12.2017	31.12.2016
Property held for resale	4 894	4 956
Works in progress	33 062	9 078
Goods bought for resale	59	75
Prepayments for inventories	9	35
Total	38 024	14 144

Property held for resale include completed real estate stock in Tallinn and Vilnius. Works in progress include properties in all three Baltic states being under development or waiting for development in the nearest future. In the beginning of 2017 Lithuanian subsidiary PK Invest UAB concluded a construction contract for developing second stage of residential buildings. In relation to that all investment property in Vilnius was reclassified into inventories in total amount of 12 890 thousand euros (Note 12).

In Kristiine City, in Tallinn, development of 12 789 square meters of residential premises is included in inventories: Marsi 6, Marsi 5 and four buildings of Sõjakooli 12. The Company expects to receive the average income of 1 974 €/m² including parking and storages and considering estimated annual price increase. Total average cost of net areas is estimated to be 1 221 €/m².

In Kliversala, in Riga, construction of 6 141 square meters of residential premises are in progress in Kugu iela 28. The Company expects to receive the average income of 4 812 €/m² including parking and storages and considering estimated annual price increase. Total average cost of net area is estimated to be 1 037 €/m².

In Šaltinių Namai project, in Vilnius, construction of 12 603 square meters of residential and net sellable area of commercial area 1 293 square meters is in progress. The construction period of the project is planned for 4 years with total average cost of net areas 1 379 €/m². The Company expects to receive average income of 3 019 €/m² on residential area and 2 349 €/m² on commercial area, both including storage and parking areas and considering estimated annual price increase.

Disposal costs of inventories (costs of property maintenance until sales and direct sales costs including commissions) are expected to be 4.5% from total sales and rental revenue as an average.

The cost of inventories recognised as an expense during the year was 3 129 thousand euros (2016: 8 369 thousand euros). In 2017 no inventories were written down (2016: no inventories were written down). The balances of inventories are net amounts including write-downs. The management estimates that property held for resale and goods bought for resale will be sold in full during normal business cycle after the reporting period. All inventories except works in progress in total amount of 4 962 thousand euros are expected to be sold within one year and works in progress on amount of 33 062 within two to five years.

Note 11. Property, plant and equipment

Since 2011 the Group's land and buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair value of property is determined based on the valuation of an independent expert. Revaluations are performed with sufficient regularity so that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

On 31 December 2016 land and buildings included three hotel properties (in Tallinn, in Riga and in Bad Kreuznach) and administrative premises in Tallinn and in Vilnius. The Company has considered hotel operations to be not as core business and therefor decided to exit operations in Tallinn and in Riga. Tallinn hotel property was sold on 25 July 2017 and Riga hotel property owning company was sold on 22 August 2017 with the total effect of 3 045 thousand euros profit from disposal of property, plant and equipment. The Company collected 6 651 thousand euros from the sale of Tallinn property and 6 357 thousand euros from sales of shares of subsidiaries related to hotel operations in Tallinn and in Riga.

At the end of 2016 renovation works of 60 rooms and part of common spaces of the Bad Kreuznach hotel started. Total investment of 1.35 million euros was made including 1.1 million euros in 2016.

Revaluation reserve (accounted for under equity) in the amount of 11 330 thousand euros was formed as at 31 December 2011 to account for revaluation differences (see Note 19). Impairment loss of Bad Kreuznach hotel property was accounted through decrease of revaluation reserve in 2014. Revaluation reserve totals to 3 256 thousand euros as at 31 December 2017 (9 462 thousand euros as at 31 December 2016). Decrease of 6.2 million euros results from the sales of the two hotels. Remaining amount consists mainly of Bad Kreuznach hotel revaluation reserve and a minor part of office premises in Vilnius. There are no restrictions on distribution of revaluation reserve.

Hotel properties and office premises	Cost value		Revaluation value	
in thousands of euros	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Pulkvieza Brieza 11, Riga	0	1 592	0	5 364
Põhja Avenue 21, 21a, 21b-1, Tallinn	0	3 185	0	5 475
Kurhausstrasse 28, Bad Kreuznach	3 189	1 963	6 281	5 062
Office premises	898	926	1 052	1 059
Total	**4 087**	**7 666**	**7 333**	**16 960**

Property, plant and equipment at cost in thousands of euros	Land and buildings revaluation value	Machinery and equipment	Other property, plant and equipment	Assets under reconst-ruction	Total
01.01.2016	19 316	1 688	1 205	0	22 209
Additions:					
Acquired	0	11	77	1 118	1 206
Reclassified from investment property	750	0	0	0	750
Disposals:					
Sold	0	0	-9	0	-9
Written off	0	-13	-57	0	-70
31.12.2016	20 066	1 686	1 216	1 118	24 086
Additions:					
Acquired	1 351	7	27	-1 104	281
Change in fair value	26	0	0	0	26
Disposals:					
Sold	-6 100	0	-9	0	-6 109
Sold through disposal of subsidiary	-6 076	-804	-835	-5	-7 720
Written off	0	-9	-55	0	-64
31.12.2017	9 267	880	344	9	10 500

Accumulated depreciation in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Assets under reconst-ruction	Total
01.01.2016	2 583	1 429	1 095	0	5 107
Additions:					
Charge for the period	520	144	55	0	719
Disposals:					
Sold	0	0	-9	0	-9
Written off	0	-13	-54	0	-67
31.12.2016	3 103	1 560	1 087	0	5 750
Additions:					
Charge for the period	327	83	35	0	445
Disposals:					
Sold	-696	0	-8	0	-704
Sold through disposal of subsidiary	-800	-791	-771	0	-2 362
Written off	0	-9	-55	0	-64
31.12.2017	1 934	843	288	0	3 065

Residual value in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Assets under reconst-ruction	Total
31.12.2016	16 963	126	129	1 118	18 336
31.12.2017	7 333	37	56	9	7 435

Valuation of properties

According to IFRS 13 classification, land and buildings measured at revalued amounts are classified as belonging to Level 3 value hierarchy. The valuation of such properties is based on inputs that are not observable and significant to the overall fair value measurement.

Valuations of the Group's properties are being made by independent and qualified experts using mainly discounted cash flows (DCF) method. Considering that the Group is operating a hotel in a property owned by real estate subsidiary, the valuators do not take into account rental income to property owner, but hotel's ability to generate cash flows and to operate properties effectively. The Group provides valuators historical data and expected projections of hotel performance, which include such inputs as occupancy, average rate, departmental revenues and costs, administrative and marketing costs. This information is derived from management reporting prepared by hotel managers and reviewed by Financial Controller. Valuators also use assumptions and valuation models, which are typically market related such as discount rates and exit yields. Valuation reports are reviewed and accepted by the Management of the Company.

Sensitivity of measurement to variance of significant unobservable inputs:

- a decrease in the estimated revenues either due to lower occupancy or lower average room rate will decrease the fair value;
- an increase of departmental and other costs will decrease the fair value;
- an increase in discount and exit yield rates will decrease the fair value.

Discount and exit yield rates are partially determined by market rate conditions but are also influenced by expected return rate, which is the rate of return expected by the shareholders.

PK Parkhotel Kurhaus in Bad Kreuznach

Hotel in Bad Kreuznach suffered from some inconveniences related to renovation works during 2016 and in the beginning of 2017, which affected negatively occupancy, revenues and the net result in 2016. By the end of 2017 the occupancy of the hotel increased by 17% and the average rate by 6% leading to 23% higher room revenues comparing to 2016. The projection for the future as current renovation works are completed is much more optimistic. 10-year discounted cash flow method has been used by the valuator with a discount rate of 9.66% and exit yield of 8.16% in last valuation. The main critical issues to be considered are: effective hotel operating and investments into the property.

Note 12. Investment property

The fair value of the Group's investment property at 31 December 2017 and 31 December 2016 has been derived on the basis of valuations carried out by Colliers International independent valuators not related to the Group. Valuation company has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuations were performed by reference to recent market information. Mainly discounted cash flow method was used due to low number of comparable market transactions.

in thousands of euros	Investment property held for increase in value	Total
Balance at 01.01.2016	92 457	92 457
Additions:		
Acquired	8 552	8 552
Changes in fair value:		
Loss from change in fair value	-599	-599
Reclassified to property plant and equipment	-750	-750
Balance at 31.12.2016	99 660	99 660
Additions:		
Acquired	25 893	25 893
Capitalised interests (Note 16)	947	947
Changes in fair value:		
Gain from change in fair value	530	530
Reclassified into inventories (Note 10)	-12 890	-12 890
Balance at 31.12.2017	114 140	114 140

During 2017 the Company has paid for investments 24 772 thousand euros (2016: 8 552).

Investments into property during reporting period include mainly construction costs of AS Tallinna Moekombinaat ca 25 million euros. Interest costs related to this project are capitalised until the property is taken into use. The Company has capitalised 22% of total interest costs in 2017 (2016: 0%).

In the beginning of 2017 Lithuanian subsidiary PK Invest UAB concluded a construction contract for developing second stage of residential buildings, in relation to that the investment property in Vilnius was reclassified as inventories – construction in progress.

Valuation of properties

According to IFRS 13 classification, investment properties owned by the Group are classified as belonging to Level 3 value hierarchy. The valuation of such properties is based on inputs that are not observable and significant to the overall fair value measurement.

