PROKAPITAL

AS PRO KAPITAL GRUPP

(Established and organized with limited liability in Estonia)

Public Offering of up to 37,000,000 Ordinary Shares
Offer Price Range EUR 1.90 to 2.05 per Offer Share

This is the offering and listing prospectus (the "**Prospectus**") for (i) the public offering of newly issued shares in AS Pro Kapital Grupp (the "**Company**", the Company together with its consolidated subsidiaries is hereinafter the "**Group**") and (ii) the listing of all shares of the Company (the "**Shares**") on the Main List of NASDAQ OMX Tallinn (the "**Tallinn Stock Exchange**").

The Company is offering up to 37,000,000 newly issued shares of the Company with the nominal value of EUR 0.2 each (the "**Offer Shares**"). The offering of the Offer Shares is made (i) to the public in Estonia, Latvia and Lithuania (the "**Retail Offering**") and (ii) to qualified investors in and outside of Estonia, Latvia and Lithuania (the "**Institutional Offering**"; the Retail Offering and the Institutional Offering are hereinafter jointly referred to as the "**Offering**"). The Institutional Offering will be made outside the United States in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") and in the United States to qualified institutional buyers ("**QIBs**"), as defined in and in reliance on Rule 144A ("**Rule 144A**") under the Securities Act.

The subscription period for the Offer Shares will commence on 27 August 2012 at 10.00 am (Eastern European Time – Estonian, Latvian and Lithuanian time) and expire on 7 September 2012 at 04.00 pm (Eastern European Time – Estonian, Latvian and Lithuanian time). The offer price per Offer Share (the "**Offer Price**") will be determined through a book-building process and will be the same for all investors in the Retail Offering and the Institutional Offering. The Offer Price range for the Offer Shares is EUR 1.90 to 2.05 (the "**Offer Price Range**"). The final Offer Price will be published by means of a stock exchange release on or about 10 September 2012 and on the Company's website www.prokapital.com.

The Company has granted the Global Coordinator an option to require the Company to issue up to an additional 1,000,000 new Shares (the "**Over-Allotment Shares**") in the course of the Offering at the same time with the issuance of the Offer Shares for purposes of covering possible over-allotments. The Company has also granted the Global Coordinator an option, exercisable within 30 days of the date of commencement of trading in the Shares in Tallinn Stock Exchange, to undertake stabilisation in accordance with European Commission Regulation (EC) No 2273/2003. Please also read Section 12 (Stabilisation) of Part III (Offering).

There is currently no public market for the Shares. The Company has filed an application with the Tallinn Stock Exchange regarding the listing of the Shares on the Main List of the Tallinn Stock Exchange (the "**Listing**"). The trading of the Shares is expected to commence on Main List of the Tallinn Stock Exchange on or about 14 September 2012 following the registration of the Offer Shares with the Estonian Central Register of Securities ("**ECRS**"). Please read Section 11 (Settlement and Trading) of Part III (Offering) in respect of the terms and conditions for the clearing and settlement of the Offer Shares.

Once the Offer Shares are registered with the ECRS, the Offer Shares will rank *pari passu* with all the existing Shares and the Offer Shares will be eligible for any dividends declared and paid on the Shares for the financial period starting on 1 January 2012, and for any dividends declared and paid thereafter. Possible dividends paid by the Company to shareholders who are not generally subject to taxation in Estonia may be subject to deduction of Estonian taxes as described in Part XV (Taxation).

YOU SHOULD READ THE WHOLE OF THIS PROSPECTUS. IN PARTICULAR, YOU SHOULD READ "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS THAT YOU SHOULD CONSIDER BEFORE INVESTING IN THE OFFER SHARES. THE CONTENTS OF THIS PROSPECTUS ARE NOT INTENDED TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT OWN LEGAL ADVISOR, FINANCIAL ADVISOR OR TAX ADVISOR FOR SUCH ADVICE. IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS PROSPECTUS OR THE ACTION YOU SHOULD TAKE, YOU SHOULD IMMEDIATELY CONSULT A PERSON WHO SPECIALIZES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES.

The Offering is not directed to persons whose involvement in the Offering requires any extra registration, prospectus or other measures in addition to those necessary under Estonian law and taken by the Company. No action has been or will be taken in any jurisdiction by the Company that would permit the offering of the Offer Shares other than in Estonia, Latvia and Lithuania, and the Offering is not being made in any jurisdiction in which it would not be permissible to offer the Offer Shares. The Offer Shares have not been, and will not be, registered under the Securities Act, nor under the securities laws of any state of the United States, nor under any other jurisdiction except Estonia, Latvia and Lithuania. The Shares, including the Offer Shares, may not be offered, sold, resold, allotted or subscribed to, directly or indirectly, in the countries where it is unlawful to do so without meeting additional requirements, unless any applicable exemption of those requirements exists. Please read Section 14 (Selling and Transfer Restrictions) of Part III (Offering). Distribution of copies of the Prospectus or any related documents are not allowed in those countries where such distribution or participation in the Offering requires any extra measures or is in conflict with the laws and regulations of these countries. Persons who receive this Prospectus or any related document should inform themselves about any restrictions and limitations on distribution of the information contained in this Prospectus and on acceptance of the Offering. The Company is not liable in cases where persons or entities take measures that are in contradiction with the restrictions mentioned in this paragraph.

Neither the delivery of this Prospectus nor any subscription or purchase made under this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company and/or the Group since, or that the information contained herein is correct as of any time subsequent to, the date of this document.

Advisor to the Company

PORTA / Finance

Global Coordinator and Book-runner

LHV pank

The date of this Prospectus is 22 August 2012.

CERTAIN INFORMATION ON THE PROSPECTUS

This Prospectus has been prepared by the Company in connection with the Offering and the Listing in accordance with the Estonian laws implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended (the "**Prospectus Directive**") and in accordance with the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing the Prospectus Directive, as amended (the "**Prospectus Regulation**").

This Prospectus has been registered with the Estonian Financial Supervision Authority (*Finantsinspektsioon*) (the "**Estonian Authority**") and has been validly notified to the Financial and Capital Market Commission of Latvia (*Finanšu un Kapitāla Tirgus Komisija*) (the "**Latvian Authority**") and the Bank of Lithuania (*Lietuvos Bankas*) (the "**Lithuanian Authority**"; each of the Estonian Authority, the Latvian Authority and the Lithuanian Authority are hereinafter the "**Authorities**" and each an "**Authority**").

Prospective investors should rely only on the information contained in this Prospectus. No person has been authorized to give any information or to make any representation in connection with the Offering or Listing other than as contained in this Prospectus. If given or made, such information or representation must not be relied upon as having been authorized by the Company, the Advisor, the Global Coordinator or the Book-runner. Neither the delivery of this Prospectus nor any sale or assignment based thereon shall, under any circumstances, create any implication that the information contained in the Prospectus is correct as of any time subsequent to the date hereof or that the operations of the Company have not since changed.

NOTICES TO INVESTORS

RESPONSIBILITY

This Prospectus has been prepared by the Company in connection with the Offering and the Listing and solely to enable potential investors to consider subscribing for the Offer Shares.

The information contained in this Prospectus has been provided by the Company and other sources identified herein. It is prohibited to copy or distribute the Prospectus or to reveal or use the information contained herein for any other purpose than considering the subscription for the Offer Shares.

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

The information appearing in the Prospectus concerning estimates of the Group's real estate portfolio investment value is based on the Investment Value Summary – Pro Kapital Property Portfolio Estonia, Germany, Latvia and Lithuania (the "**Appraisal Report**") incorporated hereto by reference. Please see Part XVIII (Information Incorporated by Reference). The Appraisal Report has been prepared by SIA "NEWSEC VALUATIONS LV", a company registered in the Commercial Register of the Republic of Latvia kept by the Latvian Enterprise Register (the "**Latvian Commercial Register**") with the registration No 40103216919 ("**Newsec**"). The business address of Newsec is 1 Zaļā street, Rīga, LV-1010. Newsec is an independent firm providing real estate valuations. In the Appraisal Report, Newsec has confirmed to the Company that it has taken all reasonable care to ensure that the information contained in the Appraisal Report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. Newsec has received, and will receive, professional fees for its preparation of the Appraisal Report. However, none of Newsec or its directors, staff or subcontractors who contributed to the Appraisal Report has any interest in the Group or the Group's real estate portfolio or the outcome of the Offering. The Appraisal Report is incorporated hereto with the consent of Newsec. Further, Newsec has given and not withdrawn its consent to the inclusion of its name and all references to Newsec in this Prospectus. The Company confirms that there have been no materials changes to the properties valued pursuant to the Appraisal Report as from the date of their valuation.

Tallinn, 22 August 2012

Management Board of AS Pro Kapital Grupp

Mr Paolo Vittorio Michelozzi

Chief Executive Officer

Mr Allan Remmelkoor

Chief Operating Officer

RESTRICTIONS ON DISTRIBUTION OF PROSPECTUS AND OFFER AND SUBSCRIPTION

No person has been authorized to give any information or to make any representation in connection with the Offering other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or by any of the Advisor, the Global Coordinator and the Book-runner (the "**Managers**"). This Prospectus does not constitute an offer to sell or issue or a solicitation of an offer to buy or subscribe for any of the Offer Shares or other Shares in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offering for subscription or sale of the Offer Shares in certain jurisdictions is restricted by law. No action has been taken to register or qualify the Offer Shares to be offered in the Offering or otherwise permit a public offering of the Offer Shares in any jurisdiction outside of Estonia, Latvia and Lithuania. Accordingly, any person who resides in any country other than Estonia, Latvia and Lithuania may not be permitted to receive this Prospectus and no Offer Shares are offered to any such person in the course of the Retail Offering. Persons into whose possession this Prospectus may come are required by the Company and the Managers to inform themselves of and observe all such restrictions. Neither the delivery of this Prospectus nor any offer for subscription or sale made in connection with the Offering shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that the affairs of the Company have not since changed. This Prospectus may not be distributed or published in connection with the Offering in such countries or otherwise in such circumstances in which the Offering, such distribution or publication would be unlawful or require measures other than those required under Estonian laws and taken by the Company. Further information with regard to restrictions on offering and sale of the Offer Shares and the distribution and publication of this Prospectus is set out in Section 14 (*Selling and Transfer Restrictions*) of Part III (Offering).

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Offering may be made (i) to QIBs as defined in Rule 144A in compliance with Rule 144A or another exemption from, or transfer not subject to, the registration requirements of the Securities Act and (ii) outside the United States in reliance on Regulation S. Any other person in the Unites States other than the QIB who obtains a copy of this Prospectus is requested to disregard the contents of this Prospectus. Offer Shares issued and/or sold to persons in the United States are subject to transfer restrictions set out in Section 14 (Selling and Transfer Restrictions) of Part III (Offering) of this Prospectus. In connection with the Offering, each person subscribing for any Offer Shares will be deemed to have made the representations as described in Section 14 (Selling and Transfer Restrictions) of Part III (Offering) of this Prospectus. Prospective investors are hereby notified that the Company may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Additionally, each purchaser of the Offer Shares purchasing such shares in accordance with Rule 144A will be deemed to have represented, agreed and acknowledged that the purchaser is a QIB and is aware that the Sale of the Offer Shares to it is being made in reliance on Rule 144A and such acquisition will be for the account of a QIB.

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission (the "**SEC**"), any state securities commission in the United States or any United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

In the United States, this Prospectus may be furnished on a confidential basis solely for the purpose of enabling a prospective investor to consider subscribing for the Offer Shares described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. Any reproduction or distribution of this Prospectus in the United States, in whole or in part, and any disclosure of its contents to any other person, is prohibited.

The Offer Shares may not be lawfully offered or sold to persons in the United Kingdom except in circumstances which do not constitute an offer to the public in the United Kingdom within the definition of the Financial Services and Markets Act 2000 (the "**FSMA**") as amended or otherwise in compliance with all applicable provisions of the FSMA. Neither this nor any other document issued in connection with the offer of the Offer Shares has been approved by an authorized person for the purposes of section 21 of the FSMA and hence may not be passed on to any person in the United Kingdom unless that person is entitled to receive this document by virtue of him falling into one of the categories of exemptions under the FSMA (Financial Promotion) Order 2005 or is a person to whom the document may otherwise lawfully be issued or passed on.

IN ADDITION TO AND NOTWITHSTANDING THE ABOVE, THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR ISSUE OR A SOLICITATION OF AN OFFER TO BUY OR SUBSCRIBE FOR ANY OF THE OFFER SHARES TO ANY PERSON WITHIN THE UNITED STATES, CANADA, JAPAN OR AUSTRALIA OR ANY OTHER JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION IN SUCH JURISDICTION. NONE OF THE COMPANY NOR ANY OF THE MANAGERS OR ANY OF THEIR RESPECTIVE AFFILIATES ACCEPTS ANY LEGAL RESPONSIBILITY FOR ANY SUCH VIOLATIONS, WHETHER OR NOT A PROSPECTIVE INVESTOR SUBSCRIBING FOR THE OFFER SHARES IS AWARE OF SUCH RESTRICTIONS. PLEASE ALSO READ SECTION 14 (SELLING AND TRANSFER RESTRICTIONS) OF Part III (OFFERING).

Each prospective investor subscribing for the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes for, offers or sells the Offer Shares or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Offer Shares under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and none of the Company and the Managers shall have any responsibility for these obligations.

The Managers are acting exclusively for the Company in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing any advice in relation to the Offering. Apart from the responsibilities and liabilities, if any, which may be imposed on the Managers by Estonian law or the regulatory regime established thereunder or under the regulatory regime of any jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Managers accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Offer Shares or the Offering. Each of the Managers accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of such document or any such statement.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

AVAILABILITY OF THE PROSPECTUS

This Prospectus and its Estonian, Latvian and Lithuanian language summaries are available as of 27 August 2012 in an electronic form on the website of the Estonian Financial Supervision Authority (www.fi.ee) and on the website of the Company (www.prokapital.com).

Any interested party may request delivery of a copy of the Prospectus and its Estonian, Latvian and Lithuanian language summaries from the Company and the Global Coordinator without charge. The Prospectus and its Estonian, Latvian and Lithuanian language summaries are available without charge as a paper copy as of 27 August 2012 at the office of the Company at Põhja pst 21, 10414 Tallinn, Estonia. The Prospectus and its Estonian language summary is also available without charge as a paper copy as of 27 August 2012 at the office of the Global Coordinator (AS LHV Pank) at Tartu mnt 2, Tallinn 10145, Estonia. The Prospectus and its Latvian language summary are also available without charge as a paper copy as of 27 August 2012 at the office of the Global Coordinator (AS LHV Pank) at Duntes iela 6, Riga, LV-1013 Latvia. The Prospectus and its Lithuanian language summary are also available without charge as a paper copy as of 27 August 2012 at the office of the Global Coordinator (AS LHV Pank) Gyneju 16, Vilnius, LT-01109 Lithuania.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

The division of the Company was registered with the Estonian commercial register (the "**Estonian Commercial Register**") on 23 November 2011 (the "**Division**"). Please read "Division of the Company" in Section 9 (Material Contracts) of Part XI (Business) in respect of the terms and conditions of the Division. The Division resulted in a significant gross change in the size of the Company. For that reason the following has been included in this Prospectus:

- AS Pro Kapital Combined Financial Statements For Financial Years ended 31 December 2011, 2010 and 2009 (the "**Special Purpose Combined Financial Statements**") and the Independent Auditor's Report on Combined Financial Statements which are incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)); and
- AS Pro Kapital Grupp Interim Report 01.01.-30.06.2012 (the "**Interim Financial Statements**"; the Special Purpose Combined Financial Statements and the Interim Financial Statements are referred to as the "**Financial Statements**") and Certified Auditor's Report on Review of Interim Financial Information, which are incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)).

Due to the Division, the Interim Financial Statements contain un-audited *adjusted* financial information for the interim period ended 30 June 2011. Such un-audited *adjusted* financial information is intended to give prospective investors a better understanding of what the Company's financial position and results would have been, had the Division taken place at the commencement of the period being reported on or at the date reported.

For reference the consolidated annual reports of the Company for the financial years ended 31 December 2009, 2010 and 2011 are available on the website of the Company (www.prokapital.com) and in the Estonian Commercial Register. However, each investor should note that the financial information set out in the consolidated annual reports of the Company for the financial years ended 31 December 2009, 2010 and 2011 is incomparable with the financial information contained in this Prospectus due to the Division and the financial information contained in this Prospectus has not been derived from such financial statements for the given reason.

The financial information relating to the Group, as set out in the Part I (Summary), Part VI (Capitalisation and Indebtedness), Part VIII (Selected Financial Information), Part IX (Operating and Financial Review and Prospects) and the Financial Statements incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)) have been prepared in accordance with the International Financial Reporting Standards (the "**IFRS**") issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union (the "**IFRS-EU**") and the Estonian Accounting Act. The Special Purpose Combined Financial Statements have been audited and the Interim Financial Statements have been reviewed by the Company's independent auditor AS Deloitte Audit Eesti, as set forth in their audit reports incorporated hereto by reference.

IFRS-EU differs in certain respects from IFRS as published by the International Accounting Standards Board. The preparation of financial statements in accordance with IFRS-EU requires the use of certain critical accounting estimates. It also requires the Management Board to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements as well as management's judgements and methodology used to implement them, are disclosed in respective notes to the financial statements. Please refer to Part IX (Operating and Financial Review and Prospects) for further information.

The financial information relating to the Group, as set out in the Part I (Summary), Part VI (Capitalisation and Indebtedness), Part VIII (Selected Financial Information), Part IX (Operating and Financial Review and Prospects) and the Financial Statements incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)) was not prepared in accordance with accounting principles generally accepted in the U.S. ("**U.S. GAAP**"), not audited in accordance with the auditing standards generally accepted in the U.S. ("**U.S. GAAS**"), or the auditing standards of the U.S. Public Company Accounting Oversight Board (the "**PCAOB Standards**"). No opinion or any other assurance with regard to any financial information was expressed under U.S. GAAP, U.S. GAAS or PCAOB Standards, and the financial information relating to the Group is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification, reformulation or exclusion of certain financial measures. In addition, changes would be required in the presentation of certain other information. Potential investors should consult their own professional advisers to gain an understanding of the financial information relating to the Group.

Certain financial information presented in this Prospectus has been obtained directly from the audited Financial Statements of the Company, while certain other financial information presented herein have been recomputed by the Company from amounts contained in the audited Financial Statements or have been derived or recomputed by the Company from un-audited records. Financial information obtained from or recomputed on the basis of the audited Financial Statements should be viewed only together with the respective audited Financial Statements as a whole. Financial information obtained from or recomputed on the basis of the unaudited Financial Statements should also be viewed only together with the respective unaudited Financial Statements as a whole.

Approximation of Numbers

Numerical and quantitative values in this Prospectus (e.g. monetary values, percentage values etc.) are presented with such precision, which is considered by the Company to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented do not necessarily add up to the respective totals due to the effects of the approximation. Exact numbers may be derived from the Financial Statements of the Company, to the extent that the relevant information is reflected therein.

Currencies

Unless otherwise indicated in this Prospectus, all references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community and all references to "**EEK**" are to the Estonian kroon, which was the lawful currency of Estonia until 31 December 2010. All references to "**LVL**", "**LTL**" and "**USD**" refer to the lawful currencies of Latvia, Lithuania and the United States of America.

In this Prospectus, financial information is presented in EUR. When used in the Prospectus, financial information has been converted into EUR using the official exchange rates: EUR 1 = EEK 15.6466, EUR 1 = LVL 0.702804 and EUR 1 = LTL 3.4528.

For reference, please see the table below with information about EUR/USD currency exchange rates:

	As at 31 December			As at 30 June	
Currency exchange rate	**2009**	**2010**	**2011**	**2011**	**2012**
EUR/USD	1.4406	1.3362	1.2939	1.4453	1.2590

Source: European Central Bank

Documents on Display

For the period of validity of this Prospectus, the Articles of Association of the Company, the Financial Statements, the consolidated annual reports of the Company for the financial years ended 31 Decem-

ber 2009, 2010 and 2011 and the Appraisal Report are available for inspection on the website of the Company (www.prokapital.com), on the website of the Global Coordinator (www.lhv.ee) and on the website of the Tallinn Stock Exchange (www.nasdaqomxbaltic.com). Any interested party may download a copy of these items from the above-referred websites without charge.

The Company is not required to file periodic reports under Sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). In the event the Company is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, in order to preserve the exemption for resales and transfers under Rule 144A, the Company will provide upon request to the holder of any Share, and to each prospective purchaser designated by any such holder, the information specified in, and meeting the requirements of Rule 144A(d)(4).

Third Party Information

Where certain information contained in this Prospectus has been derived from third party sources, such sources have been identified herein. The Company confirms that such third party information has been accurately reproduced herein and as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted, which would render the reproduced information inaccurate or misleading.

Market and Industry Data

Certain information relating to market share and other industry data contained in this Prospectus is based on independent industry publications, information published by the Statistics Estonia or other published independent sources. The Company has not independently verified market share, ranking or other industry data from such third party sources.

Updates

The Company will update the information contained in this Prospectus only to such extent, at such intervals and by such means as required by applicable law or considered necessary and appropriate by the Company at its absolute discretion. The Company is under no obligation to update or modify forward-looking statements included herein.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking". Forward-looking statements appear in various locations, including in Part I (Summary), Part II (Risk Factors), Part V (Background, Reasons for Offering and Use of Proceeds), Part VII (Dividends and Dividend Policy), Part IX (Operating and Financial Review and Prospects) and Part XI (Business), and located elsewhere in this Prospectus regarding the prospects of the Group's industry and the Group's prospects, plans, financial position and business strategy. Forward-looking statements can often be identified by the use of terms such as "estimates", "projects", "anticipates", "expects", "intends", "believes", "will", "may", "should" or the negative of these terms. All forward-looking statements, including discussions of strategy, plans, objectives, goals and future events or performance, involve risks and uncertainties.

While these statements are based on sources believed to be reliable and on the current knowledge and best belief of the Management Board, they are merely estimates or predictions and cannot be relied upon. They are subject to certain risks, uncertainties and assumptions. The Company cannot assure prospective investors that future results will be achieved. Factors, risks and uncertainties, including those described in Part II (Risk Factors), may cause actual outcomes and results to be materially different from those indicated, expressed, projected or implied in the forward-looking statements used in this Prospectus.

This list of important factors in Part II (Risk Factors) is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider those factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, except to the extent required by applicable law. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in

each case, only one of many possible scenarios and should not be viewed as the most likely scenario. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on the Company's behalf.

The Company does not intend, and does not assume any obligation, to update the forward looking statements included in this Prospectus as at the date set forth on the cover.

The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regards thereto or any change in events, conditions or circumstances on which any such statement is based.

GOVERNING LAW AND JURISDICTION

This Prospectus and the Retail Offering shall be governed by the law of Estonia, except to the extent the rules of private international law applied by the competent court provide for the mandatory application of the laws of any other jurisdiction. Any disputes arising in connection with the Retail Offering shall be settled by Harju County Court (*Harju maakohus*) in Estonia unless the exclusive jurisdiction of any other court is provided for by the provisions of law which cannot be derogated from by an agreement of the parties.

ENFORCEABILITY OF JUDGMENTS

The Company is a public limited company incorporated under the laws of Estonia. All of the directors and executive officers of the Company are citizens or residents of countries other than the United States. All or a substantial portion of the assets of such persons and substantially all the assets of the Company are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or the Company, or to enforce or collect judgments of U.S. courts against them, including judgments predicated upon civil liabilities under the securities laws of the United States or any State or territory of the United States.

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In making their investment decision, prospective investors should rely only on the information contained in this Prospectus. The Company and the Managers have not authorised anyone to provide prospective investors with any other information. If prospective investors receive any other information, they should not rely on it.

The Company and the Managers are offering the Offer Shares for the subscription only in places where offers and subscriptions are permitted. Prospective investors should not assume that the information contained in this Prospectus is as of any other date than the date on the cover of this Prospectus.

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PART I. SUMMARY

This summary (the "**Summary**") is a brief overview of information disclosed in the prospectus for the offering (the **"Offering"**) of up to 37,000,000 newly issued shares of the Company with the nominal value of EUR 0.2 each (the "**Offer Shares**") and listing (the "**Listing**") of the shares (the "**Shares**") in AS Pro Kapital Grupp (the "**Company**"; with its subsidiaries also the "**Group**"), dated 22 August 2012 and published in English language on 27 August 2012 (the "**Prospectus**").

This Summary is made up of disclosure requirements known as "Elements". These elements are numbered in Sections A – E (A.1 – E.7). This Summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the Summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the Summary with the mention of 'not applicable'.

Section A — Introduction and warnings

Element	*Title*	*Disclosure*
A.1	Introduction and warnings	This Summary should be read as introduction to the Prospectus. Any decision to invest in the Shares should be based on consideration of the Prospectus as a whole. An investor must take into account that if the investor wishes to file a claim in court proceedings relating to the information contained in the Prospectus with an Estonian court, it may be required to bear the costs of translating the Prospectus into Estonian. Neither the Company nor its shareholders bear civil liability based on this Summary alone, except if the Summary is misleading, inaccurate or contradictory when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.

Section B — Issuer

Element	*Title*	*Disclosure*
B.1	Legal and commercial name	The legal (business) name of the Company is AS Pro Kapital Grupp.
B.2	Domicile / legal form / legislation / country of incorporation	The Company is a public limited liability company (*aktsiaselts*) incorporated pursuant to the laws of the Republic of Estonia. The Company is registered in Estonian Commercial Register and its registered office is located in Põhja pst 21, 10414 Tallinn, Estonia.
B.3	Key factors regarding current operations, principal activities, categories of products sold and services performed. Principal markets	The Group is active mainly in the development and sales of residential and retail property, lease of developed retail property and other commercial property and operating of hotels. The real estate portfolio is located in Tallinn, Riga and Vilnius, with the exception of one hotel in Bad Kreuznach, Germany. The Group's operations are spread across four geographical segments: Estonia, Latvia, Lithuania, and Germany. The Group's operations in: - **Estonia** mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of premises in retail and office properties, and management of cash flow generating retail, office and hotel properties; - **Latvia** mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of office properties, and management of cash flow generating hotel properties; - **Lithuania** mainly consist of the development and sales of apartments in premium residential real estate properties; and - **Germany** consists of the management of PK Parkhotel Kurhaus located in Bad Kreuznach, Germany.
B.4a	Significant recent trends affecting the industry	The improving macroeconomic background in Baltic States allows the Group to proceed with new development projects as the increased consumer confidence and improved availability of financing increase the demand for both residential as well as retail real estate. The Company's management board (the **"Management Board"**) believes that after bottoming-out during 2009 and 2010, real estate market in 2012 in Estonia, Latvia and Lithuania will continue moderate growth that was observed in 2011, following economic recovery in the Baltic States.
B.5	Group description. Position of the Company within the Group	The Company is the operating parent company of the Group. As at the date of this Prospectus, 22 subsidiaries of the Company (the "**Subsidiaries**") belong to the Group, including: - eight subsidiaries in Estonia: AS Pro Kapital Eesti, OÜ Ilmarise Kvartal, AS Täismaja, AS Tondi Kvartal, Pro Halduse AS, AS Tallinna Moekombinaat, OÜ Hotel Management Services and Pro Kapital Germany Holdings OÜ; - nine subsidiaries in Latvia: AS "Pro Kapital Latvia", PK Latvia SIA, SIA "Klīversala RE", SIA "Tallina nekustamie īpašumi", SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"", SIA "INVESTHOTEL", AS "Pasaules tirdzniecības centrs "Rīga"", SIA "Nekustamo īpašumu sabiedrība "PROKURS"" and SIA "Hotel Management Services"; - three subsidiaries in Lithuania: Pro Kapital Vilnius Real Estate UAB, PK Invest UAB and UAB "Domina Management"; and - two subsidiaries in Germany: PRO KAPITAL Germany GmbH and Domina Tourismus GmbH.
B.6	Persons, directly or indirectly, having interest in the Company's capital or voting rights notifiable under Estonian law and the amount of such interest. Voting rights of major shareholders.	According to the data registered in the Estonian Central Register of Securities ("**ECRS**"), as at 15 August 2012, following persons held at least 5% of the Shares in their securities' accounts opened with the ECRS: Clearstream Banking Luxembourg S.A. Clients (nominee account), Eurofiduciaria S.R.L., Svalbork Invest OÜ, Sueno Latino AG, A.F.I. American Financial Investments Ltd., Anndare Ltd., and UNICREDIT BANK AUSTRIA AG (nominee account). According to the Management Board's knowledge, the following persons control at least 5% or the votes represented by the Shares: Controlling person — Shares of the Company controlled — Shareholding in the Company (%) Mr Ernesto Preatoni and his affiliates[1)] — 18,352,025 — 34.51 *Mr Ernesto Preatoni* — *1,759,603* — *3.31* *Mr David Trausti Oddsson* — *2,716,445* — *5.11* *Ms Evelyn Tihemets* — *13,875,977* — *26.09*

	Direct or indirect control of the Company	Mr Vladimir Maslov[2] 6,132,598 11.53 Mr Giuseppe Prevosti and his affiliates[3] 4,447,597 8.36 1) In the above table the following Shares are considered as being controlled by Mr Preatoni because the Management Board believes that Mr Preatoni is able to control the use of voting rights by such persons: (a) OÜ Svalbork Invest, Estonian company controlled by Ms Evelyn Tihemets which holds 6,839,938 Shares representing 12.86% of the share capital of the Company, (b) Sueno Latino A.G., a Liechtenstein company controlled by Ms Evelyn Tihemets, which controls 4,528,531 Shares representing 8.51% of the share capital of the Company; (c) 2,507,508 Shares representing 4.71% of the share capital of the Company, which are held through a nominee account opened by Clearstream Banking Luxembourg and are held for the benefit of Ms Evelyn Tihemets; (d) 2,716,445 Shares representing 5.11% of the share capital of the Company held through a nominee account opened by Clearstream Banking Luxembourg for the benefit of Mr David Trausti Oddsson; (e) 612,872 Shares representing 1.15% of the share capital of the Company held by Katmandu Stiftung, a Liechtenstein company controlled by Mr Ernesto Preatoni; and (f) 1,146,731 Shares representing 2.16% of the share capital of the Company held by A.F.I American Financial Investments Ltd, a Liechtenstein company for the benefit of Mr Ernesto Preatoni. 2) 11.53% of all Shares, which are held through the nominee account opened by Clearstream Banking Luxembourg, are controlled by Mr Vladimir Maslov, a Russian citizen. 3) 8.36% of all Shares are owned by Mr Giuseppe Prevosti and his affiliates. Mr Giuseppe Prevosti is a member of the Company's supervisory council (the "**Supervisory Council**"), who owns directly and indirectly Shares of the Company, including 1,058,060 Shares representing 1.99% of the share capital of the Company owned directly by Mr Prevosti, 2,987,801 Shares representing 5.62% of the share capital of the Company held for the benefit of Mr Prevosti in the nominee account opened by UNICREDIT BANK AUSTRIA AG, 365,807 Shares representing 0.69% of the share capital of the Company held through the company Zunis S.A a Luxembourg company and 35,929 Shares representing 0.07% of the share capital of the Company held directly by Mr Prevosti's wife Donatella Grigioni. The Company is neither a party to, nor is the Management Board aware of any shareholders' agreements among shareholders of the Company in relation to their holdings of Shares. None of the shareholders have any different voting rights compared to other shareholders. As at the date of this Prospectus, neither the Company nor any of its Subsidiaries owns any of the Shares.
B.7	Selected historical key financial information. Narrative description of significant change to the Company's financial condition and operating results subsequent to the period covered by selected historical key financial information.	The following tables set forth selected financial information as at the end of and for each of the three financial years ended 31 December 2009, 2010 and 2011, and as at the end of and for the six months ended 30 June 2011 and 30 June 2012. The tables below set forth selected financial information that has been derived from the Group's Special Purpose Combined Financial Statements for the three financial years ended 31 December 2009, 2010, 2011, and from the Interim Financial Statements for the six months period ended 30 June 2012 (the "**Financial Statements**"). Such Special Purpose Combined Financial Statements and Interim Financial Statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union. The financial position of the Group has experienced significant changes during financial years ended 31 December 2009, 2010 and 2011. While performance of the Group has been relatively stable in terms of revenues, the profitability and indebtedness of the Group has changed significantly. Sale of Kristiine Shopping Centre in 2011 has had the strongest impact on the financial position of the Group. As a result of that transaction the net profit of the Group increased to EUR 50.1 million in 2011 in comparison to EUR 7.0 million and EUR 1.3 million losses in 2010 and 2009 respectively. Leverage of the Group has also decreased substantially with total liabilities decreasing to EUR 41.4 million as at 31 December 2011 from EUR 111.9 million and EUR 91.4 million as at 31 December 2010 and 2009 respectively. Six months ended 30 June 2012 have seen steady development of financial position of the Group. Relatively low inventory level has prevented higher sales amid recovering Baltic real estate market. Financial leverage of the Group has been kept under control with further repayments of outstanding debt decreasing the Group's overall liability level to EUR 33.6 million.

	Financial year ended 31 December			**Six months ended 30 June**	
PROFIT AND LOSS ACCOUNT ('000 EUR)	**2009**	**2010**	**2011**	**2011**	**2012**
Total revenue	**21,999**	**21,051**	**17,449**	**8,016**	**9,932**
Cost of goods sold	-17,917	-17,015	-16,407	-5,756	-8,070
Gross profit	**4,082**	**4,036**	**1,042**	**2,260**	**1,862**
Marketing expenses	-1,103	-609	-352	-169	-289
Administrative expenses	-4,130	-4,029	-5,237	-2,776	-2,707
Other operating income	1,357	219	54,280	54,692	118
Other operating expenses	-1,397	-4,600	-1,875	-471	-1,220
Operating profit / loss	**-1,191**	**-4,983**	**47,858**	**53,536**	**-2,236**
Financial income	2,733	2,120	4,770	659	16
Financial expenses	-2,883	-4,174	-2,877	-2,155	-679
Profit / loss before tax	**-1,341**	**-7,037**	**49,751**	**52,040**	**-2,899**
Income tax	26	17	351	7	14
Profit / loss for the period	**-1,315**	**-7,020**	**50,102**	**52,047**	**-2,885**
Net profit / loss attributable to:					
Equity holders of the parent	-3,455	-7,413	21,931	23,909	-2,889
Non-controlling interest	2,140	393	28,171	28,138	4

	As at 31 December			**As at 30 June**
BALANCE SHEET ('000 EUR)	**2009**	**2010**	**2011**	**2012**
Cash and bank accounts	3,159	1,194	8,637	2,142
Current receivables	11,304	9,562	2,865	2,857
Inventories	67,935	58,736	53,186	49,395
Non-current assets held for sale	0	50,044	0	0
Total current assets	**82,398**	**119,536**	**64,688**	**54,394**
Non-current receivables	12,492	19,949	152	152

Deferred tax assets	0	0	370	368
Tangible assets	10,207	12,049	21,863	21,393
Investment property	61,785	26,600	26,111	26,111
Intangible assets	264	307	288	284
Total non-current assets	**84,748**	**58,905**	**48,784**	**48,308**
TOTAL ASSETS	**167,146**	**178,441**	**113,472**	**102,702**
Current debt	16,080	83,271	14,002	6,898
Customer advances	2,962	1,352	838	579
Current payables	2,825	3,648	1,791	1,497
Taxes payable	479	178	95	106
Short-term provisions	284	4,184	1,091	1,755
Total current liabilities	**22,630**	**92,633**	**17,817**	**10,835**
Long-term debt	67,929	18,717	21,462	20,673
Other long term liabilities	300	0	0	132
Deferred income tax liability	445	419	1,962	1,878
Long-term provisions	97	166	173	52
Total non-current liabilities	**68,771**	**19,302**	**23,597**	**22,735**
TOTAL LIABILITIES	**91,401**	**111,935**	**41,414**	**33,570**
Share capital	33,992	33,992	10,637	10,637
Share premium	45,089	45,089	0	0
Statutory legal reserve	2,938	2,938	0	0
Revaluation reserve	0	0	11,330	11,337
Foreign currency differences	-1,373	-1,382	-1,130	-1,130
Retained earnings	-30,836	-36,388	27,693	49,624
Profit / loss for the period	-3,455	-7,413	21,931	-2,889
Total equity attributable to equity holders of the parent	**46,355**	**36,836**	**70,461**	**67,579**
Non-controlling interest	29,390	29,670	1,597	1,553
TOTAL EQUITY	**75,745**	**66,506**	**72,058**	**69,132**
TOTAL LIABILITIES AND EQUITY	**167,146**	**178,441**	**113,472**	**102,702**

	Financial year ended 31 December			**Six months ended 30 June**	
Cash flow ('000 EUR)	**2009**	**2010**	**2011**	**2011**	**2012**
Net cash from / used in operating activities	11,286	933	-19,394	-11,578	-3,158
Net cash from / used in investing activities	-403	-14,768	95,764	95,361	-289
Net cash from / used in financing activities	-9,604	11,870	-68,927	-64,733	-3,048
NET CASH FLOW	**1,279**	**-1,965**	**7,443**	**19,050**	**-6,495**

	Financial year ended 31 December			**Six months ended 30 June**	
KEY RATIOS AND INDICATORS	**2009**	**2010**	**2011**	**2011**	**2012**
Number of shares	53,185,422	53,185,422	53,185,422	53,185,422	53,185,422
Earnings per share, EUR	-0.06	-0.14	0.41	0.45	-0.05
Gross profit margin, %	19%	19%	6%	28%	19%
Operating profit margin, %	-5%	-24%	274%	668%	-23%
Net profit margin, %	-16%	-35%	126%	298%	-29%
Return on assets, %	-2%	-4%	15%	n/a	-3%
Return on equity, %	-7%	-18%	41%	n/a	-4%
Equity ratio, %	28%	21%	62%	n/a	66%
Current ratio	3.6	1.3	3.6	n/a	5.0

Calculation of key ratios:
Earnings per share, EUR = Net profit attributable to equity holders of the parent divided by average number of common shares outstanding.
Gross profit margin, % = Gross profit divided by total revenue.
Operating profit margin, % = Operating profit divided by total revenue.
Net profit margin, % = Net profit attributable to equity holders of the parent divided by total revenue.
Return on assets, % = Net profit attributable to equity holders of the parent divided by average total assets.
Return on equity, % = Net profit attributable to equity holders of the parent divided by average equity attributable to equity holders of the parent.
Equity ratio, % = Equity attributable to equity holders of the parent divided by total assets.
Current ratio, % = Current assets divided by current liabilities.

There have been no significant changes in the Company's key financials since the period covered by the historical key financial information.

B.8	Selected key pro forma financial information	Not applicable: no pro forma financial information is outlined in this Summary.
B.9	Profit forecast	Not applicable: the Company has not issued a profit forecast.

B.10	Qualifications in the audit report on the historical financial information	The audit reports issued with respect to Financials Statements have not included qualifications. Notwithstanding the foregoing, the independent sworn audit report regarding AS Pro Kapital Grupp Financial Statements for the Year ended 31 December 2010 included the following qualifications: (a) the auditors were unable to obtain sufficient audit evidence for consolidated other income in the amount of EEK 31,052,933 (EUR 1,984,644) and expenses in the amount of EEK 30,601,956 (EUR 1,955,821) arising from Multiservice S.l.r (a subsidiary at that time) and (b) as of 31 December 2010, the Management Board had not performed the impairment test on the financial investments into subsidiaries at their cost value of EEK 2,137,460 (EUR 136,609).
B.11	Working capital	The Management Board believes that, taking into account the Group's existing assets, financial condition, expected development plans and expected minimum net proceeds of the Offering in the amount of EUR 10,000,000 the Group's working capital is sufficient to meet all the liabilities for at least the 12-month period following the date of this Prospectus, and no further external financing is required to satisfy the working capital needs.

Section C — Securities

Element	*Title*	*Disclosure*
C.1	Type and class of securities and Security identification number	Security: AS Pro Kapital Grupp ordinary shares ISIN code: EE3100006040 (during the Offering the Offer Shares will have temporary ISIN code EE3800046676)
C.2	Currency of the issue	EUR
C.3	Number of shares issued and fully paid / issued but not fully paid. Par value per share	As at the date of this Prospectus, the Company's registered share capital is EUR 10,637,084.40 divided into 53,185,422 authorised, fully paid and issued Shares with a par value of EUR 0.2 each. There are no Shares issued but not fully paid. On 14 August 2012, the General Meeting of Shareholders has resolved to conditionally increase the share capital of the Company by the aggregate of EUR 8,805,151.6 up to maximum of EUR 19,442,236 to enable the Company to issue the Offer Shares and Over-Allotment Shares (as defined in Section E.3 below) and to convert 4,025,758 convertible bonds issued by the to 4,025,758 new Shares.
C.4	Rights attached to the securities	The Company has one class of shares. Shares rank *pari passu*. ***General Meetings of Shareholders*** Each Share entitles its holder to one vote at the Company's general meeting of shareholders (the "**General Meeting of Shareholders**"). The Supervisory Council of the Company usually determines the agenda of the General Meeting of Shareholders. If the shareholders or the auditor convene a General Meeting of Shareholders, they also determine the agenda of that meeting. The Management Board or one or more shareholders, whose shares represent at least one tenth (or, upon Listing, one twentieth) of the share capital of the Company, are entitled to request that items be included on the agenda of a General Meeting of Shareholders, if such a request is made not later than 15 days before the day of the General Meeting of Shareholders. In order to have the right to attend and vote at a General Meeting of Shareholders, a shareholder must be registered in the shareholders' register on the cut-off date which is seven days before the meeting. Voting rights may not be exercised by a shareholder whose shares are registered in the name of a nominee unless the nominee account holder has given a power of attorney to the shareholder. A shareholder may attend and vote at a General Meeting of Shareholders in person or by proxy. At a General Meeting of Shareholders, resolutions generally require the approval of a majority of the votes represented at the meeting. ***Shareholder's right to information*** Shareholders have the right to receive information on the activities of the Company from the Management Board at the General Meeting of Shareholders. The Management Board may refuse to give information if there is a basis to presume that this may cause significant damage to the interests of the Company. If the Management Board refuses to give information, the shareholder may demand that the General Meeting of Shareholders decide on the legality of the shareholder's request or to file, within two weeks after the General Meeting of Shareholders, a petition to a court by way of proceedings on petition in order to oblige the management board to give information. ***Right to dividends*** All Shares will be eligible for dividends. Offer Shares will be eligible for any dividends declared and paid on the Shares starting from 1 January 2012 and any time thereafter. Under the Estonian Commercial Code, a general meeting of shareholders may authorize the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the Management Board. The Supervisory Council has the right to make changes to the proposal of the Management Board before submission to the General Meeting of Shareholders.
C.5	Restrictions on free transferability of securities	Free transferability of the Shares has not been restricted in the Company's articles of association (the "**Articles of Association**"). The Shares are not subject to any general transfer restrictions.
C.6	Admission to trading / Name of the regulated market	An application has been made to the NASDAQ OMX Tallinn (the "**Tallinn Stock Exchange**") for the Listing on the Main List of the Tallinn Stock Exchange.
C.7	Dividend policy	The Group intends to pay dividends taking into account the capital needs, the stage of the development of the Group's main projects, the financial situation of the Group, the development cycle of the real estate sector and other relevant aspects. It is not expected that the dividend payments will commence in financial years 2013 and 2014. The payment and the amount of any dividend will be subject to the discretion of the General Meeting of Shareholders of the Company and will depend on available cash balances, anticipated cash needs, results of operations and financial condition of the Group and any financing agreement restrictions binding the Company as well as other relevant factors.

Section D – Risks

Element	*Title*	*Disclosure*
D.1	Key risks	**Risks relating to the Group's Business**

	specific to the Company or the industry	***The Group is exposed to various risks due to long duration of real estate development projects.*** The Group's acquisition and development activities are subject to significant risks of non-completion and loss due to: (a) changing market conditions; (b) competition from other market participants; (c) the Group's inability to acquire land at commercially acceptable terms or obtain detailed planning; (d) budget overruns and completion delays; (e) the Group's potential inability to obtain financing on favourable terms or at all; (f) failure to meet the covenants in financing agreements; (g) defects in the legal title to land acquired by the Group, or defects in approvals or other authorisations relating to land held by the Group; (h) defects in acquired or developed properties; (i) potential significant amendments to the existing governmental rules and regulations or fiscal or monetary policies; and (j) potential liabilities relating to the acquired land. ***Ability to acquire appropriate real estate on commercially acceptable terms*** Should the Group need to acquire additional real estate for the development, it needs to identify and secure such real estate on a timely basis and/or for commercially acceptable terms. There can be no assurance that the Group will successfully identify, lease and/or purchase suitable properties on acceptable terms. ***Ability to obtain construction rights, construction and environmental permits and other approvals*** In order to develop real estate, detailed planning must have been adopted for respective land unit. The detailed planning approval process by local municipalities is an administrative process and is subject to strict statutory requirements. Depending on the results of the process, the intended use of the land, the maximum number of buildings on the land, the maximum height of the buildings or other details of the plan could be restricted by the authorities. When the detailed planning has been approved or the lease agreement signed, the Group still needs to apply for a building permit from the municipal authorities before construction can commence. Therefore, the Group may experience difficulties or delays in obtaining detailed planning and building approvals from the various governmental or municipal authorities required to undertake the planned development and construction. Should the Group fail to obtain approvals and permits on reasonable terms, it may have to give up the project and sell the land at a sales price which may be lower than the purchase price. ***Changes in intended use of land*** Municipalities may change the intended use of the land that the Group has acquired or is considering to acquire. That may have an adverse effect on the business and the financial position of the Group. In case the land the Group has acquired is needed for public purposes, e.g. for road construction, the state or the municipality is to acquire the land in question from the Group for compensation that may not be lower than the usual value of the land. However, such compensation may not be sufficient to cover all the damage caused to the Group. ***Dependency on small number of large projects*** A relatively small number of large projects in or near the capital cities of the Baltic States form substantially all of the Group's development business. Concentration of large projects may increase the volatility of the Group's results and increase its exposure to risks attaching to individual projects. Larger projects may also lead to proportionally larger cost overruns. Geographic focus on three capital cities of the Baltic States makes the Group vulnerable in case of a downturn in the property market in any of those cities. ***Inaccuracy of the forecasts*** The Group's profitability depends on its ability to forecast market prices, rents, property related costs, anticipated working capital needs, availability of financing, property values etc. If the Group's projections of development costs, property values at the time of sale, future market rents, availability of financing and anticipated working capital etc. are inaccurate, it could experience lower profits, which could have a material adverse effect on its results of operations and financial condition. ***Potential inaccuracy of the appraised investment value of the Group's real estate portfolio*** In total 11 projects, buildings and sites in the Group's portfolio have been valued in the Group's real estate portfolio investment value summary regarding Company's property portfolio in Estonia, Germany, Latvia and Lithuania (the "**Appraisal Report**") prepared by Newsec with investment value of EUR 180.0 million (10 projects located in Estonia, Latvia and Lithuania were valued in April 2012 at EUR 172.5 million and one project in Germany was valued in June 2012 at EUR 7.5 million). The Appraisal Report was prepared separately from the preparation of the Financial Statements. In producing the Appraisal Report, certain assumptions, techniques and methodologies specified in the Appraisal Report were used, which differ from the assumptions used by the Group when preparing its Financial Statements. Therefore, the values indicated in the Appraisal Report differ from the values for the same properties used in the Financial Statements. In addition, the assumptions used in the Appraisal Report may not reflect the true position of the Group's portfolio. The valuation of property is inherently subjective due to the individual nature of each property and is based on a number of unconfirmed assumptions. The real estate markets of the Baltic States have a limited liquidity and amount of publicly available data and research as compared to more mature real estate markets. Relevant property values may have changed since the dates on which the data were applicable. As a result, there can be no assurance that a valuation at a more recent date would not produce a different value for the appraised portfolio. Notwithstanding the foregoing, the Company confirms that (a) to the best of Company's knowledge and belief, the information, assumptions and documentation, which were given to Newsec by the Company, was correct and complete and (b) there have been no material changes to the properties valued pursuant to the Appraisal Report as from the date of their valuation. Market values of properties in the countries in which the Group invests may decline in the future. ***Lack of insurance cover and specific reserves for indemnifying damages*** The properties of the Group could suffer physical damage caused by natural disasters, fire or other causes, resulting in losses which may not be fully compensated by insurance. The Group has obtained insurance coverage for its properties, which it believes to be in line with standard industry practice. However, insurance coverage is subject to limits and limitations and some risks are not covered by insurance for various reasons. The occurrence of any of the above referred harmful effects or insufficient insurance coverage may have a material adverse effect on the business, results of operations and financial conditions of the Group. This *inter alia* means that the Group could: (a) lose capital invested in the affected property as well as anticipated future lease income or sale proceeds from that property; (b) be held liable to repair damage caused by the event or (c) remain liable for any debt or other financial obligation related to that property. The Group does not also maintain separate funds nor does it set aside reserves for the above-referred types of events. ***Dependence on building contractors*** The Group relies on third party building contractors. If the Group cannot enter into construction arrangements with third party building contractors on acceptable terms or such construction arrangements are not honoured fully as a result of the financial position of the building contractor or any other reason whatsoever, the Group will incur additional costs which will have an adverse effect on its business, results of operations and financial condition. The contractor's or subcontractor's failure to perform may result in legal action by the Group to rescind the con-

struction agreement or to enforce the contractor's obligations, which may result in a delay of the project. Furthermore, any delay in the completion of construction may result in an additional cost, which the Group may not be able to pass on to the purchaser of the property. Furthermore, pursuant to Lithuanian law, in case of a bankruptcy or liquidation of the contractor, the developer of the real estate project would be held liable against purchasers of the real estate for any defects that emerge during guarantee period in case of default of the contractor. Thus, in case of bankruptcy or liquidation of any Lithuanian building constructors of the Group companies, they may be held liable as indicated above, which may have a material adverse effect on the results of operations and financial condition of the Group.

Indebtedness and availability of external financing

The Group operates in capital intense industry and needs substantial working capital to support acquisition and development of properties. Therefore, if internally generated cash flow or cash flow received from sales of developed real estate is different than anticipated or money available from either local or global lenders is under liquidity pressures, it could have a material adverse effect on the business, results of operations and financial conditions of the Group.

In order to develop intended properties, the Group may need to raise debt financing from external sources. The projects may need to be postponed if there is limited funding available on commercially attractive terms. This could have a material adverse effect on the business, results of operations and financial conditions of the Group.

Management Board believes that the current leverage ratio of the Group is lower than what is typical for a real estate development company in the Baltic States. However, the Group has substantial indebtedness. As at 30 June 2012, the Group had EUR 20,673 thousand of consolidated long-term borrowings and EUR 6,898 thousand of consolidated short-term borrowings. Among other things, the Group's indebtedness could potentially: (a) limit its ability to obtain additional financing; (b) limit its flexibility in planning for, or reacting to, changes in the markets in which it competes; (c) place it at a competitive disadvantage relative to its competitors with less indebtedness; (d) lead to a partial or complete loss of control over its key subsidiaries or properties; (e) render it more vulnerable to general adverse economic and industry conditions; or (f) require it to dedicate all or a substantial part of its cash flow to service its debt.

The Group's ability to make payments on its indebtedness depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which the Group cannot control. If the Group's cash flow from operating activities becomes insufficient, the Group may take certain action, including delaying or reducing capital or other expenditures, restructuring or refinancing its indebtedness, selling its investment properties or other assets or seeking additional capital. The Group may be unable to take any of such action at favourable terms or in a timely manner. Furthermore, such action may not be sufficient to allow the Group to service its debt obligations in full. A failure by the Group or the Company to service its debt may have a material adverse effect on its business, results of operations and financial condition.

Risks relating to external financing

The Group has raised external debt financing by borrowing from banks and by issue of convertible bonds. The financing agreements entered into by the Group include several negative and positive covenants and requirements to obtain the lender's consent for, among other things, further financing, providing security or creating charges over its assets, concluding lease, rental or other agreements with regard to encumbered assets granting rights to third persons, changes in the Group's corporate structure, consolidating or merging with another entity, changes in its share capital, changes in its main field of activity or in competence of its management board, making investments to other enterprises or transfer of business or part thereof. Some financing agreements of the companies belonging to the Group (the "**Group Companies**") also set forth the obligation of the relevant Group Company to retain certain financial levels and ratios throughout the term of such agreements.

The financing agreements concluded by the Group Companies contain customary events of default, including cross-default provisions. These cross-default clauses expose the Group to default risks based on contract performance under other agreements with the lender or with other creditors. In addition, under the financing agreements, it is an event of default if the borrower incurs significant additional financial obligations or if there is a change of control in the borrower without the prior consent of the lender.

In addition, the Group's financing agreements require the Group Companies to pledge their immovable property. Most of the Group's immovable property has been encumbered with mortgages for the benefit of relevant lenders. Furthermore, certain of the Group Companies (including the Company) have issued guarantee letters whereby they have guaranteed the performance of the Group's obligations arising from the financing agreements. This allows the financial institution to demand performance under the financing agreement from the issuer of such guarantee (e.g. the Company), if the borrower fails to perform its duties under the financing agreement. As a result, the Group as a whole is exposed to risks related to the failure by a subsidiary to perform its obligations arising from financing agreements. As at 30 June 2012 the total amount of the guarantees issued by the Group Companies (including the Company) was EUR 26,484 thousand. In addition, the Company has issued a guarantee to secure (jointly with Pro Kapital Eesti AS) possible claims against Täismaja AS arising from a loan contract. The guarantee letter is limited to maximum amount of potential claim. The guarantee is effective until 2 May 2017.