Valuations of the Group's properties are being made by independent and qualified experts using residual valuation approach through discounted cash flows (DCF) method. The Group provides valuators with the following information: purpose of a property, development plans, estimated construction costs and estimated sales or rental prices if available. Valuators also use assumptions and valuation models, which are typically market related such as discount rates and exit yields. Valuation reports are reviewed and accepted by the Management of the Company.

In autumn 2017 the Management of the Company reviewed key assumptions of valuation inputs based on more precise plans by speeding up some of developments and by changing some plans for rental of business premises. Nevertheless, market value of the majority of investment property was not influenced significally.

T1 Mall of Tallinn - Peterburi road 2, Tallinn

Development of Peterburi road shopping centre with its 55 328 square meters leasable area is one of the priorities of the Group. The mall represents a modern view to a shopping centre concept where retail areas are combined with numerous options of leisure and entertainment activities. Since 2016 active construction activities started and the opening is expected to be in autumn 2018. The valuator has considered the following inputs in valuation: remaining construction period of one year (2016: 2 years), remaining construction cost 320 €/m² (2016: 500 €/m²) for the total of 108 814 gross building area above ground. Remaining total average cost of net leasable area is estimated to be 763 €/m² (2016: 1 247 €/m²). Average rent is supposed to be 14.02 €/m² on 1st year, 14.02 €/m² on 2nd year, 15.93 €/m² on 3rd year of operations (2016: 14.24 €/m² on 1st year, 16.00 €/m² on 2nd year, 17.85 €/m² on 3rd year of operations), total average rent including annual increase and vacancy loss 15.25 €/m² (2016: 16.57 €/m²), exit yield after 5 year rental period 7% (2016: the same) with exit price after vacancy, operating expenses and brokerage fee 16.45 €/m² (2016: 17.55 €/m²). 7-year discounted cash flow method has been used by the valuator with a discount rate of 14.50% (2016: the same). The increase in fair value comparing to last valuation was 25 950 thousand euros, the subsidiary company has invested 25 958 thousand euros into the project in 2017, total net effect of revaluation is -8 thousand euros.

Ülemiste 5, Tallinn

Ülemiste property is situated next to above mentioned Peterburi road 2 land plot and is expected to be used partly as an extension for the shopping centre under construction. It is planned to develop office and retail spaces with total leasable area of 6 061 square meters. The valuator has considered the following inputs in valuation: construction period of 1 year, starting after one year of waiting period (2016: construction period of 2 years, starting after three years of waiting period), construction cost 533 €/m² (2016: 513 €/m²), total average cost of net leasable area

1 597 €/m² (2016: 1 582 €/m²), average rent 15 €/m² for retail spaces (2016: the same), total average rent including annual increase and vacancy loss 15.28 €/m² (2016: 13.52 €/m²), exit yield after 3 year rental period 7% (2016: after 1 year rental period 7%) with exit price after vacancy, operating expenses and brokerage fee 15.94 €/m² (2016: 15.89 €/m²). 7-year discounted cash flow method has been used by the valuator with a discount rate of 14.50% (2016: the same). The increase in fair value comparing to last valuation was 30 thousand euros as a result of changing timing and planning to start project earlier.

Kalaranna district, Tallinn

Kalaranna is an attractive residential area: it is located directly by the sea, close to the Old Town and the city centre. Company plans to develop mainly residential buildings with net sellable area of 22 210 square meters (2016: 27 600 square meters) and commercial spaces with net sellable/ leasable area of 9 714 square meters (2016: 6 251 square meters). Changes in the volumes are related to the architectural contest held in the beginning of 2017 and are dictated by the winning work. As most apartments are expected to have the sea view, estimated price level is higher comparing to similar apartments without the sea view in the neighbourhood. The valuator has considered the following inputs in valuation: the property is planned to be developed in 4 phases, construction period of each phase 2 years, starting after one year of waiting period, construction cost 664-839 €/m² (2016: 733-961 €/m²), total average cost of net areas 1 732 €/m² (2016: 1 673 €/m²), starting average apartment sale price 2 750 €/m² (2016: 2 600 €/m²), total average apartment sale price with annual increase including storage and parking areas 3 227 €/m² (2016: 3 074 €/m²), total average rent rate 10.91 €/m² (2016: 8.83 €/m²), rent including annual increase and vacancy loss 12.67 €/m² (2016: 10.87 €/m²), exit yield after 2 year rental period 7.5% (2016: exit yield after 1 year rental period 7.5%) with exit price after vacancy, operating expenses and brokerage fee 11.99 €/m² (2016: 9.15 €/m²). 7-year (2016: 11-year) discounted cash flow method has been used by the valuator with a discount rate of 13.00% (2016: 14.00%). The increase in fair value comparing to last valuation was 460 thousand euros, the subsidiary company has invested 304 thousand euros into the project in 2017, total net effect of revaluation is positive 156 thousand euros.

Tondi residential quarter (Kristiine City), Tallinn

Tondi Quarter is one of the largest residential blocks in the Baltics, located close to the city centre. It has been planned to develop the property in 5 phases. The first phase – renovation of a red brick barrack - is completed and all of the apartments are sold. The second phase includes a set of 10 new buildings being built on Marsi, Sõjakooli and Sammu Streets, also Marsi 5 and Marsi 6. Construction works of three Marsi street buildings and Sõjakooli 12a are completed. Works for next three Sõjakooli buildings are ongoing. Renovation of Marsi 6 is successfully completed. The properties of the second stage of development are recorded as inventories in the Company's statement of financial position with an exception for Sammu Street property. According to management decision the properties to be developed in the next three phases and Sammu Street plot have been reclassified from inventories to investment property in 2014 as long-term investments. The valuator has considered the following inputs in valuation of investment property of Sammu property and last three phases: net sellable residential area of 52 842 square meters and rentable commercial area of 25 838 square meters, construction period for second phase 2-5 years, third phase 2-3 years starting 2023 and last phase 2 years starting 2027 (2016: construction period for second phase 3 years, third phase 4 years and last phase 5 years starting after 2-7 years and lasting altogether 12 years), construction cost 551-681 €/m² (2016: 562-700 €/m²), total average cost of net areas 1 321 €/m² (2016: 1 126 €/m²), starting average apartment sale price 1 850 €/m² (2016: 1 750 €/m²), total average apartment sale price with annual increase including storage and parking areas 2 270 €/m² (2016: 2 055 €/m²), starting average rent 10 €/m² (2016: 10 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 10.32 €/m² (2016: 9.38 €/m²), exit yield after 2 year rental period 7.25% (2016: 7.50%) with exit price after vacancy, operating expenses and brokerage fee 10.33 €/m² (2016: 10.08 €/m²). For valuation 13-years (2016: 12-years) discounted cash flow method has been used by the valuator with discount rate 14.50% (2016: discount rates in range of 14.50-17.00%). The increase in fair value comparing to last valuation was 710 thousand euros, the subsidiary company has invested 369 thousand euros into the project in 2017, total net effect of revaluation is 341 thousand euros.

Kliversala residential complex, Riga

Kliversala is a residential and commercial development project located on the left bank of river Daugava. The land is located between two main bridges, next to one of the biggest parks in Riga and has a long coastline. The property is situated on the waterfront and provides views of the Old Town on the opposite bank. The project for the residential area foresees a series of exclusive apartment buildings coupled with commercial premises. It has been planned to develop the property in 4 phases. The first phase has started in 2016 and this part of the property is classified as inventories. Remaining three phases are classified as investment property. The valuator has considered the following inputs in valuation of the three phases: net sellable residential area of 41 108 square meters and rentable commercial area of 6 715 square meters, construction period of 2-3 years for each phase, construction cost 845 €/m² (2016: 876 €/m²), total average cost of net areas 2 055 €/m² (2016: 1 849 €/m²), starting average apartment sale price 2 700 €/m² (2016: 2 700 €/m²), total average apartment sale price with annual increase including storage and parking areas 3 303 €/m² (2016: 3 283 €/m²), starting average rent 12 €/m² (2016: 12-14 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 19.65 €/m² (2016: 14.41 €/m²), exit yield after 2 year rental period 8.50% (2016: 8.25%) with exit price after vacancy, operating expenses and brokerage fee 23.27 €/m² (2016: 15.14 €/m²). 12-year discounted cash flow method has been used by the valuator with a discount rate of 11.30% and starting without delay (2016: 11-year discounted cash flow method with a discount rate of 11.60%, starting time after 1 year). The increase in fair value comparing to last valuation was 80 thousand euros, the subsidiary company has invested 42 thousand euros into the project in 2017, total net effect of revaluation is 38 thousand euros.

Tallinas Street residential complex, Riga

Tallinas is a residential development project located in Riga at the right bank of river Daugava, right next to the border of Riga's historical City Centre. The project for the residential area foresees a series of apartment buildings with commercial functions on the first floor with net sellable area of 22 960 square meters and 974 square meters respectively. It has been planned to develop the property in three phases. The valuator has considered the following inputs in valuation: construction period of 5 years, construction cost 719 €/m² (2016: 702 €/m²), total average cost of net areas 1 784 €/m² (2016: 1 742 €/m²), starting average apartment sale price 2 350 €/m² (2016: 2 300 €/m²), total average apartment sale price with annual increase including storage and parking areas 2 617 €/m² (2016: 2 561 €/m²), starting average rent 11 €/m² (2016: 11 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 9.83 €/m² (2016: 11.35 €/m²), exit yield after 2 year rental period 8% (2016: 8%) with exit price after vacancy, operating expenses and brokerage fee 9.83 €/m² (2016: 9.83 €/m²). 7-year discounted cash flow method has been used by the valuator with a discount rate of 11.1% (2016: 11.2%) and with the assumption of immediate start. The increase in fair value comparing to last valuation was 50 thousand euros, the subsidiary company has invested 30 thousand euros into the project in 2017, total net effect of revaluation is 20 thousand euros.

Zvaigznes Centrs, Riga

Zvaigznes is a mixed development project located at one of the main transport arteries heading through the City, next to the railways within a former industrial area. The project foresees renovation of the existing industrial building into mostly office buildings with total net rentable area of 17 520 square meters. The project is expected to be developed in two phases as the initial phase includes the renovation. The valuator has considered the following inputs in valuation: construction period of 2 years of each phase, 3 years in total without a waiting period (2016: 4 years in total without a waiting period), construction cost 707 €/m² (2016: 671 €/m²), total average cost of net areas 1 609 €/m² (2016: 1 472 €/m²), starting rent 12.5-13.0 €/m² (2016: 12.5-13.6 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 11.61 €/m² (2016: 11.09 €/m²), exit yield after 3-5 year rental period 7.7% (2016: after 2 year rental period 7.8%) with exit price after vacancy, operating expenses and brokerage fee 14.04 €/m² (2016: 12.56 €/m²). For valuation 6 -year discounted cash flow method has been used by the valuator with a discount rate of 11.10% (2016: 6-year discounted cash flow with discount rate 11.20%). The increase in fair value comparing to last valuation was 90 thousand euros, the subsidiary company has invested 136 thousand euros into the project in 2017, total net effect of revaluation is -46 thousand euros.

For all investment properties the average of 4.5% disposal costs (property costs and maintenance until sales, direct sales costs including commissions) from total sales and rental revenue as an average.

The following tables illustrate possible changes to fair value of investment property (in thousands of euros) given changes in main unobservable inputs as presented in Colliers valuation reports:

	Fair	Construction costs/m2		Sale price/ m2		Rent price/ m2		Exit yield	
31.12.2016	value	5%	-5%	5%	-5%	5%	-5%	5%	-5%
Peterburi	33 500	-2 800	2 800	N/A	N/A	0	0	-3 100	3 300
Ülemiste	2 410	-260	260	N/A	N/A	420	-400	-350	380
Kalaranna	12 500	0	0	1 800	-1 700	N/A	N/A	N/A	N/A
Tondi	17 590	-490	480	1 930	-1 890	N/A	N/A	N/A	N/A
Kliversala	14 150	-2 600	2 600	2 950	-2 950	760	-770	N/A	N/A
Tallinas	4 140	-1 560	1 560	1 520	-1 530	40	-50	N/A	N/A
Zvaigznes	2 480	-920	910	N/A	N/A	1 140	-1 150	N/A	N/A
Šaltinių	12 890	-670	660	1 390	-1 390	N/A	N/A	N/A	N/A

	Fair	Construction costs/m^2		Sale price/ m^2		Rent price/ m^2		Exit yield	
31.12.2017	value	5%	-5%	5%	-5%	5%	-5%	5%	-5%
Peterburi	59 450	-1 820	1 820	N/A	N/A	0	0	-3 340	3 600
Ülemiste	2 440	-310	300	N/A	N/A	470	-470	-360	380
Kalaranna	12 960	0	0	1 850	-1 800	N/A	N/A	N/A	N/A
Tondi	18 300	0	0	2 120	-2 060	N/A	N/A	N/A	N/A
Kliversala	14 230	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tallinas	4 190	-1 610	1 600	1 530	-1 530	40	-50	N/A	N/A
Zvaigznes	2 570	-1 130	1 130	N/A	N/A	1 390	-1 390	N/A	N/A

Šaltinių Namai project was reclassified into inventories in the beginning of 2017. Kliversala sensitivity analyses was not provided in 2017 valuation report. All estimated costs, sales and rental prices in this note are presented without VAT.

Investment properties of the Group according to management judgement are evaluated based on the assumed highest and best use.

Information about investment property pledged as collaterals is disclosed in Note 18 to these consolidated financial statements.

Note 13. Current debt

in thousands of euros	Bank loans and overdrafts (Note 16)	Convertible bonds (Note 17)	Non-convertible bonds (Note 17)	Current portion of financial lease	Total
01.01.2016	931	6 052	1 000	21	8 004
Changes from financing cash flows	-866	-123	-1 000	-20	-2 009
Other changes	3 076	-825	0	15	2 266
31.12.2016	3 141	5 104	0	16	8 261
Changes from financing cash flows	-3 134	-773	0	-16	-3 923
Changes from losing control of subsidiaries	0	0	0	-3	-3
Other changes	161	1 599	640	3	2 403
31.12.2017	168	5 930	640	0	6 738

Note 14. Current payables

in thousands of euros	31.12.2017	31.12.2016
Trade payables	7 371	6 656
Accrued expenses	1 818	1 820
Dividends payable to shareholders (Note 29)	851	0
Other	51	26
Total	10 091	8 502

Note 15. Non-current debt

in thousands of euros	Bank loans and overdrafts (Note 16)	Convertible bonds (Note 17)	Non-convertible bonds (Note 17)	Payables to minority share-holders	Non-current portion of financial lease	Total
01.01.2016	6 924	5 105	14 640	362	23	27 054
Changes from financing cash flows	517	0	12 637	0	0	13 154
Changes in fair values	0	0	60	0	0	60
Other changes	-3 076	825	0	38	-15	-2 228
31.12.2016	4 365	5 930	27 337	400	8	38 040
Changes from financing cash flows	24 347	0	1 456	0	0	25 803
Changes from losing control of subsidiaries	0	0	0	0	-5	-5
Changes in fair values	0	0	108	0	0	108
Other changes	786	-1 599	-640	37	-3	-1 419
31.12.2017	29 498	4 331	28 261	437	0	62 527

Note 16. Bank loans and overdrafts

		Loan balance in thousands of euros		
Borrower	Creditor	31.12.2017	31.12.2016	Maturity
AS Pro Kapital Eesti	Swedbank AS	0	1 303	Repaid
AS Pro Kapital Eesti	Swedbank AS	0	1 942	Repaid
Investhotel SIA	Swedbank AS	0	2 874	Repaid
OÜ Marsi Elu	Luminor Bank AS (Nordea Bank AB)	139	0	15.12.2018
AS Tondi Kvartal	Luminor Bank AS (Nordea Bank AB)	1 524	0	28.03.2019
Kliversala SIA	AS Swedbanka	4 999	0	21.03.2020
AS Tondi Kvartal	Luminor Bank AS (Nordea Bank AB)	474	501	31.08.2021
AS Tallinna Moekombinaat	Lintgen Adjacent Investments S.A.R.L.	22 530	886	18.11.2021
Total		29 666	7 506	

In 2017 AS Pro Kapital Eesti and Investhotel SIA repaid loans to Swedbank. Remaining debts are related to development activities with an exception of AS Tondi Kvartal loan from Nordea Bank AB with the balance of 474 thousand euros. The loan was taken to renovate Sõjakooli 11 building in Tallinn and it is used as the Company's head-office.

All agreements and liabilities are fixed in euros. Loan amounts to be repaid within 12 months total to 168 thousand euros, remaining 29 498 thousand euros should be repaid within four years. Collaterals of the loans are described in Note 18.

The total interest cost on bank loans for the reporting period was 185 thousand euros (2016: 331 thousand euros). Interests on financing from Lintgen Adjacent Investments for T1 project (AS Tallinna Moekombinaat) in amount 947 thousand euros are capitalised and recorded as part of investment property and therefor have not influenced current interest expenses from loans (Note 12).

Note 17. Convertible and non-convertible bonds

in thousands of euros	31.12.2017	31.12.2016
Current convertible debt (Note 13)	5 930	5 104
Current non-convertible debt (Note 13)	640	0
Non-current convertible debt (Note 15)	4 331	5 930
Non-current non-convertible debt (Note 15)	28 261	27 337
Total	39 162	38 371

Convertible bonds

On 13 April 2009 AS Pro Kapital Grupp shareholders' extraordinary meeting decided to issue up to 10 000 000 convertible bonds of the Parent in nominal value of 0.6 euro per convertible note and increase conditionally the Parent's share capital by up to 10 000 000 shares in nominal value of 0.6 euro per share in order to exchange convertible bonds for shares of the Parent. Management of the Parent had the right to offer the above-mentioned number of convertible bonds under several subscription periods. The offers of bonds were carried out so that offers were neither jointly nor separately deemed as public offering of securities under the terms of the directive 2003/71/EC and applicable laws. The issue price of convertible note in each separate subscription period was determined by management of the Parent not to be less than 4.0 euro per convertible note. Convertible bonds were offered for subscription in the quantity that was limited to the minimum total sum payable based on the issue price 50 thousand euros. The interest rate of convertible note was 7% per annum from its issuance price. On 24 April 2009 the conditional increase of the Parent's share capital was registered in the Commercial Register.

In accordance with the decision of extraordinary meeting of shareholders of AS Pro Kapital Grupp on 13 April 2009, the total of 4 025 758 convertible bonds were subscribed with an issue price of 4.5 euros per bond. All convertible bonds have been registered in the Estonian Central Register of Securities. In 2011 the Group was split and as a result the issue price of the convertible bonds remains 2.8 euros per bond.