Moreover, certain financing agreements set out subordination of intra-Group loans. Thus, certain Group companies may not repay any part of the loan or interests to other Group companies prior to repayment of the credit to banks. Consequently, these provisions limit the flow of funds among the Group companies, which may have a material adverse effect on the financial condition of Group companies or on the Group as a whole.

Dependency on cash flows from subsidiaries

The Company is a holding company, which conducts its business through its subsidiaries. The Company itself does not own significant assets other than the investment into its subsidiaries. Therefore, in order to be able to pay dividends to its shareholders and meet its own obligations, the Company is dependent on the receipt of dividends from its subsidiaries.

Each of the Estonian, Latvian, Lithuanian and German laws set out capital maintenance and other relevant rules, which limit the Group Companies ability to pay dividends or make other distributions. According to Estonian law, a company may only pay dividends or make other distributions, if its current profits and retained earnings are sufficient for such distribution. According to Latvian law, dividends may be declared only once per financial year by a decision of the annual General Meeting of the Shareholders on the division of profit based on the proposal of the Management Board on the distribution of profit. Dividends may not be determined, calculated and paid out, if the net value of the own funds of a company at the time of the end of the accounting year fall below, or as a result of this payment would fall below the total amount of the share capital of a company. According to Lithuanian law, dividends may be declared by a decision of the General Meeting of Shareholders on the division of profit. Dividends may be paid for the financial year, in this case dividends shall be declared by a decision of the annual General Meeting of Shareholders based on the proposal of the Management Board on the distribution of profit. A

		decision to pay dividends for the financial year may not be adopted if the company has liabilities, which are overdue at the adoption of the decision regarding dividend payment, if the company suffers losses at the end of a respective accounting period, and if the owners' capital of the company is below or as a result of the dividend payment would fall below the total amount of the registered capital and reserves formed in the company. In addition, dividends may be paid for the period shorter than a financial year. In this case, the shareholders holding not less than 1/3 of all votes shall request payment of dividends and an interim financial statement shall be prepared. Decision to pay dividends for the period shorter than a financial year may not be adopted if the company has liabilities, which are overdue at the adoption of the decision regarding dividend payment or the company will be not able to fulfil its financial obligations for the current financial year, or if the company suffers losses at the end of a respective accounting period. According to German law, German limited liability companies may pay dividends and make other distributions to shareholders only if the payments do not violate the capital maintenance rules. Pursuant to such capital maintenance rules, payments to shareholders may not be made to the extent that the funds are needed to maintain the company's registered share capital unless a domination or profit and loss pooling agreement within the meaning of Section 291 of the German Stock Companies Act (Aktiengesetz) has been concluded. Therefore, the Company's financial position is dependent on the subsidiaries' ability to pay dividends. Furthermore, the ability to pay dividends is also restricted by contractual covenants binding on the Group companies. ***Risk related to customers' and other counterparties' financial position*** The Group is exposed to the credit risk. The Group is continuously monitoring the payment behaviour of its customers and other counterparties. Moreover, in addition to contractual monetary obligations, the counterparties may not be able to compensate the Group for the damages caused as a result of breaches of their non-monetary obligations. Such defaults by counterparties could *inter alia* result in the Group Companies defaulting under their other contracts and being obliged to pay compensation to their other counterparties without being respectively compensated by the counterparties that initially defaulted, which could have a material adverse effect on the Group's business, results of operations and financial condition. ***Risk related to lease agreements*** The Group's lease agreements are divided into two categories: fixed-term lease agreements and lease agreements entered into for an unspecified term. The Group seeks to use both types of agreements, depending on the market situation and the properties in question. Lease agreements entered into for an unspecified term involve nevertheless a risk that a large number of such agreements may be terminated within a short period of time, and this risk is even further emphasised in an uncertain economic environment. In order to prevent tenants from terminating the lease agreements, the Group may need to agree on the reduction of rent. The reduction of rent payable to the Group under a large number of lease agreements and/or concurrent termination of a large number of lease agreements could have a material adverse effect on the Group's business, results of operations and financial condition. Currently lease agreements account for EUR 886 thousand, which forms relatively minor part of the total Group's revenues. Portion of lease related income is expected to increase significantly after the completion of the Peterburi Rd. Shopping Centre, which at first is planned to be leased out and managed for stabilizing the rental cash flow, and thereafter sold once the conditions are favourable. ***Contractual risks and legal proceedings*** A dispute may arise between the Group and its contractual counterpart on the interpretation or the validity of a contract or fulfilling of contractual obligations, which can lead to arbitration or litigation with an unfavourable outcome for the Group. The Group may from time to time be involved in a number of legal proceedings, which may also have an adverse effect on business, results of operations and financial conditions of the Group. Currently there are several on-going legal proceedings. The most significant of the on-going legal proceedings is the claims from Aprisco B.V. under a guarantee letter given by the Company. Aprisco B.V. presented two alternative claims against the Company to the court in the Netherlands: (i) claims for compensation of damages in the amount of EUR 2,300,000 or in the amount as ruled by the court; and (ii) EUR 904,106 plus fine for delay or EUR 524,000 plus fine for delay. The District Court in Rotterdam ruled on 4 July 2012 that the Company shall pay EUR 1,409,265.20 to Aprisco B.V. The Management Board of the Company plans to appeal the court judgement. ***The Group is exposed to environmental liability*** The Group's activities are and will continue to be subject to laws and regulations relating to environmental protection. Such laws and regulations typically cover a wide range of matters, including, among other things, waste handling and protection of ambient air and use of water. Furthermore, such laws are subject to possible future changes (please also read the risk factors "Risks relating to doing business in the Baltic States" and "Increased cost of complying with government regulations"). Failure to comply with the laws, regulations, permits and contractual terms and conditions (including failure to adjust the Group's activities to the amended legal requirements) could result in substantial costs and liabilities, which could adversely affect the Group's business, its financial condition and results of operations. The land units, which have been or will be acquired by the Group, may subsequently be found to be contaminated. Environmental laws and regulations often impose liability on the current property owner whether or not the owner knew of, or was responsible for, the presence of such contamination. In relation to this risk, please note that: (a) when the Group has purchased land, it has not always required the seller to warrant that there is no contamination on the land; (b) the Group has not carried out environmental investigations in respect of several of its land units; (c) should the Group fail to detect or remedy contamination, this may adversely affect the Group's ability to sell or lease property and expose the Group to claims and (d) upon sale of the property, the purchasers have required and are likely to require the Group to warrant that there is no contamination on the associated land. The cost of complying with environmental regulations or of decontamination of any land by the Group or the cost associated with a successful claim for damages could have a material adverse effect on Group's financial condition and results of operations. ***The Group is dependent on key personnel*** The Group's performance is reliant upon the efforts, diligence, skill and network of business contacts of its senior management team. Even though the Groups has agreed with key personnel (except for Olga Rudzika, the Managing director of AS "Pro Kapital Latvia", and Neringa Rasimavičienė, the General director of Pro Kapital Vilnius Real Estate UAB) regarding their non-competition obligation applicable for six months after the termination of their employment, the Group may not always be able to impose competition covenants or other contractual restrictions on a key manager and the Group has to give additional remuneration incentives in order to secure the loyalty and continued employment of such managers. Currently the Group does not have share-linked incentive system. Should the Group lose one or more key managers and fail to find a replacement quickly enough, or should such key manager or managers join a competing business, this could adversely affect the business and results of

operations of the Group.

The Group's reputation may be damaged

The Group's ability to attract purchasers of property, attract and retain tenants, raise the necessary financing for the development projects as well as retain personnel in its employment may suffer if the Group's reputation is damaged.

Dependence on IT systems

Property development and operating of hotels are not generally considered high-tech or technology-intensive industries. However, rapidly developing technology is nevertheless one of the determining factors of success in such business and advanced technology and sophisticated IT solutions are critical for project management of large and complex development projects as well as operations of hotels.

Potential tax liability

There is a significant number of intra-group transactions and contractual arrangements (such as lease, credit and service agreements between Group Companies). The Group is therefore subject to a transfer pricing risk in relation to any transactions between related parties that are not conducted on an arm's length basis. This could involve an adjustment to the tax results for entities involved to take account of arm's length pricing, which could have an adverse effect on the Group's business, results of operations and financial condition.

Transactions with related as well as unrelated parties may carry a risk of requalification, should the tax authority challenge the economic substance of the transactions, e.g. under the „substance-over-form" rules. Considering the wide interpretation given to „substance-over-form" rules by the Estonian, Latvian or Lithuanian tax authority in various cases, requalification of transactions and corresponding adjustment of tax results, such as prohibition to deduct input VAT or additional income tax charge, may have an adverse effect on the Group's business, results of operations and financial condition.

Liability for obligations transferred in the Division

The division of the Company was carried out in 2011 (the "**Division**"). According to Estonian law, companies participating in a division (e.g. the Company and AS Domina Vacanze Holding) shall be jointly and severally liable for the obligations of the company being divided which arise before entry of the division in the Estonian Commercial Register (i.e. 23 November 2011 in case of the Division of the Company). In relations between solidary debtors, only persons to whom obligations are assigned by the division plan are obligated persons. A company participating in a division to whom obligations are not designated by the division plan shall be liable for the obligations of the company being divided if such obligations become due within five years after entry of the division in the Estonian Commercial Register. The above means that the Company is jointly and severally liable for the obligations transferred to AS Domina Vacanze Holding to the extent such obligations become due and payable within five years as of the registration of the Division (i.e. until 23 November 2016).

The maximum potential liability of the Company for the obligations transferred to AS Domina Vacanze Holding is EUR 8,957 thousand, of which EUR 6,844 thousand are obligations arising from the convertible bonds of the Company that were split in the course of the Division. However, should the Company perform any such obligation it will have a right of recourse against AS Domina Vacanze Holding. In addition, on 30 September 2011, owners of convertible bonds issued by the Company delivered to the Company a waiver, whereby they waived their claims against the Company arising from the convertible bonds issued by AS Domina Vacanze Holding as a result of the split of Company's convertible bonds that was carried out in relation to the Division. However, it cannot be excluded that after the disposal of the convertible bonds of AS Domina Vacanze Holding, the Company may be required to satisfy claims of respective bondholders that they have against AS Domina Vacanze Holding arising from the convertible bonds.

Real estate developer's liability

Pursuant to Estonian, Latvian and Lithuanian law, the Group Companies may be held liable as real estate developers towards their customers for, among other things, legal or construction defects in the property sold to the customer.

Estonian law allows claims connected to the deficiencies in buildings to be made against the seller of a land unit under general rules of statute of limitations for an extended period of 5 years (the general limitation period for contractual claims is 3 years). The law provides for the possibility of agreeing upon a shorter claims period in a sales contract. Latvian law allows making claims related to the deficiencies in buildings against the seller for 2 years as from conclusion of sales contract. Lithuanian law allows making claims related to the deficiencies in buildings against the contractor for the following periods: (i) 5 years for open works (e.g. visible works, such as roof, windows, doors, facade, walls), (ii) 10 years for hidden works (i.e. works, which require specific assessment, such as engineering networks, insulation, etc.) and (iii) a certain period of time (usually between 1 and 5 years) specified by the producer for any installed items (heating, electricity systems, etc.). However, in case of bankruptcy of Lithuanian contractors, such claims would be directed towards the real estate developer (please also read the risk factor ""Dependence on building contractors").

The Group seeks to cover its exposure for warranty claims mainly by requiring the main contractor of the project to obtain insurance cover against all construction risks for the whole duration of the project. Such insurance must be made for the benefit of the financer of respective project (the bank), respective Group Company and, if relevant, other Group Companies. However, this may not always be sufficient. The Group passes the warranty liability on to its contractor and subcontractors, but they may not have adequate financial resources to fully indemnify the Group. Losses may arise from risks not addressed in the Group's indemnity agreements or insurance policies, or it may no longer be possible to obtain adequate insurance coverage against some risks on commercially reasonable terms. Failure to effectively cover the Group's exposure to risks arising from engineering and construction liabilities could expose the Group to substantial costs and potentially lead to substantial losses. Additionally, liabilities relating to defects in design and construction may also adversely affect public perception about the operations of the Group and the perception of customers, suppliers and employees, leading to an adverse effect on the Group's business, results of operations and financial condition.

With the Group choosing to be a developer rather than a construction company, it faces additional risks of reduced control and timing of the projects, which might be impacted by possible delays from subcontractors, or their non-performance. This could lead to an adverse effect on the Group's business, results of operations and financial condition.

Financial assistance rules

The Group Companies have concluded several intra-group loan agreements. The applicable laws set forth limitations and restrictions on certain intra-group transactions, e.g. upstream loans. For example Estonian law permits to provide an upstream loan to a parent company only if the provision thereof is not detrimental to the financial standing of the lending subsidiary and does not impair the interests of its creditors. A violation of such limitations and restrictions could result in the invalidity of respective loan agreement, which would mean that the lending subsidiary may immediately demand repayment of the amounts lent. This could adversely affect the business,

results of operations and financial conditions of the Group.
Latvian law prohibits a parent company as a dominant undertaking to use its influence in order to induce a subsidiary as a dependent company concluding transactions disadvantageous to it without compensating incurred losses during the financial year or granting a subsidiary rights of claim against a parent company. A parent company and its management, who have induced a subsidiary to enter into a transaction disadvantageous to it, shall be jointly liable for the incurred losses. The management of a subsidiary shall be jointly liable along with a parent company and its management for failure to indicate a disadvantageous transaction in a dependency report or failure to indicate in such report that losses have been caused to a subsidiary and that compensation for such has not in fact been made.
In Lithuania certain restrictions apply to intra-group loans, i.e. interest in respect of such loans must be equivalent to an arm's length price and the loan amount may not exceed the company's equity more than at a ratio 4:1. If the loan exceeds the indicated ratio, interest charged on the part of the loan exceeding the relevant ratio may not be recorded as allowable deductions.
German law allows upstream loans by a German limited liability company to shareholders if the upstream loans do not violate the capital maintenance rules. Pursuant to such capital maintenance rules, upstream loans may not be granted to the extent that the funds are needed to maintain the company's registered share capital unless a domination or profit and loss pooling agreement within the meaning of Section 291 of the German Stock Companies Act (Aktiengesetz) has been concluded or the company's claim for repayment of the loan is of full value and has been granted at arms' length terms. The shareholder of a German limited liability company also incurs a liability if he induces the company to take actions that may lead to the insolvency of the company.
Risks relating to the Group's Industry
Macroeconomic environment
Real estate development tends to follow the general developments in the macroeconomic environment. Interest rates, unemployment, inflation, private consumption, capital expenditure and other macroeconomic indicators have significant influence on real estate developments and hence the potential profitability of the Group. Adverse developments in the macroeconomic environment increase pressure on real estate prices, rent rates and yields.
Cyclicality of the real estate sector
Real estate development is a cyclical sector. The number of real estate related transactions fluctuates significantly depending on the stage of the real estate cycle. Cyclicality in the Baltic countries has been relatively high lately as a fast growth in prices fuelled by availability of cheap financing was followed by a steep decline as a result of financial crisis.
Illiquidity of real estate
Most of the investments that the Group has made in its real estate portfolio are relatively illiquid and sales of those properties might be time consuming. In case the Group's liquidity is adversely affected the Group might not be in position to liquidate its investments promptly. Recent relatively low activity in the Baltic real estate market further increases the illiquidity related risks.
Competition
The Group is operating in a competitive environment with high number of other companies engaged in the real estate development in the Baltic States. Even though market downturn in 2008-2010 has somewhat decreased the competitive pressure, there are still some relatively well capitalized competitors who can pursue development projects that might compete with the Group's developments.
Recent increase in real estate market activity and improved availability of financing has had a positive effect on some of the Group's competitors who have started the development of some of the projects in their portfolios. Recent pick-up in market activity has also increased the interest of some of the international investors in the Baltic real estate increasing the risk that some of the competitive projects will obtain the necessary funding.
Sales of seized relatively recently developed properties by some of the commercial banks in the Baltic States might also compete with the Group's developments. All of the above aspects related to the competitive landscape of the Group's industry might have an adverse effect on the Group's business, results of operations, financial condition and profitability.
Changes in customer preferences
Real estate sub-markets where the Group is operating in (residential housing market, retail property market) are subject to changing customer trends, demands and preferences. In particular, customer trends, demands and preferences may vary depending on economic factors, as well as customer preferences for the style of developments. The Group reassesses different risks, including potential changes in customer preferences, at different phases of a project. There can be no assurance that the Group will be able to recognise such changes and adapt its existing developments or planned developments in timely fashion to suit such changes in customer preferences. If customer preferences in the markets where the Group operates cease to favour the Group's developments, this could have an adverse effect on the business, results of operations and financial condition of the Group.
The Group is exposed to the credit risks of its customers and suppliers
The Group's financial performance and position are dependent, to a certain extent, on the creditworthiness of its customers and suppliers. If there are any unforeseen circumstances affecting the Group's customers' and/or suppliers' ability or willingness to pay, the Group may experience payment delays or non-payment. Each of these factors may have material adverse impact on the Group's operations, prospects and financial results.
Political, economic and legal risks
Risks relating to doing business in the Baltic States
Estonian, Latvian and Lithuanian markets as emerging markets are subject to greater risks than more mature markets, including legal, economic and political risks. Estonia, Latvia and Lithuania have experienced significant political, legal and economic changes and liberalization during the last two decades of transition from the planned economy to a market economy.
For the purposes of its accession to the European Union, Estonia, Latvia and Lithuania implemented significant social and economic changes, as well as reforms of their legal and regulatory framework. As a result, the volume of Estonian, Latvian and Lithuanian legislation and other regulations has increased and is expected to increase further pursuant to the obligation to apply European Community law.
The Estonian, Latvian and Lithuanian civil codes and corporate, competition, securities, environmental and other laws have been substantially revised during the last two decades as part of Estonia's, Latvia's and Lithuania's transition to a market economy and to meet EU requirements and standards. The new legislation remains in part largely untested in courts and no clear administrative or judicial practice has evolved.
The rights of shareholders of Estonian companies may differ from the rights of the shareholders of companies organised in other jurisdictions
The Company is organized under the laws of Estonia and consequently the rights of the Company's shareholders

are governed by the laws of Estonia and by the Company's Articles of Association. Accordingly, the Company's corporate structure as well as the rights and obligations of its shareholders may be different from the rights and obligations of the shareholders of companies organised in other jurisdictions. Estonian regulations may provide shareholders with particular rights and privileges which could not exist in other jurisdictions and, *vice versa*, certain rights and privileges that shareholders may benefit from in another jurisdiction may not be available in Estonia.

Judgments of Latvian and Lithuanian courts against the Company and the Group may be more difficult to enforce than if the Company and its management were located in Latvia or Lithuania, respectively

The Company was formed in accordance with the Estonian laws and its registered office is in Estonia. The majority of the assets of the Group are located in Estonia and the majority of the management personnel working for the Group reside in Estonia. For this reason Latvian and Lithuanian investors may encounter difficulties in serving summons and other documents relating to court proceedings on any of the entities within the Group and/or the management personnel working for the Group. For the same reason it may be more difficult for Latvian and Lithuanian investors to enforce a judgment of the Estonian court issued against any entities within the Group and/or the management personnel working for the Group than if those entities and/or the management personnel were located in Latvia or Lithuania respectively.

Risks related to Estonian tax regime

Estonia currently enjoys a corporate income tax regime under which income tax is deferred until profits are distributed. Profit distributions are subject to income tax of 21/79 of the net amount of distributed profits. The possibility that Estonia may change its corporate taxation policy has periodically been subject to political discussion but it is currently not possible to assess whether or when any such change may occur. Any change in Estonian corporate taxation policy could have a material adverse effect on the Group's business, results of operations and financial condition.

Unfavourable changes in Latvian tax regime may have material adverse influence on the Group

The Group Companies are subject to the following taxes in Latvia: VAT, social security contributions, personal income tax, corporate income tax and real property tax. According to the Tax Policy Strategy for 2011-2014 set by the Latvian Ministry of Finance, no additional tax load should be imposed on tax payers in Latvia within the period until 2014 (including), except for potentially moderate increase in real property tax. At the same time, the effective personal income tax charge may be reduced by increasing the tax-exempt ceiling. However, there could be no assurance that the tax policy in Latvia would not change in a manner having adverse effect on the Group's business and financial results.

Moreover, the Group is subject to continuous examinations and audits by the Latvian tax authorities. While the Group regularly evaluates its compliance with tax legislation and uncertain tax positions, any adverse outcome from such continuous examinations may have adverse effect on Group's operating results and financial position. All above mentioned factors may have material adverse effect on the Group's business, operations, financial position and financial results.

Risks related to possible amendments of Lithuanian tax regime

Periodically Lithuanian politicians discuss the revision of tax burden between capital and labour; however, currently no amendments of respective tax laws have been initiated and it is not possible to assess whether and/or when any such amendments may occur. It is likely that the risk related to the amendments of tax laws may increase after the Parliamentary election in Lithuania in the autumn of the current year.

Risks related to German tax regime

The German Group Companies are in general subject to taxation in Germany, in particular with respect to corporate income tax, trade tax (Gewerbesteuer), VAT and land tax and local taxes (where applicable). In addition, the German Group Companies have to pay wage tax and social security contributions with respect to wage payments to their employees and may have to pay withholding tax on dividends distributed to their shareholders. The taxation with respect to these taxes and contributions may be subject to changes due to the amendment of (tax) laws, (the change of) court decisions and the interpretation of tax laws by the German tax authorities. These changes may have adverse effects on the German Group Companies' business and financial results.

Increased cost of complying with government regulations

No assurance can be given that the governments in the Group's core markets will not implement new regulations or fiscal or monetary policies, or amend existing regulations, including regulations or policies relating to or affecting taxation, the environment, health and safety, public procurement, or exchange controls. Any significant amendment to the existing regulations or any new regulations could result in significant additional costs for the Group. The Group may not be able to pass such additional costs onto the purchasers of the property. Any significant amendment to the existing regulations or any new regulations could also impose restrictions on the operations of the Group. This could have a material adverse effect on the Group's business, results of operations and financial condition.

Eurozone risk

Recent turmoil related to some of the Eurozone economies may affect the Company's operating environment, either directly or indirectly through common currency and monetary policy changes. Prolonged and deep national budget deficits may adversely impact all the area's attractiveness, including Eurozone candidate countries such as Latvia and Lithuania which are operating under the ERM II mechanism. Full or partial collapse of the Eurozone might have a material impact on the Company's business.

Interest rate risk

The interest rates of the loans taken by the Group from credit institutions are based on the EURIBOR base rate, which is determined as of the quotation date occurring periodically after the date of the relevant loan agreement. Increases in EURIBOR will lead to a corresponding increase in the financial costs of the Group.

Furthermore, high interest rates tend to reduce the demand for real estate, which in turn can adversely affect the value of Group's properties and, as a result, the Group's revaluation gains. The Group regularly compares potential losses arising from interest rate fluctuation against the cost of hedging. In a majority of instances, no hedging has taken place, since the hedging expenses would have exceeded the potential losses arising from interest rate fluctuations.

Currency Exchange Risk

The revenue of the Group is primarily denominated in euro, LVL and LTL, while the expenses of the Group are primarily denominated in euro. Fluctuations in foreign exchange rates can have a significant impact on the valuation gain accounted for in the income statement year by year. In addition to that potential fluctuations in currency exchange rates can have an impact on the demand for the Group's properties, its availability of financing, costs of construction works and other aspects of the Group's operations. The main currency risk for the Group is that the rate at which these currencies are pegged to the EUR changes or that any of these currencies ceases to be pegged to the EUR. The Group is not engaged in exchange rate hedging activities, and thus is exposed to curren-

		cy exchange risk. Any devaluation or revaluation of LVL or LTL may have negative consequences for the economies of the Group home markets as a whole and may have a material adverse effect on the financial condition and results of operations of the Group. ***Pegged currency may have adverse impact on Latvian economy and therefore materially adversely influence the Group*** Since May 2005 Latvia has been part of the ERM II and committed to observe a central exchange rate of LVL 0.702804 to EUR 1.00 with a fluctuation band of ±15%. However, Latvia unilaterally maintains a 1% fluctuation band around the central rate. The fact that LVL is pegged to EUR could have material adverse effect on the Latvian economy. Namely, pegged currency limits the self-regulatory mechanisms of the economy. For example, during financial turmoil substantial amounts of investments are withdrawn from developing countries (such as Latvia), what causes depreciation of local currency. Although, depreciation of local currency increases the trade competitiveness of the country (by fuelling exports), and therefore softens the impact and economic consequences of the financial turmoil, countries with pegged currency cannot rely on above mentioned self-regulatory mechanisms and therefore could be struck by the financial turmoil in more severe way. Therefore, during any financial turmoil the Latvian economy may have limited ability to recover due to peg between LVL and EUR. Any potential turmoil in economic conditions in Latvia, over which the Group has no control, could significantly affect the Group's business, prospects, financial conditions and results of operations in a manner that could not be predicted. ***Pegged currency may have adverse impact on Lithuanian economy and therefore materially adversely influence the Group*** Since June 2004 Lithuania has been part of the ERM II and committed to observe a central exchange rate of LTL 3.4528 to EUR 1.00 with a fluctuation band of ±15%. However, Lithuania unilaterally maintains a 0% fluctuation band. The fact that LTL is pegged to EUR could have material adverse effect on the Lithuanian economy. Namely, pegged currency limits the self-regulatory mechanisms of the economy. For example, during financial turmoil substantial amounts of investments are withdrawn from developing countries (such as Lithuania), what causes depreciation of local currency. Although, depreciation of local currency increases the trade competitiveness of the country (by fuelling exports), and therefore softens the impact and economic consequences of the financial turmoil, countries with pegged currency cannot rely on above mentioned self-regulatory mechanisms and therefore could be struck by the financial turmoil in more severe way. Therefore, during any financial turmoil the Lithuanian economy may have limited ability to recover due to peg between LTL and EUR. Any potential turmoil in economic conditions in Lithuania, over which the Group has no control, could significantly affect the Group's business, prospects, financial conditions and results of operations in a manner that could not be predicted.
D.3	Key risks that are specific to the Shares	***Liquidity*** Prior to this Offering, there has been no public market for the Shares. The Company cannot assure you that an active trading market for the Shares will develop or be sustained after the Offering and Listing. The Offer Price will be determined through negotiations among the Managers and the Company. An investor subscribing for any Offer Shares may not be able to sell those Offer Shares at or above the Offer Price. The price of the Shares after this Offering may be volatile and may fluctuate significantly in response to numerous factors including *inter alia* (a) actual or anticipated fluctuations in our quarterly and annual results and those of our publicly-held competitors, (b) industry and market conditions, (c) changes in laws and regulations, (d) shortfalls in the operating results of the Group from levels forecast by securities analysts; (e) announcements concerning the Group or its competitors; (f) global and regional economic conditions and (g) the general state of securities markets. Many of these factors may be beyond the Company's control. An application has been made to the Tallinn Stock Exchange for the Listing. However, no assurance can be given that the Shares will be listed or that, following the listing, an active trading market for the Shares will emerge, develop or be sustained after completion of the Offering. The Tallinn Stock Exchange is substantially less liquid and more volatile than certain more established markets such as those in other countries with more highly developed securities markets. The relatively small market capitalization and low liquidity of the Tallinn Stock Exchange may impair the ability of investors to sell the Shares on the Tallinn Stock Exchange, which could increase the volatility of the price of the Shares. Prices on the Tallinn Stock Exchange may also be affected by external factors, such as the performance of world markets generally, or other emerging markets in particular, or the imposition of or changes in trading or capital gains taxes. ***Share price fluctuations caused by offer for sale of substantial number of additional shares*** Sales or issuance of additional Shares into the public market following the Offering could adversely affect the market price of the Shares. The Global Coordinator and certain shareholders have agreed to a lock-up commitment for a period of 12 months in connection with the Offering. These shareholders together own or control approximately 60.37% of the Shares outstanding prior to the Offering and 35.60% of all the Shares outstanding immediately following the Offering assuming that all Offer Shares and no Over-Allotment Shares (as defined in Section E.3 below) are issued, no convertible bond of the Company has been converted to a Share and none of the current shareholders acquires any Offer Shares in the Offering. The Company may also be required to issue up to 4,025,758 new Shares in the course of conversion of the convertible bonds issued by the Company. ***The Offering may be suspended or cancelled*** There may be various circumstances, on which the Company has no or very limited influence, that may affect the Offering. Therefore, the Company is entitled to suspend or cancel the Offering, in case such circumstances would have disadvantageous impact on the results of the Offering. In light of the above, there is a risk that the investors may not be able to effectively subscribe for the Offer Shares. Furthermore, in such case, payments made by investors during the Offering, may be returned without any compensation or interest. ***The Shares may be delisted from the Tallinn Stock Exchange or the trading in Shares on the Tallinn Stock Exchange may be suspended*** If the Company will fail to comply with certain requirements or fulfil certain obligations arising from the laws of Estonia or the Rules of the Tallinn Stock Exchange, the Tallinn Stock Exchange may delist the Shares or suspend trading in Shares. Further, the Company may apply for the delisting from the Tallinn Stock Exchange or for the suspension of trading therein. There is no guarantee that the Shares will never be delisted from the Tallinn Stock Exchange or trading therein will never be suspended. Delisting of the Shares could decrease the liquidity of the Shares and affect the ability to sell the Shares at a satisfactory price by the Investors. Although it is the Company's intention to make all endeavours in order to comply with all applicable regulations to avoid suspension of trading in Shares on the Tallinn Stock Exchange, future suspensions cannot be fully excluded. The Share price may be adversely affected by any suspension of trading in the Shares in the Tallinn Stock Exchange.

The Company may not pay dividends

There is no assurance that the Company will pay dividends on the Shares, nor is there any assurance as to the amount of any dividend it might pay. The payment and the amount of any dividend will be subject to the discretion of the General Meeting of Shareholders of the Company and will depend on available cash balances, anticipated cash needs, results of operations and financial condition of the Group and any financing agreement restrictions binding the Company as well as other relevant factors.

Inability to exercise pre-emptive rights

Pursuant to the Estonian Commercial Code, shareholders of a company have generally the preferential right to subscribe for new shares in proportion to their existing shareholding. However, such preferential right can be waived by a resolution of the General Meeting of Shareholders by a majority of 3/4 of the votes represented at such General Meeting of Shareholders. As a result of an issuance of additional shares with exclusion of preferential right to subscribe for new Shares, the shareholding and voting rights in the Company and the earnings per Share may be diluted.

In addition, if the above-referred pre-emptive rights are not waived, United States holders of Shares may not be able to exercise statutory pre-emption rights in the future unless a registration statement under Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. The Company is unlikely to file any such registration statement in the future, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such United States holders to exercise such statutory pre-emption rights or, if available, that the Company will utilize any such exemption. Furthermore, if United States shareholders are not able to exercise statutory pre-emption rights, they may face dilution as a result. Similar risk may also relate to investors from certain other jurisdiction, where requirements similar to those of the United States referred to above are in force.

Holding of Shares in a nominee account

Shares may be held in a nominee account. Pursuant to the Estonian law, any Shares held in a nominee account (including Shares that are held via custodians of the Latvian Central Depository and the Lithuanian Central Depository, which are held in the ECRS in the nominee accounts of the Latvian Central Depository and the Lithuanian Central Depository) shall be considered as the Shares legally owned by the owner of the nominee account. This could result for the investors holding the Shares in a nominee account in deprivation of certain rights or privileges as compared with the investors, who hold Shares in their own securities' account. This is in particular the case when changes are being made to the share capital of the Company or the Shares (e.g. while conducting reverse split of Shares or providing pre-emptive right to the shareholders while issuing new Shares), where the Company will treat all Shares held in a nominee account as held by one investor. Notwithstanding the above, the voting rights and rights to dividend and to other distributions attached to the Shares held in nominee accounts and other securities' accounts are the same.

Limited analyst cover

The trading market for the Shares will depend on the research and reports that industry or securities analysts may publish about the Group or its business. The Group has no control over these analysts. If one or more of the analysts who cover the Group downgrade their ratings of the Shares, the price of the Shares may decline. If one or more of these analysts cease coverage of the Group or fail to publish regular reports on it, the Company could lose visibility in the financial markets, which in turn could cause the price of the Shares or trading volume to decline.

Restrictions on transfers of Offer Shares and no public market in the United States for resales of the Shares

The Offer Shares have not been registered in the United States under the Regulation S or under any other applicable securities laws and are subject to restrictions on transfer contained in such laws. The Company does not intend to (i) list the Shares on an established securities exchange in the United States, (ii) have the Shares quoted on an automated inter-dealer quotation system in the United States or otherwise create a public market in the United States for re-sales of the Shares. The Shares constitute ''restricted securities'' as defined in Rule 144(a)(3) under the Regulation S and, accordingly, are not freely tradable in the United States. There are additional restrictions on the resale of Offer Shares (i) by persons who are located in the United States and/or (ii) to any person who is located in the United States. Similar risk may also relate to persons from certain other jurisdiction, where requirements similar to those of the United States referred to above are in force.

Turmoil in emerging markets could cause the value of the Shares to suffer

Financial or other turmoil in emerging markets has in the recent past adversely affected market prices in the world's securities markets for companies operating in the affected developing economies. There can be no assurance that renewed volatility stemming from future financial turmoil, or other factors, such as political, that may arise in other emerging markets or otherwise, will not adversely affect the value of the Shares even if the Estonian economy remains relatively stable.

Tax treatment for investors in an Estonian company may vary depending on tax residence of the investors

The Company is a company established and existing under the laws of Estonia and as such the Estonian tax regime applies to distribution of profit and other payments from the Company to its shareholders. The taxation of incomes from such payments as well as other incomes, from the disposal of shares, may vary depending on tax residence of particular investors as well as on provision of double tax treaties with Estonia in force. Provisions applying to particular investors may be unfavourable or may change adversely.

There can be no assurance that the Company will not be considered a passive foreign investment company (the "PFIC") for any taxable year. If the Company were treated as a PFIC for any taxable year during which a United States investor held shares, certain adverse United States federal income tax consequences could apply to such investor.

Each investor may be subject to taxation outside Estonia and should therefore consult with its own tax adviser. There can be no assurance that any activities, which the Group may conduct at any time in the future, would result in the investor becoming subject to any further taxes.

The Estonian legal persons do not pay corporate income tax on capital gains received from the sale or exchange of Shares until distribution. As a general rule, income tax is not charged on gains realized also by non-residents (whether legal persons or individuals). However, Estonian income tax is charged on the capital gain realized from the sale or exchange of Shares of a "real estate company" if the non-resident's holding exceeds 10%. A "real estate company" for these purposes is a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer or during a period within 2 years before transfer, more than 50% was directly or indirectly made up of immovable properties or structures as movables located in Estonia. Therefore, should the Company be considered as a "real estate company", that would bring along the requirement to pay Estonian income tax on the capital gain realized from the sale or exchange of Shares by a non-resident, whose holding

		exceeded 10% of the share capital of the Company prior to such sale or exchange. ***Limitations on enforcing judgments against the Company*** The Company is incorporated in Estonia. The judgments of the courts of the member states of the European Union (except for Denmark) must be recognized and enforced in Estonia either under Council Regulation (EC) No 44/2001 or Regulation (EC) No 805/2004 of the European Parliament and of the Council without any special procedure being required. Pursuant to Article 620(1) of the Estonian Code of Civil Procedure, judgments of the courts of foreign states other than the member states of the European Union must be recognized in Estonia, subject to certain exceptions, such as judgements contrary to Estonian order public or earlier judgement involving the same cause of action and between the same parties, judgements where the defendant was not able to reasonably defend its rights and judgements given by a non-authorized court. In such exceptional situations the judgements of the courts of foreign states other than the member states of the European Union are not enforceable in Estonia without re-litigation of the subject matter of such judgements on its merit.

Section E – Offer

Element	*Title*	*Disclosure*
E.1	Total net proceeds. Estimate of total expenses of the Offering (including estimated expenses charged to the investor)	The aggregate net proceeds to the Company are estimated to amount to approximately EUR 69.2 million, after deducting the fees and expenses of the Offering, assuming that all offered Offer Shares will be subscribed for and issued, based on the mid-point of the Offer Price Range, save for any proceeds deriving under issuance of any Over-Allotment Shares (as defined in Section E.3 below). The estimated total expenses of the Company relating to the Offering amount to EUR 3.9 million.
E.2a	Reasons for the Offering / Use of proceeds / Estimated net amount of proceeds	The purpose of the Offering is to obtain additional equity financing necessary for the Group's real estate development activities. The Group plans to use the net proceeds received from the Offering *inter alia* for the development of the following three properties of the Group: (a) Tondi Quarter in Tallinn; (b) Peterburi Rd. Shopping Centre in Tallinn; and (c) Tallinas St. Residential Complex in Riga. In the Management Board's view the exact allocation of the funds to the development projects cannot be determined at the date of this Prospectus. The exact allocation of the funds to various development projects will be determined by the Company at a later stage on the basis of availability of debt financing and pre-sales. In addition, the Group plans to use part of the proceeds for general corporate purposes (including the potential repayment of outstanding obligations). The Group will use the proceeds for general corporate purposes to the extent and at the time such part of the proceeds is not necessary for financing the Group's real estate development activities. A portion of the proceeds will also be transferred to the legal reserve of the Company pursuant to its Articles of Association. The precise use of the proceeds will be determined by the Management Board in line with the annual budgets of the Company approved by the Supervisory Council and other relevant resolutions that the Supervisory Council may adopt from time to time. In addition to above-mentioned investments the Offering is expected to broaden the Group's investor base and create an opportunity for the Listing of the Shares on the Tallinn Stock Exchange. The Listing is expected to increase liquidity of the Shares and enhance the Group's profile in relation to current and potential customers and other cooperation partners. The aggregate net proceeds to the Company are estimated to amount to approximately EUR 69.2 million, after deducting the fees and expenses of the Offering, assuming that all offered Offer Shares will be subscribed for and issued, based on the mid-point of the Offer Price Range, save for any proceeds deriving under issuance of any Over-Allotment Shares. The estimated total expenses of the Company relating to the offering amount to EUR 3.9 million.
E.3	Terms and conditions of the Offering	The Company is offering up to 37,000,000 newly issued Offer Shares with the nominal value of EUR 0.2 each. The offering of the Offer Shares is made (i) to the public in Estonia, Latvia and Lithuania (the "**Retail Offering**") and (ii) to qualified investors in and outside of Estonia, Latvia and Lithuania (the "**Institutional Offering**"). The Retail Offering is directed to all natural and legal persons in Estonia, Latvia and Lithuania, except for any persons who are categorised as qualified investors pursuant to the laws of any of Estonia, Latvia and Lithuania. The subscription period for the Offer Shares (the "**Offer Period**") will commence on 27 August 2012 at 10.00 am (Eastern European Time – Estonian, Latvian and Lithuanian time) and expire (i) on or about 7 September 2012 at 04.00 pm (Eastern European Time – Estonian, Latvian and Lithuanian time). The offer price payable in consideration for each issued Offer Shares (the "**Offer Price**") shall be decided by the Supervisory Council of the Company, in consultation with Finance, UAB (the "**Advisor**") and AS LHV Pank (the "**Global Coordinator**"), after the completion of the book-building process directed at qualified investors in the course of the Institutional Offering. The offer price per Offer Share will be the same for all investors in the Retail Offering and the Institutional Offering. The Offer Price range for the Offer Shares is EUR 1.90 to 2.05 (the "**Offer Price Range**"). The final Offer Price will be published by means of a stock exchange release on or about 10 September 2012 and on the Company's website www.prokapital.com. The Company has granted the Global Coordinator an option to require the Company to issue up to an additional 1,000,000 new Shares (the "**Over-Allotment Shares**") at the same time with the issuance of the Offer Shares for purposes of covering possible over-allotments. The Company has also granted the Global Coordinator an option, exercisable within 30 days of the date of commencement of trading in the Shares in Tallinn Stock Exchange, to undertake stabilisation in accordance with European Commission Regulation (EC) No 2273/2003. In the course of stabilisation, the Global Coordinator may purchase Shares from the market in the amount not exceeding the amount of issued Over-Allotment Shares to stabilize or maintain the market price of Shares and sell such Shares to the Company. The conditional increase of the share capital of the Company by EUR 8,000,000 has been resolved by the General Meeting of Shareholders of the Company held on 14 August 2012. The actual increase of the share capital shall be carried out by the Management Board of the Company. The existing shareholders of the Company and the members of its management, supervisory or administrative bodies and employees of the Group Companies may participate in the Offering subject to the conditions of the Offering set forth herein. The Company is not aware whether or not such persons intend to participate in the Offering. To the extent that the Company is informed, none of such persons intend to subscribe for more than 5%

of the Offer Shares.

The Company expects to announce the Offer Price and the results of the Offering, including the total amount of Offer Shares allocated in the Institutional Offering and in the Retail Offering on or about 10 September 2012 via Tallinn Stock Exchange and on the website of the Company (www.prokapital.com).

In order to subscribe for the Offer Shares in the course of the Retail Offering, the investor must have a securities account opened with (a) the ECRS, (b) any custodian that is a participant of the Latvian Central Depository, who has a cash agent in Estonia or (c) any registered securities account operators in Lithuania, who has a cash agent in Estonia and the investor must submit a subscription undertaking via the relevant custodian (the "**Subscription Undertaking**") that operates such investor's relevant securities account. An investor may apply to subscribe for the Offer Shares only at the upper limit of the price range, i.e. at EUR 2.05 per Offer Share (the "**Subscription Price**"). Possible multiple Subscription Undertakings submitted by an investor shall be merged for the purposes of allocation.

An investor must ensure that the data in the Subscription Undertaking is correct, complete and readable. An uncompleted, incorrect or unclear Subscription Undertaking may be rejected. An investor may submit the Subscription Undertaking either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking and make the relevant payments.

A Subscription Undertaking shall be considered submitted and becomes effective at the moment when the transaction instruction of respective investor has been delivered to the ECRS on the basis of the respective order received from the investor's custodian or relevant subscription place.

By submitting a Subscription Undertaking every investor:

- confirms that he/she/it has read the Prospectus in English and the Prospectus summary translated into English/Estonian/Lithuania/Latvian, including without limitation the "Risk Factors" section and the description of rights and obligations resulting from the ownership title to the Shares contained therein, and accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;
- acknowledges that the Offering does not constitute an offer of Offer Shares by the Company in legal terms or otherwise and that the submission of Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of or subscription for any Offer Shares;
- accepts that the number of Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of Offer Shares which the investor wishes to acquire (the "**Maximum Amount**") and that the investor may receive less (but no more) Offer Shares than the Maximum Amount;
- undertakes to acquire and pay for any number of Offer Shares allocated to it/him/her/in accordance with the terms and conditions of the Offering;
- irrevocably authorizes each of the relevant Custodian and registrar of the ECRS, and if relevant, the Latvian Central Depository or the Lithuanian Central Depository, to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify (i) the number of Offer Shares to be subscribed for by the investor, (ii) the Offer Price (as determined after the Offer Period) as the price per Share and (iii) the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor;
- confirms, that he/she/it is not a US person in the meaning of Regulation S and not subject to any other jurisdiction in which placing of the Subscription Undertaking shall be deemed to be in breach of law, also represent that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus;
- confirms his/her/its awareness that the Subscription Undertaking shall be unconditional, shall not include any reservations, and shall be irrevocable during the time when the Subscription Undertakings are binding on the investors, subject to the provisions of the Prospectus; and
- confirms his/her/its awareness that investing in shares is inherently associated with investment risk that can be inadequate for his/her/its knowledge and experience.

The Company will decide on the allocation of the Offer Shares after the determination of the Offer Price after the Offer Period, on or about 10 September 2012. The sizes of the Institutional Offering tranche and the Retail Offering tranche have not been pre-determined. The total amount of Offer Shares to be allocated as part of the Institutional Offering and the Retail Offering will be determined by the Company, in consultation with the Advisor and the Global Coordinator, in the allocation process after the end of the Offer Period based on the demand for the Offer Shares by the different investor groups. The Company, in consultation with the Advisor and Global Coordinator, will determine the exact allocation of the Offer Shares to the qualified investors on discretionary basis. The Company, in consultation with the Advisor and Global Coordinator, will determine allocation percentages applied to the Retail Offering as follows:

- the Offer Shares shall be allocated to investors using stepped allocation methodology. Under the stepped allocation methodology, the Company together with the Advisor, the Global Coordinator and the Book-runner will determine, after the Offer Period, one or more allocation levels (in number of Offer Shares) and the allocation percentages applied to each level;
- the transaction amount in each Subscription Undertaking will be divided into different parts, e.g. part being below the first level (x% of such part will be accepted), part being between the first and second level (y% of such part will be accepted), part exceeding the second level (z% of such part will be accepted) etc. The main criteria for the determination of the levels and allocation percentages are: (a) the total demand for the Offer Shares in the Retail Offering; (b) the size of Subscription Undertakings in the Retail Offering and (c) the number of investors having submitted Subscription Undertakings in the Retail Offering.

Except that the employees of the Group in Estonia, in Latvia and in Lithuania are entitled a preferential allocation of up to 1,850,000 Offer Shares (the **"Preferential Allocation"**), no tranche has been predetermined to investors in Estonia, Latvia and Lithuania. For the avoidance of doubt, such Preferential Allocation does not constitute public offering of securities in any country other than Estonia, Latvia, Lithuania and no member of a managing body or employee of the Group is offered the Offer Shares with the right to participate in the Preferential Allocation, unless such person is a natural person in Estonia, in Latvia or in Lithuania. In the course of Preferential Allocation, up to 1,850,000 Offer Shares will be allocated to the Preferred Employees who participate in the Retail Offering.

Cancellation of the Offering

In case of cancellation of the Offering, or any part thereof, the Company shall make an announcement thereof via the Tallinn Stock Exchange and on the Company's website. As of the moment of announcement all rights and obligations of the parties relating to the cancelled part of the Offering shall terminate.

Notwithstanding the above, the Company will cancel the Offering and shall not issue any Offer Shares, if the expected net proceeds of the Company from the Offering would amount to less than EUR 10.0 million.

		Key dates:	
		Start of the Offer Period	27 August 2012
		End of the Offer Period	7 September 2012
		Offer Price and allocation of Offer Shares is determined and published	on or about 10 September 2012
		Settlement of Offer Shares	on or about 13 September 2012
		Trading in Shares commences on the Tallinn Stock Exchange	on or about 14 September 2012
E.4	Interests material to the Offering / Conflicting interests	The Management Board is not aware of any conflicts of interest or potential conflicts of interest between any duties of members of the Supervisory Council, the Management Board and other key executives to the Company and their private interests and other duties, nor do they possess in the Management Boards belief any material interest related to the Offering. Further, all members of the Supervisory Council and other key executives have confirmed to the Management Board of having no conflict of interest or potential conflict of interest or any material interest regarding the Offering respectively. In addition, the Management Board is not aware of any arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person was elected to the Supervisory Council, Management Board or was given any other key position in the Company.	
E.5	Name of the person or entity offering to sell the security. Lock-up agreements: parties involved; period of lock- up	Not applicable: there are no selling Shareholders. AS Pro Kapital Grupp is offering the Offer Shares for the subscription by the investors in accordance with the terms and conditions set out in the Prospectus. ***Lock-up agreements*** The Global Coordinator and certain shareholders of the Company (including A.F.I. American Financial Investments Ltd., Sueno Latino AG, Katmandu Stiftung, Zunis S.A., Svalbork Invest OÜ, Giuseppe Prevosti, Eginvest Ltd and Setimm Establishment) have agreed to a lock-up commitment for a period of 12 months in connection with the Offering. These shareholders together own or control approximately 60.37% of the Shares outstanding prior to the Offering and 35.60% of all the Shares outstanding immediately following the Offering assuming that all Offer Shares and no Over-Allotment Shares are issued, no convertible bond of the Company has been converted to a Share and none of the current shareholders acquires any Offer Shares in the Offering. Pursuant to such lock-up agreements, each such shareholder has undertaken not to directly or indirectly, issue, offer, sell, contract to sell, or otherwise dispose of any of the Shares that such shareholder owned at the time of entering into the lock-up agreement, during the period ending 365 days after the commencement of the Listing, without the prior written consent of the Global Coordinator.	
E.6	Immediate dilution. Amount and percentage of immediate dilution if Existing Shareholder not Subscribing during Offering	Following the completion of the Offering assuming that all offered Offer Shares will be subscribed for and issued and none of the convertible bonds issued by the Company has been converted to Shares, the Offer Shares and Over-Allotment Shares will represent approximately 41.67% of the Company's share capital assuming that all Over-Allotment Shares will be issued or 41.03% of Company's share capital assuming that none of the Over-Allotment Shares will be issued. Assuming that all Offer Shares will be issued, none of the convertible bonds issued by the Company has been converted to Shares and an existing shareholder of the Company does not acquire any Offer Shares or Over-Allotment Shares in the Offering, such existing shareholder of the Company will be diluted: - 41.67% of his or her shareholding assuming that all Over-Allotment Shares will be issued; or - 41.03% of his or her shareholding assuming that none of the Over-Allotment Shares will be issued.	
E.7	Estimated Expenses charged to the Investor by the Company	There are no direct expenses charged to the Investor by the Company when subscribing for the Offer Shares, i.e. no product charges, no entry charges, no management charges, and no exit charges apply.	

PART II. RISK FACTORS

Subscription for and investment in the Offer Shares involves a high degree of risk. Prospective investors in the Offer Shares should consider carefully, among other things, the risks set forth below and the other information contained in this Prospectus prior to making a decision to subscribe for and invest in the Offer Shares. Any of the risks highlighted below could have a material adverse effect on the Group's business, financial condition and result of operations, in which case the trading price of the Shares could decline, resulting in the loss of all or part of their investment in the Offer Shares. A potential investor who is in any doubt about the action it should take should consult a professional adviser who specialises in advising on the acquisition of shares and other securities.

Prospective investors should note that the risk factors described below are not intended to be exhaustive and are not intended to be presented in any assumed order of priority. Additional risks and uncertainties not currently known to the Group or that the Group currently considers immaterial may also have the effect set forth above.

1. RISKS RELATING TO THE GROUP'S BUSINESS

The Group is exposed to various risks due to long duration of real estate development projects

The core business of the Group is real estate development. The process of real estate development from the identification of the potential project to the disposal of the developed property usually lasts several years. Accordingly, the Group's acquisition and development activities are subject to significant risks of non-completion and loss due to:

- changing market conditions, which may result in diminished opportunities for acquiring desired properties, higher than expected development costs, lower than expected rental rates and lower than expected disposal prices;
- competition from other market participants, which may diminish the Group's opportunities for acquiring desired properties on favourable terms or at all;
- the Group's inability to acquire land at commercially acceptable terms or obtain detailed planning, including construction rights to the acquired land;
- budget overruns and completion delays;
- the Group's potential inability to obtain financing on favourable terms or at all for individual projects or in the context of multiple projects being developed at the same time;
- failure to meet the covenants in financing agreements, which may result in the lenders accelerating the repayments of loans under cross-default provisions;
- defects in the legal title to land acquired by the Group, or defects in approvals or other authorisations relating to land held by the Group;
- defects in acquired or developed properties, including latent defects in construction work that may not reveal themselves until many years after the Group has put a property in service and potential environmental damages;
- potential significant amendments to the existing governmental rules and regulations or fiscal or monetary policies or introducing of a new governmental rules and regulations or fiscal or monetary policies applicable to the Group's existing and future operations; and
- potential liabilities relating to the acquired land (incl. for example obligation to make certain investments and potential environmental damages), properties or entities owning properties for which the Group may have limited or no recourse.

Although many of these risks are beyond the control of the Group, any negative change in one or more of the factors listed above could adversely affect the business, results of operations and financial condition of the Group.

Ability to acquire appropriate real estate on commercially acceptable terms

The Group owns significant amount of properties that could be developed by it. Please read Section 6 (Projects and Properties) of Part XI (Business). However, should the Group need to acquire additional real estate for the development, it needs to identify and secure such real estate on a timely basis

and/or for commercially acceptable terms. There can be no assurance that the Group will successfully identify, lease and/or purchase suitable properties on acceptable terms, and failure to do so could have a material adverse effect on the Group's business, results of operations and financial condition.

Ability to obtain construction rights, construction and environmental permits and other approvals

The Group has acquired land for which no detailed planning has been prepared or adopted or for which the existing detailed planning does not provide construction rights suitable for contemplated real estate development. The Group may also acquire land on such conditions in the future.

In order to develop real estate, detailed planning must have been adopted for respective land unit. Detailed planning normally details the division of land units, determines the construction rights attaching to each unit, delineates the area that can be occupied by buildings and determines the areas reserved for streets and other infrastructure. The detailed planning approval process by local municipalities is an administrative process and is subject to strict statutory requirements. The approval process of the detailed planning has several stages. The draft detailed planning is subject to several analyses and surveys, and is made public and subject to a public hearing. The process may last several years. Depending on the results of the process, the intended use of the land, the maximum number of buildings on the land, the maximum height of the buildings or other details of the plan could be restricted by the authorities. When the detailed planning has been approved or the lease agreement signed, the Group still needs to apply for a building permit from the municipal authorities before construction can commence. The Group does not have necessary confirmed detailed planning to start developing Kalaranna Residential Complex and Klīversala Residential Complex. The process for obtaining building permits is designed to ensure that the proposed building meets the requirements of the detailed planning or a lease agreement, as well as statutory and municipal building regulations and that the design of the building is acceptable to the authorities. The Group may also need to acquire certain other permits and authorisations in order to start constructing building and other structures on the land units. In addition, the Group may need permits for demolition of the existing constructions located on the acquired land units. If the demolition is not permitted or its end materials (e.g. containing hazardous substances) need specific handling, it will require additional monetary resources from the Group. Significant costs relate to the approval process of the detailed planning, obtaining building permit and other necessary approvals and permits, including any amendments to the indicated documents (if needed, while executing a relevant project). The Group must bear such costs irrespective of the outcome of respective proceedings.