According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the period 2009-2011 could be converted to shares of the Parent until 31 December 2012 with the exchange rate one convertible note per share. On 6 February 2013 AS Pro Kapital Grupp shareholders' general meeting decided to offer the possibility to the holders of convertible bonds to prolong their convertible note redemption/conversion deadline by two more years and bondholders accepted the offer. The duration of all convertible note issues has been prolonged respectively except for redeemed bonds: 276 163 convertible bonds in total amount of 773 256.40 euros were redeemed in 2017, 43 667 convertible bonds in total amount of 122 267.60 euros in 2016, 22 224 convertible bonds in total amount of 62 227.20 euros in 2015. Remaining balance of the bonds is 10 261 thousand euros on 31 December 2017.

Registration date of bonds issued	13 Aug 2009	20 Jan 2010	10 Aug 2010	16 Sept 2010	29 Nov 2010	8 March 2011	25 May 2011
Number of bonds	1 081 076	378 070	840 184	516 029	383 634	382 778	82 950
Issue price per bond	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR
Issued amount, in euros	3 027 013	1 058 596	2 352 515	1 444 881	1 074 175	1 071 778	232 260
Return per annum (%) from issue price	7%	7%	7%	7%	7%	7%	7%
Bond interest payment frequency	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Redemption date	13 Aug 2019	20 Jan 2018	10 Aug 2018	16 Sept 2018	29 Nov 2018	8 March 2019	25 May 2019
Due date to exchange bonds into shares	13 Aug 2019	20 Jan 2018	10 Aug 2018	16 Sept 2018	29 Nov 2018	8 March 2019	25 May 2019

On 8 March 2017 the Company prolonged the redemption date of 382 778 PKG6 convertible bonds by 2 years. New redemption date is 8 March 2019. 186 495 PKG6 convertible bonds were redeemed with issue price of 522 186.00 euros.

On 23 May 2017 the Company prolonged the redemption date of 82 950 PKG7 convertible bonds by 2 years. New redemption date is 25 May 2019. 5 937 PKG7 convertible bonds were redeemed with issue price of 16 623.60 euros.

On 14 August 2017 the Company prolonged the redemption date of 1 081 076 PKG1 convertible bonds by 2 years. New redemption date is 13 August 2019. 83 731 PKG1 convertible bonds were redeemed with issue price of 234 446.80 euros.

On 22 January 2018, after reporting period, the Company prolonged the redemption date of 378 070 PKG2 convertible bonds by 2 years. New redemption date is 20 January 2020.

No bonds have been converted into shares until 31 December 2017 (Note 19).

Number of bonds	2017	2016
Number of convertible bonds at the beginning of period	3 340 884	3 984 551
Number of redeemed bonds	-276 163	-43 667
Number of convertible bonds at the end of period	3 664 721	3 340 884

in thousands of euros	2017	2016
Value of convertible bonds at the beginning of period	11 034	11 157
Redeemed bonds	-773	-123
Value of the bonds at the end of the period	10 261	11 034
Current portion of liabilities at the end of the reporting period	5 930	5 104
Non-current portion of liabilities at the end of the reporting period	4 331	5 930

Non-convertible unsecured bonds and secured, callable, fixed rate bonds

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

On 7 November 2013 the Company issued 100 new unsecured non-convertible bonds with face value of 10 thousand euros. Total amount of the bonds issued is 1 million euros, the bonds are unsecured, have duration of 3 years and annual interest of 5%. In November 2016 the Company redeemed 100 unsecured non-convertible bonds in amount of 1 million euros.

On 15 April 2014 the Company issued 30 new unsecured non-convertible bonds with face value of 10 thousand euros. Total amount of the bonds issued is 300 thousand euros, the bonds are unsecured, have duration of 5 years and annual interest of 5%.

On 16 September 2014 the Company issued 30 new unsecured non-convertible bonds with face value of 10 thousand euros. Total amount of the bonds issued is 300 thousand euros, the bonds are unsecured, have duration of 5 years and annual interest of 5%.

As at 31 December 2017 the Company has 124 unsecured bonds with the total value of 1.24 million euros.

On 2 April 2015 the Supervisory Council of AS Pro Kapital Grupp decided to approve the issue of secured, callable, fixed rate bonds of the Company. The Management Board of the Company was authorized to issue the bonds in several tranches maximum up to 50 million euros. On 20 April 2015 the Management Board of the Company decided to announce the start of the subscription process of the first tranche of the bonds in amount of 10 – 15 million euros.

In May 2015 the Management Board of the Company decided on the allocation of the first subscription of above mentioned bonds with issue price 7 million euros with redemption date on 1 June 2020. 70 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

In July 2015 the Management Board of the Company decided on the allocation of the second subscription of the bonds at nominal value 6.4 million euros with issue price 6.5 million euros with redemption date on 1 June 2020. 64 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

In February 2016 the Management Board of the Company decided on the allocation of the third subscription of the bonds at nominal value 900 thousand euros with issue price 920 thousand euros with redemption date on 1 June 2020. 9 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

In May 2016 the Management Board of the Company decided on the allocation of the fourth subscription of the bonds at nominal value 15 million euros with issue price 15.1 million euros with redemption date on 1 June 2020. 150 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

As at 31 December 2017 the Company has issued 293 secured fixed rate bonds with the total value of 29.3 million euros. At the end of the reporting period 14 bonds were held by the Company itself and the liability on the statement of financial position has been reduced by 1.4 million euros (31 December 2016: 29 bonds with the value of 2.9 million euros). The last emission of the bonds was issued with a discount of 3%, therefor 150 bonds are accounted for at a discounted rate. The total value of secured fixed rate bonds on the statement of financial position on 31 December 2017 was 27.7 million euros (31 December 2016: 26.1 million euros).

Secured, callable, fixed rate bonds of the Company are secured with shares of all subsidiaries of the Group.

The Company applied respectively for the listing of secured bonds on Nasdaq Stockholm and starting from 8 July 2015 the bonds have been listed.

Registration date of bonds issued	1 Aug 2013	15 April 2014	16 Sept 2014	27 May 2015	28 July 2015	March 2016	May 2016
Number of bonds	640	300	300	7 000	6 400	900	15 000
Issue price per bond	10 000 EUR	10 000 EUR	10 000 EUR	100 000 EUR	100 000 EUR	100 000 EUR	100 000 EUR
Total nominal value, in euros	640 000	300 000	300 000	7 000 000	6 400 000	900 000	15 000 000
Return per annum (%) from issue price	5%	5%	5%	8%	8%	8%	8%
Bond interest payment frequency	Once a year	Once a year	Once a year	Twice a year	Twice a year	Twice a year	Twice a year
Redemption date	15 Aug 2018	23 April 2019	24 Sept 2019	1 June 2020	1 June 2020	1 June 2020	1 June 2020

Number of bonds	2017	2016
Number of non-convertible bonds at the beginning of period	124	224
Number of non-convertible bonds redeemed	0	-100
Number of non-convertible bonds at the end of period	124	124

in thousands of euros	2017	2016
Value of non-convertible bonds at the beginning of period	1 240	2 240
Value of redeemed non-convertible bonds	0	-1 000
Value of the bonds at the end of the period	1 240	1 240

Current portion of liabilities at the end of the reporting period	640	0
Non-current portion of liabilities at the end of the reporting period	600	1 240

Number of bonds	2017	2016
Number of secured fixed rate bonds at the beginning of period	293	134
Number of secured fixed rate bonds issued	0	159
Number of secured fixed rate bonds at the end of period	293	293

in thousands of euros	2017	2016
Value of secured fixed rate bonds at the beginning of period	29 300	13 400
Value of secured fixed rate bonds issued	0	15 900
Value of secured fixed rate bonds issued at the end of the period	29 300	29 300

Current portion of liabilities at the end of the reporting period	0	0
Non-current portion of liabilities at the end of the reporting period	29 300	29 300

Allkirjastatud identifitseerimiseks:
AS Deloitte Audit Eesti

Note 18. Collaterals and pledged assets

Liabilities disclosed in Note 16 of these consolidated financial statements are pledged with the following properties:

in thousands of euros

Beneficiary	Collateral description	31.12.2017	31.12.2016	Note
Swedbank AS (Estonia)	Põhja Avenue 21, 21a, 21 b-1, Tallinn	N/A	5 475	11
Swedbank AS (Estonia)	Põhja Avenue 21, 23, Tallinn	N/A	283	11
Luminor Bank AS (Nordea Bank AB)	Sõjakooli St 12, 12a, 12b, 12c, Tallinn	5 612	230	10
Luminor Bank AS (Nordea Bank AB)	Sammu St 6, 6a, 6b, Tallinn	2 355	2 310	12
Luminor Bank AS (Nordea Bank AB)	Marsi 6, Tallinn	2 653	N/A	10
Luminor Bank AS (Nordea Bank AB)	Sõjakooli 11, Tallinn	732	720	11
Lintgen Adjacent Investments S.A.R.L.	Peterburi 2, Tallinn	59 450	33 500	12
AS Swedbanka (Latvia)	Pulkveza Brieza St 11, Riga	N/A	5 364	11
AS Swedbanka (Latvia)	Trijadibas St 5, Riga	27 701	22 877	10,12

AS Pro Kapital Grupp has pledged in favour of Nordic Trustee & Agency AB the shares of all subsidiaries of the Group. The pledges have been set to guarantee non-convertible bonds issued in 2015 and 2016 in total amount of 29.3 million euros. The total value of pledged shares is 63 million euros. In addition to share pledges, the Parent's bank accounts held with Nordea Bank AB (Luminor) in Sweden are pledged. The balance of cash in Nordea (Luminor) bank pledged accounts was 374 thousand euros on 31 December 2017.

During third quarter in 2017 the Company exited Tallinn and Riga hotel operations by selling both hotel operating companies, property in Tallinn and property-owning company in Riga. As a result, loans that were related to the hotel properties were repaid. Due to sales also, hotel operating companies' shares were released from pledge. The Company transferred proceeds from hotel operating companies' shares to the deposit account of Nordic Trustee. The shares of Riga hotel property owning company Investhotel SIA were not pledged.

The Company had issued a guarantee to Swedbank AS (Latvia) to assure the potential liability of Klīversala SIA, an entity belonging to Pro Kapital Latvia subsidiary group, as Swedbank AS had issued a guarantee letter in amount of 8 084 thousand euros to VAS „Privatizācijas aģentūra" to assure the investment liabilities related to contract concluded between Klīversala SIA and VAS „Privatizācijas aģentūra". During reporting period, the Company has fulfilled investment obligations towards VAS „Privatizācijas aģentūra" and the guarantee has been withdrawn.

Note 19. Share capital and reserves

Share capital

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

On 31 December 2016 the share capital in the amount of 10 854 thousand euros consisted of 54 271 722 ordinary shares at a nominal value of 0.20 euros per share. On 19 September 2017 the Company announced a public offering of shares of AS Pro Kapital Grupp. AS Pro Kapital Grupp offered up to 6 000 000 shares at price range 1.80 to 2.30 euros, of which 0.20 euros was the nominal value and the rest share issue premium. The shares were offered from 20 September till 4 October 2017. On 6 October 2017 the Supervisory Council of AS Pro Kapital Grupp decided on allocation of the subscribed shares. In total 2 416 232 new shares were allocated to the investors at the issue price of 1.80 euros (0.20 euros as nominal value and 1.60 euros as share premium) for each share. The Management Board of AS Pro Kapital Grupp decided to cancel 3 583 768 shares which were not subscribed for. On 19 October 2017 the increase of share capital of AS Pro Kapital Grupp was registered in the Commercial Register. AS Pro Kapital Grupp received from the issue of shares net cash 4 328 thousand euros after deducting issue related costs.

On 31 December 2017 the share capital in the amount of 11 338 thousand euros consisted of 56 687 954 ordinary shares at a nominal value of 0.20 euros per share. All shares have been paid for in full.

According to the articles of association effective on 31 December 2017, the minimum share capital amounts to 6 000 thousand euros, whereas maximum share capital amounts to 24 000 thousand euros.

As described in Note 17 to these consolidated financial statements, AS Pro Kapital Grupp has issued convertible bonds. The owners of the convertible bonds have not exercised their option to convert the bonds into shares of the Group.

Reserves

Statutory legal reserve of the Parent is recorded based on the requirements of the Estonian Commercial Code § 336 and is comprised of the provisions made from the net profit. The statutory legal reserve as at 31 December 2017 amounted to 1 082 thousand euros (2016: 1 082 thousand euros).

Revaluation surplus results from adoption of revaluation model to property, plant and equipment (specifically land and buildings) under IAS 16 "Property, Plant and Equipment". Revaluation surplus as at 31 December 2017 is 3 256 thousand euros (2016: 9 462 thousand euros). Decrease in amount of 6 202 thousand euros resulted from exiting hotel operations in Tallinna and in Riga, 4 thousand euros from adjustment of deferred tax related to German hotel.

Note 20. Non-controlling interest

in thousands of euros	31.12.2017	31.12.2016
Arising from AS Pro Kapital Eesti subgroup	1 395	1 799
Total	1 395	1 799

At the end of 2016 and in 2017 the Group had only one subsidiary with non-controlling interests - AS Tallinna Moekombinaat in Estonia.

On 24 January 2017 Pro Kapital group company AS Pro Kapital Eesti concluded the contract for purchase of minority shareholding of its subsidiary AS Tallinna Moekombinaat in amount of 300 000 of the A-shares of AS Tallinna Moekombinaat for 480 thousand euros, which represents 1.40 % of all AS Tallinna Moekombinaat shares. After acquisition AS Pro Kapital Eesti holds 93.35% of AS Tallinna Moekombinaat shares.

The goal of purchase of the participation was to increase Pro Kapital's shareholding in the company developing T1 shopping and entertainment centre.

	AS Tallinna Moekombinaat
Principal place of business	Estonia
Non-controlling interest as at 31.12.2016	8.05%
Purchase of minority shareholding	-1.40%
Non-controlling interest as at 31.12.2017	6.65%

Summarised financial information	AS Tallinna Moekombinaat	
in thousands of euros	31.12.2017	31.12.2016
Current assets	2 919	3 659
Non-current assets	59 456	33 500
Current liabilities	3 884	3 080
Non-current liabilities	38 065	12 284
Equity attributable to owners	20 426	21 795
including non-controlling interest	*1 395*	*1 799*

in thousands of euros	2017	2016
Operating loss	-728	-946
Loss before tax	-1 369	-1 294
Loss for the year	-1 369	-1 294
Attributable to:		
Owners of the Company	-1 270	-1 182
Non-controlling interest	-99	-112
Total comprehensive income for the year	-1 369	-1 294
Attributable to:		
Owners of the Company	-1 270	-1 182
Non-controlling interest	-99	-112
Net cash flows used in/ generated by operating activities	1 088	-1 710
Net cash flows used in investing activities	-23 892	-7 705
Net cash flows generated by financing activities	22 790	9 400
Net change in cash and cash equivalents	-14	-15

Note 21. Revenue

	Continuing operations		Discontinued operations (Note 27)		Total	
in thousands of euros	2017	2016	2017	2016	2017	2016
Revenue from sale of real estate	6 621	12 902	0	0	6 621	12 902
Rental revenue	175	170	0	0	175	170
Hotel operating revenue	3 533	2 901	2 021	3 042	5 554	5 943
Revenue from maintenance and other services	1 748	1 637	0	0	1 748	1 637
Total	12 077	17 610	2 021	3 042	14 098	20 652

Note 22. Cost of sales

	Continuing operations		Discontinued operations (Note 27)		Total	
in thousands of euros	2017	2016	2017	2016	2017	2016
Cost of real estate sold	3 303	8 536	0	0	3 303	8 536
Cost of providing rental services	182	116	0	0	182	116
Cost of hotel operations	2 516	2 547	1 202	1 910	3 718	4 457
Cost of maintenance and other services	1 515	1 489	0	0	1 515	1 489
Total	7 516	12 688	1 202	1 910	8 718	14 598

in thousands of euros	Continuing operations 2017	2016	Discontinued operations (Note 27) 2017	2016	Total 2017	2016
Personnel expenses	1 069	917	210	333	1 279	1 250
Depreciation charge	131	233	208	353	339	586
Other	6 316	11 538	784	1 224	7 100	12 762
Incl cost of real estate sold	*3 129*	*8 360*	*0*	*0*	*3 129*	*8 360*
Incl maintenance services purchased	*1 317*	*1 590*	*150*	*231*	*1 467*	*1 821*
Incl supplies costs	*470*	*424*	*33*	*57*	*503*	*481*
Incl commissions and service fees	*248*	*218*	*97*	*123*	*345*	*341*
Total	7 516	12 688	1 202	1 910	8 718	14 598

Note 23. Marketing and administration expenses

Marketing expenses in thousands of euros	Continuing operations 2017	2016	Discontinued operations (Note 27) 2017	2016	Total 2017	2016
Personnel expenses	247	141	28	36	275	177
Other	575	304	27	37	602	341
Total	822	445	55	73	877	518

Sales and marketing costs have increased significantly in 2017 due to active development to boost real estate sales.

Administration expenses in thousands of euros	Continuing operations 2017	2016	Discontinued operations (Note 27) 2017	2016	Total 2017	2016
Personnel expenses	2 593	2 694	80	131	2 673	2 825
Depreciation charge	95	92	10	17	105	109
Amortisation charge	2	2	0	0	2	2
Land and real estate taxes	488	550	0	0	488	550
Other	2 078	1 793	115	117	2 193	1 910
Total	5 256	5 131	205	265	5 461	5 396

In 2017, average number of employees in the Group was 107 (2016: 114) and total personnel cost (included in direct, marketing and administrative costs) 2017 was 4.22 million euros compared to 4.25 million euros in 2016.

Note 24. Other operating income and expenses

Other income in thousands of euros	Continuing operations 2017	2016	Discontinued operations (Note 27) 2017	2016	Total 2017	2016
Fines collected	200	35	0	0	200	35
Gain from sales of property, plant and equipment	3 045	0	0	0	3 045	0
Other gain from property, plant and equipment	26	0	0	0	26	0
Gain from fair value adjustments	530	0	0	0	530	0
Other	313	148	33	71	346	219
Total	4 114	183	33	71	4 147	254

Other expenses in thousands of euros	Continuing operations 2017	2016	Discontinued operations (Note 27) 2017	2016	Total 2017	2016
Fines paid	17	28	0	0	17	28
Loss from sales of property, plant and equipment	0	3	0	0	0	3
Impairment of property, plant and equipment	0	30	0	0	0	30
Loss from fair value adjustments	0	599	0	0	0	599
Loss from disposal of hotel business	346	0	0	0	346	0
Other	437	37	3	6	440	43
Total	800	697	3	6	803	703

Other income is influenced by sales of Estonian and Latvian hotel properties resulting in 3 045 thousand euros profit (Note 11) and revaluation of investment properties into fair value (Note 12). The effect of revaluation was insignificant in 2017. Negative adjustment of 2016 was influenced by the fact that T1 shopping centre is under construction and value cannot be fixed so precisely in the moment of time. In 2017 main fair value differences came from Tondi and Kalaranna properties due to changes in main assumptions.