Therefore, the Group may experience difficulties or delays in obtaining detailed planning and building approvals from the various governmental or municipal authorities required to undertake the planned development and construction. Should the Group fail to obtain approvals and permits on reasonable terms, it may have to give up the project and sell the land at a sales price which may be lower than the purchase price. Any material delays in the process may result in additional costs or even abandoning of the project following changes in the real estate market. No assurance can be given that the Group will be able to obtain the planning approvals and building permits and other necessary permits and authorisations and start construction as planned, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Changes in intended use of land

Municipalities may change the intended use of the land that the Group has acquired or is considering to acquire. That may have an adverse effect on the business and the financial position of the Group. In case the land the Group has acquired is needed for public purposes, e.g. for road construction, the state or the municipality is to acquire the land in question from the Group for compensation that may not be lower than the usual value of the land. However, such compensation may not be sufficient to cover all the damage caused to the Group.

Dependency on small number of large projects

A relatively small number of large projects in or near the capital cities of the Baltic States form substantially all of the Group's development business. Concentration of large projects may increase the volatility of the Group's results and increase its exposure to risks attaching to individual projects. Larger projects may also lead to proportionally larger cost overruns, which may negatively affect the Group's operating margins. Geographic focus on three capital cities of the Baltic States makes the Group vulnerable in case of a downturn in the property market in any of those cities.

Management Board believes that relatively few major projects in a limited number of geographic locations will continue representing a major part of the Group's business in the foreseeable future. If the Group fails to achieve the expected margins or suffers losses on one or more of these large projects or if the property markets significantly deteriorate in Tallinn, Riga or Vilnius, this could have a material adverse effect on the Group's results of operations or financial condition.

Two out of three near term developments, i.e. Peterburi Rd. Shopping Centre and Tondi Quarter are located in Tallinn, Estonia, and represent approximately 42% of the appraised real estate portfolio of the Group. Estonian macroeconomic indicators have historically been comparatively more stable than those in Latvia and Lithuania. However, that does not guarantee such conditions in the future.

Inaccuracy of the forecasts

The Group's profitability depends on its ability to forecast market prices, rents, property related costs, anticipated working capital needs, availability of financing, property values etc. In connection with the Group's acquisition of property for its development business, the Group bases the purchase prices it agrees for the property in part on projections of development costs, property values at the time of sale, future market rents, availability of financing and anticipated working capital etc. If the Group's projections are inaccurate, it could experience lower profits, which could have a material adverse effect on its results of operations and financial condition.

Potential inaccuracy of the appraised investment value of the Group's real estate portfolio

In total 11 projects, buildings and sites in the Group's portfolio have been valued in the Appraisal Report with investment value of EUR 180.0 million (10 projects located in Estonia, Latvia and Lithuania were valued in April 2012 at EUR 172.5 million and one project in Germany was valued in June 2012 at EUR 7.5 million). Please read the Appraisal Report, which is incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)). The Appraisal Report was prepared separately from the preparation of the Financial Statements. In producing the Appraisal Report, Newsec used certain assumptions, techniques and methodologies specified in the Appraisal Report, which differ from the assumptions used by the Group when preparing its Financial Statements. Therefore, the values indicated in the Appraisal Report differ from the values for the same properties used in the Financial Statements.

In addition, the assumptions used by Newsec in the Appraisal Report may not reflect the true position of the Group's portfolio. The valuation of property is inherently subjective due to the individual nature of each property and is based on a number of unconfirmed assumptions. The real estate markets of the Baltic States have a limited liquidity and amount of publicly available data and research as compared to more mature real estate markets. Relevant property values may have changed since the dates on which the data were applicable. As a result, there can be no assurance that a valuation at a more recent date would not produce a different value for the appraised portfolio. Notwithstanding the foregoing, the Company confirms that (a) to the best of Company's knowledge and belief, the information, assumptions and documentation, which were given to Newsec by the Company, was correct and complete and (b) there have been no materials changes to the properties valued pursuant to the Appraisal Report as from the date of their valuation.

Market values of properties in the countries in which the Group invests may decline in the future. Furthermore, the appraised value of any or all of the properties covered by the Appraisal Report may decline significantly in the future for other reasons, such as those discussed in this Part II (Risk Factors) and elsewhere in this Prospectus, among others. The appraised value of the property cannot, therefore, be construed as either an estimate or an indication of the prices, which could be obtained should the Group seek to sell these assets in the open market or as either an estimate or an indication of any price at which the Company's shares may trade.

Lack of insurance cover and specific reserves for indemnifying damages

The properties belonging to the Group could suffer physical damage caused by natural disasters, fire or other causes, resulting in losses which may not be fully compensated by insurance. The Group has obtained insurance coverage for its properties, which it believes to be in line with standard industry practice. The insurance covers, for example, losses and liability resulting from fire, break-in, diffusion, robbery, vandalism, pipe leakages, lightning, explosion, implementation of the extinguishing system storm, etc. However, the Group Companies usually do not obtain property insurance for immovable properties, composed only of land plots and/or amortized buildings which are intended to be demolished (for example, land plots designated for development of Klīversala Residential Complex). In addition, liability insurance aimed to cover damage caused to third parties is also included in some of the

Group subsidiaries' insurance policies. A number of the Group subsidiaries have also valid business interruption insurance. However, insurance coverage is subject to limits and limitations and some risks (e.g. certain natural disasters and terrorist acts) are not covered by insurance for various reasons (e.g. because such risks are uninsurable or the cost of insurance is, according to Management Board's belief, prohibitively high when compared to risk). Even if the insurance is adequate to cover Group's direct losses, the Group could be adversely affected by loss of earnings caused by or relating to its properties. The occurrence of any of the above referred harmful effects or insufficient insurance coverage may have a material adverse effect on the business, results of operations and financial conditions of the Group. This *inter alia* means that the Group could:

- lose capital invested in the affected property as well as anticipated future lease income or sale proceeds from that property;
- be held liable to repair damage caused by the event; and
- remain liable for any debt or other financial obligation related to that property.

The Group does not also maintain separate funds nor does it set aside reserves for the above-referred types of events.

Dependence on building contractors

The Group has acquired and will acquire real estate upon which it develops and constructs properties, or which have existing buildings that require renovation. The Group relies on third party building contractors. If the Group cannot enter into design and construction arrangements with third party building contractors at acceptable terms or cannot agree on reasonable amendments to the suspended construction and design agreements or such arrangements are not honoured fully as a result of the financial position of the building contractor or building contractor fails or has failed to fulfil its obligations under mandatory requirements of law, including requirements which are pre-condition for validity of construction permit (such as – continuous constructor's liability insurance policy during all term of validity of construction permit) or any other reason whatsoever, the Group will incur additional costs which will have an adverse effect on its business, results of operations and financial condition.

The contractor's or subcontractor's failure to perform may result in legal action by the Group to rescind the construction agreement or to enforce the contractor's obligations, which may result in a delay of the project. Furthermore, any delay in the completion of construction may result in an additional cost, which the Group may not be able to pass on to the purchaser of the property.

Any delays in the completion of construction operations and consequently, of development projects, and increases in the cost of construction may have a material adverse effect on the results of operations and financial condition of the Group.

Furthermore, pursuant to Lithuanian law, in case of a bankruptcy or liquidation of the contractor, the developer of the real estate project would be held liable against purchasers of the real estate for any defects that emerge during guarantee period in case of default of the contractor. Guarantee period for the buildings under the applicable Lithuanian laws is 5 years for open works (e.g. visible works, such as roof, windows, doors, facade, walls) and 10 years for hidden works (i.e. works, which require specific assessment, such as engineering networks, insulation, etc.) and a certain period of time (usually between 1 and 5 years) specified by the producer for any installed items (heating, electricity systems, etc.). Thus, in case of bankruptcy or liquidation of any Lithuanian building constructors of the Group Companies, they may be held liable as indicated above, which may have a material adverse effect on the results of operations and financial condition of the Group. Currently, only the main contractor of the first stage of the real estate project at Aguonu str., Vilnius, Lithuania, which has been implemented by PK Invest UAB, is bankrupt and was liquidated. The contractor has performed almost all main construction works of the mentioned real estate project.

Indebtedness and availability of external financing

The Group operates in capital intense industry and needs substantial working capital to support acquisition and development of properties. Therefore, if internally generated cash flow or cash flow received from sales of developed real estate is different than anticipated or money available from either local or global lenders is under liquidity pressures, it could have a material adverse effect on the business, results of operations and financial conditions of the Group.

In order to develop intended properties, the Group may need to raise debt financing from external sources. The projects may need to be postponed if there is limited funding available on commercially

attractive terms. This could have a material adverse effect on the business, results of operations and financial condition of the Group.

The Management Board believes that the current leverage ratio of the Group is lower than what is typical for a real estate development company in the Baltic States. However, the Group has substantial indebtedness. As at 30 June 2012, the Group had EUR 20,673 thousand of consolidated long-term borrowings and EUR 6,898 thousand of consolidated short-term borrowings. Among other things, the Group's indebtedness could potentially:

- limit its ability to obtain additional financing;
- limit its flexibility in planning for, or reacting to, changes in the markets in which it competes;
- place it at a competitive disadvantage relative to its competitors with less indebtedness;
- lead to a partial or complete loss of control over its key subsidiaries or properties;
- render it more vulnerable to general adverse economic and industry conditions; or
- require it to dedicate all or a substantial part of its cash flow to service its debt.

The Group's ability to make payments on its indebtedness depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which the Group cannot control. If the Group's cash flow from operating activities becomes insufficient, the Group may take certain action, including delaying or reducing capital or other expenditures, restructuring or refinancing its indebtedness, selling its investment properties or other assets or seeking additional capital. The Group may be unable to take any of such action at favourable terms or in a timely manner. Furthermore, such action may not be sufficient to allow the Group to service its debt obligations in full. Failure by the Group or the Company to service its debt may have a material adverse effect on its business, results of operations and financial condition.

Risks relating to external financing

The Group has raised external debt financing by borrowing from credit institutions pursuant to several financing agreements and by issue of convertible bonds. The financing agreements entered into by the Group include several negative and positive covenants and requirements to obtain the lender's consent for, among other things, further financing, providing security or creating charges over its assets, concluding lease, rental or other agreements with regard to encumbered assets granting rights to third persons, changes in the Group's corporate structure, consolidating or merging with another entity, changes in its share capital, changes in its main field of activity or in competence of its Management Board, making investments to other enterprises or transfer of business or part thereof. Some financing agreements of the Group Companies also set forth the obligation of the relevant Group Company to retain certain financial levels and ratios throughout the term of such agreements.

The financing agreements of the Group prescribe that if any of the positive or negative covenants are breached or if the consent of the lender is not obtained prior to a transaction as required, such violation constitutes a material breach and the lender may accelerate loan payments as well as use other remedies set out in the agreement or the law (for example, contractual penalty and/or compensation for damage).

The financing agreements concluded by the Group Companies contain customary events of default, including cross-default provisions. These cross-default clauses expose the Group to default risks based on contract performance under other agreements with the lender or with other creditors. In addition, under the financing agreements, it is an event of default if the borrower incurs significant additional financial obligations or if there is a change of control in the borrower without the prior consent of the lender.

In addition, the Group's financing agreements require the Group Companies to pledge their immovable property. Most of the Group's immovable property has been encumbered with mortgages for the benefit of relevant lenders. Some mortgages secure also all existing and potential claims of the lender against other Group Companies. Failure to comply with financing agreements could result in the Group losing its rights or ownership interest in the pledged assets or the Group being forced to sell assets for lower than market value and debt residual, thus still maintaining partial liabilities to the financiers for particular property. Also the shares and assets of some Group Companies have been encumbered with commercial pledge for the benefit of the financiers.

Furthermore, certain Group Companies (including the Company) have issued guarantee letters whereby they have guaranteed the performance of the Group's obligations arising from the financing agreements. This allows the financial institution to demand performance under the financing agreement from the issuer of such guarantee (e.g. the Company), if the borrower fails to perform its duties under the financing agreement. As a result, the Group as a whole is exposed to risks related to failure by its subsidiary to perform its obligations arising from financing agreements. As at 30 June 2012 the total amount of the guarantees issued by the Group Companies (including the Company) was EUR 26,484 thousand. In addition, the Company has issued a guarantee to secure (jointly with Pro Kapital Eesti AS) possible claims against Täismaja AS arising from a loan contract. The guarantee letter is limited to maximum amount of potential claim. The guarantee is effective until 2 May 2017.

Moreover, certain loan agreements concluded by the Group Companies (e.g. PK Invest UAB) provide that all loans issued to the respective company by its shareholder and its related parties are subordinated to credit issued by the bank. According to the indicated agreements as well as according to the respective subordination agreements, certain Group Companies may not repay any part of the loan or interests to other Group Companies prior to repayment of the credit to which the intra-group loans have been subordinated. Consequently, these provisions limit the flow of funds among the Group Companies, which may have a material adverse effect on the financial condition of Group Companies or on the Group as a whole.

As at the date of this Prospectus financial institutions have not made any demands based on possible breaches of covenants. The Management Board believes that none of the Group Companies is breaching its obligations arising from the loan agreements. However, any failure to comply with financing agreements or any demand for early repayment made by the lender could have a material adverse effect on the Group's business, results of operations and financial condition.

Dependency on cash flows from subsidiaries

The Company is a holding company, which conducts its business through its subsidiaries. The Company holds 100% interest in five main subsidiaries, which in return own 100% in 14 companies – seven in Latvia, one in Germany, two in Lithuania and four in Estonia, as well as 99% and 96% in two additional subsidiaries in Estonia and 70% of additional subsidiary in Latvia. Please also read Section 13 (Structure of the Group and Subsidiaries) of Part XI (Business). The Company itself does not own significant assets other than the investment into its subsidiaries. Therefore, in order to be able to pay dividends to its shareholders and meet its own obligations, the Company is dependent on the receipt of dividends from its subsidiaries.

Each of the Estonian, Latvian, Lithuanian and German laws set out capital maintenance and other relevant rules, which limit the Group Companies ability to pay dividends or make other distributions. According to Estonian law, a company may only pay dividends or make other distributions, if its current profits and retained earnings are sufficient for such distribution.

According to Latvian law, dividends may be declared only once per financial year by a decision of the annual General Meeting of the Shareholders on the division of profit based on the proposal of the Management Board on the distribution of profit. Dividends may not be determined, calculated and paid out, if the net value of the own funds of a company at the time of the end of the accounting year fall below, or as a result of this payment would fall below the total amount of the share capital of a company.

According to Lithuanian law, dividends may be declared by a decision of the General Meeting of Shareholders on the division of profit. Dividends may be paid for the financial year, in this case dividends shall be declared by a decision of the annual General Meeting of Shareholders based on the proposal of the Management Board on the distribution of profit. A decision to pay dividends for the financial year may not be adopted if the company has liabilities, which are overdue at the adoption of the decision regarding dividend payment, if the company suffers losses at the end of a respective accounting period, and if the owners' capital of the company is below or as a result of the dividend payment would fall below the total amount of the registered capital and reserves formed in the company. In addition, dividends may be paid for the period shorter than a financial year. In this case, the shareholders holding not less than 1/3 of all votes shall request payment of dividends and an interim financial statement shall be prepared. Decision to pay dividends for the period shorter than a financial year may not be adopted if the company has liabilities, which are overdue at the adoption of the decision regarding dividend payment or the company will be not able to fulfil its financial obligations for the current financial year, or if the company suffers losses at the end of a respective accounting period.

According to German law, German limited liability companies may pay dividends and make other distributions to shareholders only if the payments do not violate the capital maintenance rules. Pursuant to such capital maintenance rules, payments to shareholders may not be made to the extent that the funds are needed to maintain the company's registered share capital unless a domination or profit and loss pooling agreement within the meaning of Section 291 of the German Stock Companies Act (Aktiengesetz) has been concluded. Therefore, the Company's financial position is dependent on the subsidiaries' ability to pay dividends. Furthermore, the ability to pay dividends is also restricted by contractual covenants binding on the Group Companies.

Risk related to customers' and other counterparties' financial position

The Group is exposed to the credit risk. The Group is continuously monitoring the payment behaviour of its customers and other counterparties. Moreover, in addition to contractual monetary obligations, the counterparties may not be able to compensate the Group for the damages caused as a result of breaches of their non-monetary obligations. Such defaults by counterparties could *inter alia* result in the Group Companies defaulting under their other contracts and being obliged to pay compensation to their other counterparties without being respectively compensated by the counterparties that initially defaulted, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Risk related to lease agreements

The Group's lease agreements are divided into two categories: fixed-term lease agreements and lease agreements entered into for an unspecified term. The Group seeks to use both types of agreements, depending on the market situation and the properties in question.

Lease agreements entered into for an unspecified term involve nevertheless a risk that a large number of such agreements may be terminated within a short period of time. The Group aims at renewing the fixed term lease agreements flexibly in cooperation with its tenants. There are, however, no guarantees that the Group will be successful in this. In order to prevent tenants from terminating the lease agreements, the Group may also be forced to agree on the reduction of rent. The reduction of rent payable to the Group under a large number of lease agreements and/or concurrent termination of a large number of lease agreements could have a material adverse effect on the Group's business, results of operations and financial condition.

Currently lease agreements account for EUR 886 thousand, which forms relatively minor part of the total Group's revenues. Portion of lease related income is expected to increase significantly after the completion of the Peterburi Rd. Shopping Centre, which at first is planned to be leased out and managed for stabilizing the rental cash flow, and thereafter sold once the conditions are favourable.

Contractual risks and legal proceedings

A dispute may arise between the Group and its contractual counterpart on the interpretation or the validity of a contract or fulfilling of contractual obligations, which can lead to arbitration or litigation with an unfavourable outcome for the Group. Among other things, the land plots owned or to be acquired or sold by the Group may have latent defects (e.g. pollution) which become apparent only after the land plot has been acquired or sold and this may lead to disputes between the Group and the contractual counterparty. Contractual claims and other demands may also have an adverse effect on the financial condition and results of operations of the Group.

The Group may from time to time be involved in a number of legal proceedings, which may also have an adverse effect on business, results of operations and financial conditions of the Group. Currently there are several on-going legal proceedings. The most significant of the on-going legal proceedings is the claims from Aprisco B.V. under a guarantee letter given by the Company. Aprisco B.V. presented two alternative claims against the Company to the court in the Netherlands: (i) claims for compensation of damages in the amount of EUR 2,300,000 or in the amount as ruled by the court; and (ii) EUR 904,106 plus fine for delay or EUR 524,000 plus fine for delay. The District Court in Rotterdam ruled on 4 July 2012 that the Company shall pay EUR 1,409,265.20 to Aprisco B.V. The Management Board of the Company plans to appeal the court judgement.

Please also read Section 12 (Legal Proceedings) of Part XI (Business).

The Group is exposed to environmental liability

The Group's activities are and will continue to be subject to laws and regulations relating to environmental protection. Such laws and regulations typically cover a wide range of matters, including, among

other things, waste handling and protection of ambient air and use of water. Furthermore, such laws are subject to possible future changes (please also read the risk factors "Risks relating to doing business in the Baltic States" and "Increased cost of complying with government regulations"). Failure to comply with the laws, regulations, permits and contractual terms and conditions (including failure to adjust the Group's activities to the amended legal requirements) could result in substantial costs and liabilities, which could adversely affect the Group's business, its financial condition and results of operations.

The land units, which have been or will be acquired by the Group, may subsequently be found to be contaminated. Environmental laws and regulations often impose liability on the current property owner whether or not the owner knew of, or was responsible for, the presence of such contamination. In relation to this risk, please note that:

- when the Group has purchased land, it has not always required the seller to warrant that there is no contamination on the land. Therefore, upon the discovery of the contamination, the Group may not be entitled to claim for clean-up costs and damages from any third person;
- the Group has not carried out environmental investigations in respect of several of its land units. The historic background of some of such land units refers to possibility of contamination (e.g. (i) the territory of Tondi Quarter has been a part of Soviet army campus; (ii) the territory of the Ilmarine Quarter has been partly under former P. Wiegland machine factory; (iii) a slaughterhouse and meat industry has been located in the property of Peterburi Rd. Shopping Centre and (iv) property of Šaltinių Namai Residential Complex has been a part of the machinery factory); (v) ship repair factory used to be located in the property of Klīversala Residential Complex; (vi) industrial buildings hazardous waste containers were located in the property of Zvaigznes Centre; (vii) textile factory RITMS previously used to be located at the property of Tallinas St. Residential Complex in Riga and (viii) property of Kalaranna Residential Complex has historically been a fishing harbour and a market place);
- should the Group fail to detect or remedy contamination, this may adversely affect the Group's ability to sell or lease property and expose the Group to claims from its customers or third parties for personal injury or property damage associated with exposure to contamination;
- upon sale of the property, the purchasers have required and are likely to require the Group to warrant that there is no contamination on the associated land. For example, when Kristiine Shopping Centre was sold, it was agreed that AS Täismaja shall indemnify any costs of the buyer of Kristiine Shopping Centre resulting from the compliance with the prescription issued within three years from the closing by environmental authorities to clean-up ground water or soil contamination with respect to the Kristiine Shopping Centre land plots, including but not limited to any clean-up costs, administrative fines and other penalties, third party claims, all related legal fees and fees of other consultants (please also read "Sale of Kristiine Shopping Centre" in Section 9 (Material Contracts) of Part XI (Business)); and
- amongst others, the risk related to counterparties' financial position as described above is also relevant in relation to environmental liability.

The cost of complying with environmental regulations or of decontamination of any land by the Group or the cost associated with a successful claim for damages could have a material adverse effect on the Group's financial condition and results of operations.

Please also read Section 10 (Environmental Issues) of Part XI (Business).

The Group is dependent on key personnel

The Group's performance is reliant upon the efforts, diligence, skill and network of business contacts of its senior management team. Well-connected local managers with knowledge of the relevant local market are essential for the Group's property development business. Even though the Group has agreed with key personnel (except for Olga Rudzika, the Managing director of AS "Pro Kapital Latvia", and Neringa Rasimavičienė, the General director of Pro Kapital Vilnius Real Estate UAB) regarding their non-competition obligation applicable for six months after the termination of their employment, the Group may not always be able to impose competition covenants or other contractual restrictions on a key manager and the Group has to give additional remuneration incentives in order to secure the loyalty and continued employment of such managers. Currently the Group does not have share-linked incentive system.

Should the Group lose one or more key managers and fail to find a replacement quickly enough, or should such key manager or managers join a competing business, this could adversely affect the business and results of operations of the Group.

Please also read Section 7 (Employees and Labour Relations) of Part XI (Business) and Part XII (Management).

The Group's reputation may be damaged

The Group's ability to attract purchasers of property, attract and retain tenants, raise the necessary financing for the development projects as well as retain personnel in its employment may suffer if the Group's reputation is damaged. Matters affecting the Group's reputation may include, among other things, the quality and safety of its premises and compliance with laws and regulations. Any damage to the Group's reputation due to, for example, including but not limited to the aforementioned matters, may have a material adverse effect on the business, results of operations and financial conditions of the Group.

Dependence on IT systems

The Group has developed and uses a variety of IT systems and web-based solutions for its operations, including internal accounting and management information systems, the handling of customer and tenant information, project designs and specifications, and general administrative functions. Failures or significant disruptions to the Group's IT systems could prevent it from conducting its operations efficiently. Furthermore, should the Group experience a significant security breakdown or other disruption to its IT systems, sensitive information could be compromised and its operations could be disrupted which in turn could harm its relationship with its customers and suppliers, or otherwise have a material adverse effect on the Group's business, results of operations and financial condition.

Potential tax liability

There is a significant number of intra-group transactions and contractual arrangements (such as lease, credit and service agreements between the Group Companies). The Group is therefore subject to a transfer pricing risk in relation to any transactions between related parties that are not conducted on an arm's length basis. This could involve an adjustment to the tax results for entities involved to take account of arm's length pricing, which could have an adverse effect on the Group's business, results of operations and financial condition.

Transactions with related as well as unrelated parties may carry a risk of requalification, should the tax authority challenge the economic substance of the transactions, e.g. under the „substance-over-form" rules. Considering the wide interpretation given to „substance-over-form" rules by the Estonian, Latvian or Lithuanian tax authorities in various cases, requalification of transactions and corresponding adjustment of tax results, such as prohibition to deduct input VAT or additional income tax charge, may have an adverse effect on the Group's business, results of operations and financial condition.

Liability for obligations transferred in the Division

The Division of the Company was carried out in 2011. According to Estonian law, companies participating in a division (e.g. the Company and AS Domina Vacanze Holding) shall be jointly and severally liable for the obligations of the company being divided which arise before entry of the division in the Estonian Commercial Register (i.e. 23 November 2011 in case of the Division of the Company). In relations between solidary debtors, only persons to whom obligations are assigned by the division plan are obligated persons. A company participating in a division to whom obligations are not designated by the division plan shall be liable for the obligations of the company being divided if such obligations become due within five years after entry of the division in the Estonian Commercial Register. The above means that the Company is jointly and severally liable for the obligations transferred to AS Domina Vacanze Holding to the extent such obligations become due and payable within five years as of the registration of the Division (i.e. until 23 November 2016). The maximum potential liability of the Company for the obligations transferred to AS Domina Vacanze Holding is EUR 8,957 thousand, of which EUR 6,844 thousand are obligations arising from the convertible bonds of the Company that were split in the course of the Division. However, should the Company perform any such obligation it will have a right of recourse against AS Domina Vacanze Holding. In addition, on 30 September 2011, owners of convertible bonds issued by the Company delivered to the Company a waiver, whereby they waived their claims against the Company arising from the convertible bonds issued by AS Domina Vacanze Holding as a result of the split of Company's convertible bonds that was carried out in relation to the Division. However, it cannot be excluded that after the disposal of the convertible bonds of

AS Domina Vacanze Holding, the Company may be required to satisfy claims of respective bondholders that they have against AS Domina Vacanze Holding arising from the convertible bonds. Please also read "Division of the Company" in Section 9 (Material Contracts) of Part XI (Business).

Real estate developer's liability

Pursuant to Estonian, Latvian and Lithuanian law, the Group Companies may be held liable as real estate developers towards their customers for, among other things, legal or construction defects in the property sold to the customer. Such defects may include faults in construction as well as legal defects, such as undisclosed rights of third parties, restrictions associated with nature preservation or heritage protection, planning issues, exercise of statutory right of pre-emption by the state or the local government in case of conservation areas or protected buildings or a prohibition against transfers of rural land to persons not engaged in agriculture or forestry.

Estonian law allows claims connected to the deficiencies in buildings to be made against the seller of a land unit under general rules of statute of limitations for an extended period of 5 years (the general limitation period for contractual claims is 3 years). The law provides for the possibility of agreeing upon a shorter claims period in a sales contract. Latvian law allows making claims related to the deficiencies in buildings against the seller for 2 years as from conclusion of sales contract. Lithuanian law allows making claims related to the deficiencies in buildings against the contractor for the following periods: (i) 5 years for open works (e.g. visible works, such as roof, windows, doors, facade, walls), (ii) 10 years for hidden works (i.e. works, which require specific assessment, such as engineering networks, insulation, etc.) and (iii) a certain period of time (usually between 1 and 5 years) specified by the producer for any installed items (heating, electricity systems, etc.). However, in case of bankruptcy of Lithuanian contractors, such claims would be directed towards the real estate developer (please also read the risk factor "Dependence on building contractors").

The Group seeks to cover its exposure for warranty claims mainly by requiring the main contractor of the project to obtain insurance cover against all construction risks for the whole duration of the project. Such insurance must be made for the benefit of the financer of respective project (the bank), respective Group Company and, if relevant, other Group Companies. However, this may not always be sufficient. The Group passes the warranty liability on to its contractor and subcontractors, but they may not have adequate financial resources to fully indemnify the Group. Losses may arise from risks not addressed in the Group's indemnity agreements or insurance policies, or it may no longer be possible to obtain adequate insurance coverage against some risks on commercially reasonable terms. Failure to effectively cover the Group's exposure to risks arising from engineering and construction liabilities could expose the Group to substantial costs and potentially lead to substantial losses. Additionally, liabilities relating to defects in design and construction may also adversely affect public perception about the operations of the Group and the perception of customers, suppliers and employees, leading to an adverse effect on the Group's business, results of operations and financial condition.

With the Group choosing to be a developer rather than a construction company, it faces additional risks of reduced control and timing of the projects, which might be impacted by possible delays from subcontractors, or their non-performance. This could lead to an adverse effect on the Group's business, results of operations and financial condition.

Financial assistance rules

The Group Companies have concluded several intra-group loan agreements. Please read "Intra-group loan agreements" in Section 9 (Material Contracts) of Part XI (Business). The applicable laws set forth limitations and restrictions on certain intra-group transactions, e.g. upstream loans. For example Estonian law permits to provide an upstream loan to a parent company only if the provision thereof is not detrimental to the financial standing of the lending subsidiary and does not impair the interests of its creditors. A violation of such limitations and restrictions could result in the invalidity of respective loan agreement, which would mean that the lending subsidiary may immediately demand repayment of the amounts lent. This could adversely affect the business, results of operations and financial conditions of the Group.

Latvian law prohibits a parent company as a dominant undertaking to use its influence in order to induce a subsidiary as a dependent company concluding transactions disadvantageous to it without compensating incurred losses during the financial year or granting a subsidiary rights of claim against a parent company. A subsidiary shall prepare a dependency report for each financial year indicating all the transactions of a subsidiary with a parent company or other Group companies, as well as the transactions concluded by a subsidiary in the interests of such companies or as a result of an induce-

ment, indicating in particular the transactions, which are completely or partially disadvantageous or which involve a special risk for a dependent company or, which differ substantially from the entrepreneurial activities normally carried out. A parent company and its management, who have induced a subsidiary to enter into a transaction disadvantageous to it, shall be jointly liable for the incurred losses. The management of a subsidiary shall be jointly liable along with a parent company and its management for failure to indicate a disadvantageous transaction in a dependency report or failure to indicate in such report that losses have been caused to a subsidiary and that compensation for such has not in fact been made.

In Lithuania certain restrictions apply to intra-group loans, i.e. interest in respect of such loans must be equivalent to an arm's length price and the loan amount may not exceed the company's equity more than at a ratio 4:1. If the loan exceeds the indicated ratio, interest charged on the part of the loan exceeding the relevant ratio may not be recorded as allowable deductions.

German law allows upstream loans by a German limited liability company to shareholders if the upstream loans do not violate the capital maintenance rules. Pursuant to such capital maintenance rules, upstream loans may not be granted to the extent that the funds are needed to maintain the company's registered share capital unless a domination or profit and loss pooling agreement within the meaning of Section 291 of the German Stock Companies Act (Aktiengesetz) has been concluded or the company's claim for repayment of the loan is of full value and has been granted at arms' length terms. The shareholder of a German limited liability company also incurs a liability if he induces the company to take actions that may lead to the insolvency of the company.

2. RISKS RELATING TO THE GROUP'S INDUSTRY

Macroeconomic environment

Real estate development tends to follow the general developments in the macroeconomic environment. Interest rates, unemployment, inflation, private consumption, capital expenditure and other macroeconomic indicators have significant influence on real estate developments and hence the operations and the potential profitability of the Group.

Favourable developments in the macroeconomic environment increase demand for residential properties, allow the real estate companies to increase rent rates of retail properties and prices for accommodation in hotels. Adverse developments increase pressure on real estate prices, rent rates and yields. Hence the Group's results are dependent on general macroeconomic environment and adverse developments in the environment might lead to reconsideration of some of the Group's development plans, negative pressure on prices and rents of the Group's properties or other changes in relation to the Group's properties that might have a material adverse effect on the Group's business, results of operations, financial condition and profitability.

Cyclicality of the real estate sector

Real estate development is a cyclical sector. The number of real estate related transactions fluctuates significantly depending on the stage of the real estate cycle. Cyclicality in the Baltic countries has been relatively high lately as a fast growth in prices fuelled by availability of cheap financing was followed by a steep decline as a result of financial crisis.

In the future the Baltic real estate market might regain the lost momentum, again inflating the price levels, which might be followed by overheating of the market and downward pressure on the prices thus starting the next real estate cycle.

Illiquidity of real estate

Most of the investments that the Group has made in its real estate portfolio are relatively illiquid and sales of those properties might be time consuming. In case the Group's liquidity is adversely affected the Group might not be in position to liquidate its investments promptly. Recent relatively low activity in the Baltic real estate market further increases the illiquidity related risks.

Ownership of premium properties in the Baltic capitals partially mitigates this risk. However, relative illiquidity of real estate properties might have a material adverse effect on Group's business, results of operations, financial condition and profitability.

Competition

The Group is operating in a competitive environment with high number of other companies engaged in the real estate development in the Baltic States. Even though market downturn in 2008-2010 has somewhat decreased the competitive pressure, there are still some relatively well capitalized competitors who can pursue development projects (i.e. to commence constructing and to proceed with the announced projects, as well as to implement new projects) that might compete with the Group's developments.

Recent increase in real estate market activity and improved availability of financing has had a positive effect on some of the Group's competitors who have started the development of some of the projects in their portfolios. Recent pick-up in market activity has also increased the interest of some of the international investors in the Baltic real estate increasing the risk that some of the competitive projects will obtain the necessary funding.

Sales of seized relatively recently developed properties by some of the commercial banks in the Baltic States might also compete with the Group's developments.

Profitability of Group's future developments and new acquisitions can be significantly impacted by increase of renovation and construction costs if competitors will pursue their developments. Additionally, if competitors will commence intended and announced projects the competition for tenants and marketing related costs will also increase.

All of the above aspects related to the competitive landscape of the Group's industry might have an adverse effect on the Group's business, results of operations, financial condition and profitability.

Please also read "Competition" under Section 2 (Factors Affecting Results of Operations) of Part IX (Operating and Financial Review and Prospects) and Section 5 (Operations) of Part XI (Business).

Changes in customer preferences

Real estate sub-markets where the Group is operating in (residential housing market, retail property market, hotel market) are subject to changing customer trends, demands and preferences. In particular, customer trends, demands and preferences may vary depending on economic factors, as well as customer preferences for the style of developments. The Group reassesses different risks, including potential changes in customer preferences, at different phases of a project. Should the Group find changes in customer preferences or other potential threats to the profitability of a project, the Group tries to adjust the project outline to meet the changed market expectations. However, there can be no assurance that the Group will be able to recognise such changes and adapt its existing developments or planned developments in timely fashion to suit such changes in customer preferences. If customer preferences in the markets where the Group operates cease to favour the Group's developments, this could have an adverse effect on the business, results of operations and financial condition of the Group.

The Group is exposed to the credit risks of its customers and suppliers

The Group's financial performance and position are dependent, to a certain extent, on the creditworthiness of its customers and suppliers. If there are any unforeseen circumstances affecting the Group's customers' and/or suppliers' ability or willingness to pay, the Group may experience payment delays or non-payment. Each of these factors may have a material adverse impact on the Group's operations, prospects and financial results.

3. POLITICAL, ECONOMIC AND LEGAL RISKS

Risks relating to doing business in the Baltic States

Estonian, Latvian and Lithuanian markets as emerging markets are subject to greater risks than more mature markets, including legal, economic and political risks. Estonia, Latvia and Lithuania have experienced significant political, legal and economic changes and liberalization during the last two decades of transition from the planned economy to a market economy.

For the purposes of its accession to the European Union, Estonia, Latvia and Lithuania implemented significant social and economic changes, as well as reforms of their legal and regulatory framework. As a result, the volume of Estonian, Latvian and Lithuanian legislation and other regulations has in-

creased and is expected to increase further pursuant to the obligation to apply European Community law.

The Estonian, Latvian and Lithuanian civil codes and corporate, competition, securities, environmental and other laws have been substantially revised during the last two decades as part of Estonia's, Latvia's and Lithuania's transition to a market economy and to meet EU requirements and standards. The new legislation remains in part largely untested in courts and no clear administrative or judicial practice has evolved.

The rights of shareholders of Estonian companies may differ from the rights of the shareholders of companies organised in other jurisdictions

The Company is organized under the laws of Estonia and consequently the rights of the Company's shareholders are governed by the laws of Estonia and by the Company's Articles of Association. Accordingly, the Company's corporate structure as well as the rights and obligations of its shareholders may be different from the rights and obligations of the shareholders of companies organised in other jurisdictions. Estonian regulations may provide shareholders with particular rights and privileges which could not exist in other jurisdictions and, *vice versa*, certain rights and privileges that shareholders may benefit from in another jurisdiction may not be available in Estonia.

The exercise of some of the shareholders' rights in the Company could be more complicated or expensive for investors from other countries than the exercise of similar rights in their country of residence. Resolutions of the General Meeting of Shareholders may be adopted with majorities different from the majorities required for adoption of equivalent resolutions in companies organised in other jurisdictions. Rectification of the Company's registers and/or some corporate actions may require the approval of Estonian courts. Please also read Section 7 (Shareholder Rights) of Part XIII (Information on Company, Shares and Share Capital) and Part XIV (Estonian Securities Market).

Judgments of Latvian and Lithuanian courts against the Company and the Group may be more difficult to enforce than if the Company and its management were located in Latvia or Lithuania, respectively

The Company was formed in accordance with the Estonian laws and its registered office is in Estonia. The majority of the assets of the Group are located in Estonia and the majority of the management personnel working for the Group reside in Estonia. For this reason Latvian and Lithuanian investors may encounter difficulties in serving summons and other documents relating to court proceedings on any of the entities within the Group and/or the management personnel working for the Group. For the same reason it may be more difficult for Latvian and Lithuanian investors to enforce a judgment of the Estonian court issued against any entities within the Group and/or the management personnel working for the Group than if those entities and/or the management personnel were located in Latvia or Lithuania respectively.

Risks related to Estonian tax regime

Estonia currently enjoys a corporate income tax regime under which income tax is deferred until profits are distributed. Profit distributions are subject to income tax of 21/79 of the net amount of distributed profits. The possibility that Estonia may change its corporate taxation policy has periodically been subject to political discussion but it is currently not possible to assess whether or when any such change may occur. Any change in Estonian corporate taxation policy could have a material adverse effect on the Group's business, results of operations and financial condition. Please also read Part XV (Taxation).

Unfavourable changes in Latvian tax regime may have material adverse influence on the Group

The Group Companies are subject to the following taxes in Latvia: VAT, social security contributions, personal income tax, corporate income tax and real property tax. According to the Tax Policy Strategy for 2011-2014 set by the Latvian Ministry of Finance, no additional tax load should be imposed on tax payers in Latvia within the period until 2014 (including), except for potentially moderate increase in real property tax. At the same time, the effective personal income tax charge may be reduced by increasing the tax-exempt ceiling. However, there could be no assurance that the tax policy in Latvia would not change in a manner having adverse effect on the Group's business and financial results.

Moreover, the Group is subject to continuous examinations and audits by the Latvian tax authorities. While the Group regularly evaluates its compliance with tax legislation and uncertain tax positions, any adverse outcome from such continuous examinations may have adverse effect on Group's operating

results and financial position. All above mentioned factors may have material adverse effect on the Group's business, operations, financial position and financial results.

Risks related to possible amendments of Lithuanian tax regime

Periodically Lithuanian politicians discuss the revision of tax burden between capital and labour; however, currently no amendments of respective tax laws have been initiated and it is not possible to assess whether and/or when any such amendments may occur. It is likely that the risk related to the amendments of tax laws may increase after the Parliamentary election in Lithuania in the autumn of the current year.

Risks related to German tax regime

The German Group Companies are in general subject to taxation in Germany, in particular with respect to corporate income tax, trade tax (*Gewerbesteuer*), VAT and land tax and local taxes (where applicable). In addition, the German Group Companies have to pay wage tax and social security contributions with respect to wage payments to their employees and may have to pay withholding tax on dividends distributed to their shareholders. The taxation with respect to these taxes and contributions may be subject to changes due to the amendment of (tax) laws, (the change of) court decisions and the interpretation of tax laws by the German tax authorities. These changes may have adverse effects on the German Group Companies' business and financial results.

Increased cost of complying with government regulations

No assurance can be given that the governments in the Group's core markets will not implement new regulations or fiscal or monetary policies, or amend existing regulations, including regulations or policies relating to or affecting taxation, the environment, health and safety, public procurement, or exchange controls. Any significant amendment to the existing regulations or any new regulations could result in significant additional costs for the Group. The Group may not be able to pass such additional costs onto the purchasers of the property. Any significant amendment to the existing regulations or any new regulations could also impose restrictions on the operations of the Group. This could have a material adverse effect on the Group's business, results of operations and financial condition.

Eurozone risk

Recent turmoil related to some of the Eurozone economies may affect the Company's operating environment, either directly or indirectly through common currency and monetary policy changes. Prolonged and deep national budget deficits may adversely impact all the area's attractiveness, including Eurozone candidate countries such as Latvia and Lithuania which are operating under the ERM II mechanism. Full or partial collapse of the Eurozone might have a material impact on the Company's business.

Interest rate risk

The interest rates of the loans taken by the Group from credit institutions are based on the EURIBOR base rate, which is determined as of the quotation date occurring periodically after the date of the relevant loan agreement. Increases in EURIBOR will lead to a corresponding increase in the financial costs of the Group. Please also read "Loan Agreements and related Financing Documents" in Section 9 (Material Contracts) of Part XI (Business) for information on loans borrowed by the Group.

Furthermore, high interest rates tend to reduce the demand for real estate, which in turn can adversely affect the value of Group's properties and, as a result, the Group's revaluation gains. The Group regularly compares potential losses arising from interest rate fluctuation against the cost of hedging. In a majority of instances, no hedging has taken place, since the hedging expenses would have exceeded the potential losses arising from interest rate fluctuations. Please also read "Interest Rate Risk" in Section 8 (Financial Risk Management) of Part IX (Operating and Financial Review and Prospects).

Currency exchange risk

The revenue of the Group is primarily denominated in EUR, LVL and LTL, while the expenses of the Group are primarily denominated in EUR. Fluctuations in foreign exchange rates can have a significant impact on the valuation gain accounted for in the income statement year by year. In addition to that potential fluctuations in currency exchange rates can have an impact on the demand for the Group's properties, its availability of financing, costs of construction works and other aspects of the Group's operations. The main currency risk for the Group is that the rate at which these currencies are pegged to the EUR changes or that any of these currencies ceases to be pegged to the EUR. The

Group is not engaged in exchange rate hedging activities, and thus is exposed to currency exchange risk.

Any devaluation or revaluation of LVL or LTL may have negative consequences for the economies of the Group home markets as a whole and may have a material adverse effect on the financial condition and results of operations of the Group.

Pegged currency may have adverse impact on Latvian economy and therefore materially adversely influence the Group

Since May 2005 Latvia has been part of the ERM II and committed to observe a central exchange rate of LVL 0.702804 to EUR 1.00 with a fluctuation band of ±15%. However, Latvia unilaterally maintains a 1% fluctuation band around the central rate. The fact that LVL is pegged to EUR could have material adverse effect on the Latvian economy. Namely, pegged currency limits the self-regulatory mechanisms of the economy. For example, during financial turmoil substantial amounts of investments are withdrawn from developing countries (such as Latvia), what causes depreciation of local currency. Although, depreciation of local currency increases the trade competitiveness of the country (by fuelling exports), and therefore softens the impact and economic consequences of the financial turmoil, countries with pegged currency cannot rely on above mentioned self-regulatory mechanisms and therefore could be struck by the financial turmoil in more severe way. Therefore, during any financial turmoil the Latvian economy may have limited ability to recover due to peg between LVL and EUR. Any potential turmoil in economic conditions in Latvia, over which the Group has no control, could significantly affect the Group's business, prospects, financial conditions and results of operations in a manner that could not be predicted.

Pegged currency may have adverse impact on Lithuanian economy and therefore materially adversely influence the Group

Since June 2004 Lithuania has been part of the ERM II and committed to observe a central exchange rate of LTL 3.4528 to EUR 1.00 with a fluctuation band of ±15%. However, Lithuania unilaterally maintains a 0% fluctuation band. The fact that LTL is pegged to EUR could have material adverse effect on the Lithuanian economy. Namely, pegged currency limits the self-regulatory mechanisms of the economy. For example, during financial turmoil substantial amounts of investments are withdrawn from developing countries (such as Lithuania), what causes depreciation of local currency. Although, depreciation of local currency increases the trade competitiveness of the country (by fuelling exports), and therefore softens the impact and economic consequences of the financial turmoil, countries with pegged currency cannot rely on above mentioned self-regulatory mechanisms and therefore could be struck by the financial turmoil in more severe way. Therefore, during any financial turmoil the Lithuanian economy may have limited ability to recover due to peg between LTL and EUR. Any potential turmoil in economic conditions in Lithuania, over which the Group has no control, could significantly affect the Group's business, prospects, financial conditions and results of operations in a manner that could not be predicted.

4. RISKS RELATING TO SHARES, OFFERING AND LISTING

Liquidity

Prior to this Offering, there has been no public market for the Shares. The Company cannot assure that an active trading market for the Shares will develop or be sustained after the Offering and Listing. The Offer Price will be determined through negotiations among the Managers and the Company. Please also read Section 4 (Offer Price) of Part III (Offering). The Offer Price may vary from the market price of the Shares after the Offering. An investor subscribing for any Offer Shares may not be able to sell those Offer Shares at or above the Offer Price.

The price of the Shares after this Offering may be volatile and may fluctuate significantly in response to numerous factors including *inter alia* (i) actual or anticipated fluctuations in Group's quarterly and annual results and those of Group's publicly-held competitors, (ii) industry and market conditions, (iii) changes in laws and regulations, (iv) shortfalls in the operating results of the Group from levels forecasted by securities analysts; (v) announcements concerning the Group or its competitors; (vi) global and regional economic conditions, (vii) the general state of securities markets and (viii) other factors. Many of these factors may be beyond the Company's control.

An application has been made to the Tallinn Stock Exchange for the Shares to be listed on its Main List. However, no assurance can be given that the Shares will be listed or that, following the Offering and Listing, an active trading market for the Shares will emerge, develop or be sustained.

The Tallinn Stock Exchange is substantially less liquid and more volatile than certain more established markets such as those in other countries with more highly developed securities markets. The relatively small market capitalization and low liquidity of the Tallinn Stock Exchange may impair the ability of investors to sell the Shares on the Tallinn Stock Exchange, which could increase the volatility of the price of the Shares.

Prices on the Tallinn Stock Exchange may also be affected by external factors, such as the performance of world markets generally, or other emerging markets in particular, or the imposition of or changes in trading or capital gains taxes.

Share price fluctuations caused by offer for sale of substantial number of additional shares

Sales or issuance of additional Shares into the public market following the Offering could adversely affect the market price of the Shares. The Global Coordinator and A.F.I. American Financial Investments Ltd., Sueno Latino AG, Katmandu Stiftung, Zunis S.A., Svalbork Invest OÜ, Giuseppe Prevosti, Eginvest Ltd and Setimm Establishment have agreed to a lock-up commitment for a period of 12 months in connection with the Offering. These shareholders together own or control approximately 60.37% of the Shares outstanding prior to the Offering and 35.60% of all the Shares outstanding immediately following the Offering assuming that all Offer Shares and no Over-Allotment Shares are issued, no convertible bond of the Company has been converted to a Share and none of the current shareholders acquires any Offer Shares in the Offering. The Company may also be required to issue up to 4,025,758 new Shares in the course of conversion of the convertible bonds issued by the Company.

The Offering may be suspended or cancelled

There may be various circumstances, on which the Company has no or very limited influence, that may affect the Offering. Therefore, the Company is entitled to suspend or cancel the Offering, in case such circumstances would have disadvantageous impact on the results of the Offering. In light of the above, there is a risk that the investors may not be able to effectively subscribe for the Offer Shares. Furthermore, in such case, payments made by investors during the Offering, may be returned without any compensation or interest.

Please read Section 3 (Offer Period) of Part III (Offering).

The Shares may be delisted from the Tallinn Stock Exchange or the trading in Shares on the Tallinn Stock Exchange may be suspended

If the Company will fail to comply with certain requirements or fulfil certain obligations arising from the laws of Estonia or the Rules of the Tallinn Stock Exchange, the Tallinn Stock Exchange may delist the Shares or suspend trading therein. Further, the Company may apply for the delisting from the Tallinn Stock Exchange or for the suspension of trading therein. There is no guarantee that the Shares will never be delisted from the Tallinn Stock Exchange or trading therein will never be suspended. Delisting of the Shares could decrease the liquidity of the Shares and affect the ability to sell the Shares at a satisfactory price by the Investors. Although it is the Company's intention to make all endeavours in order to comply with all applicable regulations to avoid suspension of trading in Shares on the Tallinn Stock Exchange, future suspensions cannot be fully excluded. The Share price may be adversely affected by any suspension of trading in the Shares on the Tallinn Stock Exchange.

The Company may not pay dividends

There is no assurance that the Company will pay dividends on the Shares, nor is there any assurance as to the amount of any dividend it might pay. The payment and the amount of any dividend will be subject to the discretion of the General Meeting of Shareholders of the Company and will depend on available cash balances, anticipated cash needs, results of operations and financial condition of the Group and any financing agreement restrictions binding the Company as well as other relevant factors. Please also read Part VII (Dividends and Dividend Policy).

Inability to exercise pre-emptive rights

Pursuant to the Estonian Commercial Code, shareholders of a company have generally the preferential right to subscribe for new shares in proportion to their existing shareholding. However, such preferential right can be waived by a resolution of the General Meeting of Shareholders by a majority of

3/4 of the votes represented at such General Meeting of Shareholders. As a result of an issuance of additional shares with exclusion of preferential right to subscribe for new Shares, the shareholding and voting rights in the Company and the earnings per Share may be diluted.

In addition, if the above-referred pre-emptive rights are not waived, United States holders of Shares may not be able to exercise statutory pre-emption rights in the future unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. The Company is unlikely to file any such registration statement in the future, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such United States holders to exercise such statutory pre-emption rights or, if available, that the Company will utilize any such exemption. Furthermore, if United States shareholders are not able to exercise statutory pre-emption rights, they may face dilution as a result. Similar risk may also relate to investors from certain other jurisdiction, where requirements similar to those of the United States referred to above are in force.

Holding of Shares in a nominee account

Shares may be held in a nominee account. Pursuant to the Estonian law, any Shares held in a nominee account (including Shares that are held via custodians of the Latvian Central Depository and the Lithuanian Central Depository, which are held in the ECRS in the nominee accounts of the Latvian Central Depository and the Lithuanian Central Depository) shall be considered as the Shares legally owned by the owner of the nominee account. This could result for the investors holding Shares in a nominee account in deprivation of certain rights or privileges as compared to the investors, who hold Shares in their own securities' account. This is in particular the case when changes are being made to the share capital of the Company or the Shares (e.g. while conducting reverse split of Shares or providing pre-emptive right to the shareholders while issuing new Shares), where the Company will treat all Shares held in a nominee account as held by one investor. Notwithstanding the above, the voting rights and rights to dividend and to other distributions attached to the Shares held in nominee accounts and ordinary securities' accounts are the same. Please also read "Specific features relating to shares held in a nominee account" in Section 7 (Shareholder Rights) of Part XIII (Information on Company, Shares and Share Capital).

Limited analyst cover

The trading market for the Shares will depend on the research and reports that industry or securities analysts may publish about the Group or its business. The Group has no control over these analysts. If one or more of the analysts who cover the Group downgrade their ratings of the Shares, the price of the Shares may decline. If one or more of these analysts cease coverage of the Group or fail to publish regular reports on it, the Company could lose visibility in the financial markets, which in turn could cause the price of the Shares or trading volume to decline.

Restrictions on transfers of Offer Shares and no public market in the United States for resales of the Shares

The Offer Shares have not been registered in the United States under the Securities Act or under any other applicable securities laws and are subject to restrictions on transfer contained in such laws. The Company does not intend to (i) list the Shares on an established securities exchange in the United States, (ii) have the Shares quoted on an automated inter-dealer quotation system in the United States or otherwise create a public market in the United States for re-sales of the Shares. The Shares constitute ''restricted securities'' as defined in Rule 144(a)(3) under the Securities Act and, accordingly, are not freely tradable in the United States. There are additional restrictions on the resale of Offer Shares (i) by persons who are located in the United States and/or (ii) to any person who is located in the United States. Please also read Section 14 (*Selling and Transfer Restrictions*) of Part III (*Offering*). Similar risk may also relate to persons from certain other jurisdiction, where requirements similar to those of the United States referred to above are in force.

Turmoil in emerging markets could cause the value of the Shares to suffer

Financial or other turmoil in emerging markets has in the recent past adversely affected market prices in the world's securities markets for companies operating in the affected developing economies. There can be no assurance that renewed volatility stemming from future financial turmoil, or other factors, such as political, that may arise in other emerging markets or otherwise, will not adversely affect the value of the Shares even if the Estonian economy remains relatively stable.

Tax treatment for investors in an Estonian company may vary depending on tax residence of the investors

The Company is a company established and existing under the laws of Estonia and as such the Estonian tax regime applies to distribution of profit and other payments from the Company to its shareholders. The taxation of incomes from such payments as well as other incomes, from the disposal of shares, may vary depending on tax residence of particular investors as well as on provision of double tax treaties with Estonia in force. Provisions applying to particular investors may be unfavourable or may change adversely.