Loss from disposal of hotel business is related to the sales of hotel operating company Hotel Management Services SIA.

Note 25. Finance income and cost

Finance income	Continuing operations		Discontinued operations (Note 27)		Total	
in thousands of euros	2017	2016	2017	2016	2017	2016
Interest income	6	11	0	1	6	12
Gain from foreign currency translation	0	1	0	0	0	1
Total	6	12	0	1	6	13

Finance cost	Continuing operations		Discontinued operations (Note 27)		Total	
in thousands of euros	2017	2016	2017	2016	2017	2016
Interest expenses:	3 148	2 772	114	186	3 262	2 958
Interest expenses of convertible and non-convertible bonds	*3 077*	*2 627*	*0*	*0*	*3 077*	*2 627*
Interest expenses of loans and overdrafts	*71*	*145*	*114*	*186*	*185*	*331*
Other financial expenses	204	554	0	0	204	554
Total	3 352	3 326	114	186	3 466	3 512

Bond interest conditions are described in Note 17, bank loans in Note 16. Interests on financing from Lintgen Adjacent Investments for T1 project are capitalised and recorded as part of investment property and therefor have not influenced current interest expenses from loans (Note 12).

Note 26. Income tax

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

Rates of statutory corporate income tax	2017	2016
Estonia	20%	20%
Latvia	15%	15%
Lithuania	15%	15%
Germany	15%	15%

According to current Income Tax Act in Estonia net profit is not taxed until distribution.

Income tax expense in unconsolidated reports

in thousands of euros 2016	Estonia	Latvia	Lithuania	Germany	Total
Profit (loss) before taxation (unconsolidated)	-4 702	-891	1 971	-706	-4 328
Income tax, statutory rate	0	-134	296	0	162
Non-deductible expenses	0	50	12	0	62
Non-taxable income and tax incentive	0	-24	-10	0	-34
Tax loss utilised	0	-6	-30	0	-36
Reversals	0	170	0	0	170
Total income tax expense	0	56	268	0	324
Effective income tax rate	0%	0%	14%	0%	0%

in thousands of euros 2017	Estonia	Latvia	Lithuania	Germany	Total
Profit (loss) before taxation (unconsolidated)	-1 124	4 606	1 289	-171	4 600
Income tax, statutory rate	0	691	193	0	884
Non-deductible expenses	0	38	4	0	42
Non-taxable income and tax incentive	0	-858	-240	0	-1 098
Tax loss utilised	0	-10	0	0	-10
Reversals	0	175	69	0	244
Total income tax expense	0	36	26	0	62
Effective income tax rate	0%	1%	2%	0%	1%

Income tax expense in consolidated report

in thousands of euros	2017	2016
Loss before income tax (continuing and discontinued)	-1 075	-3 698
Estimated income tax respective to the tax rates	265	55
Adjustments to estimated income tax:		
Non-deductible expenses (+)	42	62
Non-taxable income and tax incentive	-1 098	-34
Tax loss utilised	-10	-36
Reversal loss carry forward (+)	244	170
Income tax expense	-557	217
Including tax expense in continuing operations	*-596*	*163*
Including tax expense in discontinued operations	*39*	*54*
Effective tax rate	N/A	N/A
Income tax expense	62	324
Deferred income tax expense	-619	-107
Total effect on income statement	-557	217
Income tax paid	423	139

Deferred income tax asset and liability (net) movements

in thousands of euros	Accelerated tax depreciation	Deferred development cost	Revaluation of assets	Deferred tax losses	Total
1.12.2016	145	0	4 068	-710	3 503
Effect on income statement:					
Income tax expenses of the reporting period	-3	-30	-15	-59	-107
Effect on equity:	0	0	-36	0	-36
31.12.2016	142	-30	4 017	-769	3 360
Effect on income statement:					
Income tax expenses and reclaims of the reporting period	-16	1 661	-3 033	769	-619
Effect on equity:	-126	0	-557	0	-683
31.12.2017	0	1 631	427	0	2 058

Deferred income tax balances

in thousands of euros	31.12.2017	31.12.2016
Deferred income tax liability (+)	2 058	3 360
Total, net	2 058	3 360

Contingent corporate income tax

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

in thousands of euros	31.12.2017	31.12.2016 (adjusted)
Group’s retained earnings	59 950	56 764
Estonian tax rate applicable	20%	20%
Contingent CIT obligation	11 990	11 353
Maximum net dividend	47 960	45 411

The calculation of maximum possible income tax liability is based on the assumption that the sum of distributable net dividends and the income tax expense which occurs on distribution of dividends cannot exceed total retained earnings as at 31 December 2017 and 31 December 2016.

The Parent has potential opportunity (in case of retained earnings) to pay dividends that are not taxable with income tax in amount of 44 647 thousand euros because the Parent has received dividends from its subsidiary Pro Kapital Latvia PJSC, which is the resident and taxable person in the Republic of Latvia. The maximum related possible income tax free amount that could be considered as contingent asset and could be paid as net dividends is 11 162 thousand euros.

Note 27. Discontinued operations

On 25 July 2017 the Company concluded the contract for the sale of group hotels PK Ilmarine and PK Riga. The object of the transaction was the sale of both operating activities and real estate of hotels and exiting hotel operations in Estonia and in Latvia. Transaction concerning Estonian segment involved completion of the sale of 100% shares of OÜ Hotel Management Services (operator of PK Ilmarine Hotel) and sale of real estate used by PK Ilmarine Hotel. Sale of PK Ilmarine Hotel was completed on 25 July 2017. Transaction concerning Latvian segment involved sale of 100% shares of SIA Hotel Management Services (operator of PK Riga Hotel) and 100% shares of SIA Investhotel (owner of real estate of PK Riga Hotel). Sale of PK Riga Hotel was completed on 22 August 2017. The goal of the transaction was to exit Tallinn and Riga hotel market which has not been a core business for the Company and to help to speed up the development of its real estate projects in the market which has positive trends.

Results of discontinued operations

in thousands of euros	Notes	2017	2016
Operating income			
Revenue	21	2 021	3 042
Cost of sales	22	-1 202	-1 910
Gross profit		819	1 132
Marketing expenses	23	-55	-73
Administration expenses	23	-205	-265
Other operating income	24	33	71
Other operating expenses	24	-4	-6
Operating profit		588	859
Finance income	25	0	1
Finance cost	25	-114	-186
Profit before income tax		474	674
Income tax		-39	-54
Profit from discontinued operations attributable to owners of the Company		435	620
Earnings per share from discontinued operations (EUR)		0.01	0.01

Cash flows generated by discontinued operations

in thousands of euros	2017	2016
Net cash generated by operating activities	485	1 111
Net cash generated by/ used in investing activities	934	-75
Net cash used in financing activities	-496	-971
Net cash generated by discontinued operations	923	65

Note 28. Earnings per share

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

Average number of shares:

For the period	01.01.2017-31.12.2017	(54 271 722* 292/365+56 687 954*73/365)	=54 754 968
For the period	01.01.2016-31.12.2016	(54 203 938* 354/366+54 271 722*12/366)	=54 206 160

Indicative earnings per share from continuing operations:

2017	- 854 thousand euros/ 54 754 968 = -0.02 euros
2016	- 4 546 thousand euros/ 54 206 160 = -0.08 euros

Indicative earnings per share for the period:

2017	-419 thousand euros/ 54 754 968 = -0.01 euros
2016	-3 913 thousand euros/ 54 206 160 = -0.07 euros

The convertible bonds issued by the Company did not have a dilutive effect on earnings in 2017 and 2016, therefore they have not been included in the calculation of the diluted net loss per share and diluted net loss per share equals the net loss per share indicator.

Note 29. Transactions and balances with related parties

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

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

Transactions with related parties

in thousands of euros	2017	2016
Significant owners and owner related companies		
Sales of goods/ services	69	78
Purchase of goods/ services	7	12
Purchase of minority shares	480	550
Payment for minority shares	480	911
Redemption of non-convertible bonds	0	1 000
Interest expenses incurred	0	91
Interest payments	0	91
Minority shareholders		
Interest expenses incurred	37	38
Other shareholders/ bondholders		
Interest expenses incurred	797	794
Redemption of convertible bonds	733	123
Interest payments	825	830
Members of the Management Board and Council		
Salaries and bonuses paid to management	802	872
Sales of goods/ services	0	290
Purchase of goods/ services	7	6

On 24 January 2017 Pro Kapital group company AS Pro Kapital Eesti concluded the contract for purchase of minority shareholding of its subsidiary AS Tallinna Moekombinaat in amount of 300 000 of the A-shares of AS Tallinna Moekombinaat for 480 thousand euros, which represents 1.40 % of all AS Tallinna Moekombinaat shares.

The Company is disclosing information about redemption, interest calculations/ payments for convertible bonds as most of the bondholders are shareholders of the Parent as well.