There can be no assurance that the Company will not be considered a passive foreign investment company (the "**PFIC**") for any taxable year. If the Company were treated as a PFIC for any taxable year during which a United States investor held shares, certain adverse United States federal income tax consequences could apply to such investor. Please also see Section 4 (PFIC Considerations) of Part XV (Taxation).

Each investor may be subject to taxation outside Estonia and should therefore consult with its own tax adviser. There can be no assurance that any activities, which the Group may conduct at any time in the future, would result in the investor becoming subject to any further taxes.

The Estonian legal persons do not pay corporate income tax on capital gains received from the sale or exchange of Shares until distribution. As a general rule, income tax is not charged on gains realized also by non-residents (whether legal persons or individuals). However, Estonian income tax is charged on the capital gain realized from the sale or exchange of Shares of a "real estate company" if the non-resident's holding exceeds 10%. A "real estate company" for these purposes is a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer or during a period within 2 years before transfer, more than 50% was directly or indirectly made up of immovable properties or structures as movables located in Estonia. Therefore, should the Company be considered as a "real estate company", that would bring along the requirement to pay Estonian income tax on the capital gain realized from the sale or exchange of Shares by a non-resident, whose holding exceeded 10% of the share capital of the Company prior to such sale or exchange. Please also read Section 1 (Estonian Tax Consideration) of Part XV (Taxation).

Limitations on enforcing judgments against the Company

The Company is incorporated in Estonia. The judgments of the courts of the member states of the European Union (except for Denmark) must be recognized and enforced in Estonia either under Council Regulation (EC) No 44/2001 or Regulation (EC) No 805/2004 of the European Parliament and of the Council without any special procedure being required.

Pursuant to Article 620(1) of the Estonian Code of Civil Procedure, judgments of the courts of foreign states other than the member states of the European Union must be recognized in Estonia, subject to certain exceptions, such as judgements contrary to Estonian order public or earlier judgement involving the same cause of action and between the same parties, judgements where the defendant was not able to reasonably defend its rights and judgements given by a non-authorized court. In such exceptional situations the judgements of the courts of foreign states other than the member states of the European Union are not enforceable in Estonia without re-litigation of the subject matter of such judgements on its merit.

PART III. OFFERING

1. THE OFFERING

The Company offers up to 37,000,000 Offer Shares. Such offering is made (i) to the public in Estonia, Latvia and Lithuania in the course of the Retail Offering and (ii) to qualified investors in and outside of Estonia, Latvia and Lithuania in the course of the Institutional Offering.

An application has been made by the Company to the Tallinn Stock Exchange for the Listing. Upon satisfaction of the application for the Listing, all Shares will be listed on the Main List of the Tallinn Stock Exchange. In connection with the listing, the Company and AS LHV Pank contemplate entering into a market-making agreement.

The sizes of the Institutional Offering tranche and the Retail Offering tranche have not been predetermined. The total amount of Offer Shares to be allocated as part of the Institutional Offering and the Retail Offering will be determined by the Company, in consultation with the Managers, in the allocation process after the end of the Offer Period based on the demand for the Offer Shares by the different investor groups.

The Offer Shares and Over-Allotment Shares, if any, will be issued on the basis of the resolution on the conditional increase of Company's share capital adopted by the General Meeting of Shareholders on 14 August 2012.

The terms and conditions set out in this Part III (Offering) (the "**Terms**") relate only to the Retail Offering.

The existing shareholders of the Company and the members of its management, supervisory or administrative bodies and employees may participate in the Offering subject to the conditions of the Offering set forth herein. The Company is not aware whether or not such persons intend to participate in the Offering. To the extent that the Company is informed, none of such persons intend to subscribe for more than 5% of the Offer Shares.

The Management Board is not aware of any material interests of third persons, including conflicts of interest or potential conflicts of interest, which the Management Board believes to be material to the Offering.

The Company expects to announce the Offer Price and the results of the Offering, including the total amount of Offer Shares allocated in the Institutional Offering and in the Retail Offering on or about 10 September 2012 via Tallinn Stock Exchange and on the website of the Company (www.prokapital.com).

The estimated total expenses of the Company relating to the offering amount to EUR 3.9 million. The aggregate net proceeds to the Company are estimated to amount to approximately EUR 69.2 million, after deducting the fees and expenses of the Offering, assuming that all Offer Shares will be subscribed for and issued, based on the mid-point of the Offer Price Range, save for any proceeds deriving under issuance of any Over-Allotment Shares.

The Book-runner and Global Coordinator for the transaction is AS LHV Pank. The business address of AS LHV Pank is Tartu mnt 2, Tallinn 10145, Estonia. AS LHV Pank is using its expertise and corporate access network to provide input and assist in facilitating the Offering and Listing, including communication with qualified investors and carrying out the retail offering in Estonia, Latvia and nia. Jointly with the Advisor and the Company, AS LHV Pank will be deciding on the final pricing and allocation. If Over-Allotment Shares will be issued, AS LHV Pank will be acting as the stabilization agent.

Porta Finance UAB is advising the Company in relation to financial, strategic and organizational aspects of the Offering and Listing. In its capacity as the Advisor, Porta Finance UAB organizes the preparation process for the Offering and Listing, coordinates the other advisors involved in the process and assists the Company with the other tasks related with Offering and Listing. The business address of Porta Finance UAB is Goštauto g. 40, LT-01112 / Vilnius, Lithuania.

In addition to AS LHV Pank and Porta Finance UAB, Lunacon Oy, a company owned by member of the Supervisory Council Mr Huuskonen, and Forbia Oy, a company owned by member of the Supervisory Council Mr Petri Olkinuora, have provided certain advisory services to the Company in relation to preparations for the Offering. Please also read Section 4 (Transactions with Supervisory Council

Members, Management Board Members and Key Executives) of Part XII (Management) for more information on the services provided by Lunacon Oy and Forbia Oy.

2. RIGHT TO PARTICIPATE IN THE RETAIL OFFERING

The Retail Offering is directed to all natural and legal persons in Estonia, Latvia and Lithuania, except for any persons who are categorised as qualified investors pursuant to the laws of any of Estonia, Latvia and Lithuania.

For the purpose of these Terms a person shall be deemed to be "in Estonia" if such person has a securities account with (i) the ECRS, (ii) one of the registered securities account operators in Latvia, i.e. with a participant of the Latvian Central Depository or (iii) one of the registered securities account operators in Lithuania and, according to the data regarding his or her relevant securities account in ECRS or the records of his or her securities account operator in Latvia or Lithuania:

- if such person is a natural person, such person's address is located in Estonia; or
- if such person is a legal person, such person's registered address is located in Estonia and/or its registration code is the registration code of the Estonian Commercial Register.

For the purpose of these Terms a person shall be deemed to be "in Latvia" if such person has a securities account with (i) the ECRS, (ii) one of the registered securities account operators in Latvia, i.e. with a participant of the Latvian Central Depository, or (iii) one of the registered securities account operators in Lithuania and, according to the data regarding his or her relevant securities account in ECRS or the records of his or her securities account operator in Latvia or Lithuania:

- if such person is a natural person, such person's address is located in Latvia; or
- if such person is a legal person, such person's registered address is located in Latvia or its registration code is the registration code of the Latvian Commercial Register.

For the purpose of these Terms a person shall be deemed to be "in Lithuania" if such person has a securities account with (i) the ECRS, (ii) one of the registered securities account operators in Lithuania, i.e. with a participant of the Lithuanian Central Depository or (iii) one of the registered securities account operators in Latvia, i.e. with a participant of the Latvian Central Depository and, according to the data regarding his or her relevant securities account in ECRS or the records of his or her securities account operator in Latvia or Lithuania:

- if such person is a natural person, such person's address is located in Lithuania; or
- if such person is a legal person, such person's registered address is located in Lithuania or its registration code is the registration code of the Lithuanian Commercial Register.

For the purpose of determining whether an investor has the right to participate in the Retail Offering, the securities' account through which the investor submits the Subscription Undertaking (as defined below) shall be considered as the relevant securities account of such investor.

3. OFFER PERIOD

Investors may submit undertakings to subscribe for the Offer Shares (the "**Subscription Undertaking**") starting at 10.00 am (Eastern European Time - Estonian, Latvia and Lithuanian time) on 27 August 2012 until 04.00 pm (Eastern European Time - Estonian, Latvia and Lithuanian time) on 7 September 2012 (the "**Offer Period**").

The Company may at any time prior to the beginning of the Subscription Period postpone or cancel the Offering or any part thereof.

After the beginning of the Subscription Period but only until the Company has received the full payment for all the Offer Shares, the Company may cancel the Offering or any part thereof for any reason, including, but not limited to:

- sudden and material adverse change in the economic or political situation in Estonia, Latvia and Lithuania or worldwide, which could affect the financial markets, economy, or the Group's operations and its prospects;

- any material change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of the Group's operations; or
- an insufficient, in the Company's or Managers' opinion, expected level of demand for the Offer Shares in the book-building process.

In case of cancellation of the Offering, or any part thereof, the Company shall make an announcement thereof via the Tallinn Stock Exchange and on the Company's website. As of the moment of announcement all rights and obligations of the parties relating to the cancelled part of the Offering shall terminate.

Notwithstanding the above, the Company will cancel the Offering and shall not issue any Offer Shares, if the net proceeds of the Company from the Offering would amount to less than EUR 10 million.

4. OFFER PRICE

The offer price payable in consideration for each issued Offer Shares (the "**Offer Price**") shall be decided by the Supervisory Council of the Company, in consultation with the Advisor and the Global Coordinator, after the completion of the book-building process directed at qualified investors in the course of the Institutional Offering. The Offer Price shall be determined on the basis of tenders for the Offer Shares obtained from qualified investors, also taking into consideration the total demand for the Offer Shares in the Institutional Offering, price sensitivity of the demand and quality of the demand and the nature of demand from various investors with the aim of a more balanced trading environment upon the Listing.

The Offer Price will be in the Offer Price Range of EUR 1.90 and EUR 2.05. The above price range may be amended until the end of the Offer Period on the basis of information obtained in the book-building process in accordance with applicable laws and notification requirements. Please also read Section 8 (Procedure for Amending the Price Range) of this Part III (Offering).

The Offer Price in the Institutional Offering and the Retail Offering shall be the same.

5. SUBSCRIPTION

The Company invites investors to submit Subscription Undertakings in accordance with these Terms. Subscription Undertakings may be submitted during the Offer Period. An investor may apply to subscribe for the Offer Shares only at the upper limit of the price range, i.e. at EUR 2.05 per Offer Share (the "**Subscription Price**").

An investor must ensure that the data in the Subscription Undertaking is correct, complete and readable. An uncompleted, incorrect or unclear Subscription Undertaking may be rejected.

An investor may submit the Subscription Undertaking either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking and make the relevant payments.

A Subscription Undertaking shall be considered submitted and becomes effective at the moment when the transaction instruction of respective investor has been delivered to the ECRS on the basis of the respective order received from the investor's Custodian or relevant subscription place.

By submitting a Subscription Undertaking an investor:

- accepts these Terms and agrees with the Company on the application of them;
- acknowledges that the Retail Offering does not constitute an offer (in Estonian: *pakkumus*) of any Share by the Company and that the submission of a Subscription Undertaking does not itself amount to subscription for any Offer Shares in legal terms nor entitle to subscribe for the Offer Shares nor result in the agreement for sale of Offer Shares, and that by submitting of a Subscription Undertaking the investor undertakes to acquire the Offer Shares to the maximum amount indicated in the Subscription Undertaking on these Terms;
- authorizes and instructs the relevant operator of the investor's securities account (or the operator of the relevant nominee account) opened with the ECRS, Latvian Central Depository or Lithuanian Central Depository (the "**Custodian**"), the Latvian Central Depository and the Lithuanian Central Depository to forward the registered transaction instruction to the registrar of ECRS; and

- authorizes each of the owner of relevant nominee account and the Custodian, the registrar of ECRS (AS Eesti Väärtpaberikeskus), the Latvian Central Depository and the Lithuanian Central Depository to amend the data in the investor's transaction instruction regarding the amount of Offer Shares to be received, price per Share and total transaction amount on the basis of the Offer Price and results of allocation.

Please also read Part IV (Instructions to Investors) with regard to detailed instructions regarding the subscription for the Offer Shares.

6. PAYMENT

By submitting a Subscription Undertaking, an investor authorises and instructs the credit institution operating the investor's cash bank account connected to its/his/her securities account (which may or may not also be the investor's custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the specified amount multiplied with maximum offer price. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its/his/her ECRS securities account or the cash account opened with its/his/her Custodian, which is connected to its/his/her securities account with Latvian or Lithuanian securities account. The transaction currency for all investors is EUR.

7. AMENDMENT OR CANCELLATION OF SUBSCRIPTION UNDERTAKINGS

An investor may amend or cancel a Subscription Undertaking until the end of the Offer Period. To do so the investor must contact the Custodian or subscription place through which the respective Subscription Undertaking has been made, and carry out the procedures required by the Custodian or relevant subscription place. The procedures for amending and annulling the Subscription Undertaking may differ between different Custodians and subscription places.

All fees payable as a result of an amendment and/or annulment of a Subscription Undertaking shall be payable by the investor according to the applicable price list of the Custodian or the relevant subscription place.

Any amendment to or cancellation of the Subscription Undertaking becomes effective at the moment when the transaction instruction of the subject investor has been amended or cancelled in the ECRS on the basis of the respective order received from the investor's Custodian or relevant subscription place.

8. PROCEDURE FOR AMENDING THE OFFER PRICE RANGE

If the Offer Price Range is amended, the Company shall prepare a supplement to the Prospectus, which has to be approved by Estonian Authority and notified to the Latvian Authority and Lithuanian Authority. The supplement shall be published in the same way as the original Prospectus was published. The Company shall make an announcement thereof via the Tallinn Stock Exchange and on its website (www.prokapital.com).

Investors who have submitted Subscription Undertakings before the announcement of the Prospectus supplement may cancel their Subscription Undertakings within five working days after the announcement in accordance with the procedure described in Section 7 (Amendment or Cancellation of Subscription Undertakings) of this Part III (Offering). Should the Offer Price Range be amended, also the total number of Offer Shares, the dates and other terms and conditions set forth in this Prospectus may be changed. All such changes shall be announced together with the announcement of the amended Offer Price Range. Investors who have not cancelled their Subscription Undertakings within the above-referred time period shall be deemed to have accepted all changes announced in accordance with above.

9. DISTRIBUTION AND ALLOCATION

In the allocation, the Company shall take into consideration only those Subscription Undertakings, which have been completed and submitted during the Offer Period. The Company may reject any

Subscription Undertaking, which has not been submitted in accordance with all the requirements set out in these Terms.

The Offer Shares will be allocated to investors participating in the Offering in accordance with the following terms and conditions:

- each Preferred Employee (as defined below under "Preferential Allocation") will be allocated up to the available amount of Preferential Offer Shares (as defined below) in accordance with sub-Section "Preferential Allocation";
- the division of the Offer Shares between the Institutional Offering and the Retail Offering has not been predetermined. The Company, in consultation with the Advisor and Global Coordinator, will determine the exact tranche sizes of the Retail Offering and Institutional Offering (percentage wise);
- the Company, in consultation with the Advisor and the Global Coordinator, will determine the exact allocation of the Offer Shares to the qualified investors on discretionary basis;
- the Company, in consultation with the Advisor and the Global Coordinator, will determine allocation percentages applied to the Retail Offering as follows:
  - the Offer Shares shall be allocated to investors using stepped allocation methodology. Under the stepped allocation methodology, the Company together with the Advisor, the Global Coordinator and the Book-runner will determine, after the Offer Period, one or more allocation levels (in number of the Offer Shares) and the allocation percentages applied to each level;
  - the transaction amount in each Subscription Undertaking will be divided into different parts, e.g. part being below the first level (x% of such part will be accepted), part being between the first and second level (y% of such part will be accepted), part exceeding the second level (z% of such part will be accepted) etc.;
  - the main criteria for the determination of the levels and allocation percentages are: (a) the total demand for the Offer Shares in the Retail Offering; (b) the size of Subscription Undertakings in the Retail Offering and (c) the number of investors having submitted Subscription Undertakings in the Retail Offering;
- except for the Preferential Allocation described below, no tranche has been predetermined to investors in Estonia, Latvia or Lithuania;
- allocation of the Offer Shares will not be determined on the basis of which firm they are made through or by;
- possible multiple Subscription Undertakings submitted by an investor shall be merged for the purpose of allocation. If different securities' accounts of the investor have been indicated in the Subscription Undertakings submitted by such investor, subject to the amount of the Offer Shares indicated in each such Subscription Undertaking, the Company shall have the discretion to determine the number of the Offer Shares that will be transferred to each such securities' accounts of such investor in the course of the settlement;
- each investor subscribing via a nominee account is considered as an independent investor if the Company and the Global Coordinator have received information on such investor's identity and the amount of Offer Shares subscribed for by such investor; and
- each investor entitled to receive the Offer Shares shall be allocated a whole number of the Offer Shares and, if necessary, the number of the Offer Shares to be allocated shall be rounded down to the closest whole number. Any remaining Offer Shares which cannot be allocated using the above-described process will be allocated to investors on random basis.

The Company will decide on the allocation of the Offer Shares after the determination of the Offer Price. The Company expects to decide on the allocation and notify thereof by an announcement on the Company's website on or about 10 September 2012.

The Company is not aware whether major shareholders or members of the Management Board and Supervisory Council or any of them intend to subscribe for more than 5% of the Offer Shares.

Preferential Allocation

A natural person (the "**Preferred Employees**") will be entitled to a preferential allocation of the Offer Shares (the „**Preferential Allocation**") if he or she chooses to participate in the Retail Offering and duly submits a Subscription Undertaking via a Custodian and he or she is:

- a member of a managing body (including management board and supervisory council) of a Group Company as at 8.00 a.m. (Eastern European Time - Estonian time) on 27 August 2012; and/or
- an employee of a Group Company, who works for the Group under an employment contract concluded for an unspecified term with a Group Company, which is valid as at 8.00 a.m. (Eastern European Time - Estonian time) on 27 August 2012.

For the avoidance of doubt, such preferential allocation does not constitute public offering of securities in any country other than Estonia, Latvia and Lithuania and no member of a managing body or employee of the Group is offered the Offer Shares with the right to participate in the Preferential Allocation, unless such person is a natural person in Estonia, in Latvia or in Lithuania.

In the course of Preferential Allocation, up to 1,850,000 Offer Shares (the "**Preferential Offer Shares**") will be allocated to the Preferred Employees who participate in the Retail Offering.

If a person is considered as a Preferred Employee on several bases (e.g. as a member of the management and an employee), such Preferred Employee shall be entitled to participate in the Preferential Allocation only once (multiple bases does not multiply Preferential Allocation).

A Subscription Undertaking duly submitted by a Preferred Employee will be accepted in full up to the available amount of Preferential Offer Shares (however, all Subscription Undertakings submitted by a Preferred Employee shall be merged for the purpose of allocating Preferential Offer Shares to such Preferred Employee). The available amount of Preferential Offer Shares will be equal to the amount of Preferential Offer Shares divided by the amount of Preferred Employees who participate in the Retail Offering and have duly submitted a Subscription Undertaking via a Custodian. If necessary, the number of Preferential Offer Shares to be allocated shall be rounded down to the closest whole number. Any remaining Preferential Offer Shares, which have not been allocated using the above-described process, will be allocated to Preferred Employees as follows: (a) so that each Preferred Employee will receive as many Preferential Offer Shares as possible and (b) remaining Shares will be allocated on random basis.

If a Preferred Employee has submitted a Subscription Undertaking for no more than the available amount of Preferential Offer Shares, such Preferred Employee will be allotted the number of Preferential Offer Shares that he or she has subscribed for. If a Preferred Employee has submitted the Subscription Undertaking for more than the available amount of Preferential Offer Shares, such Preferred Employee will be allocated the available amount of Preferential Offer Shares available to him or her and his or her Subscription Undertaking will additionally participate in the Retail Offering with the amount of Offer Shares exceeding the available amount of Preferential Offer Shares alongside with investors participating in the Retail Offering without Preferential Allocation.

10. RETURN OF FUNDS

If the Offer Price is lower than the Subscription Price, if the Subscription Undertaking is revoked, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's cash account, or a part thereof (the amount in excess of payment for the allocated Offer Shares) will be released by the Custodian not later than in one business day after the settlement described in Section 11 (Settlement and Trading) of Part III (Offering). Company shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

11. SETTLEMENT AND TRADING

The Offer Shares allocated to the investors shall be transferred to their securities accounts on or about 13 September 2012 through the „delivery versus payment" method simultaneously with effecting the payment for such Offer Shares. Each investor shall be entitled to transfer the Offer Shares from its securities' account as from the moment of transfer thereof to respective investor's securities account.

The final amount payable by an investor for the Offer Shares will be calculated by multiplying the number of Offer Shares allocated to such investor with the Offer Price. The amount in excess of what the investor is required to pay for the allocated Offer Shares will be released to the investor by the relevant Custodian on or about 14 September 2012 (in one business day after the settlement). On the same date in the event that investor's Subscription Undertaking is rejected, the funds will be released in full by the relevant Custodian.

In order to conduct the Offering, the General Meeting of Shareholders adopted a resolution on 14 August 2012 on conditional increase of the share capital of the Company and waiver of the pre-emptive right of the existing shareholders to subscribe for the Offer Shares. After the allocation of the Offer Shares, the Management Board will apply for the registration of the Offer Shares with ECRS and transfer thereof to the securities accounts of the investors.

Upon satisfaction of the application for the Listing, the trading in the Shares is expected to commence on the Tallinn Stock Exchange on or about 14 September 2012.

12. STABILISATION

The Company has granted the Global Coordinator the option to require the Company to issue up to 1,000,000 Over-Allotment Shares for purposes of covering possible over-allotments. The Global Coordinator may exercise such option until the determination of the Offer Price. Should the Global Coordinator decide to exercise such option, the Over-Allotment Shares will be issued at the same time with the issuance of the Offer Shares. All Over-Allotment Shares will be allocated and distributed to the investors as Offer Shares in accordance with the rules set out in Section 9 (Distribution and Allocation) of Part III (Offering).

The Company has also granted the Global Coordinator an option, exercisable within 30 days of the date of commencement of trading in the Shares in Tallinn Stock Exchange, to undertake stabilisation in accordance with European Commission Regulation (EC) No 2273/2003. The Global Coordinator may purchase Shares from the market in the amount not exceeding the amount of issued Over-Allotment Shares to stabilize or maintain the market price of Shares. Stabilisation activities may be undertaken only in accordance with applicable laws, during a 30-day period starting from the commencement of trading in Shares on the Tallinn Stock Exchange.

Any such stabilization activity (i.e purchasing of Shares from the open market) will be decided by the Global Coordinator at its sole discretion and the Global Coordinator is under no obligation to do so. Such stabilization transactions may result in a situation where Shares are traded at a price that is higher than the price that would have been formed by simple operation of supply and demand, without the effect of stabilization. Stabilization activities will be conducted in accordance with the European Commission Regulation (EC) No 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council as regards exemptions for buyback programs and stabilization of financial instruments and will be notified to the Estonian Financial Supervision Authority in accordance with Article 9(4) of the aforementioned Regulation. Stabilisation of the Shares shall not in any circumstances be executed above the Offer Price.

The Company has granted the Global Coordinator a put option (also known as a Reverse Greenshoe), which is exercisable in whole or in part upon notice by the Global Coordinator, for the 30-day period starting from the commencement of trading in Shares on the Tallinn Stock Exchange, to sell all or some of the Shares purchased by it from the market in the course of the stabilisation, to the Company at the price equal to the price paid by the Global Coordinator upon purchase of respective Shares from the market (i.e. at the price not exceeding the Offer Price). The sale of such Shares shall be effected within five days as of the day when the Global Coordinator exercises the put option.

On 14 August 2012, the General Meeting of Shareholders resolved to permit the Company to purchase its own Shares from the Global Coordinator.

13. LOCK-UP

The Global Coordinator and certain shareholders of the Company (including A.F.I. American Financial Investments Ltd., Sueno Latino AG, Katmandu Stiftung, Zunis S.A., Svalbork Invest OÜ, Giuseppe Prevosti, Eginvest Ltd and Setimm Establishment) have agreed to a lock-up commitment for a period of 12 months in connection with the Offering. These shareholders together own or control approxi-

mately 60.37% of the Shares outstanding prior to the Offering and 35.60% of all the Shares outstanding immediately following the Offering assuming that all Offer Shares and no Over-Allotment Shares are issued, no convertible bond of the Company has been converted to a Share and none of the current shareholders acquires any Offer Shares in the Offering.

Pursuant to such lock-up agreements, each such shareholder has undertaken not to directly or indirectly, issue, offer, sell, contract to sell, or otherwise dispose of any of the Shares that such shareholder owned at the time of entering into the lock-up agreement, during the period ending 365 days after the commencement of the Listing, without the prior written consent of the Bank.

14. SELLING AND TRANSFER RESTRICTIONS

The distribution of this Prospectus and the offer of any Shares, including the Offer Shares, in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those that follow. Failure to comply with these restrictions may constitute a violation of securities laws.

General

No action has been taken or will be taken in any jurisdiction other than Estonia, Latvia and Lithuania by any of the Managers or the Company that would permit a public offering of the Shares, or the possession or distribution of any documents relating to the Offering, or any amendment or supplement thereto, in any country or jurisdiction where specific action for that purpose is required. Each of the Managers will comply with all applicable laws and regulations in each jurisdiction concerning acquiring, offering or selling of Shares or possession or distribution of any offering documents or any amendment or supplement thereto. No offer or sale of any Shares, including the Offer Shares, may be made in any jurisdiction except under circumstances that will result in compliance with the applicable laws of such jurisdiction. Persons receiving a copy of this Prospectus are required by the Company and the Managers to inform themselves about and to observe any restrictions as to the offering of any Shares and the distribution of this Prospectus.

By its subscription for Offer Shares or purchase of Shares, each subscriber for Offer Shares or purchaser of Shares will be deemed to have acknowledged that the Company, the Managers, their respective affiliates, and other persons will rely upon the truth and accuracy of the acknowledgements, representations and agreements set forth below.

Subscribers for Offer Shares may be required to pay stamp taxes and other charges in addition to the Offer Price.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the relevant implementation date), an offer of the Shares described in this Prospectus may not be made to the public in that relevant Member State prior to the publication of a prospectus in relation to the Shares that has been approved by the competent authority in that relevant Member State or, where appropriate, approved in another relevant Member State and notified to the competent authority in that relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant Member State at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net revenues of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of the Shares located within a relevant Member State (other than Estonia, Latvia and Lithuania) will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. For purposes of this provision, the expression an "offer to the public" in any relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the expression may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC as amended from time to time and includes any relevant implementing measure in each relevant Member State.

The Company has not authorized and does not authorize the making of any offer of the Shares through any financial intermediary on its behalf, other than offers made by the Managers with a view to the final offering of the Shares as contemplated in this Prospectus. Accordingly, no purchaser of the Shares is authorized to make any further offer of the Shares on behalf of the Company or the Managers.

United States

The Shares have not been and will not be registered under the Securities Act or with any securities authority of any state of the United States. The Shares in the Offering may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state laws. Accordingly, the Shares are being offered for the subscription and issued in the Offering:

- in the United States only to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; and
- outside the United States in accordance with Regulation S under the Securities Act.

Within the United States

Each person subscribing for the Shares offered in reliance on Rule 144A under the Securities Act who is located in the United States will be deemed to have represented, acknowledged and agreed that it has received a copy of this document and such other information as it deems necessary to make an investment decision and that (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) it is (a) a QIB, (b) acquiring such Shares for its own account or for the account of one or more QIBs for which it is acting as a duly authorised fiduciary or agent with sole investment discretion to each such account and with full authority to make the acknowledgments, representations and agreements in an investment letter with respect to such account (in which case it makes, the representations and warranties set forth herein on behalf of such QIB), (c) is not acquiring the Shares with a view to further distribution of such Shares and (d) is aware and each beneficial owner of such Shares has been advised that the sale of Shares to it may be made in reliance on Rule 144A;

(ii) it understands and acknowledges that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (a) (i) to a person whom the purchaser and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (no representation is made as to the availability of the exemption provided by Rule 144 for such resales) or (iii) in an ''offshore transaction'' in compliance with Rule 903 or Rule 904 of Regulation S, in each case notifying the subsequent purchaser of the resale restrictions described herein, and (b) in accordance with all applicable securities laws of the states of the United States;

(iii) it acknowledges that the Shares (whether in physical, certificated form, in uncertificated form held in CREST or otherwise) are ''restricted securities'' within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of Shares. The purchaser un-

derstands that the Shares may not be deposited into any unrestricted depositary receipt facility in respect of Shares established or maintained by a depositary bank, unless and until such time as such Shares are no longer restricted securities within the meaning of Rule 144(a)(3) under the Securities Act;

(iv) such person has received a copy of this document and has had access to such financial and other information concerning the Company as it has deemed necessary in connection with making its own investment decision to purchase the Shares. Such person has made its own independent investigation and appraisal of without limitation, the business, financial condition, prospects, creditworthiness, status and affairs of the Company and the Shares. It understand that there may be certain consequences under U.S. and other tax laws resulting from an investment in the Shares and it has made such investigation and has consulted such tax and other advisers with respect thereto as it deems appropriate. Such person acknowledges that neither the Company nor any of the Managers named herein nor any person representing the Company or any of the Managers has made any representation, express or implied, to it with respect to the Company or offering or sale of any Shares other than as set forth in this document in respect of the Offer, upon which it is relying solely in making its investment decision with respect to the Shares. It has held and will hold any offering materials, including this document, it receives directly or indirectly from the Company in confidence, and it understands that any such information received by it is solely for it and not to be redistributed or duplicated by it. It acknowledges that it has read and agreed to the matters stated in this Section 14 ('Selling and Transfer Restrictions);

(v) such person, and each other QIB, if any, for whose account it is acquiring Shares, in the normal course of business, invests in or purchases securities similar to the Shares, has such knowledge and experience in financial and business matters that it is capable of evaluation the merits and risks of purchasing Shares and is aware that it must bear the economic risk of an investment in any Shares for an indefinite period of time and it is able to bear such risk for an indefinite period of time and is able to sustain a complete loss of investment in the Shares;

(vi) it is not an affiliate (as defined in Rule 501(b) under the Securities Act) of the Company, and is not acting on behalf of the Company or any of its affiliates;

(vii) such person understands that these representations, warranties, undertakings and acknowledgements are required in connection with U.S. securities laws and that the Company, its affiliates and the Managers will be relying thereon and it irrevocably authorises each of the Managers on its own behalf and on behalf of each beneficial owner of the Shares being purchased by it, to rely on the truth and accuracy of these representations, acknowledgements and agreements;

(viii) it understands that any offer, sale, pledge or other transfer of the Shares made other than in compliance with the above-stated restrictions may not be recognised by the Company; and

(ix) the Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) (1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER (IF AVAILABLE) AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER RELEVANT JURISDICTION. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THIS SECURITY. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THIS SECURITY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF ORDINARY SHARES OF THE COMPANY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY

ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE SECURITY EVIDENCED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO AN EMPLOYEE BENEFIT PLAN, AS DEFINED IN SECTION 3(3) OF ERISA, THAT IS SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE CODE, APPLIES, OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY, OR A GOVERNMENTAL, CHURCH OR NON-US PLAN WHICH IS SUBJECT TO ANY SIMILAR LAW, BUT MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, PROVIDED SUCH ACQUISITION, HOLDING AND/OR DISPOSITION DOES NOT AND WILL NOT VIOLATE ANY SIMILAR LAW.

In addition, until 40 days after the commencement of the Offering, any offer or sale of the Offer Shares that is made within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act unless made pursuant to Rule 144A or another exemption from the registration requirements of the Securities Act.

Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Outside the United States

Each purchaser of the Shares offered in reliance on Regulation S will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

(i) the purchaser is and the person, if any, for whose account or benefit the purchaser is acquiring the shares is, at the time of the offer to it of Shares and at the time the buy order originated, outside the United States and continues to be located outside the United States and the person, if any, for whose account or benefit the purchaser is acquiring the Shares reasonably believes that the purchaser is outside the United States; and neither the purchaser nor any person acting on its behalf knows that the transaction has been pre-arranged with a buyer in the United States;

(ii) the purchaser acknowledges that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are being offered outside the United States in reliance on Regulation S;

(iii) the purchaser is aware of the restrictions on the offer, exercise and sale of the Shares pursuant to Regulation S described in this document;

(iv) any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Shares;

(v) it is not an affiliate (as defined in Rule 501(b) under the Securities Act) of the Company or a person acting on behalf of the Company or any of its affiliates;

(vi) either (A) it is not, and it is not acting on behalf of (and for so long as it holds the share or any interest therein will not be, and will not be acting on behalf of), an employee benefit plan, as defined in Section 3(3) of ERISA, that is subject to the provisions of part 4 of subtitle B of Title I of ERISA, a plan to which subject to Section 4975 of the Code, applies, or an entity whose underlying assets include plan assets by reason of such an employee benefit plan's or plan's investment in such entity (each, a ''Benefit Plan Investor''), or a governmental, church or non-U.S. plan which is subject to any Similar Law, and no part of the assets to be used by it to purchase or hold such shares or any interest therein constitutes the assets of any Benefit Plan Investor or such a plan, or (B) it is, or is acting on behalf of, such a governmental, church or non-U.S. plan, and such acquisition, holding and/or disposition of such shares does not and will not violate any Similar Law, and (ii) it understands and agrees that no purchase by or transfer to any Benefit Plan Investor of such shares, or any interest therein, will be effective, and none of the Company, the Registrar or any Transfer Agent will recognise any such purchase or transfer; and (b) it will not sell or otherwise transfer such shares or any interest therein otherwise than to a purchaser or transferee that makes or is deemed to make these same representations, warranties and agreements with respect to its purchase, holding and disposition of such shares; and

(vii) such person understands that these representations, warranties, undertakings and acknowledgements are required in connection with U.S. securities laws and that the Company, its affiliates and the Managers will be relying thereon and it irrevocably authorises each of the Managers on its own behalf and on behalf of each beneficial owner of the Shares being purchased by it, to rely on the truth and accuracy of these representations, acknowledgements and agreements.

United Kingdom

Each of the Managers and the Company has represented and agreed that:

(i) it has not offered or sold, and will not offer or sell, prior to the expiry of a period of six months from the date of the Offering, and will not offer or sell any Shares to persons in the United Kingdom except when the offer is made to or directed at qualified investors only (as defined in the FSMA) or the offer is made to or directed at fewer than 100 persons, other than qualified investors, per member state of the European Economic Area (the **"EEA"**) and will not constitute an offer to the public in the United Kingdom within the definition of the FSMA (as amended);

(ii) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares, in, from or otherwise involving or capable of having an effect in the United Kingdom; and

(iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the offering of the Shares in circumstances in which section 21(1) of the FSMA does not or would not otherwise apply to the Company.

This document (i) is directed only at persons who fall within the definition of "qualified investors" as that term is defined in Section 86(1) of the FSMA or otherwise in circumstances which do not result in an offer of transferable securities to the public in the United Kingdom within the meaning of the FSMA, and (ii) is being communicated or caused to be communicated only to investment professionals and to such other persons to whom communications of this nature may be made without the financial promotion restriction in Section 21(1) of the FSMA applying.

Canada

This communication does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for the Shares and is not for distribution into Canada. The Shares have not been and will not be qualified by a prospectus for sale to the public under applicable Canadian securities laws and, subject to certain exceptions, may not be, directly or indirectly offered or sold within Canada or to, or on behalf of, any national, resident or citizen, including any corporation or other entity, of Canada. Any failure to comply with these restrictions may constitute a violation of the Canadian securities laws.

Japan

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for offer or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except

(i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and

(ii) in compliance with any other applicable requirements of the laws of Japan.

PART IV. INSTRUCTIONS TO INVESTORS

1. INSTRUCTIONS TO INVESTORS IN ESTONIA

In order to subscribe for the Offer Shares, an investor in Estonia must have a securities account opened with (a) the ECRS, (b) one of the registered securities account operators in Latvia, i.e. with a participant of the Latvian Central Depository, who has a cash agent in Estonia or (c) a securities' account opened with one of the registered securities account operators in Lithuania, who has a cash agent in Estonia.

Subscriptions via securities' account opened with the ECRS

As of the date hereof, the following banks and investment firms operate as custodians of the ECRS:

AS Citadele banka (via Estonian branch)	Roosikrantsi 2, Tallinn 10119, Estonia	+372 77 00 000	info@citadele.ee http://www.citadele.ee/ee/
AS Eesti Krediidipank	Narva mnt. 4, Tallinn 15014, Estonia	+372 669 0900	info@krediidipank.ee www.krediidipank.ee
Swedbank AS	Liivalaia 8, Tallinn 15040, Estonia	+372 631 0310	info@swedbank.ee www.swedbank.ee
AS LHV Pank	Tartu mnt. 2, Tallinn 10145, Estonia	+372 680 0400	klienditugi@lhv.ee www.lhv.ee
Nordea Bank Finland Plc Eesti filiaal	Liivalaia 45, Tallinn 10145, Estonia	+372 628 3300	eesti@nordea.com www.nordea.ee
Danske Bank A/S Eesti filiaal	Narva mnt. 11, Tallinn 15015, Estonia	+372 680 0800	info@sampopank.ee www.sampopank.ee
Versobank AS	Pärnu mnt 12, Tallinn 10148, Estonia	+372 680 2500	info@versobank.com www.versobank.com
AS SEB Pank	Tornimäe 2, Tallinn 15010, Estonia	+372 665 5100	info@seb.ee www.seb.ee
Tallinna Äripanga AS	Vana-Viru 7, Tallinn 15097, Estonia	+372 668 8000	info@tbb.ee www.tbb.ee

An investor wishing to subscribe for the Offer Shares via a securities' account opened with the ECRS, the investor should contact the relevant Custodian that operates such investor's securities account opened with the ECRS and submit a Subscription Undertaking for the purchase of Offer Shares in the form set out below. The Subscription Undertaking must be submitted to the Custodian by the end of the Offer Period. The investor may use any method that such investor's Custodian offers to submit the Subscription Undertaking (e.g. through a bank's branch, over the Internet or by other means). The Subscription Undertaking must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's custodian
Security:	Pro Kapital Grupp share additional 7
ISIN code:	EE3800046676
Amount of securities:	the number of Offer Shares for which the investor wishes to subscribe
Price (per share):	EUR 2.05
Transaction amount:	the number of Offer Shares for which the investor wishes to subscribe multiplied by EUR 2.05
Counterparty:	AS Pro Kapital Grupp
Securities account of counterparty:	99101700074

Custodian of the counterparty:	AS LHV Pank
Value date of the transaction:	13 September 2012
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

An investor may submit a Subscription Undertaking via a nominee account only if such investor authorizes the owner of the nominee account to disclose the investor's identity and the amount of Offer Shares subscribed for by such investor to the Company, AS LHV Pank and registrar of ECRS in Estonia and in writing. Subscription Undertakings submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the investor and the amount of Offer Shares subscribed for by such investor to the registrar of ECRS in writing. Among other information it is also requested to disclose both a permanent address and personal identification code in case of the natural person or a registration address for the legal entity. An investor may submit a Subscription Undertaking either personally or via a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment the registrar of the ECRS receives a duly completed transaction instruction from the Custodian of the respective investor. The Subscription Undertaking can be cancelled or amended as described under Section 7 (Amendment or Cancellation of Subscription Undertakings) of this Part III (Offering). An investor will be liable for the payment of all fees charged by the custodian in connection with the submission, cancellation or amendment of the Subscription Undertaking.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings which are incomplete, incorrect, unclear or ineligible, or which have not been completed and submitted during the Offer Period in accordance with all requirements set out in these terms and conditions.

By submitting a Subscription Undertaking every investor:

- confirms that he/she/it has read the Prospectus in English and the Prospectus summary translated into English/Estonian/Lithuania/Latvian, including without limitation the "Risk Factors" section and the description of rights and obligations resulting from the ownership title to the Shares contained therein, and accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;
- acknowledges that the Offering does not constitute an offer of Offer Shares by the Company in legal terms or otherwise and that the submission of Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of or subscription for any Offer Shares;
- accepts that the number of Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of Offer Shares which the investor wishes to acquire (the "**Maximum Amount**") and that the investor may receive less (but no more) Offer Shares than the Maximum Amount. Please also read Part III (Offering);
- undertakes to acquire and pay for any number of Offer Shares allocated to it/him/her/in accordance with these terms and conditions;
- irrevocably authorizes each of the relevant Custodian and registrar of the ECRS to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify (i) the number of Offer Shares to be subscribed for by the investor, (ii) the Offer Price (as determined after the Offer Period) as the price per Share and (iii) the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor;
- confirms, that he/she/it is not a US person in the meaning of Regulation S and not subject to any other jurisdiction in which placing of the Subscription Undertaking shall be deemed to be in breach of law, also represent that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus;

- confirms his/her/its awareness that the Subscription Undertaking shall be unconditional, shall not include any reservations, and shall be irrevocable during the time when the Subscription Undertakings are binding on the investors, subject to the provisions of the Prospectus; and
- confirms his/her/its awareness that investing in shares is inherently associated with investment risk that can be inadequate for his/her/its knowledge and experience.

Subscriptions via Latvian or Lithuanian Custodian

If an investor in Estonia wishes to subscribe for the Offer Shares via a securities' account opened with one of the registered securities account operators in Latvia, i.e. with a participant of the Latvian Central Depository, the investor must subscribe for the Offer Shares in accordance with Section 2 (Instructions to Investors in Latvia) below. If an investor in Estonia wishes to subscribe for the Offer Shares via a securities' account opened with one of the registered securities account operators in Lithuania, the investor must subscribe for the Offer Shares in accordance with Section 3 (Instructions to Investors in Lithuania) below.

2. INSTRUCTIONS TO INVESTORS IN LATVIA

In order to subscribe for the Offer Shares, an investor in Latvia must have a securities account opened with (a) any Custodian that is a participant of the Latvian Central Depository, who has a cash agent in Estonia or (b) the ECRS or (c) one of the registered securities account operators in Lithuania, who has a cash agent in Estonia.

Subscriptions via securities' account opened through any Custodian that is a participant of the Latvian Central Depository, who has a cash agent in Estonia

As of the date hereof, the following banks and investment firms operate as Custodians, participants of the Latvian Central Depository, who have cash agent in Estonia:

Citadele banka AS	Republikas laukums 2a, Rīga, LV 1010, Latvia	+371 6701 0000	info@citadele.lv www.citadele.lv
DNB banka AS	Skanstes iela 12, Rīga, LV 1013, Latvia	+371 6717 1880	info@dnb.lv www.dnb.lv
Dukascopy Europe IBS	Lāčplēša iela 20a-1, Rīga, LV 1011	+371 67283294	www.dukascopy.com
GE Money Bank AS	13.janvāra iela 3, Rīga, LV 1050, Latvia	+371 6700 1878	info@gemoneybank.lv www.gemoneybank.lv
Latvijas Hipotēku un zemes banka AS	Doma laukums 4, Rīga, LV 1977, Latvia	+371 80000100	8000100@hipo.lv www.hipo.lv
Nordea Bank Finland Plc Latvijas filiāle	Kr. Valdemara iela 62, Riga, LV 1013	+371 67096096	info@nordea.lv www.nordea.lv
Norvik banka AS	E.Birznieka-Upīša iela 21, Rīga, LV 1011, Latvia	+371 6704 1100	welcome@norvik.lv www.norvik.lv
Reģionālā investīciju banka AS	J.Alunāna iela 2, Rīga, LV 1010, Latvia	+371 6735 9000	bank@ribbank.com www.ribbank.com
Rietumu Banka	Vesetas iela 7, Rīga, LV 1013	+371 67025555	info@rietumu.lv www.rietumu.lv
SEB banka AS	"SEB finanšu centrs", Valdlauči, Meistaru iela 1, Ķekavas pagasts, Ķekavas novads, LV 1076, Latvia	+371 2777 8777, 8777	info@seb.lv www.seb.lv
Swedbank AS	Balasta dambis 1a, Rīga, LV-1048, Latvia	+371 6744 4444	info@swedbank.lv www.swedbank.lv
Trasta Komercbanka AS	Palasta iela 1, Rīga, LV 1050, Latvia	+371 6702 7777	info@tkb.lv www.tkb.lv

An investor wishing to subscribe for the Offer Shares should contact the Custodian that operates a securities account in the Latvian Central Depository for such investor or the office of AS LHV Pank in Latvia and submit a Subscription Undertaking for the purchase of Offer Shares in the form set out

below. The Subscription Undertaking must be submitted to the Custodian by the end of the Offer Period. The investor may use any method that such investor's Custodian offers to submit the Subscription Undertaking (e.g. through a bank's branch, over the Internet or by other means). The Subscription Undertaking must include the following information:

Owner of the account:	name and personal ID code or registration number of the investor
Account:	number of the investor's account
Custodian:	name and registration number of the investor's custodian
Security:	Pro Kapital Grupp share additional 7
ISIN code:	EE3800046676
Amount of securities:	the number of Offer Shares for which the investor wishes to subscribe
Price (per share):	EUR 2.05
Transaction amount:	the number of Offer Shares for which the investor wishes to subscribe multiplied by EUR 2.05
Counterparty:	AS Pro Kapital Grupp, registration number 10278802
Securities account of counterparty:	EE 99101700074
Custodian of the counterparty:	LHV Pank AS
Value date of the transaction:	13 September 2012
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

An investor may submit a Subscription Undertaking via a nominee account only if such investor authorizes the owner of the nominee account to disclose the investor's identity and the amount of Offer Shares subscribed for by such investor to the Latvian Central Depository, AS LHV Pank and the Company and it is done in writing. Subscription Undertakings submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the investor and the amount of Offer Shares subscribed for by such investor to the Latvian Central Depository in writing. Among other information it is also requested to disclose both a permanent address and personal identification code in case of the natural person or a registration number and registered address for the legal entity. An investor may submit a Subscription Undertaking either personally or via a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment the ECRS receive a duly completed transaction instruction from the Custodian of the respective investor. The Subscription Undertaking can be cancelled or amended as described under Section 7 (Amendment or Cancellation of Subscription Undertakings) of this Part III (Offering). An investor will be liable for the payment of all fees charged by the Custodian in connection with the submission, cancellation or amendment of the Subscription Undertaking.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings which are incomplete, incorrect, unclear or ineligible, or which have not been completed and submitted during the Offer Period in accordance with all requirements set out in these terms and conditions.

By submitting a Subscription Undertaking every investor:

- confirms that he/she/it has read the Prospectus in English and the Prospectus summary translated into English/Estonian/Lithuania/Latvian, including without limitation the "Risk Factors" section and the description of rights and obligations resulting from the ownership title to the shares of the Company contained therein, and accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;

- acknowledges that the Retail Offering does not constitute an offer of Offer Shares by the Company in legal terms or otherwise and that the submission of Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of or subscription for any Offer Shares;
- accepts that the number of Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of Offer Shares which the investor wishes to acquire (the "Maximum Amount") and that the investor may receive less (but no more) Offer Shares than the Maximum Amount. Please also read Part III (Offering);
- undertakes to acquire and pay for any number of Offer Shares allocated to it/him/her/in accordance with these terms and conditions;
- irrevocably authorizes each of the relevant Custodian, the registrar of the ECRS and the Latvian Central Depository to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify (i) the number of Offer Shares to be subscribed for by the investor, (ii) the Offer Price (as determined after the Offer Period) as the price per Share and (iii) the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor;
- confirms, that he/she/it is not a US person in the meaning of Regulation S and not subject to any other jurisdiction in which placing of the Subscription Undertaking shall be deemed to be in breach of law, also represent that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus;
- confirms his/her/its awareness that the Subscription Undertaking shall be unconditional, shall not include any reservations, and shall be irrevocable during the time when the Subscription Undertakings are binding on the investors, subject to the provisions of the Prospectus; and
- confirms his/her/its awareness that investing in shares is inherently associated with investment risk that can be inadequate for his/her/its knowledge and experience.

Subscriptions via Estonian or Lithuanian Custodian

If an investor in Latvia wishes to subscribe for the Offer Shares via a securities' account opened with the ECRS, the investor must subscribe for the Offer Shares in accordance with Section 1 (Instructions to Investors in Estonia) above. If an investor in Latvia wishes to subscribe for the Offer Shares via a securities' account opened with one of the registered securities account operators in Lithuania, the investor must subscribe for the Offer Shares in accordance with Section 3 (Instructions to Investors in Lithuania) below.

3. INSTRUCTIONS TO INVESTORS IN LITHUANIA

In order to subscribe for the Offer Shares, an investor must have a securities account opened with (a) any Custodian of the Lithuanian Central Depository, who has a cash agent in Estonia, (b) the ECRS or (c) any Custodian that is a participant of the Latvian Central Depository, who has a cash agent in Estonia.

Subscriptions via securities' account opened with a registered securities account operators in Lithuania, who has a cash agent in Estonia

As of the date hereof, the following banks and investment firms operate as custodians of the Lithuanian Central Depository, who have cash agents in Estonia:

AB SEB Bankas	Gedimino pr.12, LT-01103 Vilnius, Lithuania	+370 52682370	info@seb.lt www.seb.lt
UAB FMĮ "Orion securities"	A. Tumėno g. 4, B korpusas, LT-01109 Vilnius, Lithuania	+370 52313833	info@orion.lt www.orion.lt
AB bankas "FINASTA"	Maironio g. 11, LT-01124 Vilnius, Lithuania	+370 52032233	info@finasta.com www.finasta.com
AB DNB bankas	J. Basanavičiaus g. 26, LT-03601 Vilnius, Lithuania	+370 52393771	info@dnb.lt www.dnb.lt

An investor wishing to subscribe for the Offer Shares should contact the Custodian that operates a securities account in the Lithuanian Central Depository for such investor or the office of AS LHV Pank in Lithuania and submit a Subscription Undertaking for the purchase of Offer Shares in the form set out below. The Subscription Undertaking must be submitted to the Custodian by the end of the Offer Period. The investor may use any method that such investor's Custodian offers to submit the Subscription Undertaking (e.g. through a bank's branch, over the Internet or by other means). The Subscription Undertaking must include the following information:

Owner of the account:	name of the investor
Account:	number of the investor's account
Custodian:	name of the investor's custodian
Security:	Pro Kapital Grupp share additional 7
ISIN code:	EE3800046676
Amount of securities:	the number of Offer Shares for which the investor wishes to subscribe
Price (per share):	EUR 2.05
Transaction amount:	the number of Offer Shares for which the investor wishes to subscribe multiplied by EUR 2.05
Counterparty:	AS Pro Kapital Grupp, registration number 10278802
Securities account of counterparty:	EE 99101700074
Custodian of the counterparty:	LHV Pank AS
Value date of the transaction:	13 September 2012
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

An investor may submit a Subscription Undertaking via a nominee account only if such investor authorizes the owner of the nominee account to disclose the investor's identity and the amount of Offer Shares subscribed for by such investor to the Lithuanian Central Depository, LHV Pank and the Company and it is done in writing. Subscription Undertakings submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the investor and the amount of Offer Shares subscribed for by such investor to the Lithuanian Central Depository in writing. Among other information it is also requested to disclose both a permanent address and personal identification code in case of the natural person or a registration address and code (if relevant) for the legal entity. An investor may submit a Subscription Undertaking either personally or via a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment the ECRS receives a duly completed transaction instruction from the Custodian of the respective investor. The Subscription Undertaking can be cancelled or amended as described under Section 7 (Amendment or Cancellation of Subscription Undertakings) of this Part III (Offering). An investor will be liable for the payment of all fees charged by the Custodian in connection with the submission, cancellation or amendment of the Subscription Undertaking.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings which are incomplete, incorrect, unclear or ineligible, or which have not been completed and submitted during the Offer Period in accordance with all requirements set out in these terms and conditions.

By submitting a Subscription Undertaking every investor:

- confirms that he/she/it has read the Prospectus in English and the Prospectus summary translated into English/Estonian/Lithuania/Latvian, including without limitation the "Risk Factors" section and the description of rights and obligations resulting from the ownership title to the shares of the

Company contained therein, and accepts provisions thereof as well as terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;

- acknowledges that the Retail Offering does not constitute an offer of Offer Shares by the Company in legal terms or otherwise and that the submission of Subscription Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of or subscription for any Offer Shares;
- accepts that the number of Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of Offer Shares which the investor wishes to acquire (the "Maximum Amount") and that the investor may receive less (but no more) Offer Shares than the Maximum Amount. Please also read Part III (Offering);
- undertakes to acquire and pay for any number of Offer Shares allocated to it/him/her/in accordance with these terms and conditions;
- irrevocably authorizes each of the relevant Custodian, the registrar of the ECRS and the Lithuanian Central Depository to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify (i) the number of Offer Shares to be subscribed for by the investor, (ii) the Offer Price (as determined after the Offer Period) as the price per Share and (iii) the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor.
- confirms, that he/she/it is not a US person in the meaning of Regulation S and not subject to any other jurisdiction in which placing of the Subscription Undertaking shall be deemed to be in breach of law, also represent that he/she/it is authorised to place a Subscription Undertaking in accordance with the Prospectus;
- confirms his/her/its awareness that the Subscription Undertaking shall be unconditional, shall not include any reservations, and shall be irrevocable during the time when the Subscription Undertakings are binding on the investors, subject to the provisions of the Prospectus; and
- confirms his/her/its awareness that investing in shares is inherently associated with investment risk that can be inadequate for his/her/its knowledge and experience.