Receivables from related parties

in thousands of euros	31.12.2017	31.12.2016
Short-term receivables		
Receivables from related parties (Note 9)	2	11
Total	2	11

Receivables from related parties consist of trade receivables.

No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. The Group has provided loans to related parties at rates comparable to the average commercial rate of interest. The loans to related parties had no collaterals.

Payables to related parties

in thousands of euros	31.12.2017	31.12.2016
Short-term payables		
Dividends payable to shareholders (Note 14)	851	0
Long-term payables		
To minority shareholders	437	400
Total	1 288	400

On 15 January 2018 the Company distributed dividends to its shareholders as per decision of an extraordinary shareholders' meeting held on 20 December 2017.

Long-term payables include loan and interest balances owed to minority shareholders of AS Tallinna Moekombinaat. The balance on 31 December 2017 consists of 308 thousand euros loan amounts and accumulated interests in amount 129 thousand euros. Loans and interests will be due in 2029.

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

Holdings in the Parent	31.12.2017	31.12.2016
Significant owner and owner related companies	39.55%	43.42%
Members of the Council and individuals related them	0.10%	0.02%
Members of the Board and individuals related them	0.50%	0.47%

Note 30. Subsequent events

On 15 January 2018 the Parent distributed dividends to its shareholders in total amount of 850 319 euros, 0.015 euros per each share. The decision to pay dividends was taken on extraordinary shareholders' meeting held on 20 December 2017.

On 22 January 2018 the Company prolonged the redemption date of 378 070 PKG2 convertible bonds by 2 years. New redemption date is 20 January 2020.

On 30 January 2018 Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the fourth building of second construction phase of Kristina Houses. A 5-storey residential building with 31 apartments shall be completed, which is the seventh building of Kristina Houses development. The planned completion of the works is April 2019 and the price of construction works is slightly over 2.8 million euros without VAT.

On 9 March 2018 the Company announced about intention to reorganise its subsidiary Pro Halduse OÜ and reduce maintenance service business in Estonia. The goal of the maintenance services has been and also will be in the future, to provide good quality maintenance service to the buyers of the apartments and to get feedback of any maintenance issues, to be able to use such information for improvements in future developments. Providing maintenance services to other properties under maintenance has not been the part of the core strategy of the group nor has it provided any significant profit for the group. Therefor it has been decided that the Company will concentrate on providing maintenance services only to the properties developed by Pro Kapital in recent years and to be developed in the future, all maintenance services to other properties will be terminated in the next few months. The influence of the reorganisation of the maintenance service business in Estonia for the group is as follows: based on 2017 financial results the group revenue will decrease by 1 352 thousand euros and gross profit by 155 thousand euros. The reorganization does not have material effect on profitability of the group.

Note 31. 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.

Financial risks

Financial assets

in thousands of euros	31.12.2017	31.12.2016
Cash and bank balances	10 317	5 383
Current receivables	4 888	4 475
Non-current receivables	37	42
Total	15 242	9 900

Financial assets include cash and bank balances and short-term and long-term receivables. The Group does not have any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets.

Financial liabilities

in thousands of euros	31.12.2017	31.12.2016
Current debt	6 738	8 261
Current payables	10 091	8 502
Non-current debt	62 527	38 040
Non-current payables	3 437	804
Total	82 793	55 607

Financial liabilities include bank loans, convertible and non-convertible bonds, payables to suppliers, loans from minority shareholders. Financial liabilities of the Group belong to category 'other financial liabilities at amortised cost'.

Interest risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. Main interest risk rises from bank loans of the Group. In general, the interest rates of loans raised by the entities belonging to Group are fixed through Euribor plus a risk margin. Interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. Minimum 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 is based on the Group's financing strategy in the short-term.

The breakdown of interest bearing financial debt is as follows:

in thousands of euros	31.12.2017	31.12.2016
Fixed rate liabilities	62 239	39 868
Variable rate liabilities (1-12 months)	168	3 157
Variable rate liabilities (12+ months)	6 968	3 487

The management does not expect significant changes in base interest rates as those have shown stability and interest rates remain low. Assuming 100 bp rise in Euribor, there would be no change in position of liabilities and interest expense would increase by 71 thousand euros (75 thousand euros in 2016) and net profit would decrease by 71 thousand euros (75 thousand euros in 2016).

Cash in banks also bear interest risk, especially due to negative rates and possible flooring. As at 31 December 2017 the Group had 10 283 thousand euros on bank accounts (31 December 2016: 5 349 thousand euros).

Currency risk

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

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

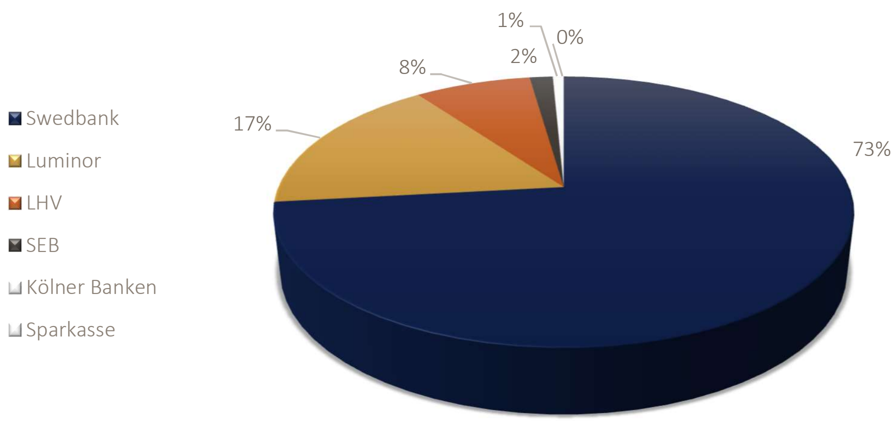
Credit risk

The Credit risk expresses potential loss that occurs, when counterparty does not fulfil their contractual obligations to the Group resulting in financial loss.

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

For rental, hotel and maintenance businesses the payment discipline of the customers is consistently followed and dealt with for mitigating the credit risk. Credit evaluations are performed and prepayments are requested for, where appropriate. Historically the Group has not carried significant losses for the bad debts.

Also, cash accounts with the banks are subjects to the credit risk. The Group has narrowed the risk by having its assets in different high ratings assigned banks. Currently the Group is holding assets in the following banks: Swedbank, Luminor (former Nordea), LHV, SEB, Kölner Banken and Sparkasse. Cash on accounts in the banks as at 31 December 2017 is distributed as follows:



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 manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by constantly monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. As at 31 December 2017 the working capital of the Group's is positive and the current assets portion of short-term liabilities is 2.2 (as at 31 December 2016: 1.2).

Financial liabilities of the Group by due dates:

		Repayment of liabilities				Repayment of liabilities		
in thousands of euros	31.12.2017	Within 1 year	Within 2-5 years	After 5 years	31.12.2016	Within 1 year	Within 2-5 years	After 5 years
Bank loans	35 545	412	35 133	0	8 166	3 275	4 891	0
Other loans	862	0	0	862	862	0	0	862
Convertible bonds	11 432	6 719	4 713	0	12 377	5 867	6 510	0
Non-convertibles	1 368	722	646	0	1 430	62	1 368	0
Secured bonds	35 526	2 232	33 294	0	35 728	2 112	33 616	0
Trade payables	9 481	9 481	0	0	8 024	8 024	0	0
Other debt	13 010	7 416	5 594	0	3 081	2 268	813	0
Total	107 224	26 982	79 380	862	69 668	21 608	47 198	862

Financial liabilities carrying interests include accumulated interest amounts until repayment.

Short-term liabilities of the Group (loans and bonds) by due dates:

in thousands of euros	31.12.2017	Repayment of liabilities Within 1 month	2-3 months	4-12 months	31.12.2016	Repayment of liabilities Within 1 month	2-3 months	4-12 months
Bank loans	412	23	46	343	3 275	70	138	3 967
Convertible bonds	6 719	1 421	0	5 298	5 867	389	1 614	3 864
Non-convertible bonds	722	62	0	660	62	62	0	0
Secured bonds	2 232	0	0	2 232	2 112	0	0	2 112
Total	**10 085**	**1 506**	**46**	**8 533**	**11 316**	**521**	**1 753**	**9 043**

Financial liabilities carrying interests include accumulated interest amounts until repayment. Convertible bond PKG2 redemption payment did not realise. On 22 January 2018 the Company prolonged the redemption date of 378 070 PKG2 convertible bonds by 2 years for amount of 1 058 596 euros. New redemption date is 20 January 2020 (Note 17).

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.

Business risk

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

The global financial crisis and the accompanying economic crisis in the past years have been affecting negatively development of the real estate as well as tourism sector. Today economy is growing and the Group strives to take advantage of the positive trend.

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

Following instruments are exposed to market risk as at 31 December 2017:

		Allocation by due dates		
in thousands of euros	Carrying amount	Within 1 year	2-5 years	More than 5 years
Investment property (Note 12)	114 140	0	0	114 140
Property, plant and equipment (Note 11)	7 435	0	0	7 435
Inventories (assets held for sale) (Note 10)	38 024	4 962	33 062	0
Financial debt	69 375	6 738	62 329	308

In 2017 the net result from revaluation of investment property was 530 thousand euros (2016: minus 599 thousand euros). Interest expense on financial debt was 3 262 thousand euros (2016: 2 958 thousand euros).

The Group's Management believes that all necessary measurements have been adopted to provide a sustainable development.