Subscriptions via Estonian or Latvian Custodian

If an investor in Lithuania wishes to subscribe for the Offer Shares via a securities' account opened with the ECRS, the investor must subscribe for the Offer Shares in accordance with Section 1 (Instructions to Investors in Estonia) above. If an investor in Lithuania wishes to subscribe for the Offer Shares via a securities' account opened with one of the registered securities account operators in Latvia, i.e. with a participant of the Latvian Central Depository, the investor must subscribe for the Offer Shares in accordance with Section 2 (Instructions to Investors in Latvia) above.

PART V. BACKGROUND, REASONS FOR OFFERING AND USE OF PROCEEDS

The purpose of the Offering is to obtain additional equity financing necessary for the Group's real estate development activities. The Group plans to use the net proceeds received from the Offering *inter alia* for the development of the following three properties of the Group:

- Tondi Quarter in Tallinn (please also read "Tondi Quarter" in Section 6 (Projects and Properties) of Part XI (Business));
- Peterburi Rd. Shopping Centre in Tallinn (please also read "Peterburi Rd. Shopping Centre" in Section 6 (Projects and Properties) of Part XI (Business)); and
- Tallinas St. Residential Complex in Riga (please also read "Tallinas St. Residential Complex" in Section 6 (Projects and Properties) of Part XI (Business)).

In the Management Board's view the exact allocation of the funds to the development projects cannot be determined at the date of this Prospectus. The exact allocation of the funds to various development projects will be determined by the Company at a later stage on the basis of availability of debt financing and pre-sales.

In addition, the Group plans to use part of the proceeds from time to time for general corporate purposes (including, for as long as it does not affect the development of the above properties of the Group, for the payment of outstanding obligations). The Group will use the proceeds for general corporate purposes to the extent and at the time such part of the proceeds is not necessary for financing the Group's real estate development activities.

The precise use of the proceeds will be determined by the Management Board in line with the annual budgets of the Company approved by the Supervisory Council and other relevant resolutions that the Supervisory Council may adopt from time to time.

The Articles of Association of the Company set out that if share capital of the Company is increased without amending the Articles of Association, the Company's legal reserve shall also be increased on a *pro rata* basis. Therefore, a part of the proceeds from the Offering will be transferred to the legal reserve of the Company.

The aggregate net proceeds to the Company are estimated to amount to approximately EUR 69.2 million, after deducting the fees and expenses of the Offering, assuming that all offered Offer Shares will be subscribed for and issued, based on the mid-point of the Offer Price Range, save for any proceeds deriving under issuance of any Over-Allotment Shares. The fees and expenses incurred in connection with the Offering and payable by the Company are estimated to amount to approximately EUR 3.9 million, based on the mid-point of the Offer Price Range.

In addition to above-mentioned investments the Offering is expected to broaden the Group's investor base and create an opportunity for the listing of the Shares on the Tallinn Stock Exchange. The Listing is expected to increase liquidity of the Shares and enhance the Group's profile in relation to current and potential customers and other cooperation partners.

In the Offering, up to 37,000,000 Offer Shares will be offered by the Company. In addition, up to 1,000,000 Over-Allotment Shares may additionally be issued in the course of the Offering. The conditional increase of Company's share capital necessary for the issuance of the Offer Shares and Over-Allotment Shares has been resolved by the General Meeting of Shareholders of the Company held on 14 August 2012.

Part VI. CAPITALISATION AND INDEBTEDNESS

The following table sets forth the capitalisation and indebtedness of the Group based on consolidated figures as at 30 June 2012. The table should be interpreted in conjunction with the Financial Statements presented elsewhere in this Prospectus. For further information on the Group's capitalisation and indebtedness, see the Notes to the Interim Financial Statements for the six months ended 30 June 2012.

('000 EUR, un-audited)	**30 June 2012**
CAPITALISATION	
Total current debt	**6,898**
- secured	6,898
– *of which guaranteed*	2,625
- unsecured	0
Total non-current debt	**20,673**
- secured	9,401
– *of which guaranteed*	7,579
- unsecured	11,272
Shareholders' equity	**69,132**
Non-controlling interest	1,553
Equity attributable to equity holders of the parent	67,579
- share capital in nominal value	10,637
- share premium	0
- reserves	11,337
- retained earnings	46,735
- currency translation adjustment	-1,130
TOTAL CAPITALISATION	**96,703**
NET INDEBTEDNESS	
Cash	71
Bank Accounts	2,071
Trading securities	0
Liquidity (1)	**2,142**
Current financial receivable	**0**
Current bank debt	0
Current portion of non-current bank loans	2,822
Other current financial debt	4,076
Current financial debt (2)	**6,898**
Net current financial indebtedness (3)	**4,756**
Non-current bank loans	9,401
Bonds issued	11,272
Other non-current loans	0
Non-current financial indebtedness (4)	**20,673**
NET FINANCIAL INDEBTEDNESS (5)	**25,429**

(1) Aggregate of cash and cash equivalents and trading securities
(2) Aggregate of current bank debt, current portion of non-current debt and other current financial debt
(3) Current financial debt deducted by current financial receivables and liquidity

(4) Aggregate of non-current bank loans and other non-current loans (excluding current portion of long-term debt)
(5) Aggregate of net current financial indebtedness and non-current financial indebtedness

Please read “Loan Agreements and related Financing Documents” in Section 9 (Material Contracts) of Part XI (Business) for information on collaterals and guarantees for secured loans.

Please read “Off-Balance Sheet Items” in Section 9 (Capital Risk Management) of Part IX (Operating and Financial Review and Prospects) for information on indirect and conditional liabilities (off-balance sheet items).

PART VII. DIVIDENDS AND DIVIDEND POLICY

Once the increase of share capital relating to the issue of Offer Shares is registered with the Estonian Commercial Register, the Offer Shares will rank *pari passu* with all the existing Shares. The Offer Shares will be eligible for any dividends declared and paid on the Shares starting from 1 January 2012 and any time thereafter.

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

The Group intends to pay dividends taking into account the capital needs, the stage of the development of the Group's main projects, the financial situation of the Group, the development cycle of the real estate sector and other relevant aspects the Group. It is not expected that the dividend payments will commence in financial years 2013 and 2014 as the Group is planning to invest significant amount of funds into the prioritised development projects (Tondi Quarter, Peterburi Rd. Shopping Centre and Tallinas St. Residential Complex).

The Company cannot assure that dividends will be paid in the future or if dividends are paid, how much they will amount to. The declaration and payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management Board to be relevant at the time. Moreover, the Management Board merely makes a proposal for the amount of dividends to be distributed. The Supervisory Council has the right to amend such proposal and the proposal is ultimately to be approved by the General Meeting of Shareholders. For more details on the procedure and regulatory restrictions relating to the payment of dividends, please read "Dividends and Other Distributions" in Section 7 (Shareholders Rights) of Part XIII (Information on Company, Shares and Share Capital).

PART VIII. SELECTED FINANCIAL INFORMATION

The following tables set forth selected financial information as at the end of and for each of the three financial years ended 31 December 2009, 2010 and 2011, and as at the end of and for the six months ended 30 June 2012.

The tables below set forth selected financial information that has been derived from the Group's Special Purpose Combined Financial Statements for the three financial years ended 31 December 2009, 2010, 2011, and from the Interim Financial Statements for the six months period ended 30 June 2012. The Special Purpose Combined Financial Statements and Interim Financial Statements have been prepared in accordance with the IFRS-EU. Please also read Note no. 2 to the Special Purpose Combined Financial Statements and Note no. 2 to the Interim Financial Statements.

The selected financial data presented below shall be read in conjunction with Part IX (Operating and Financial Review and Prospects) and the Special Purpose Combined Financial Statements and Interim Financial Statements, including notes thereto, incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)).

The ratios and indicators set out in the table below are provided to illustrate certain aspects of Group's business and financial performance. These ratios and indicators are used by the Management Board to evaluate the performance of the Group. Earnings per share, return on assets and return on equity are used as indicators of financial returns that the Group is generating for its shareholders. Gross, operating and net profit margins are indicators of the profitability of the Group, while equity ratio and current ratio are used by the Management Board to assess the liquidity position of the Group. Although certain of these ratios and indicators are not measures of performance defined in the IFRS-EU, the Management Board believes that such ratios and indicators are customary and often used by public companies in the Group's sector to illustrate their business and financial performance.

	Financial year ended 31 December			Six months ended 30 June	
Profit and loss account ('000 EUR)	**2009**	**2010**	**2011**	**2011**	**2012**
Total revenue	**21,999**	**21,051**	**17,449**	**8,016**	**9,932**
Cost of goods sold	-17,917	-17,015	-16,407	-5,756	-8,070
Gross profit	**4,082**	**4,036**	**1,042**	**2,260**	**1,862**
Marketing expenses	-1,103	-609	-352	-169	-289
Administrative expenses	-4,130	-4,029	-5,237	-2,776	-2,707
Other operating income	1,357	219	54,280	54,692	118
Other operating expenses	-1,397	-4,600	-1,875	-471	-1,220
Operating profit / loss	**-1,191**	**-4,983**	**47,858**	**53,536**	**-2,236**
Financial income	2,733	2,120	4,770	659	16
Financial expenses	-2,883	-4,174	-2,877	-2,155	-679
Profit / loss before tax	**-1,341**	**-7,037**	**49,751**	**52,040**	**-2,899**
Income tax	26	17	351	7	14
Profit / loss for the period	**-1,315**	**-7,020**	**50,102**	**52,047**	**-2,885**
Net profit / loss attributable to:					
Equity holders of the parent	-3,455	-7,413	21,931	23,909	-2,889
Non-controlling interest	2,140	393	28,171	28,138	4

	As at 31 December			As at 30 June
Balance sheet ('000 EUR)	**2009**	**2010**	**2011**	**2012**
Cash and bank accounts	3,159	1,194	8,637	2,142
Current receivables	11,304	9,562	2,865	2,857
Inventories	67,935	58,736	53,186	49,395
Non-current assets held for sale	0	50,044	0	0
Total current assets	**82,398**	**119,536**	**64,688**	**54,394**

Non-current receivables	12,492	19,949	152	152
Deferred tax assets	0	0	370	368
Tangible assets	10,207	12,049	21,863	21,393
Investment property	61,785	26,600	26,111	26,111
Intangible assets	264	307	288	284
Total non-current assets	**84,748**	**58,905**	**48,784**	**48,308**
TOTAL ASSETS	**167,146**	**178,441**	**113,472**	**102,702**
Current debt	16,080	83,271	14,002	6,898
Customer advances	2,962	1,352	838	579
Current payables	2,825	3,648	1,791	1,497
Taxes payable	479	178	95	106
Short-term provisions	284	4,184	1,091	1,755
Total current liabilities	**22,630**	**92,633**	**17,817**	**10,835**
Long-term debt	67,929	18,717	21,462	20,673
Other long term liabilities	300	0	0	132
Deferred income tax liability	445	419	1,962	1,878
Long-term provisions	97	166	173	52
Total non-current liabilities	**68,771**	**19,302**	**23,597**	**22,735**
TOTAL LIABILITIES	**91,401**	**111,935**	**41,414**	**33,570**
Share capital	33,992	33,992	10,637	10,637
Share premium	45,089	45,089	0	0
Statutory legal reserve	2,938	2,938	0	0
Revaluation reserve	0	0	11,330	11,337
Foreign currency differences	-1,373	-1,382	-1,130	-1,130
Retained earnings	-30,836	-36,388	27,693	49,624
Profit / loss for the period	-3,455	-7,413	21,931	-2,889
Total equity attributable to equity holders of the parent	**46,355**	**36,836**	**70,461**	**67,579**
Non-controlling interest	29,390	29,670	1,597	1,553
TOTAL EQUITY	**75,745**	**66,506**	**72,058**	**69,132**
TOTAL LIABILITIES AND EQUITY	**167,146**	**178,441**	**113,472**	**102,702**

	Financial year ended 31 December			**Six months ended 30 June**	
Cash flow ('000 EUR)	**2009**	**2010**	**2011**	**2011**	**2012**
Net cash from / used in operating activities	11,286	933	-19,394	-11,578	-3,158
Net cash from / used in investing activities	-403	-14,768	95,764	95,361	-289
Net cash from / used in financing activities	-9,604	11,870	-68,927	-64,733	-3,048
NET CASH FLOW	**1,279**	**-1,965**	**7,443**	**19,050**	**-6,495**

	Financial year ended 31 December			**Six months ended 30 June**	
Key ratios and indicators	**2009**	**2010**	**2011**	**2011**	**2012**
Number of shares	53,185,422	53,185,422	53,185,422	53,185,422	53,185,422
Earnings per share, EUR	-0.06	-0.14	0.41	0.45	-0.05
Gross profit margin, %	19%	19%	6%	28%	19%
Operating profit margin, %	-5%	-24%	274%	668%	-23%
Net profit margin, %	-16%	-35%	126%	298%	-29%
Return on assets, %	-2%	-4%	15%	n/a	-3%
Return on equity, %	-7%	-18%	41%	n/a	-4%

Equity ratio, %	28%	21%	62%	n/a	66%
Current ratio	3.6	1.3	3.6	n/a	5.0

Calculation of key ratios:

Earnings per share, EUR	=	Net profit attributable to equity holders of the parent divided by average number of common shares outstanding.
Gross profit margin, %	=	Gross profit divided by total revenue.
Operating profit margin, %	=	Operating profit divided by total revenue.
Net profit margin, %	=	Net profit attributable to equity holders of the parent divided by total revenue.
Return on assets, %	=	Net profit attributable to equity holders of the parent divided by average total assets.
Return on equity, %	=	Net profit attributable to equity holders of the parent divided by average equity attributable to equity holders of the parent.
Equity ratio, %	=	Equity attributable to equity holders of the parent divided by total assets.
Current ratio, %	=	Current assets divided by current liabilities.

PART IX. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

1. OVERVIEW

In this Part IX (Operating and Financial Review and Prospects), description has been provided in respect of the following:

- key factors influencing the operations of the Group;
- major developments that have taken place in relation to the Group since the end of the reporting period for six months ended 30 June 2012;
- the Group's operating and financial outlook for 2012;
- major investment activity performed by the Group since 2009;
- results of Group's operations for financial years 2009, 2010 and 2011 and for the six months ended 30 June 2012; and
- the statement on Group's liquidity and capital resources.

In addition to the above, Part IX (Operating and Financial Review and Prospects) provides an overview of the Group's key accounting policies as well as financial risks and risk management procedures.

Financial Information presented in this Part IX (Operating and Financial Review and Prospects) has been derived from the Group's Special Purpose Combined Financial Statements for the three financial years ended 31 December 2009, 2010, 2011, and from the Interim Financial Statements for the six months period ended 30 June 2012. Such Special Purpose Combined Financial Statements and Interim Financial Statements have been prepared in accordance with the IFRS-EU. Therefore, this Part IX (Operating and Financial Review and Prospects) shall be read in conjunction the Special Purpose Combined Financial Statements and Interim Financial Statements, including notes thereto, incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)).

2. FACTORS AFFECTING RESULTS OF OPERATIONS

Changes in business environment

Property market is sensitive to changes in supply and demand. Generally, real estate values tend to follow business cycles. Valuation of property is affected by a number of macroeconomic factors, including economic growth, demographical factors, availability of financing, interest rates, inflation, unemployment, disposable income, consumer confidence etc. Changes in local market environment (for example, in a specific city) can materially affect property values regardless of the overall business environment in the regional market. Changes in general market environment have an effect on demand for real estate and yield rates. For this reason, fluctuations in macroeconomic factors in the markets, which the Group operates in, can materially affect valuation and timing of development of existing and planned real estate portfolio.

Property prices, rental and vacancy rates depend on demand and supply of real estate stock in the respective market segment (residential, commercial, offices). Favourable market environment encourages construction of new real estate. The growth of available real estate space in general would result in negative pressure on prices, while the final pricing level will depend on the development of the demand.

Ability to develop projects

Management of development projects requires substantial planning effort and usually lasts for several years. During the development phase the Group receives income only from pre-sale of the apartments in residential projects, while income from development of retail properties is deferred to the period after the completion of the project.

The Group relies on subcontractors for implementation design and construction works. If terms of services performed by subcontractors (price, quality) deviate from initially planned, there can be a positive or negative effect on the profit extracted from developing a project. Additionally, development projects are subject to regulation by government authorities in relation to obtaining or renewing licenses, per-

mits and approvals, which can potentially delay development of a project, and hence have an impact on the Group's profitability and projects' financial return.

The Management Board

Successful planning and execution of development projects depends on the vision and experience of the Management Board that has obtained unique real estate development know-how in the Baltic States. The Management Board is crucial to the future operating results.

Property sales

Income from sale of property is not regular and depends on a number of factors, including project development schedule, prevailing market demand, macroeconomic environment, competing real estate developments and the Group's strategy. The Management Board is carefully planning timing of property sales in order to maximize the return to shareholders. Maximization of return might result in relatively volatile stream of income. Ability of the Group to time the property sales has an effect on the income of the Group as market conditions are constantly changing.

The Management Board may consider renting out certain properties for a certain period of time in case the market conditions for the sales of apartments or development of properties are not favourable.

Rental income

Rental income is another source of the Group's revenue. Insolvency of large tenants can have a substantial negative effect on rental income, and hence quality tenant mix and constant monitoring of tenants' solvency is important in securing stable rental income.

Developments in a specific real estate lease market segment (office, retail), such as shifts in demand or introduction of new real estate stock can have a material impact on development of vacancy rates. As rental agreements are reviewed on regular basis, prevailing market conditions determine terms of renewal of agreements. As a result the rental income can fluctuate, also causing fluctuations in consolidated revenue.

Hotel related income

Income generated by hotel operations forms a relatively significant part of Group's total recurring revenues at the moment. Group's hotel operations mainly service foreign tourist travellers. Lately the hotel operations have been impacted positively by increasing number of tourists to Estonia and Latvia and general improvement of economic environment.

Revaluation of property

Land and buildings that are purchased or developed by the Group with the purpose to generate rental income or market value appreciation and which are not used in operations of the Company are reported on the balance sheet as investment property. Investment property as well as the tangible assets (hotels owned by the Group are accounted as tangible assets) are measured using the fair value method, and revaluation is performed on regular basis as required by regulations. Any potential gains or losses in fair value of investment property are recognized as income or expense for the respective accounting period, affecting the overall profitability of the Group. At the same time, inventories, which include residential buildings completed and construction in progress, are recorded at cost on the balance sheet and are not re-valued.

Competition

Property prices, rental rates and vacancy rates to a large extent are related to availability of real estate space for sale or for lease. Therefore, any substantial new real estate developments in the segments and markets the Group operates in represents a threat to operating results of the Group.

Opening of a new shopping centre or development of new residential project in a given city or region would increase competition among existing players, and put downward pressure on rental rates and residential property prices, which in turn would result in fluctuations of the Group's total income.

Inability of competitors to finance their real estate developments or any other reasons deterring competitive developments could result in thinner real estate supply, which would increase property prices and rental rates, thus positively affecting income of the Group.

Interest rates

Changes in credit market and interest rate fluctuations can decrease or increase the Group's financing costs, and thus affect consolidated profitability. Additionally, interest rates and credit availability affect demand for real estate, which in turn has an impact on the Group's property value and property sales. Significant part of the Group's borrowings has fixed margin interest rate tied to EURIBOR and therefore is exposed to interest rate volatility to the extent of EURIBOR fluctuation, and hence the Group is exposed to developments in European and international financial markets.

Construction market environment

Construction costs represent by far the largest portion of expenses related to property development. Historically construction costs have fluctuated significantly. In the future any fluctuations in construction market conditions, including labour costs, material costs, demand and supply, may have a material effect on expenses and profitability of the Group.

Ability to acquire land plots

Success of the Group's operations is dependent on the Group's ability to acquire land plots or properties for development in favourable locations at competitive prices, and develop them in efficient and timely manner. The Group has acquired most of its current land portfolio in 1990s and early 2000s and further successful acquisitions cannot be taken for granted.

Additionally, success of development projects relies on the Group's ability to forecast attractiveness of a chosen location. Location represents a substantial part of real estate property value, and attractiveness of locations tends to change over time depending on other real estate developments and/or changes in the city planning. Any positive developments in location's attractiveness can positively affect property value, and vice versa.

3. RECENT DEVELOPMENTS

During the first half of 2012 the Group continued with projecting works of 3 new development projects: Peterburi Rd. Shopping Centre in Tallinn, the first part of the new stage in Tondi Quarter in Tallinn and Tallinnas St. Residential Complex in Riga for obtaining building licenses. In connection with the Peterburi Rd. Shopping Centre project the Group has signed the agreements for pre-projecting of tram line Majaka str. – Peterburi road 2, projecting of rainwater sewage line on Kivimurru street and connection agreement with AS Eesti Gaas. In June 2012 the Group received the building license for the entrance crossroad from the Peterburi road to the eastern side of the projected shopping centre.

The Group has started successfully the leasing activities for Peterburi Rd. Shopping Centre premises with first lease agreements signed at the end of the first half of 2012 and lease agreement for hypermarket premises signed on 26 July 2012.

In the first half of 2012 the Group recorded net revenue of EUR 9.9 million, which represents 24% increase compared to the same period in 2011. Recorded net loss of EUR 2.9 million EUR included non-recurring costs related to IPO preparations in amount of EUR 0.4 million and additional provision regarding legal dispute in Netherlands in amount of EUR 0.7 million. Please also read Section 12 (Legal Proceedings) of Part XI (Business).

In Estonia 2 flats and 3 parking places were sold, as well as 6 lease agreements signed for parking places and 4 agreements for offices. PK Ilmarine Hotel showed results well above expectations, with occupancy rate growing by 4% and gross operating profit increasing more than 2 times to EUR 223 thousand.

In Latvia 1 flat has been sold and in total 20 lease agreements were signed for World Trade Centre office premises. The results of PK Riga Hotel improved, with occupancy rate growing by 26% and gross operating profit reaching EUR 283 thousand (8% increase).

In Lithuania 31 flats and commercial premises as well as 13 parking places were sold. Major part (27 flats and all parking places) was part of a bulk deal.

In Germany PK Parkhotel Kurhaus recorded occupancy rate decline of 13%, with gross operating profit decreasing by 2% to EUR 255 thousand. The company providing hotel and associated services at PK Parkhotel Kurhaus was acquired in November 2011 and currently is undergoing the process of cost review and efficiency means.

4. OUTLOOK FOR 2012

The Management Board believes that after bottoming-out during 2009 and 2010, real estate market in 2012 in Estonia, Latvia and Lithuania will continue moderate growth that was observed in 2011, following economic recovery in the Baltic States. Even though European sovereign debt situation represents a threat to economies of the Baltic States, positive growth of economy is expected in 2012 as the economies have gone through significant fiscal and structural reforms in the last several years. Economic growth in the region has been driven by improvement in fundamental factors, and finances of the governments of Estonia, Latvia and Lithuania have improved with budget deficits expected in 2012 below 3% level. Further economic recovery of the Baltic States is expected to positively affect real estate market as consumer confidence improves and demand for the property increases. The above mentioned factors should positively affect the Group's income from existing real estate and increase value of development projects.

The improving macroeconomic background in the Baltic States allows the Group to proceed with new developments as the increased consumer confidence and improved availability of financing increase the demand for both residential as well as retail real estate. The Group expects to complete the necessary preparatory works to be in position to commence the development of the Tondi Quarter, Peterburi Rd. Shopping Centre and Tallinas St. Residential Complex in 2012 and early 2013.

5. INVESTMENTS, DIVESTMENTS AND DEVELOPMENT PROJECTS

Main Investments, executed Acquisitions and Divestments as well as Commenced Development Projects between 2009 and 2011

The Group's main investments normally include acquisitions of land and buildings and construction or renovation works related to real estate project development. During the period from 2009 until 2011 the Company did not make significant investments except for the investments described below. The main reasons for postponing development activity were unfavourable market conditions dictated by weak macroeconomic environment and limited internal financial resources of the Group. It was decided that postponing development of planned real estate projects would increase their value, taking into account expected real estate market recovery.

However, the main investments during the period from 2009 until 2011 include investments related to two real estate development projects implemented by the Group, including:

- **Second extension of Kristiine Shopping Centre in Tallinn**. The extension was developed and constructed in 2010. The extension resulted in additional GLA of 12,200 m², renovation of the part of the existing parking house and creation of 7000 m^2 ground floor parking area increasing the total number of parking places to 1,130. The opening of the extension was on 30 September 2010. The yearly investments of the Group in this project were as follows: EUR 17,872,129 in 2010 and EUR 762,160 in 2011;
- **Development of Šaltinių Namai Residential Complex in Vilnius**. The yearly investments of the Group in this project were as follows: EUR 6,659,159 in 2009, EUR 1,197,027 in 2010 and EUR 872,872 in 2011. Please also read "Šaltinių Namai Residential Complex" in Section 6 (Portfolio of Projects and Property) of Part XI (Business) regarding the development of Šaltinių Namai Residential Complex.

Projects in Progress

Currently the Group is only completing interior works in its residential development projects in Estonia and Lithuania. Please also read Section 6 (Portfolio of Projects and Property) of Part XI (Business) regarding its residential development projects.

Projects in Early Development Stage

Three development projects of the Group are in early development stage, yet active planning of the projects is being performed. Development of these projects depends on a number of factors, including availability of financing, and hence there are no specific execution plans prepared yet. These projects are:

- **Development of Peterburi Rd. Shopping Centre**. Total investment into the project is expected to amount to EUR 88.9 million. Please also read "Peterburi Rd. Shopping Centre" in Section 6 (Portfolio of Projects and Property) of Part XI (Business) regarding the development of Peterburi Rd. Shopping Centre;
- **Development of the second stage of Tondi Quarter**. Total investment into the development of Tondi Quarter is expected to amount to EUR 118.1 million. Total investment into the development of the first part of the second phase of Tondi Quarter is expected to amount to EUR 11 million. Please also read "Tondi Quarter" in Section 6 (Portfolio of Projects and Property) of Part XI (Business) regarding the development of Tondi Quarter;
- **Development of Tallinas St. Residential Complex**. Total investment into the development of Tallinas St. Residential Complex in Riga is expected to amount to EUR 29.1 million. Please also read "**Tallinas St. Residential Complex**" in Section 6 (Portfolio of Projects and Property) of Part XI (Business) regarding the development of Tallinas St. Residential Complex.

Projects under consideration

There are also other development projects in the portfolio of the Group that are being considered in the longer term. These projects are:

- **Kalaranna Residential Complex**. Total investment is expected to amount to EUR 58.7 million. Development is expected to start in 2013. Please also read "Kalaranna Residential Complex" in Section 6 (Portfolio of Projects and Property) of Part XI (Business);
- **Klīversala Residential Complex**. Total investment is expected to amount to EUR 91.4 million. Development is expected to start in 2014. Please also read "Klīversala Residential Complex" in Section 6 (Portfolio of Projects and Property) of Part XI (Business);
- **Zvaigznes Centre**. Total investment is expected to amount to EUR 24.0 million. Development is expected to start in 2013. Please also read "Zvaigznes Centre" in Section 6 (Portfolio of Projects and Property) of Part XI (Business).

For more information regarding properties, which the Group considers to develop in the longer term, please read Section 6 (Portfolio of Projects and Property) of Part XI (Business).

Investments in 2012

Investments into the development projects during six months ended 30 June 2012 are indicated in the table below:

Name of the Project	Investment
Kalaranna Residential Complex	EUR 3,835
Tondi Quarter	EUR 15,092
Peterburi Rd. Shopping Centre	EUR 229,841
Tallinas St. Residential Complex	EUR 541
Zvaigznes Centre	EUR 2,277
Šaltinių Namai Residential Complex	EUR 163,110

Please also see Section 9 (Material Contracts) of Part XI (Business) for the information on the material contracts that have brought and will bring in the future investment obligations to the Group.

6. IMPORTANT ACCOUNTING POLICIES

The Financial Statements of the Company have been prepared in accordance with the IFRS-EU, and in accordance with Estonian Accounting Act.

Classification of real estate

Decision of real estate classification to inventory, investment property or tangible assets is done based on Management Board's intention for the future use of the object.

Real estate is recognized as inventory if the objective is sale or resale of real estate during ordinary course of business.

Real estate is recognized as investment property if the objective is to gain lease income, or real estate is held or developed for lease purpose. In addition, such real estate may be held for long-term capital appreciation.

Real estate used for rendering other business services or used for administrative purposes and with a useful life of over one year is considered to be tangible assets.

Valuation of inventory and investment property

According to the Company's principles, inventories are stated on the balance sheet at the lower of cost value or net realizable value. Net realizable value test is carried out annually and independent certified real estate appraiser's reports are used if deemed necessary.

The Company values the investment properties at their fair value determined by the Management Board estimates and independent certified real estate appraisers. In determination of the fair value two methods are used: discounted cash flow method and comparative transaction price method.

Use of judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires the Management Board to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 of the Special Purpose Combined Financial Statements and the Interim Financial Statements.

7. RESULTS OF OPERATIONS

The following subsections analyse the financial results of the Group for the financial years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012. Financial Information presented in Section 7 (Results of Operations) has been derived from the Group's Special Purpose Combined Financial Statements for the three financial years ended 31 December 2009, 2010, 2011, and from the Interim Financial Statements for the six months ended 30 June 2012.

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

The Group's operations in **Estonia** mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of premises in retail and office properties, and management of cash flow generating retail, office and hotel properties. The revenue generated by this segment is directly dependent on the overall sentiment in the premium residential real estate market in Tallinn and the stock of apartments to be sold available to the Group, overall retail sector sentiment in Tallinn as well as stage of the lifecycle of the Group's commercial developments, and overall tourism market trends in Tallinn.

The share of the Estonian segment as a percentage of total revenues of the Group has been relatively stable in 2009-2011 amounting to 61% in 2011, 56% in 2010 and 62% in 2009. However, the share of revenues from Estonian segment to Group's total revenues decreased substantially in the first half of 2012 amounting to 17%.

The Group's operations in **Latvia** mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of office properties, and management of cash flow generating hotel properties. The revenue generated by this segment is directly dependent on the overall sentiment in the premium residential real estate market in Riga and the stock of apartments to be sold available to the Group, the sentiment in the office property market in Riga, and overall tourism market trends in Riga.

The share of the Latvian segment as a percentage of total revenues of the Group was 14% in the first half of 2012, compared to 17% in 2011, 11% in 2010 and 26% in 2009.

The Group's operations in **Lithuania** mainly consist of the development and sales of apartments in premium residential real estate properties. The revenue generated by this segment is directly dependent on the overall sentiment in the premium residential real estate market in Vilnius and the stock of apartments to be sold available to the Group.

The share of the Lithuanian segment as a percentage of total revenues of the Group increased in the first half of 2012 to 54% compared to 20% in 2011, 31% in 2010 and 10% in 2009. The share of revenues stemming from Lithuania has been dependent on the presales and sales of Šaltinių Namai Residential Complex.

The Group's operations in **Germany** consist of the development and management of PK Parkhotel Kurhaus located in Bad Kreuznach, Germany. The revenue generated by this segment is directly dependent on the overall tourism market trends in Bad Kreuznach and its surrounding area.

The share of the German segment as a percentage of total revenues of the Group has been stable amounting to 2% in all three years of 2011, 2010, and 2009. However, the share of the German segment increased to 15% in the first half of 2012 with the Company's acquisition of German hotel operator in November 2011.

It should be noted that a single sizeable transaction in a particular segment in a particular period may change the share of that particular segment in total Group's revenues significantly. However, such changes do not reflect the overall trend in segment revenues.

The following table presents the Group's results of operations for the periods indicated:

	Financial year ended 31 December			Six months ended 30 June	
Profit and loss account ('000 EUR)	**2009**	**2010**	**2011**	**2011**	**2012**
Total revenue	**21,999**	**21,051**	**17,449**	**8,016**	**9,932**
Estonia	13,534	11,779	10,569	5,623	1,715
Latvia	5,759	2,356	3,038	1,195	1,362
Lithuania	2,269	6,480	3,406	980	5,317
Germany	437	436	436	218	1,538
Cost of goods sold	-17,917	-17,015	-16,407	-5,756	-8,070
Gross profit	**4,082**	**4,036**	**1,042**	**2,260**	**1,862**
Marketing expenses	-1,103	-609	-352	-169	-289
Administrative expenses	-4,130	-4,029	-5,237	-2,776	-2,707
Other operating income	1,357	219	54,280	54,692	118
Other operating expenses	-1,397	-4,600	-1,875	-471	-1,220
Operating profit / loss	**-1,191**	**-4,983**	**47,858**	**53,536**	**-2,236**
Financial income	2,733	2,120	4,770	659	16
Financial expenses	-2,883	-4,174	-2,877	-2,155	-679
Profit / loss before tax	**-1,341**	**-7,037**	**49,751**	**52,040**	**-2,899**
Income tax	26	17	351	7	14
Profit / loss for the period	**-1,315**	**-7,020**	**50,102**	**52,047**	**-2,885**
Net profit / loss attributable to:					
Equity holders of the parent	-3,455	-7,413	21,931	23,909	-2,889
Non-controlling interest	2,140	393	28,171	28,138	4

The following table presents the Group's certain income and expense items as a percentage of total revenue for the periods indicated in order to illustrate the relative weight of the key income and expense items in relation to the total revenue of the Group:

	Financial year ended 31 December			Six months ended 30 June	
Profit and loss account (%)	**2009**	**2010**	**2011**	**2011**	**2012**
Total revenue	**100%**	**100%**	**100%**	**100%**	**100%**
Estonia	62%	56%	61%	70%	17%
Latvia	26%	11%	17%	15%	14%
Lithuania	10%	31%	20%	12%	54%
Germany	2%	2%	2%	3%	15%
Cost of goods sold	-81%	-81%	-94%	-72%	-81%
Gross profit	**19%**	**19%**	**6%**	**28%**	**19%**

Marketing expenses	-5%	-3%	-2%	-2%	-3%
Administrative expenses	-19%	-19%	-30%	-35%	-27%
Other operating income	6%	1%	311%	682%	1%
Other operating expenses	-6%	-22%	-11%	-6%	-12%
Operating profit / loss	**-5%**	**-24%**	**274%**	**668%**	**-23%**
Financial income	12%	10%	27%	8%	0%
Financial expenses	-13%	-20%	-16%	-27%	-7%
Profit / loss before tax	**-6%**	**-33%**	**285%**	**649%**	**-29%**
Income tax	0%	0%	2%	0%	0%
Profit / loss for the period	**-6%**	**-33%**	**287%**	**649%**	**-29%**
Net profit / loss attributable to:					
Equity holders of the parent	-16%	-35%	126%	298%	-29%
Non-controlling interest	10%	2%	161%	351%	0%

The Group's Business Lines

In addition to geographical segmentation described above the Group's revenues can also be divided along four business lines - sales of real estate, rental income, real estate management, and other operations. Sales of real estate consist of the development and sales of apartments in premium residential real estate properties in the Baltic capitals. Lease of commercial premises includes the development and lease of premises in retail and office properties in the Baltic capitals. Real estate management business line revenues are generated by the management of cash flow generating retail, office and hotel properties. Other operations mainly include provision of consulting or other services.

The following table presents the Group's revenue split by business lines:

	Financial year ended 31 December			Six months ended 30 June	
('000 EUR)	**2009**	**2010**	**2011**	**2011**	**2012**
Total revenue	**21,999**	**21,051**	**17,449**	**8,016**	**9,932**
Sales of real estate	5,958	7,310	7,490	1,401	5,661
Rental income	9,005	7,472	4,138	3,449	500
Real estate management income	6,655	5,355	4,719	2,734	2,808
Other services	381	914	1,102	432	963

The following table presents the Group's business line revenue as a percentage of total revenue for the periods indicated in order to illustrate the relative weight of the business line revenue in relation to the total revenue of the Group:

	Financial year ended 31 December			Six months ended 30 June	
Profit and loss account (%)	**2009**	**2010**	**2011**	**2011**	**2012**
Total revenue	**100%**	**100%**	**100%**	**100%**	**100%**
Sales of real estate	27%	35%	43%	17%	57%
Rental income	41%	35%	24%	43%	5%
Real estate management income	30%	25%	27%	34%	28%
Other services	2%	4%	6%	5%	10%

Six Months Ended 30 June 2012 Compared to Six Months Ended 30 June 2011

The table below presents the summary of the Group's profit and loss account for the first half of 2012 and 2011 as well as the year-on-year change in the key revenue and expense items.

Profit and loss account ('000 EUR)	Six months ended 30 June 2011	2012	Change, %
Total revenue	**8,016**	**9,932**	**24%**
Cost of goods sold	-5,756	-8,070	40%
Gross profit	**2,260**	**1,862**	**-18%**
Marketing expenses	-169	-289	71%
Administrative expenses	-2,776	-2,707	-2%
Other operating income	54,692	118	-100%
Other operating expenses	-471	-1,220	159%
Operating profit / loss	**53,536**	**-2,236**	**-104%**
Financial income	659	16	-98%
Financial expenses	-2,155	-679	-68%
Profit / loss before tax	**52,040**	**-2,899**	**-106%**
Income tax	7	14	100%
Profit / loss for the period	**52,047**	**-2,885**	**-106%**

Revenue

('000 EUR)	Six months ended 30 June 2011	2012	Change, %
Total revenue	**8,016**	**9,932**	**24%**
Estonia	5,623	1,715	-70%
Latvia	1,195	1,362	14%
Lithuania	980	5,317	443%
Germany	218	1,538	606%

Consolidated revenue of the Group in the first half of 2012 increased by 24% compared to the corresponding period of 2011 and amounted to EUR 9,932 thousand.

Revenue from Estonia in the first half of 2012 decreased by 70% and amounted to EUR 1,715 thousand. One of the main reasons for lower revenue from Estonia was decrease in rental revenue due to the divestment of Kristiine Shopping Centre in 2011. Another reason for the decrease in revenues from Estonia was lower level of apartment inventory available for sale in the first half of 2012.

Revenue generated in Latvia increased by 14% in the first half of 2012 and amounted to EUR 1,362 thousand. Increase in revenue is attributable to higher rental income and revenue from hotel operations. Additionally, some inventory had been sold in the first half of 2012.

Revenue earned from Lithuania increased by 443% in the first half of 2012 and amounted to EUR 5,317 thousand. Such substantial increase was related to high level of sales of real estate in Šaltinių Namai Residential Complex.

Revenue from Germany increased substantially, reaching EUR 1,538 thousand in the first half of 2012. The Group acquired the hotel operating company in the end of 2011, and hence revenue for the first half of 2011 included only hotel management income, whereas revenue for the first half of 2012 includes also direct hotel revenues.

Costs of goods sold

('000 EUR)	Six months ended 30 June 2011	2012	Change, %
Total costs of goods sold	**5,756**	**8,070**	**40%**
Overall gross margin, %	*28%*	*19%*	*n/a*
Sales of real estate	1,309	4,419	238%
Rental services	1,416	490	-65%
Real estate management	2,827	2,076	-27%
Other services	204	1,085	432%

The Group's costs of goods sold increased in the first half of 2012 by 40% and reached EUR 8,070 thousand. Increase in costs was higher than sales growth, which resulted in lower gross margin of 19% compared to 28% in the first half of 2011.

Cost of real estate sales constituted the largest part of the total costs of goods sold. Cost of real estate sales increased significantly in the first half of 2012 following more active sales of apartments by the Group and totalled EUR 4,419 thousand, representing 238% increase.

Costs of rental services decreased mainly because of sale of Kristiine Shopping Centre. Cost of providing rental services totalled EUR 490 thousand in the first half of 2012 (-65% in comparison to the corresponding period of 2011).

Costs of providing real estate management decreased by 27% in the first half of 2012 to EUR 2,076 thousand. This decrease was offset by an increase in costs of providing other services that totalled EUR 1,085 thousand in the first six months of 2012. This was related to a change in service classification in the first half of 2012.

Operating expenses

	Six months ended 30 June		
('000 EUR)	**2011**	**2012**	**Change, %**
Total operating expenses	**2,945**	**2,996**	**2%**
Marketing expenses	169	289	71%
Administrative expenses	2,776	2,707	-2%
Staff expenses	*1,348*	*995*	*-26%*
Other administrative expenses	*1,428*	*1,712*	*20%*

The Group increased marketing expenses significantly in the first half of 2012 to EUR 289 thousand, which was related to higher level of sales of real estate.

Administrative expenses of the Group decreased slightly in the first half of 2012 and amounted to EUR 2,707 thousand (-2% in comparison to the first half of 2011). The slight decrease was mainly caused by the 26% decrease in staff expenses, which was almost offset by 20% increase in other administrative expenses.

Other operating income and expenses

The Group's other income in the first half of 2012 amounted to EUR 118 thousand. The figure is not substantial as the Group had not sold any investment property during this period.

Other expenses of the Group increased by 159% and reached EUR 1,220 thousand in the first half of 2012. The increase is mainly attributable to the provision of EUR 709 thousand related to a pending legal dispute. Please also read Section 12 (Legal Proceedings) of Part XI (Business).

Financial income and expenses

Financial income of the Group in the first half of 2012 decreased to EUR 16 thousand.

Financial expenses of the Group decreased significantly to EUR 679 thousand in the first half of 2012 as the Group's financial debt had decreased substantially.

Income tax

The Group has incurred income tax cost in the amount of EUR 14 thousand in the first half of 2012.

Net profit

The Group incurred a net loss in the first half of 2012 in the amount of EUR 2,885 thousand.

Financial Year Ended 31 December 2011 Compared to Financial Year Ended 31 December 2010

The table below presents the summary of the Group's profit and loss account for 2011 and 2010 as well as the year-on-year change in the key revenue and expense items.

Profit and loss account ('000 EUR)	Financial year ended 31 December 2010	2011	Change, %
Total revenue	**21,051**	**17,449**	**-17%**
Cost of goods sold	-17,015	-16,407	-4%
Gross profit	**4,036**	**1,042**	**-74%**
Marketing expenses	-609	-352	-42%
Administrative expenses	-4,029	-5,237	30%
Other operating income	219	54,280	24,685%
Other operating expenses	-4,600	-1,875	-59%
Operating profit / loss	**-4,983**	**47,858**	**n/a**
Financial income	2,120	4,770	125%
Financial expenses	-4,174	-2,877	-31%
Profit / loss before tax	**-7,037**	**49,751**	**n/a**
Income tax	17	351	1,965%
Profit / loss for the period	**-7,020**	**50,102**	**n/a**

Revenue

('000 EUR)	Financial year ended 31 December 2010	2011	Change, %
Total revenue	**21,051**	**17,449**	**-17%**
Estonia	11,779	10,569	-10%
Latvia	2,356	3,038	29%
Lithuania	6,480	3,406	-47%
Germany	436	436	0%

Consolidated revenue of the Group in 2011 decreased by 17% and amounted to EUR 17,449 thousand.

Revenue from Estonia in 2011 decreased by 10% and amounted to EUR 10,569 thousand. The Group increased the revenue from sales of real estate in Estonia considerably as inventory related to Ilmarine Quarter, Tondi Quarter and other projects was sold amid market recovery. However, this effect was outweighed by a substantial decrease in revenue earned from lease of commercial premises and from real estate management as Kristiine Shopping Centre was divested during the first half of 2011.

Revenue generated in Latvia increased by 29% in 2011 and amounted to EUR 3,038 thousand. The Group increased the revenue from sales of real estate in Latvia as inventory related to completed projects was sold as market recovered. Revenue from PK Riga Hotel operations also showed growth as both occupancy rate and average room price improved in 2011. Meanwhile rental income from World Trade Centre Riga project remained stable in 2011.

Revenue earned from Lithuania decreased by 47% in 2011 and amounted to EUR 3,406 thousand. The decrease was related to the lower level of sales of real estate in Šaltinių Namai Residential Complex, where most of the inventory from the first stage of the project had already been sold.

Revenue from Germany stayed at the same level of EUR 436 thousand in 2011 as the PK Parkhotel Kurhaus operations remained stable.

Costs of goods sold

('000 EUR)	Financial year ended 31 December 2010	2011	Change, %
Total costs of goods sold	**17,015**	**16,407**	**-4%**
Overall gross margin, %	*19%*	*6%*	*n/a*
Sales of real estate	7,733	9,685	25%
Rental services	2,977	1,928	-35%
Real estate management	5,902	4,333	-27%
Other services	403	461	14%

The Group's costs of goods sold slightly decreased in 2011. The total costs of goods sold amounted to EUR 16,407 thousand, resulting in overall gross margin of 6% in 2011. Even though costs of sales decreased, more significant deterioration of sales resulted in lower gross margin when compared to 19% observed in 2010.

Cost of real estate sales constituted the largest part of the total costs of goods sold. Cost of real estate sales increased significantly in 2011 mainly because of inventory write-off in the amount of EUR 3,028 thousand and totalled EUR 9,685 thousand representing a 25% increase.

Cost base of rental and real estate management revenue decreased mainly because of sale of Kristiine Shopping Centre during the first half of 2011. Cost of providing rental services totalled EUR 1,928 thousand in 2011 (-35% in comparison to 2010) and cost of real estate management amounted to EUR 4,333 thousand in 2011 (-27% in comparison to 2010).

Cost of providing other services reached EUR 461 thousand in 2011.

Operating expenses

	Financial year ended 31 December		
('000 EUR)	**2010**	**2011**	**Change, %**
Total operating expenses	**4,638**	**5,589**	**21%**
Marketing expenses	609	352	-42%
Administrative expenses	4,029	5,237	30%
Staff expenses	*1,656*	*2,399*	*45%*
Other administrative expenses	*2,373*	*2,838*	*20%*

In 2011 marketing expenses of the Group decreased significantly and amounted to EUR 352 thousand. The Group reduced its marketing expenses mainly due to a lower amount of inventory of residential apartments available for sale.

Level of administrative expenses of the Group in 2011 increased and amounted to EUR 5,237 thousand. The 30% increase was mainly driven by 45% higher staff costs reaching EUR 2,399 thousand. The higher staff costs in 2011 were associated with bonuses related to the sale of Kristiine Shopping Centre and by the addition of new employees to the in-house engineering department of the Group. Other administrative costs in 2011, which increased to EUR 2,838 thousand, were affected by the additional costs incurred by the listing procedure of the Group and also with the costs related to the sale of Kristiine Shopping Centre.

Other operating income and expenses

The Group's other income in 2011 amounted to EUR 54,280 thousand, which is considerably more than EUR 219 thousand in 2010. The substantial increase in other income in 2011 was attributable to the income from divestment of Kristiine Shopping Centre in the first half of the year.

Other expenses of the Group in 2011 decreased to EUR 1,875. The decrease was caused by a lower level of provisions recognised. In 2011 provisions recognised amounted to EUR 700 thousand. In 2010 the respective figure was significantly higher and stood at EUR 3,585 thousand due to a legal dispute related to the divested Domina Shopping Centre in Riga. Most of the provisions made were regained in 2011 and were recorded under the financial income as income from subsidiaries due to the fact that the subsidiary involved in the dispute was profitably divested in 2011.

Financial income and expenses

Financial income of the Group amounted to EUR 4,770 thousand in 2011, demonstrating a substantial increase from 2010. The increase was driven by income arising from transactions with participations in subsidiaries amounting to EUR 2,736 thousand, which was recorded due to the sale of two subsidiaries of the Group: Pro Kapital Rus LLC and PK Investments SIA.

Financial expenses of the Group decreased to EUR 2,877 thousand in 2011. The interest expenses in 2011 were significantly lower as the debt associated with Kristiine Shopping Centre was repaid in May 2011.

Income tax

The Group has incurred income tax cost in the amount of EUR 351 thousand in 2011.

Net profit

The Group's net profit in 2011 totalled EUR 50,102 thousand, a EUR 57,122 thousand increase compared to 2010. Such a significant increase in net profit is to a large extent attributable to income from the sale of Kristiine Shopping Centre.

Financial Year Ended 31 December 2010 Compared to Financial Year Ended 31 December 2009

The table below presents the summary of the Group's profit and loss account for 2010 and 2009 as well as the year-on-year change in the key revenue and expense items.

	Financial year ended 31 December		
Profit and loss account ('000 EUR)	**2009**	**2010**	**Change, %**
Total revenue	**21,999**	**21,051**	**-4%**
Cost of goods sold	-17,917	-17,015	-5%
Gross profit	**4,082**	**4,036**	**-1%**
Marketing expenses	-1,103	-609	-45%
Administrative expenses	-4,130	-4,029	-2%
Other operating income	1,357	219	-84%
Other operating expenses	-1,397	-4,600	229%
Operating profit / loss	**-1,191**	**-4,983**	**-318%**
Financial income	2,733	2,120	-22%
Financial expenses	-2,883	-4,174	45%
Profit / loss before tax	**-1,341**	**-7,037**	**-425%**
Income tax	26	17	-35%
Profit / loss for the period	**-1,315**	**-7,020**	**-434%**

Revenue

	Financial year ended 31 December		
('000 EUR)	**2009**	**2010**	**Change, %**
Total revenue	**21,999**	**21,051**	**-4%**
Estonia	13,534	11,779	-13%
Latvia	5,759	2,356	-59%
Lithuania	2,269	6,480	186%
Germany	437	436	-0%

Consolidated revenue of the Group in 2010 remained relatively stable, decreasing by 4% and amounted to EUR 21,051 thousand.

Revenue from Estonia decreased by 13% in 2010 and amounted to EUR 11,779 thousand. Revenue from Latvia decreased by 59% in 2010 and amounted to EUR 2,356 thousand. Both segments' results were negatively affected by unfavourable market environment in the commercial real estate field in the Baltic States, a standstill in the residential real estate market and a small number of sellable apartments in the Group's portfolio in Latvia and Estonia.

Revenue from Lithuania increased by 186% in 2010 and amounted to EUR 6,480 thousand. The significant increase was caused by active sales of real estate in the Šaltinių Namai Residential Complex.

Revenue from Germany decreased slightly and amounted to EUR 436 thousand in 2010 as the PK Parkhotel Kurhaus operations remained stable.

Costs of goods sold

('000 EUR)	Financial year ended 31 December 2009	2010	Change, %
Total costs of goods sold	**17,917**	**17,015**	**-5%**
Overall gross margin, %	*19%*	*19%*	*n/a*
Sales of real estate	8,212	7,733	-6%
Rental services	2,748	2,977	8%
Real estate management	6,930	5,902	-15%
Other services	27	403	1,393%

The Group managed to decrease the total costs of goods sold in 2010 by 5%, resulting in increase of gross margin to 19%.

The cost of real estate sales constituted by far the largest part of total costs of goods sold. Costs of real estate sales decreased slightly along with the decrease in construction costs and totalled EUR 7,733 thousand in 2010.

The Group had quite a stable cost base in providing rental and facility management services, thus negative changes in revenue due to unfavourable market conditions had an adverse effect on gross profit. Costs of providing rental services increased to EUR 2,977 thousand in 2010. Costs of hotel operations in turn decreased to EUR 5,902 thousand in 2010.

Costs of providing other services increased to EUR 403 thousand in 2010.

Operating expenses

('000 EUR)	Financial year ended 31 December 2009	2010	Change, %
Total operating expenses	**5,233**	**4,638**	**-11%**
Marketing expenses	1,103	609	-45%
Administrative expenses	4,130	4,029	-2%
Staff expenses	*1,704*	*1,656*	*-3%*
Other administrative expenses	*2,426*	*2,373*	*-2%*

The Group decreased marketing expenses significantly in 2010 to EUR 609 thousand from EUR 1,103 thousand in 2009.

The level of administrative expenses of the Group in 2010 remained stable, reaching EUR 4,029 thousand (-2% in comparison to 2009).

Other operating income and expenses

The Group's other income in 2010 amounted to EUR 219 thousand. The figure is not substantial as the Group had not sold any investment property during 2010.

Other expenses of the Group decreased to EUR 4,600 thousand in 2010. Provisions of EUR 3,585 thousand due to a legal dispute related to the divested shopping centre Domina Shopping represented the largest portion of other expenses in 2010.

Financial income and expenses

Financial income of the Group in 2010 decreased to EUR 2,120 thousand.

Financial expenses of the Group increased significantly to EUR 4,174 thousand in 2010. The rise in interest expenses in 2010 was caused mainly due to interest paid to convertible bonds issued in 2010.

Income tax

The Group has incurred income tax cost in the amount of EUR 17 thousand in 2010.

Net profit

Due to the reasons described above, the Group's net loss was larger in 2010 than in 2009 by EUR 5,705 thousand and amounted to EUR 7,020 thousand.

8. FINANCIAL RISK MANAGEMENT

The management of financial risks is centralized in the Group's financial department, which is responsible for all the borrowings within the Group as well as all exposure linked to the interest, currency, credit, liquidity, and fair value risks.

Interest Rate Risk

The loans and borrowings of the Group include instruments with both fixed and floating rate interest rates. Interest risk arises from the floating rate borrowings that are mostly related to EURIBOR base rate. Changes in floating interest rates and changes in average market interest rates affect the Group's interest expenses. The Group regularly compares potential losses arising from interest rate fluctuation against the cost of hedging. In a majority of instances, no hedging has taken place, since the hedging expenses would have exceeded the potential losses arising from interest rate fluctuations.

Currency Risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The revenue of the Group is primarily denominated in EUR, LVL and LTL, while the expenses of the Group are primarily denominated in EUR. Thus the Group's main currency risk is that the rate at which LVL and LTL are pegged to EUR changes or that any of these currencies ceases to be pegged to EUR.

The Group has not hedged against currency risk, as the Management Board has not deemed the foreign currency risk arising from the potential changes to the currency pegs significant.

Credit Risk

The Group's maximum credit risk exposure in respect of unsecured current and non-current receivables as at 30 June 2012 was EUR 2,623 thousand (EUR 2,543 thousand as at 30 June 2011). There is no significant concentration of credit risk within the Group.

Liquidity Risk

The Management Board's objective for managing the Group's liquidity risk is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and other debentures. Excess liquidity in case such arises is invested in short-term money market instruments through credit institutions.

Fair Value

The Management Board believes that there might be differences between the carrying value and the fair value of assets and liabilities in the Group's Financial Statements due to inventories being accounted for at cost value on the balance sheet and therefore their book value being significantly lower than the value attributed to inventories by independent appraisers report.

Other than that the Management Board believes that there are no significant differences between the carrying value and the fair value of assets and liabilities in the Group's Financial Statements as investment property and tangible assets (hotels owned by the Group are accounted as tangible assets) are measured using the fair value method, and revaluation is performed on regular basis as required by regulations.

9. 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. Please refer to the Special Purpose Combined Financial Statements and the Interim Financial Statements for further information.

Liquidity and Capital Resources

The Group finances its activities through using internal and external sources of capital:

- the Group uses working capital (defined as current assets minus current liabilities) management on a regular basis as a tool for achieving its overall capital structure strategies. The Group regularly inspects its receivables and actively reviews customer policies, if needed;

- retained earnings are substantial source of internal financing;
- the Group has repeatedly issued convertible bonds in order to finance its activities; and
- even though bank loans are used as a source of external financing, the Company is very cautious when it comes to debt financing and strives to keep debt financing at less than 50% of total capital. The Company monitors on regular basis its interest coverage, gearing and debt/equity indicators. As the debt financing implies stricter restrictions to the Company's ownership structure, lending and asset transfer procedures, debt financing has to be approved by the Company's Supervisory Council.

The table below presents the Group's capital resources as at 30 June 2012:

('000 EUR)	As at 30 June 2012
Working capital	43,559
Retained earnings	46,735
Convertible bonds	11,272
Bank loans	12,223

Please refer to the Special Purpose Combined Financial Statements and the Interim Financial Statements for further information.

Cash Flows

The Group calculates cash flows using the indirect method. The Group finances its investments and operations partly from cash flows from operating activities and partly from borrowings from third parties. The following table presents the Group's cash flows for the periods indicated:

	Financial year ended 31 December			Six months ended 30 June
('000 EUR)	2009	2010	2011	2012
Net cash from / used in operating activities	11,286	933	-19,394	-3,158
Net cash from / used in investing activities	-403	-14,768	95,764	-289
Net cash from / used in financing activities	-9,604	11,870	-68,927	-3,048
NET CASH FLOW	**1,279**	**-1,965**	**7,443**	**-6,495**

Cash flows from operating activities

The Group's cash flows from operating activities consist of recurring revenues (including sales of residential real estate, rental income, income from providing real estate management and other services), costs related to such sales and overhead expenses. Cash flows from operating activities do not include revenues from the sale of investment properties.

The following table presents the Group's cash flows from operating activities for the periods indicated:

	Financial year ended 31 December			Six months ended 30 June
('000 EUR)	2009	2010	2011	2012
Profit (loss) for the period	-1,315	-7,020	50,102	-2,885
Adjustments:				
Depreciation charge for the period	677	605	572	650
Amortization charge for the period	3	-43	19	4
Loss from change in fair value of investment property	0	0	331	230
Profit from sale of investment property	0	0	-54,057	0

Interest income	-2,097	-2,150	-1,514	-16
Income from subsidiaries	-635	0	-2,736	0
Interest expenses	3,205	4,046	3,097	679
Non-monetary transactions	11,841	-1,613	-1,081	614
Change in:				
Current receivables	1,861	1,742	6,697	8
Inventories	979	9,200	5,550	3,791
Customer advances	-1,653	-1,610	-514	-259
Current payables	-387	823	-1,857	-294
Taxes payable	298	-301	-83	11
Short-term provisions	282	3,900	-3,093	664
Other long-term provisions	0	-300	0	132
Deferred income tax liability	-105	-26	1,543	-84
Long-term provisions	59	69	7	-121
Other changes	-1,727	-6,389	-22,377	-6,282
Net cash from (used in) operating activities	**11,286**	**933**	**-19,394**	**-3,158**

Cash flows from operating activities of the Group have fluctuated significantly. In 2009 the Group's cash flow from operating activities was significantly positive, totalling EUR 11.3 million. In 2010 cash flow from operating activities decreased to EUR 0.9 million. In 2011 operating cash flow decreased further to the negative amount of EUR 19.4 million and in the first half of 2012 it was EUR -3.2 million.

Very important factor that affected cash flows from operating activities was change in balance sheet items. Changes in working capital items (current receivables, inventories, customer advances, current payables, taxes payable and short-term provisions) resulted in positive cash flows of EUR 1.4 million in 2009, EUR 13.8 million in 2010, EUR 6.7 million in 2011 and EUR 3.9 million in the first half of 2012, mainly caused by decreasing levels of inventories and current receivables. Hence, changes in working capital items positively affected cash flows in 2009, 2010, 2011 and the first half of 2012.

In 2011 and the first half of 2012 operating cash flow was negatively affected by other changes in balance sheet items. Other changes amounted to EUR -1.7 million in 2009, EUR -6.4 million in 2010, EUR -22.4 million in 2011 and EUR -6.3 million in the first half of 2012. Other changes in cash flow items resulted mainly from non-monetary settlements of transactions resulting from the Division carried out during the second half of 2011.

Cash flows from investing activities

The Group's cash flows from investing activities consist of cash flows related to investments in fixed assets and investment property, sale of fixed assets and investment property, acquisitions and disposals of subsidiaries, as well as interest received.

The following table presents the Group's cash flows from investing activities for the periods indicated:

	Financial year ended 31 December			**Six months ended 30 June**
('000 EUR)	**2009**	**2010**	**2011**	**2012**
Additions to fixed assets	-95	-43	-39	-66
Additions to investment property	-1,101	-14,832	-332	-230
Proceeds from sale of investment property	0	0	104,997	0
Acquisition of subsidiaries	93	107	-22,825	-9
Disposal of subsidiaries	700	0	6,323	0
Interests collected	0	0	7,641	16
Net cash from (used in) investing activities	**-403**	**-14,768**	**95,764**	**-289**

Cash flows from investing activities of the Group have been varying significantly lately. The Group's cash flows from investing activities amounted to EUR -0.4 million in 2009, EUR -14.8 million in 2010, EUR 95.8 million in 2011 and EUR -0.3 million in the first half of 2012. Significantly positive cash flow

from investing activities in 2011 resulted from the sale of Kristiine Shopping Centre as proceeds from sale amounted to EUR 105.0 million. The Group did not perform significant investment activities in the first half of 2012.

Cash flows from investing activities in 2009 and 2010 were mainly related to investments to fixed assets and investment property. The Group's investing activities normally include acquisitions of land and buildings and construction or renovation works related to the real estate project development. Amount of investments in fixed assets and investment property made by the Group was rather low due to unfavourable market environment and amounted to EUR 1.2 million in 2009, EUR 14.9 million in 2010, EUR 0.4 million in 2011 and EUR 0.3 million in the first half of 2012. Rather substantial additions to investment property in 2010 were mainly related to the second extension of Kristiine Shopping Centre in Tallinn.

Additionally, cash flow from investing activities in 2011 was significantly affected by acquisition and disposal of subsidiaries. EUR 23.0 million was paid in cash for acquisition of minority interest in the subsidiary AS Täismaja. At the same time, EUR 6.4 million was received in cash for shares in PK Investments SIA that were sold in 2011.

Cash flows from financing activities

The following table presents the Group's cash flows from financing activities for the periods indicated:

	Financial year ended 31 December			Six months ended 30 June
('000 EUR)	**2009**	**2010**	**2011**	**2012**
Proceeds from convertible bonds	3,279	5,714	1,905	0
Proceeds from loans / debt	466	28,183	2,843	0
Repayment of loans / debt	-10,144	-17,981	-70,578	-2,369
Interests paid	-3,205	-4,046	-3,097	-679
Net cash from (used in) financing activities	**-9,604**	**11,870**	**-68,927**	**-3,048**

The Group's cash flows from financing activities amounted to EUR -9.6 million in 2009, EUR 11.9 million in 2010, EUR -68.9 million in 2011 and EUR -3.0 million in the first half of 2012. Significant cash outflow in 2009, 2011 and the first half of 2012 was attributable to repayment of loans. Positive cash flow in 2010 was a result of debt repayments being smaller than the new debt drawdowns.

Capital Expenditures

Please see Section 5 (Investments, Divestments and Development Projects) of Part IX (Operating and Financial Review and Prospects).

Borrowings

	As at 31 December			As at 30 June
Bank debt ('000 EUR)	**2009**	**2010**	**2011**	**2012**
Current debt	8,538	74,058	4,402	2,822
Non-current debt	64,668	9,350	10,190	9,401
Total	73,206	83,408	14,592	12,223

	As 31 December			As at 30 June
Convertible debt ('000 EUR)	**2009**	**2010**	**2011**	**2012**
Current debt	392	0	0	0
Non-current debt	3,261	9,367	11,272	11,272
Total	3,653	9,367	11,272	11,272

The repayment schedule for the Group's bank loans and convertible bonds outstanding at 30 June 2012 is divided between periods as follows:

('000 EUR)	**Within one year**	**1-5 years**	**Over 5 years**	**Total**
Bank loans	2,822	9,401	0	12,223
Convertible debt	0	11,272	0	11,272

The Group generally finances its business operations through a combination of operating cash flow and debt. A significant component of the indebtedness of the Group relates to the development of real estate projects, where construction activities and running costs are partly financed through debt. As typically each of the real estate development projects lies in a separate subsidiary, the loans for financing the development activity of the specific projects are taken on by relevant subsidiaries of the Group. In addition, some of the loans are taken on by the Company for general corporate purposes and also for further providing intra-group loans.

As at 30 June 2012, the Group had a total of EUR 12,223 thousand interest-bearing bank loans outstanding, EUR 2,369 thousand less than at 31 December 2011. Decrease is associated with the repayment of part of the loan to Swedbank AB (Lithuania).

The Group had in total three significant bank loan agreements outstanding at 30 June 2012:

- a bank loan agreement with Swedbank AS (Estonia) with an outstanding amount of EUR 2,606 thousand granted to AS Pro Kapital Eesti and AS Tondi Kvartal, subsidiaries of the Group;
- a bank loan agreement with AS Swedbank (Latvia) with an outstanding amount of EUR 4,445 thousand granted to SIA "INVESTHOTEL", a subsidiary of the Group; and
- a bank loan agreement with Swedbank AB (Lithuania) with an outstanding amount of EUR 5,156 thousand granted to PK Invest UAB, a subsidiary of the Group.

All the bank loans are denominated in EUR with variable interest rate (EURIBOR plus a margin).

The Group has conducted several convertible bond issues over the past three financial years. As at 30 June 2012, the Group had in total EUR 11,272 thousand of convertible bonds outstanding. The convertible bonds are denominated in EUR and have a fixed interest rate of 7% per annum. For further information on convertible bonds please refer to Section 6 (Option Rights, Convertible Securities and Securities with Warrants) of Part XIII (Information on Company, Shares and Share Capital).

Please also read "Loan Agreements and related Financing Documents" and "Intra-Group loan Agreements" in Section 9 ("Material Contracts") of Part XI (Business) and Section 6 (Option Rights, Convertible Securities and Securities with Warrants) of Part XIII (Information on Company, Shares and Share Capital).

Off-Balance Sheet Items

Table below provides the description of off-balance sheet liabilities of the Group as at 30 June 2012:

Item	Amount ('000 EUR)	Description
Guarantee to Hotel Blijdrop B.V.	Up to 2,300	Guarantee letter to secure rental payments for hotel located in Rotterdam, proceeding from rental contract concluded between Serval S.r.l. and Hotel Blijdorp B.V. On-going dispute regarding the enforcement of the guarantee, please see Part XI (Business), Section 12 (Legal Proceedings).
Guarantee to OÜ Kristiine Keskus	5,000	Guarantee letter in relation to the potential breach of confirmations given by AS Täismaja in relation to the sale of Kristiine Shopping Centre. Valid until 2 November 2012
Guarantee to OÜ Kristiine Keskus	NA	Guarantee letter to secure (jointly with AS Pro Kapital Eesti) possible claims against OÜ Kristiine Keskus raising which might arise from a loan contract and management services contract concluded between AS Pro Kapital Eesti and AS Täismaja. Valid until 2 May 2017
Guarantee to AS Swedbank in relation to Kliversala Residential Complex	8,002	Guarantee letter to secure potential liability of Pro Kapital Latvia subsidiary Kliversala RE. Swedbank has issued the same guarantee to

		Latvian Privatization Agency to secure the investment liabilities related to Kliversala property. Valid until repayment of underlying liability, but no longer than 31 December 2013.
Guarantee to AS Swedbank in relation to Investhotel SIA	4,521	Guarantee letter in relation to loan agreement between AS Swedbank and Investhotel SIA, Valid until repayment of underlying liability, but no longer than 1 May 2015.
Guarantee to AS Swedbank in relation to AS Tondi Kvartal	605	Guarantee letter in relation to loan agreement between AS Swedbank and AS Tondi Kvartal. Valid until repayment of underlying liability, but no longer than 16 July 2013.
Guarantee to Swedbank in relation to PK Invest UAB	5,156	Guarantee letter in relation to loan agreement between AB Swedbank and PK Invest UAB. Valid until repayment of underlying liability, but no longer than 7 December 2014.

Working Capital

The Management Board believes that, taking into account the Group's existing assets, financial condition, expected development plans and expected minimum net proceeds of the Offering in the amount of EUR 10,000,000 the Group's working capital is sufficient to meet all the liabilities for at least the 12-month period following the date of this Prospectus, and no further external financing is required to satisfy the working capital needs.

PART X. INDUSTRY OVERVIEW

The following information includes extracts from and references to information, statistical data and studies publicly released by officials or by third parties. The following information has been extracted from public or other sources the Company believes to be reliable. The Company accepts responsibility for extracting and reproducing accurately such information, statistical data and studies. Such information, statistical data and studies may be approximations or rounded numbers. As far as the Company is aware, no facts have been omitted that would render such information, statistical data and studies misleading, but the Company accepts no further responsibility in respect of such information, statistical data and studies. It should be noted that in some cases it is difficult to obtain comprehensive and reliable information about the Baltic real estate markets due to the fact the participants in the real estate markets are mostly closely held companies that rarely share detailed information about their business and operating results.

1. MACROECONOMIC OVERVIEW OF THE BALTIC STATES

Since the restoration of independence from the Soviet Union in 1991, all three Baltic States have pursued bold economic reforms including price and trade liberalization and timely privatization. Having endured the Russian debt crisis of 1998, the Baltic States began re-orienting their exports towards the EU. The EU now accounts for the majority of these countries' imports and exports as well as for most of the foreign direct investment (the "**FDI**") to them based on the national statistical agencies of Estonia, Latvia and Lithuania.

Estonia and Latvia joined the World Trade Organization in 1999 and Lithuania in 2001. All three countries acceded to the EU and joined NATO in 2004. Estonia is currently the wealthiest of the three Baltic States according to Eurostat with the gross domestic product (the "**GDP**") per capita amounting to 64% of EU-27 average in 2010 (based on purchasing power standard), followed by Lithuania (57%) and Latvia (51%).

As a result of trade imbalances, credit expansion and overheated labour market as well as global financial turmoil, rapid economic growth experienced by the three Baltic States since early 2000s gave way to a steep recession in 2008 and 2009. While the downturn has had, among other effects, an adverse effect on asset prices and raised unemployment, it has also allowed countries to improve their trade balances, improve competitiveness of exports, carry out structural reforms and restrain inflation.

As a result, Estonia joined the Eurozone in 2011. This milestone also marked the end of devaluation speculations about the Baltic currencies that had surfaced during the crisis. Based on policymakers' statements, Latvia and Lithuania are expected to join the Eurozone in 2014.

The path of structural reforms through internal devaluation has so far proven to be successful in the Baltic States as it led the way to a sustainable and healthy recovery in 2010, 2011 and 2012. The fiscal consolidation and structural reforms that most of the EU countries are going through at the moment have already taken place in the Baltic States, where governments' budgets and debt levels are under control. As a sign of a significantly more stable macroeconomic and political environment the International Monetary Fund and European Commission in December 2011 officially ended the three-year bailout program in Latvia, citing a revived economy and fiscal discipline.

The main driver behind a quick recovery has been improved competitiveness achieved through internal devaluation, which in turn helped to jumpstart the exports sector. Main trading partners for Baltic economies include Germany and the Nordics, economies that have remained relatively unharmed from the sovereign debt crisis with the largest damage on Eurozone's periphery. The key economic indicators of Estonia, Latvia and Lithuania are depicted in tables below:

Estonia	**2007**	**2008**	**2009**	**2010**	**2011**
Inhabitants, '000	1,325	1,324	1,323	1,321	1,318
Real GDP growth rate, %	7.7	-3.6	-14.2	2.3	7.6
Nominal GDP per capita, EUR	12,000	12,200	10,300	10,700	11,900
Gross monthly salary, EUR	725	825	784	792	831
Unemployment rate, %	4.7	5.5	13.8	16.9	12.5
Inflation rate, %	6.6	10.4	-0.1	3.0	5.0

Current account over GDP, %	-15.9	-9.7	3.7	3.6	3.2
Fiscal balance, %	2.4	-2.9	-2.0	0.2	1.0
Public debt over GDP, %	3.7	4.5	7.2	6.7	6.0

Source: Statistics Estonia, Bank of Estonia, Eurostat

Based on the World Economic Outlook published in April 2012, the International Monetary Fund ("**IMF**") expects the GDP growth for Estonia to be 2.0% and 3.6% in 2012 and in 2013 accordingly. Eurostat, in turn, forecasts GDP growth of 1.6% in 2012 and 3.8% in 2013, whereas Bank of Estonia forecasts 1.9% growth in 2012 and 3.6% in 2013. The unemployment rate is forecasted to decrease to 10.4% and 9.8% in 2012 and 2013 respectively.

Latvia	**2007**	**2008**	**2009**	**2010**	**2011**
Inhabitants, '000	2,281	2,271	2,261	2,248	2,230
Real GDP growth rate, %	9.6	-3.3	-17.7	-0.3	5.5
Nominal GDP per capita, EUR	9,200	10,100	8,200	8,300	9,700
Gross monthly salary, EUR	566	682	656	633	660
Unemployment rate, %	6.0	7.5	17.1	18.7	15.4
Inflation rate, %	10.1	15.4	3.5	-1.1	4.4
Current account over GDP, %	-22.4	-13.1	8.6	3.0	-1.2
Fiscal balance, %	-0.4	-4.2	-9.8	-8.2	-3.5
Public debt over GDP, %	9.0	19.8	36.7	44.7	42.6

Source: Statistics Latvia, Bank of Latvia, Eurostat

According to the IMF the Latvia's economy is expected to grow by 2.0% and 2.5% in real terms in 2012 and 2013 accordingly. Eurostat, in turn, forecasts GDP growth of 2.2% in 2012 and 3.6% in 2013, whereas Bank of Latvia forecasts 3.5-4.0% growth in 2012 and 2.7% in 2013. The unemployment rate is forecasted to remain unchanged in 2012 and to decrease to 14.6% in 2013.

Lithuania	**2007**	**2008**	**2009**	**2010**	**2011**
Inhabitants, '000	3,366	3,350	3,329	3,245	3,199
Real GDP growth rate, %	9.8	2.9	-14.8	1.4	5.9
Nominal GDP per capita, EUR	8,500	9,700	8,000	8,400	9,500
Gross monthly salary, EUR	522	623	595	576	591
Unemployment rate, %	4.3	5.8	13.7	17.8	15.4
Inflation rate, %	8.1	8.5	1.3	3.8	3.4
Current account over GDP, %	-14.4	-12.9	4.4	1.5	-1.6
Fiscal balance, %	-1.0	-3.3	-9.4	-7.2	-5.5
Public debt over GDP, %	16.8	15.5	29.4	38.0	38.5

Source: Statistics Lithuania, Bank of Lithuania, Eurostat

According to the IMF the Lithuania's economy is expected to grow by 2.0% and 2.7% in real terms in 2012 and 2013 accordingly. Eurostat, in turn, forecasts GDP growth of 2.4% in 2012 and 3.5% in 2013, whereas Bank of Lithuania forecasts 3.0% growth in 2012 and 3.5% in 2013. The unemployment rate is forecasted to decrease to 14.2% and 12.9% in 2012 and 2013 respectively.

Economic recovery of the Baltic States following the internal devaluation and fiscal consolidation is in sharp contrast to the concerns about the future economic development in most of the Eurozone, which are related to unsustainably high sovereign debt levels. According to Eurostat, total sovereign gross debt of the Eurozone reached 87% of GDP in 2011 and is expected to increase further. Inability to implement austerity measures and tame growth of the sovereign debt levels across the Eurozone has created significant uncertainty about the future of the monetary union.

Austerity in numerous European countries, as well as low consumer and investor confidence, has negative impact on the economic development of the EU. According to Eurostat, growth of real GDP in the EU slowed down in 2011 to 1.5%, and the EU economy is forecasted to stagnate in 2012. GDP of

Eurozone is expected to decline by 0.3% in 2012. As a result, unemployment level has increased considerably to 9.7% in the EU, 10.2% in the Eurozone and is expected to rise further in 2012.

Even though economic growth in the EU, which is the largest export market for the Baltic States, is slowing down, Estonia, Lithuania and Latvia showed the highest GDP growth rates in 2011. Despite potential negative effects of fragile economic growth of the EU on the Baltic exports, GDP is expected to continue recovering in 2012 driven by improved consumer confidence, internal demand and relatively healthy performance of the main trading partners in Northern Europe and Germany,

2. REAL ESTATE MARKETS IN EUROPE

In the following section a comparison between the real estate markets in the Baltic States and Europe is provided. This section covers residential and retail real estate market as those are the core areas of the Group's operations. Please also read Section 3 (Real Estate Market in the Group's Key Markets) in this Part X (Industry Overview) for a more detailed description about the hotel and office property markets in the Baltic States.

Residential property

As illustrated in the below table, the living area per capita in the Baltic capitals remains significantly lower than in selected Nordic and Central and Eastern European ("**CEE**") capitals:

City[1)]	Living area per resident, m²
Copenhagen	41.9
Stockholm	38.0
Helsinki	34.0
Tallinn	29.4
Warsaw	26.9
Vilnius	25.2
Riga	16.0
Prague	n/a

[1)] Data is based on the period of 2007-2009, except for Copenhagen that is based on 2011

Source: Eurostat, Urban Audit, Statistics Denmark

There is also a gap in the average quality of building stock. Many residents in the Baltic capitals live in obsolete, low-quality housing estates built during the communist era. The expansion of mortgage lending during mid-2000's provided possibility for many families to move to newer premises while the majority of the stock is still out of date.

Overheated Baltic residential real estate market saw prices tumble in 2008-2009 in some parts of the region by more than 40% when compared to the peak. Currently observers believe that the price correction has made the housing more affordable and prices more sustainable. Current residential property price levels in Baltic capitals provide significant room for convergence with CEE and Nordic capitals' price levels as indicated in the table below:

City[1)]	Average price of apartment, EUR/ m²
Stockholm	6,991
Helsinki	6,184
Prague	4,040
Copenhagen	3,983
Warsaw	3,326
Riga	2,657
Vilnius	2,189

Tallinn	2,153

[1)] Price of a resale of 70-75 m^2 apartments in City Centre, based on 2011 data.

Source: Global Property Guide

In the long run, the Baltic and CEE housing market will be driven by such factors as the deteriorating condition of Soviet-era prefabricated housing, expected further emergence of middle class and growth in purchasing power.

Retail property

The Baltic capitals have witnessed rapid expansion of retail space during the last decade as retail market has thrived due to consumers' growing incomes. Nevertheless the total retail GLA per capita measure today in Tallinn, Riga and Vilnius is still considerably lower than in the Nordic capitals and selected CEE capitals. However, the structure of retail space differs – shopping centres are much more popular than high street retail in the Baltic countries. Thus, shopping centre GLA per capita in Riga and Tallinn is comparable to Nordic capitals. In Vilnius, though, it still remains lower than in other European cities.

City[1)]	Shopping centre GLA per '000 population, m^2
Stockholm	879
Riga	876
Tallinn	808
Warsaw	785
Copenhagen	750
Prague	687
Helsinki	472
Vilnius	130

[1)] Based on Q1 2012 data

Source: DTZ

Some of the major European retailers remain underexposed or not present at all in the Baltic markets, potentially creating demand for retail space in the near future. One of the main constraints cited by international players has been the lack of scale in the Baltic markets. However, as the purchasing power and consumer preferences of the Baltic consumers have been converging with their peers in the rest of the EU expansion of some of the leading retailers to the Baltic market has become more feasible.

Inditex, the largest global clothing retailer, is successfully represented with different brands in all three Baltic capitals. H&M, the second largest global clothing retailer is currently not present in the Baltic market while it is seeking to open its first stores in the region in Riga in autumn 2012.

The prime shopping centre rent levels in the Baltic capitals remain considerably lower as compared to rent levels in the Nordic and CEE capitals.

City[1)]	Prime Shopping Centre Rent, EUR per m^2 per month
Stockholm	146
Helsinki	140
Copenhagen	106
Prague	90
Warsaw	79
Tallinn	44
Riga	37

Vilnius	35

[1)] Based on Q1 2012 data

Source: Colliers International

According to Colliers International the yields of retail properties have been decreasing in Stockholm, Helsinki and Warsaw in 2011, whereas the yields in the Baltic capitals have stayed flat. The most up-to-date proxy for assessing the prevailing yield in the Baltic States is the sale of Kristiine Shopping Centre that was closed in spring of 2011 with an estimated yield of 8.25%. Please also read "Sale of Kristiine Shopping Centre" in Section 9 (Material Contracts) of Part XI (Business). There have been no recent transactions with prime shopping centres in Riga or Vilnius, but the estimated yield is slightly higher in Latvia and Lithuania when compared to Estonia.

City[1)]	Prime Shopping Centre Yields
Stockholm	5.00%
Helsinki	5.25%
Copenhagen	5.50%
Prague	6.50%
Warsaw	6.50%
Tallinn	7.50%
Vilnius	8.00%
Riga	8.25%

[1)] Based on Q1 2012 data

Source: Colliers International

The considerably higher yield levels coupled with a favourable economic outlook have made retail property market in the Baltic capitals attractive for foreign capital. After the acquisition of Kristiine Shopping Centre from the Group, Citycon Oyj, a listed Finnish shopping centre operator, owns and operates three centres in the Baltic States including Rocca Al Mare, the largest one in Tallinn. In addition, Citycon Oyj operates a shopping centre in Vilnius and has publicly stated that it is looking for acquisition targets in Latvia.

Office property

Similarly to retail space, the Baltic capitals have seen significant growth in the supply of the office space over the last decade. The demand for modern high quality office spaces has often been driven by international companies looking to set up or expand their Baltic operations. This trend is expected to continue in the future.

Currently the prime office space rent levels in the Baltic capitals remain lower compared to rent levels in the Nordic and CEE capitals.

City[1)]	Average A class rent, EUR per m² per month
Stockholm	40.7
Warsaw	22.5
Helsinki	22.0
Prague	17.5
Copenhagen	14.5
Tallinn	13.2
Vilnius	13.1
Riga	12.0

[1)] Based on 2011 data

Source: Colliers International

The prime office yields in the Baltic, Nordic and CEE capitals based on Colliers International are comparable to the aforementioned prime shopping centre yields.

City[1)]	Prime Office Yields
Stockholm	5.00%
Copenhagen	5.00%
Helsinki	5.65%
Prague	6.50%
Warsaw	6.50%
Tallinn	7.80%
Riga	8.00%
Vilnius	8.50%

[1)] Based on 2011 Colliers International data, except for Vilnius that is based on Ober-Haus 2011 report

Source: Colliers International, Ober-Haus

3. REAL ESTATE MARKET IN THE GROUP'S KEY MARKETS

Tallinn, Estonia

Residential property market

According to Statistics Estonia, approximately 525,000 people live in the Greater Tallinn region, representing about 40% of the total population of Estonia. The Greater Tallinn region comprises City of Tallinn (400,000 people) and the surrounding Harju County (125,000 people).

The city of Tallinn is Estonia's economic centre having historically contributed approximately 50% of the country's GDP. The population of Tallinn city centre has dropped by almost a fifth since 1990 due to emigration and migration towards the suburbs. The residential stock in Tallinn is ageing – according to the population census conducted by Statistics Estonia in 2011, around 67% of households live in a building constructed before 1981.

The following table summarises the development in statistics relating to the property market in Estonia in 2007-2011:

	2007	2008	2009	2010	2011
Mortgages-to-GDP ratio, %	35.0	38.1	44.2	41.7	36.8
Outstanding housing loan balance, EUR million	5,626	6,209	6,111	5,973	5,882
Number of housing loans outstanding, '000	147	160	160	158	157
Average interest rate on new housing loans in EUR, %	5.5	5.8	3.9	3.5	3.4
Average gross monthly wage in the City of Tallinn, EUR	893	975	915	924	1,012
Construction cost index, y-on-y change in %	12.7	3.4	-8.5	-2.8	3.1
Residential stock in Tallinn, '000 m² [1)]	10,559	10,684	10,812	10,925	n/a
Residential construction in Tallinn, '000 m²	237	221	125	103	87

[1)] Data for 2011 not available due to the discontinuation of data gathering by the Building Register

Source: Statistics Estonia, Bank of Estonia, Building Register

Supply and demand for residential property

Just over 1,000 new residential units were completed in Tallinn in 2011, which represents a decrease of 19% from 2010 and a 67% drop from peak level in 2007. Meanwhile, the Estonian Building Register reports that building permits for construction of more than 1,500 dwellings were issued in 2011 in Tallinn, representing an increase of 56% from 2010 and reflecting an increased activity in developers' pipeline. However, the figure of building permits is still 65% down from peak level achieved in 2006. In

total, the building permits issued in 2011 in Tallinn covered 130,500 m^2 of floor space, whereas completed projects covered 86,700 m^2 of floor space.

Most of the development activity is taking place in centre and centre periphery of the City of Tallinn. While the financing of real estate development projects is still relatively scarce, players with a reasonable equity buffer and a solid track record have been able to attract financing from major banks. Notable on-going development projects are listed in the table below:

Project name	Location	NSA, m²	Developer	Status
Väike-Kalamaja	Soo 1	5,800	Metro Capital	Final phase to be completed in 2012
Kodukolde	Helme 14, 16	3,400	Arco Vara	Next phase to be completed in 2012
Karulaugu	Karulaugu tee 9, Viimsi	3,000	Skanska	To be completed in 2012
Hane	Hane 6, 8	2,700	Merko Ehitus	To be completed in 2012
Pärnaõue	Vana- Ranna-mõisa tee 1F	2,500	NCC	Next phase to be completed in 2012
Mäepealse	Mäepealse 26	2,000	YIT	Next phase to be completed in 2012
Padriku	Padriku tee 9	1,900	TTP	To be completed in 2012

Source: the Company

Data on the planned residential development in Tallinn is limited due to overall scarcity of such projects but also because developers have become more reserved when revealing information. According to available information planned projects include dwellings near Linnahall by developer TTP and business and residential premises next to the Yacht Marina by Admiraliteedi Arenduse. Both projects are located in the centre periphery of City of Tallinn open to the coastline and have been speculated to start first stage development in 2012.

According to Statistics Estonia the number of transactions with dwellings in Tallinn bottomed in Q1 2009 and the market activity has been steadily recovering ever since. In 2011 the number of transactions rose to 7,671 showing year-over-year growth of almost 5%. However, the figure is still relatively modest when compared to more than 12,600 transactions in 2007.

One of the key factors affecting the demand for residential real estate is the availability of mortgage lending. The total value of housing loans outstanding peaked in 2008 and has been gradually declining ever since. The housing loan balance decreased by 1.5% year-over-year in 2011; meanwhile the figure for 2010 and 2009 was 2.3 and 1.6% accordingly. However, the volume of new housing loans granted in Estonia rose by 16% year-over-year to EUR 469 million in 2011. Based on Swedbank, the market leader in mortgage lending, the factors driving the demand are declining unemployment, rising wages, affordable price of residential real estate, and populations's willingness to improve living conditions. On the other hand, uncertainty about Eurozone's macroeconomic situation has been lately acting as a drag on consumer confidence.

Residential property prices

After a surge in prices of 30% per annum in 2005 and 2006 and stabilization in 2007 residential property market experienced sharp correction in 2008. According to Statistics Estonia, average price of dwellings in Tallinn declined by 18% in 2008 and further 26% in 2009. The bottom was reached in Q3 2009 and in 2010 the dwelling prices in Tallinn increased by 16%. In the end of 2011 the prices had increased by 14% when compared to 2010 year end levels, but remain still more than 27% lower when compared to the peak level reached in Q1 2007.

The construction price index decreased by 8.5% in 2009 and 2.8% in 2010 in Estonia. The main reason for this decrease was a contraction in labour and construction material costs. In 2011 the construction price index increased by 3.1%.

The table below summarizes the prices of new apartments in districts of Tallinn in December 2011. The price range of existing apartments is wide due to large differences in quality of construction and location:

District	Price range, EUR/m²
Old Town	3,000-3,200[1)]
Centre	1,900-2,400

Centre periphery	1,400-2,000

[1)] Recent renovation projects

Source: Uus Maa

Retail property market

After a rapid development in the early 2000s, the market for retail properties has been fairly stable since 2004, when two new major shopping centres, Ülemiste Keskus and Viru Keskus with GLA of 37,500 m² and 26,300 m² respectively, were opened. According to Colliers International, retail stock in Tallinn increased by around 30,000 m² in 2010 and 5,000 m² in 2011. Total retail space in Tallinn reached 484,500 m² by the end of 2011. During 2009 and 2010, two significant expansion projects were completed by existing shopping centres in Tallinn summarized in table below:

Shopping centre	Location	Developer	Expansion GLA, m²	Total GLA, m²	Completion
Rocca Al Mare	Paldiski mnt 102	Citycon	26,000	53,300	2009
Kristiine Shopping Centre	Endla 45	The Group	12,200	42,700	2010

Source: the Company

There are several large scale shopping mall projects in Tallinn currently under development. However, according to industry experts it will be difficult to go through with all of them. Thus, developers with a solid track record and ability to attract financing will have a significant first mover advantage.

The major retail property developments can be divided into two categories. First, conventional shopping malls located in prime locations in the City of Tallinn next to high-density traffic areas or in boroughs with high number of inhabitants. Examples include the Group's Peterburi Rd. Shopping Centre and Panorama City shopping mall project of ELL Kinnisvara. Secondly, big box type retail parks located outside Tallinn next to major highways such as Gate Tallinn and American Corner.

The table below summarizes major planned retail property developments in Tallinn:

Shopping centre	Location	Developer	GLA, m²	Status
Peterburi Rd. Shopping Centre	Peterburi road	The Group	55,000	Start of development in 2012, opening in 2014
Panorama City	Smuuli 1	ELL Kinnisvara	55,000	Start of construction in 2012, opening in 2014
Gate Tallinn	Via Baltica highway	Trigon Capital	115,000	Seeking financing
American Corner	Tallinn-Tartu highway	Süda Maja	110,000	Seeking financing

Source: the Company

Demand for retail space in the prime shopping centres remains stable. Some of the smaller shopping malls with inferior location experience lower demand as tenants prefer to be present in large shopping centres with high customer flow and expenditure per customer. According to Colliers International, vacancy rates were less than 2% in major shopping centres in Tallinn in the end of 2011 and stayed low even throughout the market correction in 2009-2010.

The table below summarizes the monthly retail rental rates in Tallinn shopping centres in 2011:

Space	Rent, EUR/m²
Up to 100 m²	20-43
100-400 m²	15-29
Over 400 m²	8-15

Source: the Company, Colliers International

Retail market in Estonia has seen positive developments in 2010-2011 after sharp decline in 2009, suggesting optimistic outlook for retail property segment in the next years. According to Statistics Estonia in the first half of 2012 retail turnover volume measured in real terms increased by 17% in comparison to the first half of 2011.

Hotel property market

There are in total 58 certified hotels in Tallinn with a total of 6,637 rooms, as reported by Colliers International. Tallinn represents over 60% of the total hotel supply in Estonia. Hotel market in Tallinn is dominated by 4-star hotels, comprising 45% of total hotels and 57% of total rooms. During 2010 and 2011, no new significant hotel projects were added to the market. Based on Colliers International, new supply will be rather limited in the next couple of years.

After a drop in 2009, Estonian tourism market has seen recovery – 2,726 thousand tourists were accommodated in Estonia during 2011 based on Statistics Estonia, a 13% increase compared to 2010 and also representing a new record high. About two thirds of the tourists were foreign.

According to Colliers International, the number of tourist nights spent in Estonia rose by 15% year-over-year to 5,400 thousand, whereas the respective figures for Tallinn were 22% and 2,790 thousand. Around 73% of tourist nights spent in Tallinn were related to leisure travellers.

Along with tourism market growth the occupancy rate of the hotels has been climbing in Tallinn. The average occupancy rate in 2011 was 60%, whereas the relevant figure in 2010 and 2009 has been 52% and 44% respectively, as reported by Colliers International. The average room rates in 2011 also experienced growth increasing to approximately EUR 33 per night. The hotel occupancy rate is subject to seasonality – during July, the peak month, occupancy rates have historically more than doubled when compared to the low season during the winter.

The table below summarizes the average prices for standard double rooms in Tallinn during 2011:

Stars	Average room rate, EUR
3-star	40-100
4-star	50-120
5-star	110-220

Source: Colliers International

Office property market

Tallinn has a well-developed Central Business District (the "**CBD**") located next to the Old Town, where most of the high-rise office buildings are clustered together. While financial institutions have traditionally chosen Tallinn's CBD as their location, high-tech companies are headquartered in clusters such as Tehnopolis situated next to the Tallinn's Technical University and Ülemiste Technopolis situated near the airport.

According to Colliers International, the office property development market during 2010 and 2011 was in a standstill as only one major project was completed – a built-to-suit office building for Estonian Forensic Science Institute with GLA of 10,000 m². In the end of 2011 the total office space stock in Tallinn amounted to 480,000 m². However, more active development of office property spaces in 2012 and 2013 is expected.

The table below summarizes notable on-going office development projects in Tallinn:

Project	Location	Developer	Class	GLA, m²	Completion
G4S Headquarters	Paldiski 80	Wilson Kinnisvara	n/a	8,000	2012
Tehnopol	Akadeemia 21; Teaduspargi 6/2	Tehnopol SA	B	18,300	2012
Lõõtsa 8	Lõõtsa 8	Technopolis Ülemiste	B	22,100	2012-2013
Statistics Department	Tatari 51	Kaamos	n/a	4,800	2013
Navigator	Laeva 2	Capital Mill	n/a	8,860	2013

Source: Colliers International

The office property market has seen a healthy rebound from the 2009 downturn. According to Colliers International, recovery has taken place due to a quick response from landlords who were willing to offer more flexible terms. This resulted in rapidly decreasing vacancy rates – after peaking at 30% level for class A premises in 2009 the vacancy rates in 2011 had fallen below 5%.

Increasing demand contributed to rental rate stabilization during 2010-2011.

The table below summarizes the monthly office rental rates across the districts of Tallinn in 2011:

Office	Rent, EUR/m²
Class A	10.5 - 16.0
Class B1	7.5 - 10.6
Class B2	3.2 - 6.5

Source: Colliers International

Riga, Latvia

Residential property market

The Greater Riga area has a population of one million people, which represents 49% of the total population of Latvia. Riga is the largest metropolitan area in the Baltic States and a major regional logistics and financial centre. The Greater Riga area encompasses Riga (population 700,107), the resort town Jurmala (55,767) and the surrounding Riga and Ogre districts (333,893). The Greater Riga area contributes more than half of Latvia's GDP. Around three quarters of the residential construction in Latvia is concentrated in the Greater Riga region. The residential stock in Riga region is ageing – according to the population census conducted by Statistics Latvia in 2011, around 90% of dwellings were constructed before 1981.

The following table summarizes the development of statistics relating to the property market in Latvia in 2007-2011:

	2007	2008	2009	2010	2011
Mortgages-to-GDP ratio, %	50.0	51.5	60.4	56.4	45.3
Outstanding mortgage loan balance, EUR million	10,472	11,792	11,241	10,217	9,135
Average interest rate on new housing loans in LVL, %	10.3	10.5	10.5	8.2	4.7
Average interest rate on new housing loans in EUR, %	6.1	7.0	5.0	4.1	4.1
Average gross monthly wage in Riga, EUR	643	771	753	724	757
Construction cost index, y-o-y change in %	26.2	14.4	-10.9	-2.7	2.1
Residential stock in Greater Riga, '000 m^2	28,579	29,290	29,461	n/a	n/a
Residential construction in Greater Riga, '000 m^2	997	971	504	283	306

Source: Statistics Latvia, Bank of Latvia

Supply and demand for residential property

In Riga the three most common types of residential development include (i) high-rise structures within existing built-up areas (the Clusters of Apartment Blocks (the "**CAB**") or low-cost housing in satellite towns), (ii) upscale apartments in central Riga and at the seashore, and (iii) single-family, semi-detached or low-rise housing in the emerging suburban belt. The latter segment has been gaining popularity also after the completion of several large-scale infrastructure improvement projects, most notably the Southern Bridge.

Amid shrinking residential real estate market, development of new projects has been declining. Some of the existing developments were finished during 2009, and residential construction reached the bottom in 2010. 341 new apartments were completed in Riga in 2010, which is more than 80% decline from 1,858 apartments in 2009. However, as demand revived, new residential developments were started in the end of 2010, and 1,533 new apartments were built in Riga during 2011.

The market for lower to middle class apartments is relatively saturated. According to Ober-Haus, there are just over 1,800 newly built apartments available in the primary market. Banks are waiting until the market recovers further, hence keeping most of the seized apartments. At the same time, there is lack of supply of upscale premium residential projects. Premium locations include Riga Old Town, quiet centre "embassy district" of Riga and Jurmala. It is expected that there will remain shortage of high-quality apartments in new premium projects as demand will continue rising.

The table below summarizes recent premium residential developments in Riga as well as notable ongoing development projects:

Project	Location	Developer	Apartments	EUR/m²	Completion
Tallinas 1	Tallinas 1	Global Properties Consulting	47	1,700-2,100	2011
Riverstone	Ķīpsalas 4	YIT	74	1400+	2011
Cesu 23	Cesu 23	Dekarta Property	23	1,400-1,500	2012
Skanstes Virsotnes	Skanstes 50a	Merks	506	1,400-1,800	Construction of 4th building in progress
Jauna Teika	Ropažu 12	Hanner Real Estate	n/a	800+	Design of 3rd building in progress

Source: the Company

Demand, which picked up in the second half of 2009 was generated by local as well as foreign buyers who believe in bottoming of the market and again consider real estate as an investment object. Banks are still modest in financing real estate purchases, as mortgage portfolio of Latvian banks continued to decline throughout 2009-2011. According to Colliers International, more than half of residential transactions did not involve bank financing in 2010. Nevertheless, decreasing interest rates on new housing loans increase attractiveness of the bank financing.

Since July 2010, a new regulation allows foreigners to obtain a temporary residence permit in Latvia by purchasing real estate worth over EUR 142,300 in Riga or EUR 71,200 in other main cities. This stimulated demand for premium renovated or newly built apartments in the central areas of Riga and in Jurmala. Foreign buyers typically are interested in 3-4 room apartments (80-120 m²) with full finishing and a parking lot, according to Colliers International.

As financial sector stabilized in 2010, banks started to provide financing more actively in residential segment. Majority of mortgage loans in 2010 were issued by Nordea, as reported by Newsec. Average interest rates on new housing loans were decreasing throughout 2009-2011. Average interest rates reached 4.1% on EUR and 4.7% on LVL denominated loans in 2011, compared to 7.0% and 10.5% in 2008, respectively. Customers can borrow up to 85% of a property value, for the maximum term of 40 years. According to Ober-Haus, usually property in new residential projects is purchased at 50:50 cash-to-credit proportion.

Residential property prices

After a sharp correction in 2008-2009 following 2004-2007 price boom, residential property prices have stabilized during 2010 and are rising since 2011. According to Latio, price correction in Riga, which lasted for almost two years, has caused prices to decrease by more than 60-70% in some parts of the city when compared to the peak in 2007. Market saw stabilization of prices in the end of 2009. According to Ober-Haus, prices of newly built apartments increased by 12% in the central areas of Riga and by 8% in the suburbs during 2010, and continued to rise in 2011 by 6% in the central areas and by 15% in the suburbs. Despite recovery in 2010-2011, average price level of newly built apartments in premium projects is still 50-60% below the record high level of 2007.

The construction cost index in Latvia decreased by 10.9% in 2009 and 2.7% in 2010, mainly due to contraction in labour and construction material costs. However, construction cost index growth of 2.1% was observed in 2011 following economic growth and inflation in the country.

The table below summarizes prices of new and existing apartments in different districts of Riga in December 2011:

District	Existing, EUR/m²	New, EUR/m²
Old Town and “embassy district”	1,800-3,400	2,300-5,000
Rest of the city centre	1,200-2,200	1,500-2,800
Major CAB areas	800-1,400	950-1,400
Suburbs	n/a	700-850

Source: Ober-Haus, Latio

Retail property market

Due to economic slowdown, development of new shopping centres in Latvia was slow or postponed in 2009-2011. According to Colliers International, retail stock in Riga increased by 29,700 m² in 2010 and by 27,250 m² in 2011. Total retail space in Riga reached 642,050 m² by the end of 2011. Galleria Riga was the only shopping mall opened in 2010. During 2011, three smaller-scale projects were commissioned. As development of several retail projects was postponed until market situation improves, new shopping centres are not expected to come online in the nearest future.

The table below summarizes recent major retail developments in Riga:

Shopping centre	Location	Developer	Total GLA, m²	Completion
Riga Plaza	Mukusalas street	NCH Capital	47,000	2009
Galleria Riga	Dzirnavu street	Carpathian	29,700	2010
Damme	Kurzemes avenue	Rimi Latvia	15,000	2011

Source: Colliers International, the Company

Retail market in Latvia has seen positive developments in 2010-2011 after sharp decline during 2008-2009, suggesting optimistic outlook for the retail property segment in the next years. Retail turnover increased 8.7% in 2011. Increase of 4.5% in gross wages during 2011 in Riga and improved consumer confidence contributed to retail market growth.

Demand for retail space in the most successful large shopping centres remains stable. Less successful and smaller shopping malls experience lower demand as tenants prefer to be present in large shopping centres with high customer flow and expenditure per customer. Most demanded are 50-150 m² retail premises. According to Ober-Haus and Colliers International, in the end of 2011 vacancy rates were zero in the most popular shopping centres (Spice and Alfa), while average vacancy rate in other shopping malls decreased to some 3-7%.

The table below summarizes the monthly retail rental rates in Riga shopping centres in 2011:

Space	Rent, EUR/m²
Up to 100 m²	25-50
100-200 m²	15-25
Over 200 m²	7-25
Anchor tenants	5-9

Source: Ober-Haus

Further improvement in retail market is expected, which would result in slightly lower vacancy rates and increasing rent level as supply of retail space is not expected to increase in the next few years.

Hotel property market

There are in total 60 certified hotels in Riga with a total of 4,756 rooms, as reported by Colliers International. Riga represents over 70% of the total hotel supply in Latvia. Hotel market in Riga is dominated by 3-star hotels, comprising 50% of total hotels, whereas 4-star hotels contribute the largest part of rooms – 58% of total room supply. During 2010, commissioning of Tallink Hotel Riga contributed 256 rooms to the hotel supply in Riga. In 2011, no new hotels were developed. Hotels are developed slowly in Latvia, and new supply will be rather limited in the nearest future.

The table below summarizes recent major hotel developments in Riga:

Hotel	Location	Operator	Stars	Rooms	Completion
Tallink Hotel Riga	Elizabetes 24	TLG Hotell	4-star	256	2010

Source: Colliers International

After reaching the bottom in 2009, Latvian tourism market has seen signs of recovery – some 1,373,300 tourists visited Latvia during 2010, which is a 4% increase as compared to 2009. Along with tourism market growth, hospitality market in Riga served almost 780,000 visitors in 2010, which is a 13% increase compared to approximately 689,000 visitors in 2009. Foreign tourists represent majority of hotel visitors, comprising 87% of visitors in Riga in 2010. Number of tourists continued to increase in

2011, reaching around 943,700 (21% increase compared to 2010), and number of overnights increased by 17% in 2011.

As a result of increasing demand, occupancy rate in the hotels of Riga increased to 47% in 2011, compared to historically low level of 38% in 2009, as reported by Colliers International. Despite increase in occupancy rate, downward pressure of prices remains due to competition.

The table below summarizes the average prices for standard double rooms in Riga during 2011:

Stars	Average room rate, EUR
3-star	25-150
4-star	50-180
5-star	80-250

Source: Colliers International

Office property market

Riga does not have a distinct business district akin to the high-rise clusters in Tallinn, Vilnius and Warsaw. New developments are dispersed across the city, although several areas within the proximity of the City Centre are emerging as destinations of choice – particularly popular are Skanstes/Hanzas and Ķīpsala/Left Bank areas.

According to Colliers International, during 2010 Class A and B office stock in Riga was increased by approximately 24,700 m². Completion of DnB headquarters with GLA of 13,100 m² contributed most to the office stock additions during 2010. In 2011, only the building of American Embassy was completed, increasing total office stock in Riga to 527,755 m². However, as economy recovers, once suspended projects are being resumed – for example, Z-Towers project, which is expected to be completed by 2014.

The table below summarizes recent and on-going major office developments in Riga:

Project	Location	Developer	Class	Total GLA, m²	Completion
DnB Headquarters	Skanstes 12	DnB Bank	A	13,100	2010
Z1 Selected Offices	Zala 1	Larix Property	A	4,500	2010
Upenu Office Center	G. Astras 1c	Tipo Ipasums / Ektornet Latvia	B2	7,000	2012
Jupiter Center	Skanstes 7	Development Projects	B1	6,650	2012
SRS Office Complex	Ezerparks	New Europe Real Estate	B2	43,000	2014
Z-Towers	Daugavgrivas 9/11	SPI Group	A	26,000	2014

Source: Colliers International, Ober-Haus

As the economic environment stabilized, companies were expanding in 2010-2011, which resulted in growing demand for office premises. According to Colliers International, some 39,000 m² of speculative office space was absorbed in 2011. 200-500 m² premises are most demanded. As there were no significant additions to office stock in Riga, vacancy rate of speculative office space fell to 15.8% in the beginning of 2012, compared to 25.6% in the beginning of 2011.

Increasing demand contributed to rental rate stabilization during 2010-2011.

The table below summarizes the monthly office rental rates in Riga in December 2011:

Office	Rent, EUR/m²
Class A	9-14
Class B1	6-10
Class B2	5-7

Source: Colliers International

Vilnius, Lithuania

Residential property market

Vilnius County is the largest metropolitan area in Lithuania with population of over 838 thousand people, which represents 26% of the total population of the country. Vilnius County includes Vilnius municipality (population 554,000) and surrounding cities. Vilnius County is a major economic area, contributing more than 38% of Lithuanian GDP. Almost 40% of the residential construction in Lithuania is concentrated in the Vilnius County. The residential stock in Lithuania is ageing similarly to other Baltic countries.

The following table summarizes the development in statistics relating to the property market in Lithuania in 2007-2011:

	2007	2008	2009	2010	2011
Mortgages-to-GDP ratio, %	16.9	18.7	22.6	21.7	19.3
Outstanding mortgage loan balance, EUR million	4,849	6,055	6,027	5,983	5,934
Average interest rate on new housing loans in LTL, %	6.0	7.0	9.6	5.7	4.0
Average interest rate on new housing loans in EUR, %	5.4	5.8	4.2	3.7	3.7
Average gross monthly wage in Vilnius, EUR	626	736	699	685	709
Construction cost index, y-o-y change in %	13.8	9.5	-10.6	-4.3	3.9
Residential stock in Vilnius county, '000 m^2	20,539	21,006	20,759	21,089	n/a
Residential construction in Vilnius county, '000 m^2	998	774	404	362	373

[1)] From 2009, a different data source was used for residential stock data by Statistics Department
Source: Statistics Lithuania, Bank of Lithuania

Supply and demand for residential property

Supply of newly developed residential projects in Vilnius has decreased considerably due to several reasons. First, many developers faced financial problems and were forced to freeze or suspend real estate developments in 2008-2009. Second, due to lack of demand, only developments commenced in or before 2008 were finished in 2009-2010, and the new supply in 2011 has almost dried-out. According to Ober-Haus, there were only 564 new apartments built in 2010 in Vilnius, which is 3 times less than in 2009 and 12 times less than in 2008. However, development activity picked up in 2011, when 737 new apartments were built.

Supply of upscale projects is practically low as majority of new apartments have relative low quality and/or bad location, and are sold without final finishing. Main reason is that residential developments during 2007-2008 were mainly focused on economy class.