Capital risk management

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

	31.12.2017	31.12.2016
Equity to total assets	47.20%	56.39%
Debt to total assets	52.80%	43.61%
Long-term debt level	38.89%	29.89%

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

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

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

Estonian Commercial Code §301 establish a restriction to the level of mandatory equity level: total equity shall not be less than ½ of registered share capital. Under the Estonian Accounting Act such a compliance assessment is made based on the adjusted unconsolidated equity of the Parent. The adjusted unconsolidated equity equals unconsolidated equity of the parent less book values of investments into subsidiaries measured at cost less impairment plus the amount of investments into subsidiaries measured under the equity method of accounting. As disclosed in Note 33 to these consolidated financial statements, the Parent has been in compliance with such an equity restriction as at 31 December 2017 and 31 December 2016.

Note 32. Lawsuits

To bring out better the events which might have material financial effect on the Company and its share price and not to burden the reporting with smaller litigation issues, the Group has set the policy to disclose in its reporting pending court litigation disputes which might have material financial effect on the Company and its share price. As per the policy all disputes which might have financial effect of at least 100 000 euros (at once or during the period of one financial year) are disclosed in the reporting.

In the opinion of the Management Board AS Pro Kapital Grupp and its subsidiaries did not have at the end of the reporting period any pending court litigation which might have financial effect of at least 100 000 euros.

Note 33. Supplementary disclosures on the parent

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

Statement of financial position

in thousands of euros	31.12.2017	31.12.2016
ASSETS		
Current assets		
Cash and cash equivalents	2 715	892
Current receivables	2 669	2 898
Total current assets	**5 384**	**3 790**
Non-current assets		
Investments in subsidiaries	29 165	28 396
Non-current receivables	21 355	22 148
Intangible assets	25	1
Total non-current assets	**50 545**	**50 545**
TOTAL ASSETS	**55 929**	**54 335**
LIABILITIES AND EQUITY		
Current liabilities		
Current debt	6 571	5 105
Current payables	26 005	23 732
Tax liabilities	60	40
Short-term provisions	1 576	720
Total current liabilities	**34 212**	**29 597**
Non-current liabilities		
Long-term debt	32 592	33 267
Non-current payables	44 844	44 589
Other non-current payables	45	20
Total non-current liabilities	**77 481**	**77 876**
Total liabilities	**111 693**	**107 473**
Equity		
Share capital in nominal value	11 338	10 854
Share premium	5 661	1 816
Statutory reserve	1 082	1 082
Accumulated losses	-73 845	-66 890
Total equity	**-55 764**	**-53 138**
TOTAL LIABILITIES AND EQUITY	**55 929**	**54 335**

Allkirjastatud identifitseerimiseks:

AS Deloitte Audit Eesti

PROKAPITAL

Statement of income

in thousands of euros	2017	2016
Operating income		
Revenue	607	523
Gross profit	607	523
Marketing expenses	-17	-38
Administration expenses	-2 061	-1 799
Other operating income	0	10
Other operating expenses	0	-5
Operating loss	-1 471	-1 309
Finance income and cost		
Interest income	737	815
Interest expense	-5 346	-5 181
Other finance income and cost	-25	-545
Loss for the year	-6 105	-6 220

Statement of cash flows

in thousands of euros	2017	2016
Cash flows from operating activities		
Loss for the year	-6 105	-6 220
Adjustments for:		
Amortisation of intangible assets	2	2
Finance income and costs	4 634	4 911
Other non-monetary changes	0	222
Change in receivables and prepayments	131	-1 013
Change in liabilities and prepayments	42	794
Cash flow used in operating activities	-1 296	-1 304
Cash flows from investing activities		
Payments for intangible assets	-25	0
Loans granted	-1 970	-5 976
Repayments of loans granted	3 338	5 000
Interest received	272	0
Payments into share capital of subsidiaries	-769	0
Cash flows used in/ generated by investing activities	846	-976

Cash flows from financing activities		
Share capital raised	483	0
Share premium raised	3 846	0
Proceeds from bonds	1 443	12 637
Bonds redeemed	-773	-1 123
Proceeds from borrowings	672	1 290
Repayments of borrowings	-417	-9 632
Interests paid	-2 981	-3 153
Cash flows generated by financing activities	**2 273**	**19**
Net change in cash and cash equivalents	**1 823**	**-2 261**
Cash and cash equivalents at the beginning of the year	892	3 153
Cash and cash equivalents at the end of the year	2 715	892

Statement of changes in equity

in thousands of euros	Share capital	Share premium	Statutory reserve	Retained earnings	Loss for the year	Total equity
1.12.2016	**10 841**	**1 669**	**1 082**	**-55 203**	**-5 467**	**-47 078**
Increase of share capital	13	147	0	0	0	160
Allocation of net loss	0	0	0	-5 467	5 467	0
Result of the financial year	0	0	0	0	- 6 220	-6 220
31.12.2016	**10 854**	**1 816**	**1 082**	**-60 670**	**-6 220**	**-53 138**
Cost of subsidiaries' shares	X	X	X	X	X	-28 396
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	161 323
Adjusted unconsolidated equity (Note 31) 31.12.2016	**X**	**X**	**X**	**X**	**X**	**79 790**
Increase of share capital	484	3 845	0	0	0	4 329
Distribution of dividends	0	0	0	-850	0	-850
Allocation of net loss	0	0	0	-6 220	6 220	0
Result of the financial year	0	0	0	0	- 6 105	-6 105
31.12.2017	**11 338**	**5 661**	**1 082**	**-67 740**	**-6 105**	**-55 764**
Cost of subsidiaries' shares	X	X	X	X	X	-29 165
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	167 611
Adjusted unconsolidated equity (Note 31) 31.12.2017	**X**	**X**	**X**	**X**	**X**	**82 682**

Signatures of the Management Board and Supervisory Council to the consolidated annual report 2017

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2017.

Paolo Michelozzi

Chairman of the Management Board ______________ 18 April 2018

Allan Remmelkoor

Member of the Management Board ______________ 18 April 2018

Edoardo Preatoni

Member of the Management Board ______________ 18 April 2018

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

Emanuele Bozzone

Chairman of the Supervisory Council — 23 April 2018

Pertti Huuskonen

Member of the Supervisory Council — 23 April 2018

Petri Olkinuora

Member of the Supervisory Council — 23 April 2018

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

Opinion

We have audited the consolidated financial statements of AS Pro Kapital Grupp and its subsidiaries (hereafter "the Group") set out on pages 59 to 138, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Accounting Act and International Financial Reporting Standards (IFRSs) as adopted by the European Commission.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) (Estonia). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code (Estonia). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How our audit addressed the key audit matter**
Valuation of investment property	
As at 31 December 2017 the carrying value of investment properties amounted to 114 140 thousand EUR and the fair value adjustment recorded in comprehensive income for the year in respect of investment properties is 530 thousand EUR profit. Significant judgment is required by management in determining the fair value of investment property.	Our audit procedures included: • We assessed the competence, capabilities and objectivity of management's independent appraiser. • We discussed the scope of the work of the independent appraiser with management and reviewed his terms of engagement to determine that there were no matters that affected appraiser's objectivity or imposed scope limitations upon him.

Key Audit Matter Valuation of investment property	How our audit addressed the key audit matter
The Group's investment properties comprise various categories of properties, the most significant being developments under construction and land plots for future development. The Group uses an independent appraiser to determine the fair values for all of the properties held in these categories. The inputs and assumptions with the most significant impact on these valuations are disclosed in Note 12, and include timing and costs of the potential developments, future rental and sales prices, timing of the revenue as well as the management's ability to realize those assumptions in Group's operations. Accordingly the valuation of investment properties is considered to be a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgment associated with determining the fair value.	• With the support of our real estate valuation specialists we evaluated management's judgments and independent valuation result, in particular: • The models used; and • The significant assumptions including discount rates, related revenue and construction costs and the timing of development plans. We compared the assumptions used to market data and historical financial information. We performed a sensitivity analysis on the significant assumptions to evaluate the extent of impact on the fair values and assessed the appropriateness of the entity's disclosures relating to these sensitivities. Furthermore, we selected a sample and tested data inputs underpinning the investment property valuation, to assess the accuracy, reliability and completeness thereof. We also assessed the appropriateness of the consolidated financial statements disclosures concerning those key management assumptions and pertaining to the investment property as such.

Other Information

Management is responsible for the other information. The other information comprises the Corporate profile and the Management report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Act and IFRSs as adopted by the European Commission and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public interest entities

Appointment of the Auditor

We were appointed as the statutory auditor by the Group's Shareholder's General Meeting on 24 May 2017. The length of our total uninterrupted engagement including previous renewals of the engagement and our reappointments as the statutory auditors is 18 years.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Audit Committee, which we issued on 28 March 2018.

Independence

We declare that during the audit we have remained independent of the Group in accordance with the provisions of Regulation No 537/2014 of the European Parliament and of the Council and the ethical requirements set out in Auditing Act.

We declare that, to the best of our knowledge and belief, no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided on specific requirements regarding the statutory audit of public-interest entities. Other than statutory audit services and services disclosed in the management report or consolidated financial statements, we provided no other services to the Group.

18 April 2018

Erki Usin
Certified Auditor, No. 496
AS Deloitte Audit Eesti
License No. 27

Profit allocation proposal

The Management Board of AS Pro Kapital Grupp proposes to cover the losses of the year ended at 31 December 2017 in amount of 419 thousand euros with retained earnings.