The table below summarizes recent and on-going premium residential developments in Vilnius:

Project	Location	Developer	Apartments	EUR/m²	Completion
Verkiu slenis	Verkių Regional Park	Hanner Real Estate	82	2,172-2,399	November 2007
Mikalojaus ziedas	Zemaitijos and Siauliu streets	Sektor Real Estate	61	2,848-4,763	March 2009
Kotrynos vartai	Klaipedos street	Lords LB Opportunity Found I	33	1,880-2,580	November 2012
Veikme Apartments	Ciurlionio street	Veikme	89	1,770-2,840	June 2012
Valakampiu Apartments	Nemencines street 46	n/a	16	1,993-2,264	April 2011
Šaltinių Namai Residential Complex	Šaltinių street	The Group	143 +11 terrace houses	2,288-4,924	December 2009

Source: the Company

Considerably lower residential property prices and improving financing conditions contributed to demand stabilization and growth during 2010-2011. Number of transactions with apartments in Vilnius increased 31% in 2010 and 5% in 2011. Significant drop in property prices in 2009-2010 has reduced

the demand for property from speculative investors, while people are buying more residential property for their own use.

Availability of credit has improved considerably in Lithuania during 2010-2011. Even though banks are resuming mortgage lending with caution and net mortgage portfolio of Lithuanian banks has not increased, overall borrowing conditions have improved. Interest rates have dropped significantly, reaching 3.7% on EUR and 4.0% on LTL denominated new housing loans in 2011, compared to 5.8% and 7.0% respectively in 2008. In some cases, banks provide up to 85% of the property value financing, especially for purchases of residential property in new developments.

Residential property prices

After a significant drop during 2008-2009, residential property prices have stabilized during 2010 and showed slight improvement in 2011. According to Ober-Haus, prices in Vilnius had decreased by some 40% when compared to the peak in 2007. Stabilization of prices started in the end of 2010 while prices of less expensive apartments increased by 5-10% in 2011 according to Ober-Haus. However, newly built premium apartment prices remained stable in 2011. Apartments in Lithuania are usually sold without final fit-out, which is reflected in the price level.

The construction cost index in Lithuania decreased by 10.6% in 2009 and 4.3% in 2010, mainly due to corrections on labour market and decrease in construction material costs. However, an increase of 3.9% was observed in 2011.

The table below summarizes prices of new and existing apartments in different districts of Vilnius in December 2011:

District	Existing, EUR/m²	New, EUR/m²
Old Town and city centre	1,400-3,200	1,350-2,900
Prestigious districts	725-2,000	1,200-2,000
Outskirts	700-1,200	850-1,600

Source: Ober-Haus

Retail property market

As retail market was declining during 2009-2010, market conditions for shopping centres were unfavourable, and there were no major new developments in the segment. According to Colliers International, retail stock in Vilnius increased only by 14,000 m² in 2010 and stayed flat in 2011. Only one shopping centre Link Moletu with GLA of 8,800 m² was opened during 2010 in the outskirts of Vilnius. Additionally, the outlet centre Parkas was expanded by more than 5,000 m² in 2010. Total retail space in Vilnius amounts to circa 535,000 m². There are no new shopping centres expected to come to the market in the nearest future as two new projects planned for 2012 were cancelled.

The table below summarizes recent major retail developments in Vilnius:

Shopping centre	Location	Developer	Total GLA, m²	Completion
Panorama	Saltoniškių street	E.L.L.	52,000	2008
Ozas	Ozo street	ECE	62,000	2009
Link Moletu	Moletu street	Baltishes Haus	8,800	2010

Source: Colliers International

After bottoming out in 2010, retail market in Lithuania has showed positive development in 2011 – retail turnover increased by 14.5%. Growth of average wages in Vilnius by 3.5% in 2011 and significant improvement in consumer confidence contributed to retail market growth.

Following improving retail market environment, demand for retail space has increased. However, only most successful shopping malls feel improvement with close to zero vacancies. Demand in less successful shopping centres at the same time remains quite low. Overall vacancy rates dropped to 3.7% by the end of 2011 from 4.5% in 2010, as reported by Ober-Haus. Currently, retailers are looking for expansion opportunities outside of Vilnius, and further improvement in demand can be expected mainly from newcomers to the Lithuanian retail market.

The table below summarizes the monthly retail rental rates in Vilnius shopping centres in 2011:

Space	Rent, EUR/m²
Up to 100 m²	18-35
150-350 m²	13-22
Anchor tenants	6-9

Source: Colliers International

Office property market

According to Colliers International, during 2011 Class A and B office stock in Vilnius was increased by 15,700 m² as two new business centres were opened. Total supply of office space in Vilnius amounts to approximately 351,100 m². Class A offices constitute 32% and Class B offices constitute 68% of the total office space.

The table below summarizes recent and on-going major office developments in Vilnius:

Project	Location	Developer	Class	Total GLA,	Completion
Beta	Jozo Balcikonio 3	Realco	B1	20,000	2010
LJB	Savanoriu 28	LJB Property	B2	12,400	2011
Evita	Savanoriu 18	Respektas	B1	3,300	2011
Pirkliu Klubas	Gedimino 35	Somenera	A	6,300	2012
Baltic Hearts	Ukmerges 120	ZVC	A	10,000	2012
Gama	Ozo Park	Realco	B1	10,800	2012

Source: Colliers International, Ober-Haus

After reaching record high levels in 2009, office vacancy rates have decreased substantially in Vilnius, from some 18% to 9% by the end of 2011, as reported by Ober-Haus. Class B offices experienced most rapid decrease in vacancy rates. According to Colliers International, almost 45,000 m² of office space was absorbed during 2011. Office space was absorbed mainly by large companies that took advantage of favourable for tenants market environment with low rent levels. Limited new supply also contributed to drop in vacancy rates. Rent levels have stabilized after reaching the bottom in 2009, and have already shown growth during the second half of 2010 and 2011.

The table below summarizes the monthly office rental rates in Vilnius in December 2011:

Office	Rent, EUR/m²
Class A	11-15
Class B1	8-11
Class B2	6-10

Source: Colliers International

Germany

Hotel property market

There were in total circa 55,000 certified hotels in Germany with a total of 3.6 million beds in 2011, as reported by the German Federal Statistics Office. Hotel market in Germany is dominated by 3-star hotels, comprising 43-52% of total hotels in the largest cities of Germany, according to Colliers International.

After a slight decline in German hotel market in 2009, when the number of overnight stays decreased by 0.2%, tourism market revived as the number of overnight stays increased by 3% in 2010 and 4% in 2011, reaching EUR 394 million. Unlike the Baltic States, where foreign tourists represent majority of hotel visitors, the hotel market in Germany is dominated by local residents, which constituted 84% of hotel guests in 2011.

As a result of improving demand, occupancy rate in the hotels of Germany increased to 65% in 2011, as reported by STR Global. Average room rates also increased by 1.4% in 2011, reaching EUR 92 per night.

PART XI. BUSINESS

1. OVERVIEW

The Group was founded in 1994 in Estonia. The Group started real estate development operations in Estonia in 1996 and expanded to Latvia in 1997 and to Lithuania in 1998. The operating history of 18 years makes the Group one of the oldest real estate companies in Baltic States. Since establishment in 1994, the Group has successfully developed 20 and exited 16 projects in the Baltic States. Some of the Group's developments (Domina Shopping Centre in Riga, Kristiine Shopping Centre in Tallinn) have been milestones in the Baltic real estate development sector.

The Group is active mainly in the development and sales of residential and retail property, lease of developed retail property and other commercial property and operating of three hotels.

In residential development the Group is focusing on large scale premium residential developments in the Baltic States. Concerning retail developments the Group is currently focusing on Tallinn retail property market, while in the longer term it sees also potential in Riga and Vilnius. The Group owns and manages one hotel each in Estonia, Latvia and Germany and is not planning to develop new hotels in the near future.

Currently the Group's development portfolio comprises of six residential development projects out of which two are located in Tallinn, three in Riga, one in Vilnius and one retail development project – Peterburi Rd. Shopping Centre in Tallinn. In addition, the Group is operating three hotels: (i) PK Ilmarine Hotel in Tallinn, Estonia, (ii) PK Riga Hotel in Riga, Latvia and (iii) PK Parkhotel Kurhaus in Bad Kreuznach, Germany. The Group also owns certain other properties. Please also read Section 6 (Projects and Properties) of this Part XI (Business).

According to the Appraisal Report incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)) the development portfolio of the Group is valued at EUR 180.0 million (10 projects located in Estonia, Latvia and Lithuania were valued in April 2012 at EUR 172.5 million and one project in Germany was valued in June 2012 at EUR 7.5 million) and it consists of:

- Residential developments with the investment value as described in the Appraisal Report (the "**Investment value**") of EUR 114.3 million;
- Retail development with the Investment Value of EUR 43.9 million; and
- Hotels with the Investment Value of EUR 21.9 million.

The portfolio is located in Tallinn, Riga and Vilnius, with the exception of one hotel in Germany. Please also read the Appraisal Report for further details.

2. HISTORY

The Company is one of the leading real estate development and management companies in the Baltic States. Some of the main milestones in the history of the Group are as follows:

1994 AS Pro Kapital was established and registered in the Estonian Register of Enterprises (in Estonian - *Ettevõtteregister*). The Estonian Register of Enterprises was the register for companies that existed before the establishment of the Estonian Commercial Register.

1996 Mr Ernesto Preatoni acquires control over the Company. The Group started investing in the real estate and development projects.

OÜ Ilmarise Kvartal was established on 21 November 1996 and the development of Ilmarine Quarter started.

1997 The development of Pro Kapital Business Centre was completed in Tallinn. Pro Kapital Business Centre was the first completed development project of the Group.

60.6% of shares were acquired in AS Täismaja (formerly AS Kristiine Kaubanduskeskus) and the development of Kristiine Shopping Centre started.

Sabiedrība "PK Latvia" SIA was established and the operations of the Group were expanded to Latvia.

Renovation of a residential building at Vene St. 19 and Demini Shopping Gallery located in Tallinn Old Town as well as Jegorov House with luxury apartments located at Town Hall

Square of Medieval Tallinn Old Town started.

1998 Shares of the Company were listed on the supplementary list of the Tallinn Stock Exchange as of 1 September 1998.

Pro Kapital Vilnius Real Estate UAB was established and the operations of the Group were expanded to Lithuania.

Renovation of a residential building at Vene St. 19 in Tallinn was completed.

Renovation of a historic Art Nouveau building into apartments and office spaces started at Stabu St. 19 in Riga.

Construction of Ilmarine Quarter in Tallinn started.

1999 Kristiine Shopping Centre was opened.

Renovation of the historic Art Nouveau building at Stabu St. 19 in Riga was completed.

Renovation of a historic building at Vecpilsētas St. 8A in Riga Old Town started.

Renovation of Domina Plaza Luxury Apartments started at Didžioji St. in Vilnius.

The Company issued 4.5 million convertible bonds with a nominal value of EEK 10 (EUR 0.64) and premium of EEK 40 (EUR 2.56).

2000 The Company acquired 85.47% of shares in Domina Hotel e Comproprieta Alberghiere S.p.a for the consideration of 35.36% of shares in the Company that were issued to the former shareholders of Domina Hotel e Comproprieta Alberghiere S.p.a.

As of 3 February 2000 the shares of the Company were listed on the main list of the Tallinn Stock Exchange.

Renovation of Domina Plaza Luxury Apartments was completed in Vilnius.

Renovation of My City Hotel (former Domina City Hotel) was started near to the Tallinn Old Town.

2001 On 28 August 2001, the Listing Committee of the Tallinn Stock Exchange adopted resolution regarding the delisting of shares of the Company as of 29 August 2001. An internal audit discovered that not all information disclosed to the stock exchange, under the responsibility of the CFO, was accurate. Consequently the stock exchange decided to delist the Company. The Company challenged this decision, but dropped the proceedings upon assurances by the Tallinn Stock Exchange that it could relist its shares in the future. Entirely new Management Board and Supervisory Council have been appointed since.

Development of Domina Shopping Centre was started in Riga.

Renovation of residential building at Rüütli St. 13 in Tallinn was started.

Development of Kugu St. 26 residential building in Riga was started.

Development of an apartment building was started in at Pulkveža Brieža St. 11 in Riga.

Renovation of My City Hotel (former Domina City Hotel) was completed in Tallinn Old Town.

Renovation of a historic building at Vecpilsētas 8A in Riga Old Town was completed.

2002 First expansion of Kristiine Shopping Centre was completed.

Construction of PK Ilmarine Hotel started.

The sale of Rüütli St. 13 apartments was completed in Tallinn.

2003 Construction works of hotel complex were started at Pulkveža Brieža St. 11 in Riga in September 2003.

Opening of 1st part of Domina Shopping Centre in Riga.

2004 Opening of 2nd and 3rd (final) part of Domina Shopping Centre in Riga.

2005 Completion of Pulkveža Brieža St. 11 development project in Riga.

2006 The first phase of the development of Tondi Quarter started in Tallinn by renovation of an old brick building at Tondi St. 51 into apartments.

Development of Kugu St. 26 residential building was completed in Riga.

2007 Sale of Domina Shopping Centre in Riga to KanAm Grund Kapitalanlagegesellschaft GmbH ("**KanAm**").

Construction of the initial phase of the development of Tondi Quarter was started in Tallinn.

2008 Completion of development of Ilmarine Quarter in Tallinn.

2009 On 13 April 2009, the extraordinary General Meeting of Shareholders decided to issue up to 10,000,000 convertible bonds. Please also read "Terms and conditions of the convertible bonds" in Section 6 (Option Rights, Convertible Securities and Securities with Warrants) of Part XIII (Information on Company, Shares and Share Capital).

The first phase of the development of Šaltinių Namai Residential Complex was completed by sale of 4,000 m^2 of business and residential premises in Šaltinių Namai Residential Complex.

2010 Second expansion of Kristiine Shopping Centre was completed.

PK Investments SIA finished operating Domina Shopping Centre in Riga that was sold in 2007.

Liquidation of Nekustamo īpašumu sabiedrība A Centrs SIA and Kugu Real Estate SIA was completed (these companies had been involved in the development of Pulkveza Brieza str. 11/13 and Kugu St. 26 residential buildings – two development projects that had been completed prior to the liquidation of these companies).

2011 Sale of Kristiine Shopping Centre to Citycon. Please also read "Sale of Kristiine Shopping Centre" in Section 9 (Material Contracts) of Part XI (Business).

Division of the Company was carried out and Italian assets were divested. Please also read "Division of the Company" in Section 9 (Material Contracts) of Part XI (Business).

Sale of Pro Kapital Rus OOO and divestments of Russian assets. Please also read "Transfer of Group´s Russian business" in Section 9 (Material Contracts) of Part XI (Business).

3. STRATEGY

The Group's vision is to be the leading developer of prime residential and retail real estate in the Baltic States. In order to achieve its vision and strategic objectives the Group normally takes a long term view in relation to properties in its portfolio. Long term perspective and relatively long lifecycles of its development projects provide the Group with a natural hedge against the fluctuations in macroeconomic environment and real estate market.

The Group plans to continue to focus on full cycle of real estate developments starting from acquisitions of appropriate land plots and ending with the sales of properties. The Group believes that its active involvement throughout the project lifecycle allows it to ensure the quality and timing of its developments.

In terms of sectors the Group plans to continue to focus on the residential and retail developments, which have been the Group's core competence in the past. In addition to that, the Group is planning to be opportunistic in relation to high-quality office and hotel developments.

Residential developments

The Group has been focusing and is planning to focus in the future on large scale premium residential developments, which the Management Board believes to be the segment with significant growth potential across all three Baltic capitals. A typical Group's development is a full quarter that forms a residential real estate "sub-market" in the respective neighbourhood, allowing the Group to become the price setter and be less exposed to the developments of residential real estate market at large. More-

over, the Group's experience suggests that the premium residential real estate sector is the one that is the least exposed to the fluctuations in the market environment.

As opposed to large scale retail or office developments, residential developments provide the Group with opportunity to develop particular properties in phases while selling the finished or even unfinished apartments, which allows increasing the return on invested equity.

In terms of geographies the Group is planning to continue to focus on Tallinn, Riga and Vilnius as the most attractive locations for real estate developments in the Baltic States. The Group believes that all three Baltic capitals present significant opportunities for development of prime residential properties as there is a fundamental shortage of high-quality developments in all three Baltic capitals. Therefore the Group currently does not envisage expansion of its activities in the second tier cities in the Baltic States or elsewhere.

Retail developments

The Group has obtained significant retail development experience through developments of some of the best known retail properties in Baltic States and wants to utilize this experience in the future.

The Group believes that in addition to good location and convenient planning, the scale is among the most important factors when developing retail properties. A modern shopping mall in the Baltic States can be successful and attract a high-quality tenant mix if its size is at least 40,000m^2 of GLA and it contains at least 150 shops. These characteristics are used as key inputs in the Group's decision-making as it wants all of its retail properties to exceed the mentioned thresholds.

The Group sees an immediate demand for an additional large shopping mall in Tallinn. In the medium to long term the Group sees market potential across all three Baltic capitals. That is partially related to the timing of the development of major retail properties in the Baltic States. Many of those have been developed in late 1990s or early 2000s and have been operating for more than 10 years now. As a result of that some of those properties are due for fundamental redevelopment in relatively short period of time. The Group believes that its previous experience positions it well to perform redevelopments of some of the existing retail properties in the future.

Hotel developments

In relation to the hotel developments the Group is planning to manage its current hotel portfolio in the medium term in the future. In relation to new developments the Group is not planning to develop standalone new hotels, while some of its new mainly residential developments might have a hotel element included.

In the longer term the Group might consider exiting from some of its existing hotels in case attractive offers will be received.

Office developments

The Group is not planning to focus on office developments in the future as in the Group's opinion those do not generate sufficient returns in the Group's target geographies. Nevertheless some of the Group's other developments (large scale retail or residential property developments) might include an office component in order to make the core function more attractive. Specifically the Group is planning to include a small office component in the retail development of Peterburi Rd. Shopping Centre in Tallinn. Additionally, the Group is managing World Trade Centre Riga office building in Latvia.

4. COMPETITIVE STRENGTHS

The Group has the following key competitive strengths that help it to sustain and strengthen its positions among the leading real estate developers in the Baltic States:

- **unique portfolio of prime development land plots**. The Group owns a unique land bank that has mainly been acquired in late 1990s and early 2000s when the Group was among the first entrants into the Baltic real estate market. First-comer status has allowed the Group to acquire premium land plots in all three Baltic capitals for reasonable valuations. Most of the land plots have

been acquired relatively close to the city centres and have formerly been used as premises for large Soviet era manufacturing enterprises (e.g. VEF in Latvia). Consequently, the above-mentioned land plots are sizeable-enough and perfectly located to allow the development of the large scale premium projects that the Group is specializing on. Most of the Group's land plots are unique, providing the Group with very high development potential. For instance in Riga and Tallinn the Group owns premium water-front land plots in the very centre of the cities;

- **strong track record of developments in the Baltic States**. The Group has unparalleled track record of developments across the Baltic States. The Group has developed such landmark developments as Kristiine Shopping Centre in Tallinn, Domina Shopping Centre in Riga, residential development of Ilmarine Quarter in Tallinn and others. The development of above-mentioned projects has allowed the Group to obtain unique experience across the Baltic States and across different real estate sectors;
- **successful exits from developed projects to high profile investors**. The Group has performed numerous successful exits from its developments providing Group's investors with good returns. Most of the residential developments have been sold to private individuals, while major retail developments have been divested to high profile real estate investors such as Citycon that acquired Kristiine Shopping Centre in 2011 and KanAm that acquired Domina Shopping Centre in 2007;
- **clear development plans with respect to the portfolio**. The Group has specific plans with respect to the development of most of the land plots in its portfolio. The type of real estate to be developed, the indicative development costs, the regulatory process to be followed in the development phase and most of the other planning necessary before the development has been performed by the Group;
- **experience throughout the project development lifecycle**. Historically the Group has been responsible for the full real estate development project lifecycle, starting from acquisition of the land plot and ending with the divestment of completed property. That has allowed the Group to obtain unique know-how to be utilized in the future, to control the development cycle more thoroughly and to add value throughout the development process;
- **experienced management team**. Key managers of the Group (CEO Paolo Vittorio Michelozzi, who is a member of the Management Board since 2001, and COO Allan Remmelkoor, who is a member of the Management Board since 2008) have been with the Group for more than 15 years, obtaining unparalleled Baltic real estate development experience. Among other projects, Mr Michelozzi and Mr Remmelkoor have been responsible for the full development of and subsequent exits from Domina Shopping Centre in Riga and Kristiine Shopping Centre in Tallinn. Most of the rest of the management team have also been with the Group for more than 5 years; and
- **low financial leverage and robust financials**. Historically the Group has been conservative in relation to the usage of debt and financial leverage. Conservative debt levels have allowed the Group to be better positioned to face different cycles of the real estate market. Relatively lower leverage has also allowed the Group to provide its shareholders with relatively more stable returns in comparison to some of the Group's more leveraged peers.

5. OPERATIONS

Overview

The Group conducts majority of its business in Estonia, Latvia and Lithuania. Currently the only source of revenue outside of the Baltic States is a hotel management business in Germany. The table below presents the breakdown of the Group's total revenue by geographical segments:

	2009		2010		2011		Six months ended 30 June 2012	
	'000 EUR	%	'000 EUR	%	'000 EUR	%	'000 EUR	%
Estonia	13,534	*62%*	11,779	*56%*	10,569	*61%*	1,715	*17%*
Latvia	5,759	*26%*	2,356	*11%*	3,038	*17%*	1,362	*14%*
Lithuania	2,269	*10%*	6,480	*31%*	3,406	*20%*	5,317	*54%*
Germany	437	*2%*	436	*2%*	436	*2%*	1,538	*15%*

Total revenue	**21,999**	***100%***	**21,051**	**100%**	**17,449**	**100%**	**9,932**	***100%***
Other operating income	**1,357**	***NA***	**219**	***NA***	**54,280**	***NA***	**118**	***NA***

Please read Section 7 "Results of Operations" in Part IX (Operating and Financial Review and Prospects) regarding further information about the segmentation applied by the Group.

In addition to geographical segmentation the Group's operations can be divided into three key business areas:

- **sales of real estate**, which mainly consists of the development and sales of apartments in premium residential real estate properties in the Baltic States;
- **lease of commercial premises**, which mainly consists of the development and lease of premises in retail and office properties in the Baltic States; and
- **real estate management**, which mainly consists of the management of cash flow generating retail, office and accommodation properties (including hotels) and offering of maintenance services.

Other operations mainly include provision of consulting or other services.

The above-referred business areas of operations are also the main sources of the Group's revenue. The table below presents the breakdown of the revenue for the three last financial years:

	2009		**2010**		**2011**		**Six months ended 30 June 2012**	
	'000 EUR	**%**	**'000 EUR**	**%**	**'000 EUR**	**%**	**'000 EUR**	**%**
Sales of real estate	5,958	*27%*	7,310	*35%*	7,490	*43%*	5,661	*57%*
Rental income	9,005	*41%*	7,472	*35%*	4,138	*24%*	500	*5%*
Real estate management	6,655	*30%*	5,355	*25%*	4,719	*27%*	2,808	*28%*
Other	381	*2%*	914	*5%*	1,102	*6%*	963	*10%*
Total revenue	**21,999**	***100%***	**21,051**	**100%**	**17,449**	**100%**	**9,932**	***100%***
Other operating income	**1,357**	***NA***	**219**	***NA***	**54,280**	***NA***	**118**	***NA***

Sales of Real Estate

Development and sale of residential real estate is a core business area for the Group, accounting for 57% of consolidated recurring revenues of the Group in the first half of 2012 and 43% in 2011. The focus is primarily on development of premium residential property for further sale.

Business process of residential developments

The lifecycle of the residential property development projects can be split into four phases: (i) the acquisition of land plots, (ii) planning, (iii) execution and (iv) sales.

The Group has been targeting acquisitions of land plots in premium locations in the capitals of the Baltic States. Focus has been on acquisition of sizeable land plots in order to develop large-scale living environments. Centrally located abandoned Soviet industrial zones have proven to be suitable targets for that matter. During late 1990s and early 2000s the Group acquired various properties with attractive development potential, mainly strategically located land plots and amortized buildings, in Tallinn, Riga and Vilnius. The Group has successfully completed and exited numerous development projects on those properties, while several properties still remain to be developed. The Group has not been actively acquiring new land plots for the last several years as the existing land portfolio has been sufficient for utilizing the Group's resources. However, should attractive opportunities arise, the Group is ready to acquire additional properties for development.

Strategic planning of each project, including conducting market research, choosing project type, purpose of real estate, size, development timeline and other key elements, is done in-house by the Group's employees. The planning phase requires close co-operation with the respective municipality in order to obtain necessary approvals and ensure project's fit in the surroundings from the city plan-

ning perspective. The Group commissions detailed planning for the project it intends to develop, which is required for obtaining approvals for building activities from the municipality. The detailed planning forms the basis for land use and building activities on a given territory or land plot. It specifies the division of the territory being planned into land plots, construction rights attaching to each land plot, area that can be occupied by buildings, areas reserved for streets and other infrastructure, environmental provisions for implementation of the plan, etc. The construction rights for each land plot specify its intended use or uses, maximum number of buildings, maximum area under the buildings and maximum height of the buildings.

The preparation and adoption of detailed planning involves several procedural steps and stages, the length and outcome of which may vary. Working drafts of the detailed planning proposal need to be coordinated with various administrative agencies, such as the heritage and environmental protection authorities, and must be made publicly available for comments and objections. Also, public hearings must be held in the course of the procedure. Comments and objections of interested parties are to be taken into account to the extent possible. In some cases, a strategic environmental impact assessment must be prepared as part of the preparation for detailed planning. The municipal authorities can adopt the detailed planning only after all these steps and procedures have been successfully completed.

The detailed planning approval can take up to three years, and sometimes even longer. Given the complexity of the local municipality approval process and its critical importance to the implementation of the project, successful completion of the detailed planning phase is crucial for any development project. After approval of detailed planning the architectural contractor prepares the building design documentation for applying for a building permit for the project. The building permit issued by the municipality is required to commence construction. The building permit can be obtained within approximately six months from completion of the design documentation.

The Group commissions reputable construction and architectural contractors for each project. The contractors are chosen in tenders. Construction is commenced after approval of detailed planning, completion of design documentation and receiving of building permit. Execution of the construction phase is controlled by the Group's in-house team. Professional contractors and the Group's experience in supervising large development projects ensure proper cost control during the execution. After completion of the construction the developer is required to apply to the municipality for a permit for use, which is granted after the inspection of the building by the local authorities.

Under the terms of the construction contract, the main contractor provides a guarantee of construction works as to the quality of the workmanship and materials, the guarantee indicates, that the construction complies with the contract and that the construction is safe and fit for use. The guarantee is granted for a period of at least two years as of the date on which the building is completed. The contractor must correct at its expense and within a reasonable period of time any construction faults or deficiencies that become evident during that period.

The Group commences the sales process during the process of real estate development. A part of residential premises is sold in advance, and advance payments are used to finance project development. Remaining part of apartments is sold after completion of property construction. The sales are carried out by the Group's in-house sales team and external brokers. The Group co-operates with all the major real estate brokers in the region on a success fee basis. Additionally, the Group leases some of its unsold apartments in the period of unfavourable market conditions. Apartments are expected to be leased until market environment improves considerably and an attractive opportunity to sell those apartments appears.

Clients of residential developments

Most of the Group's projects are targeted at middle and upper class households interested in upgrading their living conditions or acquiring their first dwelling. Also foreign buyers form a significant customer base in the business area, especially in developments in Riga. The Group's offering stands out with high building standards and location near the city centre. The Group seeks to develop coherent living environments as opposed to developing a single building, hence attracting clients from upper income tiers.

Residential development project portfolio

Currently the Group's residential development portfolio consists of six projects – Tallinas St. Residential Complex, Klīversala Residential Complex and Zvaigznes Centre located in Riga, Tondi Quarter and Kalaranna Residential Complex located in Tallinn and Šaltinių Namai Residential Complex in Vil-

nius. In addition to that, certain developed real estate (e.g. apartment ownerships in Ilmarine Quarter) is available for sale.

Please also read “Residential Development Projects and Properties” and “Other Properties” in Section 6 (Projects and Properties) of this Part XI (Business).

Financing of residential development projects

The Group’s development projects are usually owned by a special-purpose company established to acquire the land plot and start the process for detailed planning and obtaining building permit. Historically the project vehicle has financed a part of the land acquisition and initial project stages by equity provided by the Group. Another part is financed using short-term bank lending, which is either non-recourse financing secured by the acquired asset or recourse financing guaranteed by the Group. The purpose of using a special-purpose vehicle is mainly due to its ability to limit the Group’s risk to a particular project. When active development of a project starts, a part of financing required for construction is retained from pre-sale of apartments. Therefore, residential projects are developed in phases – it is easier to sell apartments in advance if construction period of a building is rather short.

Please also read “Loan Agreements and related Financing Documents” in Section 9 (Material Contracts) of this Part XI (Business).

Competition in residential development market

Residential projects developed by the Group compete with the projects developed by specialized real estate developers, construction companies or smaller one-project developers. The period of 2008-2009 changed the competitive environment in real estate development markets in the Group’s business geographies. Numerous small- and mid-sized developers have ceased their operations due to liquidity issues, while large established construction companies have remained. Overall, the Management Board believes that currently the situation in the industry has stabilized and the environment will become gradually more competitive. An overview of selected recent and upcoming projects in Estonia, Latvia and Lithuania is provided in Section 3 (Real Estate Market in the Group’s Key Markets) of Part X (Industry Overview).

The following residential real estate developers are considered to be the Group’s main competitors. However, the business activities of the competitors vary to a certain extent as the mix of development projects and investment property is different in each case:

Name of the Company	Description	Revenue in 2011, EUR million
The Group	Real estate developer	7.5[1)]
Arco Vara AS	Real estate development, brokerage and construction firm	23.0[2)]
AS TTP	Residential real estate developer	4.6
Hanner UAB	Real estate developer	6.6
Merko Ehitus AS	Construction and residential property development	18.9
NCC Property Development SIA	Real estate development arm of Nordic construction / development firm	n/a
YIT Oyi	Construction and residential property development firm	98.5[2)]

[1)] Revenue from sale of real estate
[2)] Total revenue in the Baltic States (including construction and building services)
Source: Estonian Commercial Register, Latvian Enterprise Register, Lithuanian Enterprise Register

Lease of Commercial Premises

Development, lease and divestment of commercial real estate form another major part of the Group’s business, accounting for 5% of the Group’s total revenues in the first half of 2012 and 24% in 2011. Historically the investment property of the Group is formed from the successfully completed commercial development projects that the Management Board believes is beneficial to continue holding within the Group as cash flow generating objects.

Business process of commercial developments

The lifecycle of the commercial property development projects can be split into five phases: (i) acquisition of land plots, (ii) planning, (iii) execution, (iv) management and (v) divestment.

First three phases of development, namely acquisition of land plots, planning and execution, are similar to respective phases of development of residential properties, and are described above under "Sales of Real Estate" in this Section 5 (Operations) of this Part XI (Business).

However, business processes that follow completion of commercial property construction differ from development of residential real estate. In order to maximize the value of commercial property, the Group is involved in day-to-day management of the property for certain period after completion of construction. The Group finds an appropriate mix of tenants, markets the property to the general public and provides facility management services, thus ensuring development of the project to its full potential. During the period of commercial property ownership and management the Group receives rental income from tenants, which constitutes a significant portion of total revenues. Rental income is affected by two main factors: vacancy of the property and rent level. Whereas market environment has a significant effect on these two factors, successful management of the property is crucial to achieve low vacancy and high rent levels.

After the commercial project is running at full potential, meaning that most of area is leased out and substantial rental income is generated, the Group usually is seeking an opportunity to divest the property. The Group carefully evaluates existing and potential market environment in order to choose the best timing for the sale of property. The divestment process is carried out by the Group's in-house team that has significant experience in exiting numerous projects.

Clients of commercial developments

In the commercial business area, the Group is focused on creating value for customers by selecting retailers that together constitute an appealing merchandizing mix. Thus, customers appreciate ability to do shopping in one place, where all the necessary goods and services are available from high quality providers.

Among other matters the Group is also assessing the credit risk of the client before signing a lease contract. Key terms of the lease contracts such as rental rate, term of the agreement, potential termination and others vary depending on the size and type of the premise.

The Group seeks to divest leased-out and fully developed commercial properties. Such properties are sold to strategic investors or real estate funds when attractive exit opportunity arises.

Commercial development project portfolio

Currently the Group's commercial development portfolio comprises of one project in Tallinn – Peterburi Rd. Shopping Centre.

Please also read "Commercial Development Projects and Properties" in Section 6 (Projects and Properties) of this Part XI (Business).

Financing of commercial development projects

The Group's commercial development projects are usually owned by a special-purpose company, similarly to residential development projects. Historically the project vehicle has financed 50-100% of the land acquisition and initial project stages by equity provided by the Group. The remainder is financed using short-term bank lending, which is either non-recourse financing secured by the acquired asset or recourse financing guaranteed by the Group. Special-purpose vehicles have mainly been used in order to limit the Group's risk to a particular project and to provide flexibility in case the Management Board believes it is beneficial to divest the project.

Competition in commercial development market

Commercial projects developed by the Group compete with other projects developed by specialized real estate developers. The competitive environment in commercial real estate development market is different from residential real estate market. Small- and mid-sized developers play a minor role, mainly being involved in development of smaller-scale office properties. Large international and local developers are main competitors of the Group as scale and know-how are necessary for development of large-scale commercial properties. Overall, the Management Board believes that the environment will become gradually more competitive following stabilization of economic and real estate market environment.

The following commercial real estate developers are considered to be the Group's principal competitors. However, the business activities of the competitors vary to a certain extent as the mix of development projects and investment property is different in each case:

Name of the Company	Description	Revenue in 2011, EUR million
The Group	Real estate developer	4.1[1)]
Akropolis Group UAB	Developer of shopping malls	n/a
Citycon Baltics	Manager of shopping malls	21.2[2)]
E.L.L. Kinnisvara AS	Real estate developer	37.3
Linstow	Developer of shopping malls	34.3[3)]
NCH Capital	Real estate developer	n/a

[1)] Rental income
[2)] Gross rental income
[3)] Sum of revenues of the shopping malls owned by Linstow in the Baltic States
Source: Estonian Commercial Register, Latvian Enterprise Register, Lithuanian Enterprise Register

Real Estate Management

Management of real estate accounted for 28% of consolidated revenues of the Group in the first half of 2012 and 27% in 2011. Investment property management compliments the development activity of the Group by generating relatively stable cash flow. The current focus is mainly on operating hotels. However the Group has significant experience also in commercial property management, particularly in management of shopping centres.

Business process of real estate management

The Group has extensive competence in not only development, but also management of retail properties. The multi-staged development of Kristiine Shopping Centre in Tallinn included more than decade of active management of the project. In parallel, the Group levered its expertise by managing Domina Shopping Centre in Riga for about 5 years in total both on its own behalf as well as after divestment representing its new investor. Therefore the Group has gained extensive experience in active retail space management and has a thorough understanding of the market, which can be utilized in future projects.

Prior to the Division of the Company in 2011, the core competence of the Group's investment property business area was international management of hotel property. Currently the Group is involved in hotel operations in Estonia, Latvia, and Germany. Each of the hotels is structured as a subsidiary of the Company and has an independent management for running the day-to-day operations. The Group operates the hotels under a common brand name "PK Hotels".

Although historically most of the real estate in the investment properties business area have been both managed and owned by the Group, the ownership of the property is not a must and in case an attractive opportunity arises the Group is willing to engage in a long-term lease agreement. This particular approach was used with World Trade Centre Riga office building and PK Parkhotel Kurhaus in Bad Kreuznach, Germany.

Revenue in real estate management segment consists of management fees for provision of day-to-day management services, which form a quite stable cash flow to the Group that is less dependent on market conditions than sales of real estate and rental income. In this way the Group is limiting risks related to the industry and general market environment.

Clients of real estate management

Both corporates as well as private individuals form the client base for the properties that the Group is managing. In the hotel management area most of the clients are private individuals and the overall client flow is dependent on general developments in tourism market. In the office management area with World Trade Centre Riga office building the Group is servicing corporate customers and is exposed to general office rental market in Riga.

Property portfolio in real estate management

Currently the Group's investment property portfolio comprises of four projects – PK Riga Hotel and World trade Centre in Riga, PK Ilmarine Hotel in Tallinn and PK Parkhotel Kurhaus in Bad Kreuznach, Germany. As the Group recently divested Kristiine Shopping Centre the current focus of the real estate management business area is on operating hotels and managing office property.

Please also read "Properties in Real Estate Management" in Section 6 (Projects and Properties) of this Part XI (Business).

Competition in real estate management

In the commercial real estate management business area the Group's properties under management compete with other major owners of commercial properties in the region, and competition environment in this segment is explained in the section above.

In the hotel management business area the Group competes both with major international and local hotel chains and individual hotels. The competition environment in hotel market is quite intense taking into account large supply and quite high vacancy rates, which has a downward effect on prices. The market is dominated by a large number of small players operating a single hotel. However, international and local hotel chains also represent a significant force in the market. An overview of hotel market in Estonia and Latvia is provided in Section 3 (Real Estate Market in the Group's Key Markets) of Part X (Industry Overview).

The following hotel operators are considered to be the Group's principal competitors in Tallinn:

Name of the Company	Description	Revenue in 2011, EUR million
Go Hotels OÜ	Operator of a hotel located near to the Old Town of Tallinn	1.2
Barons Hotels OÜ	Operator of two hotels located in the waterfront area and in the Old Town of Tallinn	2.6[1)]
Meriton Hotels AS	Operator of three hotels in Tallinn	11.2

[1)] Only revenue in 2010 available
Source: Estonian Commercial Register

The following hotel operators are considered to be the Group's principal competitors in Riga:

Name of the Company	Description	Revenue in 2011, EUR million
Albert Management SIA	Operator of a hotel located in the business centre of Riga	3.7
Hanza hotels SIA	Operator of a hotel located in the business centre of Riga	1.1[1)]
Hotel Valdemars SIA	Operator of a hotel located in the business centre of Riga	1.3

[1)] Only revenue in 2010 available
Source: Latvian Enterprise Register

Owing to the fact that Bad Kreuznach is a small town in Germany without a proper hotel market, it is not possible to indicate principal competitors in Bad Kreuznach.

6. PROJECTS AND PROPERTIES

In this Section an overview of the development projects and immovable property of the Group has been provided. The portfolio of the projects and the properties consists of:

- six on-going developments of residential property described below under “Residential Development Projects and Properties”;
- one on-going development of retail property described below under “Commercial Development Projects and Properties”;
- three hotels and one commercial property being under the management of the Group described below under “Properties in Real Estate Management”; and
- other properties, including those that have been developed in Ilmarine Quarter, that have not been disposed of yet, which are described below under “Other Properties”.

According to the Appraisal Report incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference)), the portfolio of the Group is valued at EUR 180.0 million (10 projects located in Estonia, Latvia and Lithuania were valued in April 2012 at EUR 172.5 million and one project in Germany was valued in June 2012 at EUR 7.5 million) and it consists of: (i) residential developments with the Investment Value of EUR 114.3 million, (ii) retail development with the Investment Value of EUR 43.9 million and (iii) hotels with the Investment Value of EUR 21.9 million. The summary of the Group’s project portfolio is provided in the table below:

Project	Type of asset as at 31/03/2012, EUR ‘000	Project book value as at 30/06/2012, EUR ‘000	Appraised Investment Value by Newsec, EUR ‘000	Estimated development period	Current project status
Peterburi Rd. Shopping Centre	Investment property	26,000	43,890	2012-2017	Building permit applied for shopping centre
Šaltinių Namai Residential Complex	Inventories	14,412	17,310	2012-2020	First phase almost completed
Tondi Quarter	Inventories	10,206	31,100	2012-2023	First phase completed, building permit applied for second phase
Klīversala Residential Complex	Inventories	8,869	29,900	2014-2020	Establishment of detail plan in progress
Tallinas St. Residential Complex	Inventories	6,501	5,400	2013-2017	Work on technical design
Kalaranna Residential Complex	Inventories	4,927	26,100	2013-2019	Establishment of detail plan in progress
Zvaigznes Centre	Inventories	2,469	3,400	2013-2017	Project approved by the municipality
Ilmarine Quarter	Inventories[1)]	1,611	1,070	n/a	Apartments on sale
PK Parkhotel Kurhaus	Land and buildings	8,628	7,490	n/a	Hotel operating
PK Ilmarine Hotel	Land and buildings	6,037	7,190	n/a	Hotel operating
PK Riga Hotel	Land and buildings	5,837	7,180	n/a	Hotel operating
Total		**95,497**	**180,030**		

[1)] Some apartments in the Ilmarine Quarter project are rented out, and hence recorded on the balance sheet of the Group as investment property with book value of EUR 89 thousand as at 30 June 2012

Source: Newsec, the Company

Please refer to the Appraisal Report for further information.

The Company confirms that there have been no material changes to the above-referred properties as from the date of their valuation.

Residential Development Projects and Properties

Tondi Quarter

Description of the Project

Type of project:	development of primarily residential and secondarily commercial property
Location:	Kristiine borough, a residential area in the City Centre periphery of Tallinn
Expected development period:	2012-2023; the first stage of the second phase, which will *inter alia* be financed from the proceeds from the Offering in 2013-2015
Expected construction cost:	EUR 118.1 million; expected construction cost of the first part of the second phase is EUR 11 million
Planned GBA on ground, m^2:	116,040; GBA on ground of the first part of the second phase is planned to be 9,300
Planned GSA, m^2	83,462; GSA of the first part of the second phase is planned to be 6,700
Parking, units	1,450; including 105 units in the first part of the second phase
Exit strategy:	the Group is planning to exit the project by selling all apartments and commercial premises

The business plan for the Tondi Quarter foresees a series of apartment and office buildings built on land plots historically occupied by barracks. The location is attractive for a residential area – it is close to city centre and at distance from the main roads. The project is expected to be developed in five phases. The first phase, renovation of an old brick building at Tondi St. 51 into apartments, has been completed and is currently on sale. The proceeds from the Offering will *inter alia* be used for financing the development of the first part of the second phase of the project. During the first part of the second phase of the project 3 out of ten 5-storey apartment buildings with a total of 93 out of 309 apartments are planned to be built.

The detailed plan for the whole Tondi Quarter (including for the development of all five phases of the project) has already been established. Building permit applications for starting the second phase of the development have been submitted to the Tallinn City Planning Department for the total 10 apartment buildings.

Overall, Tondi Quarter is targeted to middle class individual buyers who prefer to live in the proximity of city centre and appreciate a spacious green environment.

The first stage of the second phase of Tondi Quarter is planned to be financed from the proceeds of the Offering, and bank loan and presale of the apartments. Subsequent phases of the project shall be financed by the presale of apartments, the Company's cash-flow, additional bank financing and further increase of share capital when decided on and approved by the shareholders of the Company. Please also read Part V (Background, Reasons for Offering and Use of Proceeds).

Property

Tondi Quarter consists of 12 land plots (one of which has already been divided into apartment ownerships and partly sold). The size of the project territory is 128,390 m^2. As at 30 June 2012 5 apartment ownerships in the building at Tondi St. 51, which has been developed in the first phase of the project, were not sold out and were owned by AS Tondi Kvartal, a subsidiary of the Company. The unsold apartment ownerships at Tondi 51 are encumbered with 1st ranking combined mortgage in favour of AS Swedbank in amount of EUR 2,939,936.

AS Tondi Kvartal also owns the following land plots that are designated for the development of the next phases of the development of Tondi Quarter, which form 100% of the land plots that will be developed in the second to fifth phase of the project:

- A.H. Tammsaare tee 56/58, a land plot of 7,404 m^2, purpose of use: 100% commercial land;
- Marsi 6, a land plot of 3,584 m^2, purpose of use: 100% commercial land;
- Tondi 51d, a land plot of 10,372 m^2, purpose of use: 20% commercial land and 80% residential land;
- Tondi 51f, a land plot of 3,851 m^2, purpose of use: 80% commercial land and 20% residential land;

- Marsi 3a, Marsi 3b, Marsi 3, Sammu 6a, Sammu 6, Sammu 6b, Sõjakooli 12, Sõjakooli 12a, Sõjakooli 12b, Sõjakooli 12c. (formerly Tondi 53c), a land plot of 21,958 m^2, purpose of use: 10% commercial land and 90% residential land;
- Tondi 53, a land plot of 25,574 m^2, purpose of use: 80% commercial land and 20% residential land;
- Tondi 53a, a land plot of 3,800 m^2, purpose of use: 100% commercial land;
- Tondi 53b / Seebi 24a, a land plot of 22,825 m^2 + 5,286 m^2, purpose of use (i) 22,825 m^2: 70% commercial land and 30% residential land and (ii) 5,286 m^2: 50% commercial land and 50% production land;
- Tondi 49a, a land plot of 2,754 m^2, purpose of use: 100% social land; and
- Tondi 57, a land plot of 13,458 m^2, purpose of use: 70% commercial land and 30% residential land.

Essential parts of some of the above-referred land plots are buildings of Russian Empire military forces, which will be reconstructed or renovated in the course of further development of Tondi Quarter. All the above-listed land plots are encumbered with the following mortgages in favour of AS Swedbank: (i) 1st ranking combined mortgage in amount of EUR 14,060,563; (ii) 2nd ranking combined mortgage in amount of EUR 6,391,165; and (iii) 3rd ranking combined mortgage in amount of EUR 9,599,977. No outstanding obligations are secured by the mortgages.

The land plots at A.H. Tammsaare tee 56/58, Marsi 6, Tondi 49a, 51, 51f, 51d, 53, 53a, 53c, Tondi 53b / Seebi 24a and Tondi 57 were acquired by AS Tondi Kvartal in 2004.

Tallinas St. Residential Complex

Description of the Project

Type of project:	development of residential and commercial property
Location:	in Riga at the right bank of river Daugava right next to the border of Riga's historical City Centre between two important streets, i.e. Brivibas and Valdemara
Expected development period:	2013-2017
Expected construction cost:	EUR 29.1 million
Planned GBA on ground, m^2:	25,307
Planned GSA, m^2	18,845 (out of which 17,650 m^2 is residential space)
Parking, units	355
Exit strategy:	the Group is planning to exit the project by selling all apartments and commercial premises

The business plan for the Tallinas St. Residential Complex foresees a series of apartment buildings with a commercial function on the ground floor. The location is attractive for a residential area – it is located right next to the Riga City Centre and enjoys a good access both by cars and public transport.

Currently the project land plot occupies amortized buildings, some or all of which are planned to be demolished and some reconstructed. Building permit for reconstruction purposes has not been applied for yet. The Group commenced development of the Tallinas St. Residential Complex in 2004. The territory of the land plot has been prepared for construction – work on technical design of the project was commenced, suspended and currently restarted with the new revised concept. The detail plan is not required for the territory and architectural-planning task has already been issued by the Construction Department of Riga municipality and it is valid until 15 August 2015.

The project is expected to be developed in one single phase. Overall, the project is targeted to middle class seeking to upgrade their living condition without sacrificing a location close to the city centre.

The project is planned to be financed from the proceeds of the Offering, presale of apartments and bank loan. Please also read Part V (Background, Reasons for Offering and Use of Proceeds).

Property

The size of the project land plot is 17,071 m^2. The project land plot is owned by SIA "Tallina nekustamie īpašumi", a subsidiary of the Company. The purpose of the land plot is mixed use (both residential and commercial) – 2,298 m^2 of the land plot is commercial land and the use of 14,773 m^2 is industrial built-up land. The land plot is not encumbered with mortgages. Use of the plot is restricted by the requirements of the building regulations for Riga historical centre and its protection zones.

SIA "Tallina nekustamie īpašumi" acquired the main land plot and the majority of buildings thereon in 1999 and 2000. Additionally one land plot of 770 m^2 was acquired in 2004 and two land plots with heating house, chimney, cellar and several auxiliary buildings were acquired in 2005. All of these land plots have been merged by now.

Kalaranna Residential Complex

Description of the Project

Type of project:	development of residential property
Location:	North-Tallinn borough – a residential and industrial area very close to Tallinn Old Town, the passenger port and City Centre of Tallinn
Expected development period:	2013-2019
Expected construction cost:	EUR 58.7 million
Planned GBA on ground, m^2:	40,780
Planned GSA, m^2	33,013 (out of which 27,600 m^2 is residential space)
Parking, units	708
Exit strategy:	the Group is planning to exit the project by selling all apartments

The business plan for the Kalaranna Residential Complex foresees a series of luxury apartment buildings offering a waterfront view. The location is attractive for a residential area – it is located next to the sea, Old Town and City Centre and it enjoys a good access both by cars and public transport.

Establishment of the detailed plan of Kalaranna Residential Complex is currently in process.

Historically the Kalaranna Residential Complex territory has been a fishing harbour and a market place. The project is expected to be developed preferably in single phase including together with the apartment buildings and a yacht marina. Overall, the project is targeted to wealthy individual buyers who prefer to live in the proximity of city centre and appreciate a sea view.

The project is planned to be financed by the Group's equity, prepayments of customers and bank loan.

Property

The land plot of 60,958 m^2 designated for the development of the project is located at Kalaranna St. 1 and owned by AS Pro Kapital Eesti. Registered purpose of use of land is 50% commercial land and 50% transportation land. All old buildings that were located at the land plot have been demolished.

Kalaranna land plot is encumbered with the following mortgages in favour of AS Swedbank: (i) 1st ranking mortgage in amount of EUR 1,278,233 (with interest rate of 13% p.a. and collateral claims of EUR 62,586); (ii) 2nd ranking combined mortgage in amount of EUR 6,391,165 and (iii) 3rd ranking combined mortgage in amount of EUR 9,599,977. No outstanding obligations are secured by the mortgages.

The above land plot was acquired by AS Pro Kapital Eesti in 2003.

Klīversala Residential Complex

Description of the Project

Type of project:	development of residential and commercial property
Location:	in Riga at the left bank of river Daugava between two bridges and next to one of the biggest parks of Riga. It is situated at the waterfront of river Daugava and enjoys views to the Old Town on the opposite bank

Expected development period:	2014-2020
Expected construction cost:	EUR 91.4 million
Planned GBA on ground, m^2:	62,760 (excluding parking)
Planned GSA/GLA, m^2	49,920 (out of which 31,600 m^2 is residential space)
Parking, units	830
Exit strategy:	the Group is planning to exit the project by selling all apartments and commercial premises

The business plan for the Klīversala Residential Complex foresees a series of exclusive apartment buildings offering exclusive view to the historic Riga Old Town coupled with commercial premises with an option to build a hotel. The location is attractive for upscale residential and specialized commercial real estate development.

Currently the project land plot occupies amortized buildings that are planned to be demolished. The development and approval of detail plan with the Riga City municipality is in process.

Klīversala Residential Complex is expected to be developed in several phases. Overall, Klīversala Residential Complex is targeted to wealthy buyers who prefer to live in the proximity of city centre and appreciate a waterfront view.

The project is planned to be financed by the Group's equity, prepayments of customers and bank loan.

Property

Total of six land plots are involved in the development of the Klīversala Residential Complex. The size of the project territory is 51,674 m^2.

The six land plots of Klīversala Residential Complex are owned by SIA "Klīversala RE", a subsidiary of the Company. These land plots include: (i) a land plot of 38,436 m^2 at Trijadibas iela 5, purpose of use: industrial built-up land, one old building (technical building with social block), owned by SIA "Klīversala RE", is located on the land plot; (ii) land plot of 1,980 m^2 at Trijadibas iela 5, purpose of use: built-up land of state objects of protection, safety, police, fire fighting and rescue services, border guard and penal institutions, one old building (bomb shelter), owned by SIA "Klīversala RE", is located on the land plot; (iii) a land plot of 991 m^2 at Trijadibas iela 5, purpose of use: industrial built-up land (65 m^2), commercial built-up (463 m^2) and other public significance built-up land (463 m^2); (iv) a land plot of 733 m^2 at Trijadibas iela 5, purpose of use: industrial built-up land; (v) a land plot of 5,278 m^2 at Kugu iela, purpose of use: commercial built-up (5,174 m2) and parking garage land (104 m^2); and (vi) a land plot of 4,256 m^2 at Kugu iela, purpose of use: railway infrastructure and road land.

According to the municipality spatial plan and the Riga historical centre and its protection zones spatial plan the permitted use of the land plots from (i) to (v) above is centre built-up land (intensive mixed built-up with various commercial function and residential buildings). The land plot described under (vi) above is planned as a territory for new streets. Use of the above plots is restricted by the requirements of the building regulations for Riga historical centre and its protection zones. Detail plan of the project is under development and according to Management Board's belief should be accepted by municipality in the near future.

The land plots owned by SIA "Klīversala RE" and described under (i), (ii) and (iii) above and buildings located on the land plots described under (i) and (ii) above, are encumbered with the following mortgages in favour of AS Swedbank: (i) 1st ranking mortgage, secured amount of claims – EUR 11,317,335 (LVL 7,953,868); and (ii) 2nd ranking mortgage, secured amount of claims – EUR 8,663,859 (LVL 6,088,995). The land plot referred to under (v) above is encumbered only with the above-named 1st ranking mortgage.

Three land plots out of six for this project were acquired in 2001 by AS "Pro Kapital Latvia" by the acquisition of 100% of shares of SIA "Klīversala RE" from "Talinvest Real estate" JSC and "Nordeco" LLC. The land plot described under (v) above was acquired in 1999 by AS "Pasaules tirdzniecības centrs "Rīga"" and in 2010 was transferred to SIA "Klīversala RE" as part of reorganization of AS "Pasaules tirdzniecības centrs "Rīga"" and SIA "Klīversala RE". The land plot described under (vi) above as part of larger land plot originally was acquired in 1999 by AS "Pasaules tirdzniecības centrs "Rīga"", in 2000 was invested in the share capital of SIA "Nekustamo īpašumu sabiedrība "PROKURS"" by contribution in-kind and in 2010, after parcelling of the land plot owned by SIA "Nekustamo īpašumu sabiedrība "PROKURS"", transferred to SIA "Klīversala RE".

In addition to the above described plots SIA “Klīversala RE” leases a land plot of 1,654 m^2, which is the part of the land plot of 5,463 m^2 at Trijadibas iela belonging to Cepu family and SIA ANGELO. The lease agreement has been concluded for 50 years and has been registered in Latvian Land Register which makes it binding to any third party and the lease remains effective in case of alienation of the land plot. SIA “Klīversala RE” has pre-emption rights to the leased land in case of alienation of the land plot. SIA “Klīversala RE” is entitled to perform construction works on the leased land plot and to register the respective constructed objects as separate real properties of SIA “Klīversala RE” in the Latvian Land Register.

Zvaigznes Centre

Description of the Project

Type of project:	development of residential and commercial property
Location:	in Riga at the right bank of river Daugava next to the border of Riga’s historical city centre facing the crucial commercial road of Riga, i.e. Brivibas iela (at one of the main transport arteries heading through the City within former industrial area)
Expected development period:	2013-2017
Expected construction cost:	EUR 24.0 million
Planned GBA on ground, m^2:	23,131
Planned GSA, m^2	17,949 (out of which 11,277 m^2 is residential space)
Parking, units	277 underground parking units and 44 units on territory (for rent)
Exit strategy:	the Group is planning to exit the project by selling all apartments and commercial premises

The business plan for the Zvaigznes Centre foresees renovation of the existing industrial building into a residential and office building and a construction of six new buildings for residential and retail purposes.

Currently buildings that will be partly renovated and partly demolished are located on the land plot. A building permit for reconstruction works has been issued and it is valid until 1 July 2013. Technical design for the project has been approved by the municipality and the territory has been prepared for reconstruction. The reconstruction works have been suspended for the time being.

Zvaigznes Centre is expected to be developed in two phases – renovation works of the existing building will be carried out in the first phase and construction of new buildings will be carried out in the second phase.

The project is planned to be financed by the Group’s equity, prepayments of customers and bank loan.

Property

SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"", a subsidiary of the Company, is the owner of two land plots designated for the development of Zvaigznes Centre. One with total area of 15,334 m^2 is located at Brivibas St. 193 and the other with total area of 1,636 m^2 is located at Brivibas St. 193 k-1. The first land plot has two industrial buildings on it. The purpose of use of both land plots is mixed use (both residential and commercial).

The real properties are not encumbered with mortgages. SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"" acquired land for this project in 2000 and 2004.

Šaltinių Namai Residential Complex

Description of the Project

Type of project:	development of residential property
Location:	Vilnius Old Town
Expected development period:	2012-2020
Expected construction cost:	EUR 22.6 million
Planned GBA on ground, m^2:	41,252 (in the first stage completed GBA is 19,110 m^2 and planned yet to build for completing the first stage 4,894 m^2 of GBA. The total GBA of the first stage is 24,004 m^2 on ground and 7,400 m^2 underground (already completed) and in

	the second stage GBA is 17,248 m^2 on ground and 7,300 m^2)
Planned GSA, m^2	GSA 19.040 m^2 (GSA of the first stage is 15,284 m^2)
Parking, units	337 (61 in completed phase and 276 in second phase)
Exit strategy:	the Group is planning to exit the project by selling all apartments

The business plan for the Šaltinių Namai Residential Complex foresees a series of apartment buildings, cottages and commercial units. The location is attractive for residential area – it is located next to historical part of Vilnius and enjoys a good access both by cars and public transport.

Šaltinių Namai Residential Complex is developed in two stages.

The first stage of the project is almost completed with GSA of 15,284 m^2 (together with parking units, GBA completed by 30 June 2012 is 26.510 m^2) out of the planned GSA of 19,084 m^2 of the total residential and commercial premises to be built. The construction works of the first stage are intended to be completed in 2013. During the first stage a 7-floor residential house of 1,128.03 m^2 at Aguonų St. (having 19 units) and a 6-floor building of 2, 627.93 m^2 (having 48 units) will additionally be built by 2013.

The implementation of the second stage of the project has not been commenced yet (except the partial demolition of the buildings located on the territory of implementation of the second stage). PK Invest UAB has received the approval of the detailed plan for the second stage allowing construction of residential premises of about 13,236 m^2. Currently the projecting of the second stage is in progress and the PK Invest UAB seeks to receive building permit for the second stage in 2013.

The project is planned to be financed by the Group's equity, prepayments of customers and bank loan.

Property

The property of Šaltinių Namai Residential Complex is located at Aguonų and Šaltinių streets in Vilnius. Šaltinių Namai Residential Complex is developed at the following state-owned land plots, which are leased by PK Invest UAB for the period of 99 years (i.e. until 21 December 2104):

- a land plot of 11,577 m^2 at Aguonų St. 14, where the buildings of first stage of the development are located at;
- a land plot 1,606 m^2 at Aguonų St. 10, which is being developed at the first stage of the development as an inner street of the quarter;
- land plots of 8,084 m^2, 102 m^2 and 1,434 m^2, which are designated for the second stage of the development.

120 property units out of 173 (143 apartments, 11 terrace houses and 19 commercial units), which have been developed in Šaltinių Namai Residential Complex, have already been sold. Thus, as at 30 June 2012 PK Invest UAB was the owner of:

- 9 terrace houses (Šaltinių St. 48, 46, 42, 38, 36, 34, 32, 30 and 28);
- 14 apartments and 5 commercial premises in a multi-apartment residential building at Aguonų St. 14;
- 1 apartment and 4 commercial premises in a multi-apartment residential building at Aguonų St. 12;
- 2 apartments and 2 commercial premises in a multi-apartment residential building at Šaltinių St. 22; and
- 11 apartments and 5 administrative premises in a multi-apartment residential building at Šaltinių St. 26.

PK Invest UAB also owns:

- a building with total area of 7,097.06 m^2 at Aguonų St. 10, which has been partly demolished and shall be completely demolished for the purposes of the second stage of the project; and
- an unfinished multi-apartment residential building at Šaltinių 24 with planned total area of 2,642.68 m^2 and total number of apartments of 48.

All of the above described properties i.e. land plots, buildings, terrace houses and apartments, owned by PK Invest UAB and rights to the land plots are encumbered with a mortgage of EUR 17,380,205 in favour of Swedbank AB.

The above-referred land plots lease rights with the currently demolished buildings were acquired by PK Invest UAB in 1999.

Commercial Development Projects and Properties

Peterburi Rd. Shopping Centre

Description of the Project

Type of project:	development of shopping centre and office property
Location:	in Tallinn Lasnamäe commercial district next to the crossroad of St. Petersburg and Tartu roads – a crossroad with most of passenger traffic in Tallinn
Expected development period for a shopping centre:	2012-2017 (excluding the period of operating Peterburi Rd. Shopping Centre before its sale)
Expected construction cost of the shopping centre:	EUR 121.7 million (88.9 million of shopping centre and 32.8 million of office property)
Planned GBA on ground, m^2:	174,400, including underground and multifloor parking (130,400 of shopping centre and 44,000 of office property)
Planned GLA, m^2	77,880 (55,000 of shopping centre and 22,880 of office premises)
Parking, units	1,549 (1,109 of shopping centre and 440 of office property)
Exit strategy:	the Group is planning to own and operate the property for certain time period in order to stabilize the shopping centre (such period will be determined during stabilization of the shopping centre). Following that, sale of property is planned

The business plan for the Peterburi Rd. Shopping Centre foresees a sizeable shopping centre coupled in the next stage with an office building. Currently the land plots are empty as the amortized buildings have been demolished. The location is very attractive for a shopping centre – it is close to important highways, but also to the airport and bus station.

The shopping centre will be developed in one stage. The detailed plan has already been established. Start of the development is planned for the second half of 2012. The building permit for the Peterburi Rd. Shopping Centre has been applied for and shall be obtained in the near future.

The project of shopping centre is planned to be financed from the proceeds of the Offering and bank loan. The office property of the project shall be financed by profit generated by the Company, bank loan and further increase of share capital when decided on and approved by the shareholders of the Company. Please also read Part V (Background, Reasons for Offering and Use of Proceeds)

Property

Peterburi Rd. Shopping Centre will be developed on two land plots. AS Pro Kapital Eesti owns a land plot of 9,729 m^2 at Ülemiste Rd. 5 and AS Tallinna Moekombinaat owns a neighbouring land plot of 43,562 m^2 at Peterburi Rd. 2. Registered purpose of use of both plots is 100% commercial land. All old buildings that were located on the land plots have been demolished.

Both land plots referred to above are encumbered with 1st ranking combined mortgage in favour of AS Swedbank in amount of EUR 9,599,977. No outstanding obligations are secured by the mortgage.

The land plot at Ülemiste Rd. 5 was acquired by OÜ Torreon, a former Group company, in 2002 and transferred to AS Pro Kapital Eesti in 2003. The immovable at Peterburi Rd. 2 was acquired by OÜ Torreon in 2001 and transferred to AS Pro Kapital Eesti in 2003 and thereafter to AS Tallinna Moekombinaat in 2008.

Properties in Real Estate Management

PK Ilmarine Hotel

Purpose:	hotel
Location:	in Ilmarine Quarter, at the outskirts of the Tallinn Old Town close to the sea
GBA on ground, m^2:	3,985
GLA, m^2:	3,985

Number of rooms/apartments:	105
Exit strategy:	the Group is planning to continue managing the property until an attractive opportunity to exit appears

PK Ilmarine Hotel (Domina Inn Ilmarine Hotel until July 2012) is a 3-storey hotel with 105 rooms owned and operated by the Group. The hotel is situated in the Ilmarine Quarter, one of the flagship completed projects of the Group, which enjoys proximity to the Old Town and city centre. The hotel property, which is owned by the Group, was acquired in 1998 and the hotel building was opened for operations after renovation and construction works in three phases: 52 rooms in 1999, 57 rooms in 2003, 48 rooms in 2004. Today PK Ilmarine Hotel is using 105 rooms in the newer part of the complex, the rest of the rooms are offered for sale as apartments.

The hotel offers supplementary services such as a restaurant, café, conference room, and a beauty salon. The hotel targets mainly leisure travellers.

Please also read “Ilmarine Quarter” below in this Section 6 (Projects and Property) of Part XI (Business).

PK Riga Hotel

Purpose:	hotel
Location:	at Pulkveža Brieža Street 11 in Riga in the so called quiet centre, where historical art nouveau buildings that today mainly house embassies are situated
GBA on ground, m^2:	2,705
GLA, m^2:	2,705
Number of rooms/apartments:	88
Exit strategy:	the Group is planning to continue managing the property until an attractive opportunity to exit appears

PK Riga Hotel (Domina Inn Riga Hotel until July 2012) is a 7-storey hotel with 88 rooms owned and operated by the Group. PK Riga Hotel is located just under ten minute walk from Riga Passenger Port and is a ten minute walk from the Old Town. The hotel property was acquired by SIA “INVESTHOTEL” in 2002 and the hotel building was renovated in the period of 2002-2005.

The hotel offers supplementary services such as a restaurant and a conference room. The hotel offering is mainly targeted to leisure travellers.

The real property consisting of a building at Pulkveza Brieza Str. 11/13 with total area of 2,705 m^2 and usable area of 2,105 m^2 and of a 21051/60860 legal share of the 2,731 m^2 land plot is owned by SIA “INVESTHOTEL” and is leased to the operator SIA "Hotel Management Services". The real property located at Pulkveza Brieza St. 11 is encumbered with the following mortgages in favour of AS Swedbank: (i) 1st ranking mortgage, secured amount of claims – EUR 8,663,859 (LVL 6,088,995) and (ii) 2nd ranking mortgage, secured amount of claims – EUR 11,317,335 (LVL 7,953,868).

The hotel also uses non-residential premises located at Pulkveza Brieza Str. 11/13, with total area of 303 m^2 as for restaurant, which is leased to SIA "Hotel Management Services" by Isobella S.r.l Unipersonale Latvia branch.

World Trade Centre Riga

Purpose:	office property
Location:	at Elizebetes Street 2; the building is situated in one of the prime business areas in the so called quiet centre
GBA on ground, m^2:	14,978
GLA, m^2:	14,372
Exit strategy:	the Group is planning to continue managing the property until an attractive opportunity to exit appears

World Trade Centre Riga is a 7-storey administrative building that the Group has leased from the Latvian state joint stock company (Valsts akciju sabiedrība “Valsts nekustamie īpašumi”), established for management and development of real properties owned by the Latvian State.

AS "Pasaules tirdzniecības centrs "Rīga"", a subsidiary of the Company, leases the real property located at Elizabetes iela 2 from State JSC Valsts nekustamie īpašumi. The real property consists of a

land plot with the total area of 16,734 m^2 and one 7-storey administrative building with the total area of 14,978 m^2 and usable area of 14,372 m^2, located on the land plot. Lease rights have been registered in the Latvian Land Register and are thus binding to any third party and lease effective in case of alienation of the real property. The lease is valid until 31 March 2014. AS "Pasaules tirdzniecības centrs "Rīga"" is managing the real property and is subleasing it to third parties. The Group actively rents out the premises as office spaces and conference centre and has a well-diversified client portfolio. World Trade Centre Riga was acquired in 1999.

Amount of lease payments payable by AS "Pasaules tirdzniecības centrs "Rīga"" is EUR 38,272 (LVL 26,898) plus VAT per month (as of 1 January 2010 according to the 26 February 2010 unilateral notice from the Lessor, pursuant to Clause 3.6 of the Lease Agreement, amount of lease payments can be amended due to inflation rate, changes of cadastral value or real property tax amount).

PK Parkhotel Kurhaus

Purpose:	hotel
Location:	in the historical centre of Bad Kreuznach
GBA on ground, m^2:	3,717
GLA, m^2:	3,383
Number of rooms/apartments:	120
Exit strategy:	the Group is planning to continue managing the property until an attractive opportunity to exit appears

PK Parkhotel Kurhaus (Domina Hotel and Kurhaus until July 2012) is a 5-storey hotel with 120 rooms operated by the Group. The hotel is located in the historical centre of Bad Kreuznach, approximately one hour drive from Frankfurt international airport. The hereditary building right (building title) was acquired in 2006 and the historic hotel building has been partially renovated.

The hotel offers supplementary services such as a small spa centre and a restaurant. The hotel offering is mainly targeted to leisure travellers.

PRO KAPITAL Germany GmbH is the owner of a hereditary building right (building title) entitling it to own PK Parkhotel Kurhaus buildings (5,797 m^2) on four land plots located at Kurhaus street 28, 55543 Bad Kreuznach. Owner of land plots of 3,335 m^2 and 84 m^2 is the municipality of Bad Kreuznach and owner on land plots of 1,838 m^2 and 540 m^2 is Bad Kreuznach Tourismus und Marketing GmbH. The hereditary building right is valid until 31 December 2065, there are no extension options agreed upon and upon expiry of the term of hereditary building right the building is transferred to owner of land plot without compensation. The hereditary building right can be encumbered with land charges, habitation rights, permanent rights of use, etc., and sold and rented out only with the prior approval of the owners of the land plots. The hereditary building right is encumbered with pre-emption right in favour of the land owner and the land is encumbered with pre-emption right in favour of PRO KAPITAL Germany GmbH.

PK Parkhotel Kurhaus is leased by PRO KAPITAL Germany GmbH to another Group company, i.e. Domina Tourismus GmbH, which also leases parking spaces from BGK Parken in Bad Kreuznach GmbH & Co KG for the purposes of operation of PK Parkhotel Kurhaus.

Other Properties

Ilmarine Quarter

Description of the Project

The Ilmarine Quarter was the first renovation project of the Group in Tallinn which included a whole housing block. With an excellent location at the waterfront the property was formerly an industrial facility headed by Ilmarine, a heavy engineering plant. In total 306 apartments were completed together with office areas and underground parking.

Property

Ilmarine Quarter covers an area of twelve land plots at the outskirts of the Old Town of Tallinn, close to the sea. All land plots, except for one (240 m^2) which is used as playground, are built-up. Residential buildings are located at Jahu St. 1, Suur-Patarei St. 1, 3, 5, 7 and 9. Buildings at Põhja St. 21, 21b,

21c and 23 have mixed use, most apartment ownerships are residential premises and some form part of PK Ilmarine Hotel.

The main building of PK Ilmarine Hotel is located at Põhja St. 21. The premises of 21, 21a and 21b used by PK Ilmarine Hotel are owned by AS Pro Kapital Eesti and have been leased to OÜ Hotel Management Services, a subsidiary of the Company, for the purposes of operating PK Ilmarine Hotel. Please also read "PK Ilmarine Hotel" above in this Section 6 (Projects and Properties) in this Part XI (Business).

Most of the residential property developed in Ilmarine Quarter has been sold. As at 30 June 2012 there were altogether ca. 157 apartment ownerships, mostly parking spaces and storerooms and 49 apartments, which were still unsold. The unsold parts of residential part of Ilmarine Quarter, including properties at Põhja St. 21c and 23, are owned by OÜ Ilmarise Kvartal.

Apartment ownerships at Põhja St. 21 and the immovable at Põhja St. 21a are encumbered with the following mortgages in favour of AS Swedbank: (i) 1st ranking combined mortgage in amount of EUR 2,876,024 and (ii) 2nd ranking combined mortgage in amount of EUR 3,451,229. Apartment ownerships at Põhja St. 23 are encumbered with the following mortgages in favour of AS Swedbank: (i) 1st ranking combined mortgage in amount of EUR 14,060,563; (ii) 2nd ranking combined mortgage in amount of EUR 6,391,165; (iii) 3rd ranking combined mortgage in amount of EUR 3,451,229 and (iv) 4th ranking combined mortgage in amount of EUR 9,599,977. The apartment ownership at Põhja St. 21b-1 owned by AS Pro Kapital Eesti is encumbered with 1st ranking combined mortgage in favour of AS Swedbank in amount of EUR 3,451,229. Obligation to Swedbank in the amount of EUR 2,048 thousand is secured by the mortgages in the amount of EUR 14,060,563, EUR 9,599,977 and EUR 6,391,165.

Stabu street 19 - residential building

The Art Nouveau style residential building is located at Stabu St. 19 in the centre of Riga. The building which after reconstruction consists of 64 individual residential apartments and offices has been mostly sold out to natural persons and legal entities. As at 30 June 2012, Sabiedrība "PK Latvia" SIA was still the owner of three office premises (No. 309, 310 and 311) in the building and 3/32 legal share of real property – a garage, parking lot at Stabu iela 19 – XXXII (registered with the Land Register as individual real property), which is intended to be sold along with residential apartments and offices in the building at Stabu iela 19. However, preliminary purchase agreements have been concluded for the sale of these three office premises (transfer of ownership not yet registered). The real properties are not encumbered with mortgages.

Kugu street 26 - residential building

An old office building situated at Kugu St. 26, next to the river Daugava, which was converted into a residential building, has almost entirely been sold out. As at 30 June 2012, SIA "Nekustamo īpašumu sabiedrība "PROKURS"" was the owner of three apartments (No 27, 61 and 73) in that building. The real properties are not encumbered with mortgages.

7. EMPLOYEES AND LABOUR RELATIONS

General overview

The following table presents the number of employees at the end of the financial years of 2009, 2010 and 2011 and as at 30 June 2012, broken down by geographical coverage:

Country	2009	2010	2011	30 June 2012
Estonia	42	43	42	44
Latvia	57	42	38	37
Lithuania	9	9	9	9
Germany	38	33	48	52
Total	**146**	**127**	**137**	**142**[1)]

[1)] 102 of the employees were engaged in hotel and property maintenance services.

Labour disputes and measures of collective bargaining

There is an on-going proceeding before the Labour Court Mainz regarding a claim by an employee of Domina Tourismus GmbH. There are no other pending or, according to Management Board's beliefs, threatening labour disputes with regard to the Group.

Labour unions and collective agreements

The Group is not subject to any collective agreements. The Management Board is not aware of any employees of the Group belonging to labour unions. However, Management Board believes that some employees of Domina Tourismus GmbH may belong to a trade union as approximately one third of all German employees belong to a union. Under German Law a trade union is represented in the Company if already one employee is a member of the trade union. The employer is not entitled to ask employees regarding their membership in trade unions.

8. INTELLECTUAL PROPERTY

The Group Companies own several registered trademarks. The domain names used in the business of the Company, its subsidiaries and affiliates, are registered in the name of Group Companies. None of the domain names material for the activities of the Group Companies is licensed for use from any third party. The most important domain names are www.prokapital.com and www.prokapital.ee.

The Company is in the process of rebranding hotels operated by it (PK Ilmarine Hotel, PK Riga Hotel and PK Parkhotel Kurhaus). As a result of the rebranding, the hotels will be operated under the name of the new brand PK Hotels.

Applications have been submitted for registering the following Community Trademarks (CTM): "Pro Kapital", "PK Hotels", "PK Ilmarine hotel", "PK Riga hotel", "PK Parkhotel Kurhaus".

9. MATERIAL CONTRACTS

Sale of Kristiine Shopping Centre

Kristiine Sale Agreement

On 17 March 2011, an agreement for the sale of an enterprise (the "**Kristiine Sale Agreement**") was concluded between AS Täismaja, a subsidiary of the Company, and OÜ Kristiine Keskus, a subsidiary of Citycon Oyj. Pursuant to Kristiine Sale Agreement AS Täismaja sold Kristiine Shopping Centre business for a total consideration of EUR 105 million to OÜ Kristiine Keskus. Closing of the transaction took place on 2 May 2011.

The period for presenting warranty claims against AS Täismaja under the Kristiine Sale Agreement expires on 2 November 2012, except for claims of tax warranties. No warranty claims have been presented against AS Täismaja so far.

Guarantees issued in relation to sale of Kristiine Shopping Centre

The Company (jointly with AS Pro Kapital Eesti) has issued the following guarantees in relation to the sale of Kristiine Shopping Centre:

- guarantee to OÜ Kristiine Keskus (up to EUR 5 million in relation to the potential breach of confirmations given by AS Täismaja in relation to the sale of Kristiine Shopping Centre) valid until 2 November 2012;
- guarantee to OÜ Kristiine Keskus (to secure possible claims against OÜ Kristiine Keskus raising from a loan contract and management services contract concluded between AS Pro Kapital Eesti and AS Täismaja) valid until 2 May 2017. As of 30 June 2012, the loan agreement has duly ended. The guarantee was given in order to secure possible claims from the loan agreement for mitigating the risks of the buyer (Kristiine Keskus OÜ) of Kristiine Shopping Centre.

Division of the Company

The Management Board of the Company adopted a division plan of the Company on 30 June 2011. The division plan was approved by the General Meeting of Shareholders on 16 September 2011 and the Division was competed by its registration in the Estonian Commercial Register on 23 November 2011. Pursuant to the division plan, the division of the Company was carried out so that a new holding company (AS Domina Vacanze Holding) was established and registered in the Estonian Commercial Register and the shareholders of the Company became also the shareholders of AS Domina Vacanze Holding *pro rata* to their shareholding in the Company. As a result of the Division, net assets of the Company in the amount of EUR 74,741,591 were transferred to AS Domina Vacanze Holding, whereas such net assets consisted *inter alia* of:

- all shares owned by the Company in Domina Vacanze Spa, Serval Srl, Immobiliare Novate Spa and P.K. SICILY Spa;
- claims of the Company against Domina Vacanze Spa (the aggregate amount of such claims was EUR 184,000 as at 31 December 2010 and EUR 231,300 as at 23 November 2011);
- claims of the Company against Serval Srl (the aggregate amount of such claims was EUR 1,362,484.23 as at 31 December 2010 and EUR 1,308,809 as at 23 November 2011);
- claims of the Company against Immobiliare Novate Spa (the aggregate amount of such claims was EUR 4,218,109 as at 31 December 2010 and EUR 5,762,227 as at 23 November 2011);
- claims of the Company against P.K. SICILY Spa (the aggregate amount of such claims was EUR 33,790,354 as at 31 December 2010 and EUR 30,254,289 as at 23 November 2011);
- obligations of the Company to Domina Vacanze Spa (the aggregate amount of such obligations was EUR 5,413,755.96 as at 31 December 2010 and EUR 2,113,260 as at 23 November 2011);
- guarantees issued and surety and other security given by the Company in order to secure the obligations of Domina Vacanze Spa, Serval Srl, Immobiliare Novate Spa and P.K. SICILY Spa and their subsidiaries;
- obligations arising from the convertible bonds of the Company (the aggregate amount of the obligations arising from the convertible bonds that was transferred to AS Domina Vacanze Holding was EUR 6,843,789 as at 31 December 2010 and EUR 6,843,789 as at 16 September 2011); and
- funds (the aggregate amount of funds was EUR 9,500,000 as at 30 June 2011 and EUR 3,198,125 as at 23 November 2011);
- in the course of the Division, the convertible bonds issued by the Company were split between the Company and AS Domina Vacanze Holding resulting *inter alia* in the amendments of the terms and conditions of the convertible bonds of the Company. Please also read Section 6 (Option Rights, Convertible Bonds and Securities with Warrants) of Part XIII (Information on Company, Shares and Share Capital).

In addition to the guarantees issued and surety and other security given by the Company in order to secure the obligations of Domina Vacanze Spa, Serval Slr, Immobiliare Novate Spa and P.K. SICILY Spa and their subsidiaries, the total amount of the obligations of the Company that were transferred by the Company to AS Domina Vacanze Holding was EUR 8,957,048 of which EUR 6,843,789 constitutes of the obligations deriving from convertible bonds and EUR 2,113,260 of the obligations towards Domina Vacanze S.p.a.

According to Estonian law, companies participating in a division (e.g. the Company and AS Domina Vacanze Holding) shall be jointly and severally liable for the obligations of the company being divided which arise before entry of the division in the Estonian Commercial Register (i.e. 23 November 2011 in case of the Division of the Company). In relations between solidary debtors, only persons to whom obligations are assigned by the division plan are obligated persons. A company participating in a division to whom obligations are not designated by the division plan shall be liable for the obligations of the company being divided if such obligations become due within five years after entry of the division in the Estonian Commercial Register. The above means that the Company is jointly and severally liable for the obligations transferred to AS Domina Vacanze Holding to the extent such obligations become due and payable within five years as of the registration of the Division (i.e. until 23 November 2016). However, should the Company perform any such obligation it will have a right of recourse against AS Domina Vacanze Holding. Despite of the above, on 30 September 2011, all owners of convertible bonds issued by the Company delivered to the Company a waiver, whereby they waived

their claims against the Company arising from the convertible bonds issued by AS Domina Vacanze Holding as a result of the split of Company's convertible bonds that was carried out in relation to the Division.

Acquisition of Shares in AS Täismaja

During 2011, AS Pro Kapital Eesti acquired 47.99% of shares in AS Täismaja resulting in 99.99% of all shares in AS Täismaja being owned by AS Pro Kapital Eesti. 9.8% of the shares in AS Täismaja were acquired from 4 shareholders for the consideration of EUR 11,036 thousand that was paid to the sellers in cash. The remaining 38.2% of the shares in AS Täismaja was acquired from Svalbork Invest OÜ. Please also read "Purchase of shares of AS Täismaja from Svalbork Invest OÜ" under Section 14 (Related Party Transactions) of Part XI (Business). Sellers other than Svalbork Invest OÜ were not related parties to the Group Companies.

Loan Agreements and related Financing Documents

Loan Agreement between AS Pro Kapital Eesti and Swedbank AS

AS Pro Kapital Eesti and Swedbank AS have concluded a loan agreement on 15 May 2005, which has later been amended. Pursuant to the loan agreement AS Pro Kapital Eesti may borrow up to EUR 5,257,581. The loan was granted for refinancing the loan borrowed by OÜ Domina Real Estate. The loan shall be finally repaid by 1 November 2013. As at 30 June 2012, the outstanding principal amount under the loan agreement was EUR 2,001,223. The loan is secured by the following mortgages:

- a combined mortgage at 1st ranking in amount of EUR 2,876,024 (EEK 45,000,000) and at 2nd ranking in amount of EEK 54,000,000 (EUR 3,451,229) in favour of AS Swedbank, which is encumbering immovable properties at Põhja pst. 21 and 21a; and
- a combined mortgage in amount of EUR 3,451,229 (EEK 54,000,000) in favour of AS Swedbank, which is encumbering immovable property at Põhja pst. 21b-1 (at 1st ranking) and 23 (at 3rd ranking).

Loan Agreement between AS Tondi Kvartal and Swedbank AS

AS Tondi Kvartal and AS Swedbank have concluded a loan agreement on 16 January 2009, which has later been amended. Pursuant to the loan agreement AS Tondi Kvartal may borrow up to EUR 2,128,686. The loan was granted for refinancing a loan borrowed by OÜ Domina Real Estate. The loan shall be finally repaid by 16 July 2013. As at 30 June 2012, the outstanding principal amount under the loan agreement was EUR 604,718. The loan is secured by:

- a combined 1st ranking mortgage in amount of EUR 2,939,936 (EEK 46,000,000) in favour of AS Swedbank, which is encumbering apartment ownerships located at Tondi 51 owned by AS Tondi Kvartal; and
- Company's guarantee arising from a letter of guarantee issued to Swedbank AS on 16 January 2009.

Loan Agreement between SIA "INVESTHOTEL" and AS Swedbank

SIA "INVESTHOTEL" and AS Swedbank have concluded a loan agreement on 9 October 2002, which has later been amended. SIA "INVESTHOTEL" has borrowed the loan for reconstruction of PK Riga Hotel property and refinancing loans received from Group Companies for reconstruction purposes. The loan must be repaid on a monthly basis. The loan shall be finally repaid by 1 May 2015. As at 30 June 2012, the outstanding principal amount under the loan agreement was EUR 4,444,229.12 (LVL 3,123,422). The loan is secured by the following security:

- a commercial pledge encumbering 700,000 shares of SIA "INVESTHOTEL", which has been established pursuant to a commercial pledge agreement concluded by AS "Pro Kapital Latvia" and AS Swedbank on 1 March 2006. Maximum amount of obligations secured by the commercial pledge is LVL 10,823,120 (EUR 15,399,912);
- a commercial pledge encumbering all current and future capital assets of SIA "INVESTHOTEL" (including, all intangible assets, claim rights, securities, obligations, etc.), which has been established pursuant to a commercial pledge agreement concluded by SIA "INVESTHOTEL" and AS

Swedbank on 1 March 2006, which has later been amended. Maximum amount of obligations secured by commercial pledge is LVL 10,823,120 (EUR 15,399,912);

- a mortgage in the amount of LVL 6,088,995 (EUR 8,663,859), which is encumbering the real property owned by SIA "INVESTHOTEL" at Pulkveža Brieža iela 11, Riga, Riga City Land Registry folio No. 6-viesnica (residential property – hotel building) and which has been established pursuant to a mortgage agreement concluded by SIA "INVESTHOTEL" and AS Swedbank on 9 October 2002, which has later been amended;
- a mortgage in the amount of LVL 6,088,995 (EUR 8,663,859), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 14346 (buildings) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 December 2009, which has later been amended;
- a mortgage in the amount of LVL 6,088,995 (EUR 8,663,859), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 15794 (land plot with the area of 1,980 m^2) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 December 2009, which has later been amended;
- a mortgage in the amount of LVL 6,088,995 (EUR 8,663,859), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 18961 (land plot with the area of 991 m^2) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 December 2009, which has later been amended;
- a mortgage in the amount of LVL 6,088,995 (EUR 8,663,859), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 14564 (land plot with the area of 38,436 m^2) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 December 2009, which has later been amended; and
- the Company's guarantee arising from a guarantee agreement concluded by the Company and Swedbank AS on 10 November 2009 (as later amended). The guarantee amount is EUR 5,778,451.

Loan Agreement between PK Invest UAB and Swedbank AB

PK Invest UAB and Swedbank AB have concluded a credit agreement on 26 October 2004 pursuant to which PK Invest UAB borrowed EUR 17,380,205. The loan shall be finally repaid by 7 December 2014. As at 30 June 2012 the outstanding principal amount under the loan agreement is EUR 5,155,537. The loan is secured by the following security:

- pledge of rights to land plots, located at Aguonų str. 10, Vilnius;
- mortgage in amount of EUR 17,380,205 encumbering all real estate objects, which belong to PK Invest UAB (such real estate include the following buildings at addresses: Aguonų str. 14, Aguonų str. 12, Šaltinių str. 22, Šaltinių str. 26, terrace houses – Šaltinių str. 48, 46, 42, 38, 36, 34, 32, 30, 28);
- pledge of all existing and future funds on the bank account of PK Invest UAB, opened with Swedbank;
- surety by the Company deriving from the subordination agreement concluded between Swedbank AB, the Company and PK Invest UAB on 10 December 2009. According to the agreement the Company subordinated a loan granted to PK Invest UAB in the amount of EUR 4,083,192 to the above-referred loan borrowed from Swedbank AB; and
- title transfer financial collateral in the amount of EUR 100,000.

Overdraft Agreement between the Company and Swedbank AS

The Company and Swedbank AS have concluded an overdraft agreement of EUR 3.0 million on 9 August 2012. The overdraft facility shall be available for the Company until 19 June 2013. The interest is calculated on the basis of 6 month EURIBOR and the applicable interest margin is 1.95%.

Convertible bonds

On 13 April 2009, the extraordinary General Meeting of Shareholders decided to issue up to 10,000,000 convertible bonds. Please also read "Terms and conditions of the convertible bonds" in Section 6 (Option Rights, Convertible Securities and Securities with Warrants) of Part XIII (Information on Company, Shares and Share Capital).

Agreements Creating Investment obligations

Investment obligation agreed with the City of Tallinn

On 18 June 2010, AS Tallinna Moekombinaat has agreed with the City of Tallinn to finance construction of a tunnel to be constructed in Ülemiste crossroad in the amount of EUR 319,558. According to the above referred agreement, the financing obligation shall arise when City of Tallinn has concluded agreement for performance of the construction works with a contractor. Such agreement has been concluded and the works are being performed, thus the investment obligation of AS Moekombinaat shall be performed upon request by the City of Tallinn.

AS Tallinna Moekombinaat has confirmed to City of Tallinn that it will pay for additional works in connection with work No 11201 " Peterburi road and Peterburi road 2 junction" performed by AS K-Projekt that are necessary for Peterburi Rd. Shopping Centre. However, prior to taking binding obligations to pay for additional works, respective costs have to be agreed with AS Tallinna Moekombinaat.

Purchase of the State Company Rīgas eksperimentālā kuģu remonta rūpnīca

On 2 June 1998, SIA "Klīversala RE" and VAS Privatizācijas Aģentūra concluded the Purchase Agreement for the purchase of the State Company Rīgas eksperimentālā kuģu remonta rūpnīca located at Trijādības iela 5, Riga. The territory at Trijādības iela 5, Riga is used for the development of Klīversala Residential Complex. Please also read about the project under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business). SIA "Klīversala RE" committed to ensure investments in the territory at Trijādības iela 5, Riga, in the amount of EUR 14,228,718 (LVL 10,000,000), whereas (a) EUR 6,847,142 (LVL 4,812,199) was invested prior to 19 August 2008, (b) EUR 2,134,308 (LVL 1,500,000) had to be invested by 31 December 2011 and (c) EUR 5,247,268 (LVL 3,687,801) has to be invested by 31 December 2013. Out of EUR 2,134,308 (LVL 1,500,000) that had to be invested by 31 December 2011, investments only in the amount of EUR 1,102,539 (LVL 774,869) were made by 31 December 2011 and such amount is still subject to the approval of VAS Privatizācijas Aģentūra. As at 30 June 2012 the amount not yet invested is EUR 6,279,037 (LVL 4,412,932). VAS Privatizācijas Aģentūra has notified SIA "Klīversala RE" that the investment obligation, which had to be performed by 31 December 2011, must be performed by 31 December 2013.

According to the above-referred agreement, if investments are not made by the specified deadlines, VAS Privatizācijas Aģentūra will be entitled to request a contractual penalty (6% of the non-invested amounts) and after final deadline – all amounts, which have not been invested in the territory according to the agreement. Investments can be made in the form of environmental research of the territory, investments in development of detailed planning, investments in technical designing, investments in construction, etc. Presently, the hindering reason for making investments in due time in compliance with the schedule is a lack of the detailed planning for territory, which is still under development and shall be accepted by the Riga City Council (according to the management of the company - provisionally in autumn 2012).

Pursuant to a guarantee agreement concluded by AS Swedbank and SIA "Klīversala RE" on 7 April 2006, which has later been amended, AS Swedbank has issued a guarantee to VAS Privatizācijas aģentūra, according to which it will pay upon written request any funds due by SIA "Klīversala RE" to VAS Privatizācijas aģentūra. The guarantee is effective until 31 December 2014. The guarantee of a credit institution has been one of the main requests of VAS Privatizācijas Aģentūra for prolonging the final term until which the investments shall be made (the final date has been prolonged several times). Therefore effectiveness of the Guarantee Agreement along with the obligations to invest the above amount in the territory at Trijādības iela 5, Riga, shall be considered essential for the business of SIA "Klīversala RE".

The claims of AS Swedbank against SIA "Klīversala RE" arising from guarantee agreement No. 06-028861-GF of 7 April 2006, have been secured by the following security:

- a mortgage in the amount of EUR 11,317,335 (LVL 7,953,868), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 18961 (land plot with the area of 991 m^2) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 April 2006, which has later been amended;
- a mortgage in the amount of EUR 11,317,335 (LVL 7,953,868), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 14564 (land plot with the area of 38,436 m^2) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 April 2006, which has later been amended;
- a mortgage in the amount of EUR 11,317,335 (LVL 7,953,868), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 14346 (buildings) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 April 2006, which has later been amended;
- a mortgage in the amount of EUR 11,317,335 (LVL 7,953,868), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 15794 (land plot with the area of 1980 m^2) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 April 2006, which has later been amended;
- a mortgage in the amount of EUR 11,317,335 (LVL 7,953,868), which encumbers the real property owned by SIA "Klīversala RE" at Trijādības 5, Riga, Riga City Land Registry folio No. 19022 (land plot with the area of 5278 m^2) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 7 December 2009;
- a mortgage in the amount of EUR 11,317,335 (LVL 7,953,868), which encumbers the real property owned by SIA "INVESTHOTEL" at Pulkveža Brieža iela 11, Riga, Riga City Land Registry folio No. 6-viesnica (residential property – hotel building) and which has been established pursuant to a mortgage agreement concluded by SIA "Klīversala RE" and AS Swedbank on 10 December 2009, which has later been amended; and
- A guarantee by the Company concluded arising from the guarantee agreement between Swedbank and the Company on 10 December 2009, pursuant to which the Company has agreed to guarantee the claims of Swedbank AS arising from the guarantee agreement concluded by AS Swedbank and SIA "Klīversala RE" on 7 April 2006. The guarantee amount is EUR 8,083,810 (LVL 5,681,334).

Anticipated investment for reconstruction of rainwater drainage of Kivimurru road in Tallinn

AS Tallinna Moekombinaat as a cofinancier is currently negotiating an agreement with the City of Tallinn, AS Nordecon and Teede Projektijuhtimise Aktsiaselts for reconstruction of rainwater drainage of Kivimurru road in Tallinn. These works constitute part of reconstruction works of Ülemiste junction and are also necessary for further development of Peterburi Rd. Shopping Centre. Upon conclusion of the agreement AS Tallinna Moekombinaat undertakes to cover EUR 250,000 of the costs of the works.

Intra-group Agreements

The Company and the Subsidiaries have various intra-group agreements. Some of the intra-group agreements, which the Management Board considers material, are outlined below.

Intra-group loan agreements

The Company and the Subsidiaries have executed the following intra-group loan agreements, which are unsecured:

Lender	Borrower	Final Repayment Date	Outstanding principal amount as at 30 June 2012
The Company	AS Pro Kapital Eesti	31 December 2016	EUR 47,598,000
The Company	AS "Pro Kapital Latvia"	After 12 months' prior notice	EUR 741,537

The Company	Pro Kapital Vilnius Real Estate UAB	After 12 months' prior notice	EUR 5,573,581
Pro Kapital Vilnius Real Estate UAB	PK Invest UAB	After 12 months' prior notice	EUR 1,807,267
The Company	PK Invest UAB	After 12 months' prior notice	EUR 3,583,192
Domina Management UAB	Pro Kapital Vilnius Real Estate UAB	After 12 months' prior notice	EUR 31,810
AS Pro Kapital Eesti	Tallinna Moekombinaat AS	After 12 months' prior notice	EUR 888,570
Pro Halduse OÜ	Pro Kapital Eesti AS	After 12 months' prior notice	EUR 158,279
Pro Halduse OÜ	Pro Kapital Eesti AS	After 12 months' prior notice	EUR 159,460
Ilmarise Kvartal OÜ	Pro Kapital Eesti AS	After 12 months' prior notice	EUR 446,400
Täismaja AS	The Company	17 March 2016	EUR 66,617,242
Täismaja AS	The Company	31 December 2016	EUR 38,506,910
Täismaja AS	Pro Kapital Eesti AS	After 12 months' prior notice	EUR 6,000,000
The Company	Pro Kapital Germany GmbH	After 12 months' prior notice	EUR 2,520,000
SIA "Hotel Management Services"	AS "Pro Kapital Latvia"	After 2 months' prior notice	EUR 100,000
Sabiedrība "PK Latvia" SIA	AS "Pro Kapital Latvia"	After 12 months' prior notice	EUR 65,472
AS "Pasaules tirdzniecības centrs "Rīga""	AS "Pro Kapital Latvia"	After 12 months' prior notice	EUR 8,499,759
SIA "INVESTHOTEL"	AS "Pro Kapital Latvia"	After 12 months' prior notice	EUR 3,245,215
SIA "Klīversala RE"	AS "Pro Kapital Latvia"	After 12 months' prior notice	EUR 3,622,455
AS "Pro Kapital Latvia"	SIA "Tallina nekustamie īpašumi"	After 12 months' prior notice	EUR 2,564,300
AS "Pro Kapital Latvia"	SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS""	After 12 months' prior notice	EUR 1,483,594
SIA "Nekustamo īpašumu sabiedrība "PROKURS""	AS "Pasaules tirdzniecības centrs "Rīga""	After 12 months' prior notice	EUR 1,082,191

The intra-group loan agreements above: 1) have an average interest rate of 4.54% per annum and 2) the principal amounts fall due within 2.6 months after respective notice from either the lender or the borrower.

Each Group Company's outstanding claims and liabilities for principal amount under the intra-group loan agreements are set out in the following table.

Group Company	Outstanding claims for principal amount as at 30 June 2012	Outstanding liabilities for principal amount as at 30 June 2012
The Company	EUR 60,016,310	EUR 105,124,152
AS Pro Kapital Eesti	EUR 888,570	EUR 54,362,139
Täismaja AS	EUR 111,124,152	EUR 0
Ilmarise Kvartal OÜ	EUR 446,400	EUR 0
Pro Halduse OÜ	EUR 317,739	EUR 0
Tallinna Moekombinaat AS	EUR 0	EUR 888,570
AS “Pro Kapital Latvia”	EUR 4,047,894	EUR 16,274,438
SIA “Klīversala RE”	EUR 3,622,455	EUR 0
SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS""	EUR 0	EUR 1,483,594
SIA “Hotel Management Services”	EUR 100,000	EUR 0
Sabiedrība “PK Latvia” SIA	EUR 65,472	EUR 0
AS "Pasaules tirdzniecības centrs "Rīga""	EUR 8,499,759	EUR 1,082,191
SIA “INVESTHOTEL”	EUR 3,245,215	EUR 0
SIA "Nekustamo īpašumu sabiedrība "PROKURS""	EUR 1,082,191	EUR 0
SIA "Tallina nekustamie īpašumi"	EUR 0	EUR 2,564,300
Pro Kapital Vilnius Real Estate UAB	EUR 1,807,267	EUR 5,605,391
Domina Management UAB	EUR 31,810	EUR 0
PK Invest UAB	EUR 0	EUR 5,390,459
Pro Kapital Germany GmbH	EUR 0	EUR 2,520,000

Management service agreements

The Company has concluded management service agreements with all subsidiaries, except Pro Kapital Germany Holdings OÜ, on the following main terms:

- services include mainly advisory (e.g. marketing and legal), business support (e.g. employees, office place) and accounting services;
- the price is based on the costs related to the provision of services which are determined according to the group transfer pricing principles; and
- agreements have been concluded for unspecified term.

Lease agreements

The Group has started successfully the leasing activities for Peterburi Rd. Shopping Centre premises. Among others, the lease agreement for hypermarket premises within Peterburi Rd. Shopping Centre was concluded on 26 July 2012. Pursuant to such lease agreement, premises with the area of approximately 6,000 m^2 will be leased to Selver AS, a leading retailer.

The Management Board believes that all of the above agreements have been entered into on an arm’s length basis.

10. ENVIRONMENTAL ISSUES

The Management Board is not aware of any material contamination on the properties owned by the Group. However, the environmental condition of each of the Group's properties has not been thoroughly investigated. In the event that residual pollution is found on the land owned by a Group Company, such Group Company may be liable for such pollution as the landowner. A number of laws in Estonia, Latvia and Lithuania directly or indirectly apply to the residual pollution that may be located on the land owned by the Group.

In general, the landowner may be required to clean up pollution located on its land and/or to compensate the damage caused by flammable, radiation, combustible, toxic, caustic or environmentally hazardous substances on the land. When purchasing land, the Group has not always required the seller to warrant that there is no contamination on the land. The historic background of the following project land plots refers to possibility of pollution. According to the Management Board, no environmental investigations have been carried out with respect to the land plots of the following real estate projects not before or after their acquisition:

- property of Tondi Quarter in Tallinn, which used to be part of Soviet army campus;
- property of Ilmarine Quarter, which was partly under former P. Wiegland machine factory;
- property of Peterburi Rd. Shopping Centre, where a slaughterhouse and meat industry used to locate;
- property of Klīversala Residential Complex in Riga, where a ship repair factory was located at Soviet times;
- property of Zvaigznes Centre in Riga, where in the industrial buildings hazardous waste containers were located;
- property of Šaltinių Namai, which was partly under former machinery factory;
- property of Kalaranna Residential Complex, which has historically been a fishing harbour and a market place; and
- property of Tallinas St. Residential Complex in Riga, where a Soviet time textile factory RITMS previously located.

Notwithstanding the above, in case of Klīversala Residential Complex there has been carried out an investigation of soil and ground water quality at the territory of Trijadibas 7, Riga. It is stated in the conclusion of the investigation report that according to testing results and pollution criteria established by law, the intensity of established soil pollution requires rehabilitation measures. However, experts of SIA Vides Konsultaciju Birojs (company, which performed the investigation) suggests to perform detailed environmental investigation for separate sectors of land plot in order to establish amounts and extension of polluted soil and to evaluate rehabilitation possibilities. The investigation did not reveal any pollution of ground water which would exceed limits established by law.

11. INSURANCE

The Group Companies, which are active in real estate projects, are exposed to potential liability for defects in design, construction, materials or quality. In order to mitigate such potential liability, respective Group Company usually requires the general contractor of the project to obtain insurance cover against all construction risks for the whole duration of the project. Such insurance must be made for the benefit of the financer of respective project (the bank), respective Group Company and, if relevant, other Group Companies.

Real estate maintenance and management, where the Group is also active, may bring about additional civil liability towards third parties. The Group Companies operating in these fields usually insure against such liability.

The Group Companies also hold policies covering the building owner's liability in relation to its material buildings. Also the Group Companies hold all risk insurances regarding the assets inside the properties (for equipment, furnishing etc.) and for other property (e.g. building "box" insurance). Additionally, the Group Companies operating hotels insure against business interruptions.

All motor vehicles owned or leased by the Group are covered by the mandatory third party liability insurance and majority of them also with voluntary motor insurance policy (KASKO).

Management Board believes that the Group's insurance policies correspond to the standard industry practices in the respective countries where the Group is active and meet the requirements imposed by the covenants in the Group's financing agreements.

12. LEGAL PROCEEDINGS

Dispute with Aprisco B.V.

Aprisco B.V., a company registered in the Netherlands, filed a claim against the Company who has given a guarantee in the amount of EUR 2,300,000 to secure the rent payments from Serval S.r.l, a company which used to be a subsidiary of the Company until the Division, to Hotel Blijdorp B.V. The claim has been made by the new owner of the hotel – Aprisco B.V. – to whom the rent agreement was transferred. Aprisco B.V. changed its initial claim on 31 August 2011 and claims (i) the payment of caused loss in the amount of EUR 2,300,000 with accumulated interest for default, or in the amount stated by the court; and (ii) as an alternative claim EUR 1,776,000 for overdue rental payments with accumulated interest for default or in the amount of EUR 1,409,000 with accumulated interest for default. The Company claims that the guarantee agreement has not transferred from Hotel Blijdorp B.V. to Aprisco B.V. or alternatively that Aprisco B.V. is entitled to claim only the unpaid rent in the amount of EUR 524,000 and not the damages. The Company made provisions in the amount of EUR 700,000. As of 30 June 2012, this provision was increased to EUR 1,409,000 in relation to this case. The District Court in Rotterdam ruled on 4 July 2012 that the Company shall pay EUR 1,409,265 to Aprisco B.V. For payment of EUR 786,434.70 Aprisco B.V. is entitled to levy execution. Enforceability of the remaining EUR 622,831 has been made subject to the outcome of the proceedings between Aprisco B.V. and Serval S.r.l.

The Management Board of the Company is going to appeal the court judgement. The due date for submitting the appeal is 4 October 2012.

Claim of KanAm against former group company PK Investment SIA

Based on agreement dated 23 July 2007 PK Investment SIA (a former Group Company) sold the Domina Shopping Centre to KanAm for the consideration of EUR 147,000,000. KanAm presented a claim in the amount of EUR 6,837,846 against PK Investment SIA to the Arbitration Institute of Stockholm Chamber of Commerce. On 31 January 2011 the Arbitration Institute of Stockholm Chamber of Commerce ruled that PK Investment SIA shall pay to KanAm EUR 3,770,335 and compensate expenses incurred with respect to the claims of Inexet Latvia SIA and repair wall insulation defects in Domina Shopping Centre. The arbitral award was submitted for recognition and enforcement in Latvia. The first instance court decision satisfied the application of KanAm. The Regional Court of Riga (second instance) denyed the recognition and enforcement of the arbitral award. The decision of the Regional Court of Riga mistakenly set out the right to appeal. The Supreme Court has declared that the decision of the Regional Court of Riga is final and appeal cannot be submitted. At the moment there are no court or arbitration proceedings pending between the parties. According to the Management Board, the Company and its subsidiaries have fulfilled all their monetary obligations towards PK Investments SIA and the subsidiary of the Company sold all the shares of PK Investments SIA to third party in 2011.

Claim of Iecere SIA

Iecere SIA has made a claim in the amount of EUR 89,880 against SIA "Hotel Management Services" regarding the termination of the agreement on cleaning services. No litigation proceedings have been initiated yet.

Claims against PK Invest UAB

There are three cases that have been initiated against PK Invest UAB. In two cases the claimants request repayment of advance payments (with interest) that were paid under preliminary agreements for sale of immovable property concluded with PK Invest UAB. The total dispute amount under both cases is EUR 121,176. PK Invest UAB estimates that it will prevail at least in one of the cases, where the dispute amount is equal to EUR 47,887. The claims are secured by attachment of company's funds in the amount of EUR 17,374 and 21/100 part of one real estate object. Third case is submitted by the contractor requesting for the EUR 57,099 and 8.06 % annual interest for the performed works in

Šaltinių Namai Residential Complex. PK Invest UAB did not agree with the claim because the works were performed unduly and the deficiencies were recorded by the parties in writing.

Please note that there are number of smaller legal disputes. For further information please see Note 31 to the Interim Financial Statements**.**

13. STRUCTURE OF THE GROUP AND SUBSIDIARIES

The Company is the parent company of the Group. The main activity of the Company is to hold shares in its subsidiaries, providing financing and management services to its subsidiaries and third parties. The Company is not directly engaged in real estate development or hotel management. The Company is incorporated in Estonian. As at the date of the Prospectus, 22 subsidiaries of the Company belong to the Group. All Group Companies are limited liability companies. The Company owns:

- **100%** of shares in **AS Pro Kapital Eesti**, a limited liability company registered in Estonia with the registered address at Põhja pst 21, Tallinn, 10414, Estonia, and with the share capital of EUR 16,880,400. AS Pro Kapital Eesti owns several units of real estate, including the land plot of Kalaranna Residential Complex, one of the land plots designated for the Peterburi Rd. Shopping Centre and several immovable properties in Ilmarine Quarter (premises used by PK Ilmarine Hotel). AS Pro Kapital Eesti is also the direct holding company for the following Group Companies:
  - **100%** of shares in **OÜ Ilmarise Kvartal**, a limited liability company registered in Estonia with the registered address at Põhja pst 21, Tallinn, 10414, Estonia and with the share capital of EUR 2,556. OÜ Ilmarise Kvartal is the company, which developed Ilmarine Quarter and it currently owns several immovable properties in Ilmarine Quarter;
  - **99.9%** of shares in **AS Täismaja**, a limited liability company registered in Estonia with the registered address at Põhja pst 21, Tallinn, 10414, Estonia, and with the share capital of EUR 15,300,000. AS Täismaja is the company, which developed Kristiine Shopping Centre and disposed of it in 2011;
  - **100%** of shares in **AS Tondi Kvartal**, a limited liability company registered in Estonia with the registered address at Põhja pst 21, Tallinn, 10414, Estonia, and with the share capital of EUR 159,750. AS Tondi Kvartal is the company, which is developing Tondi Quarter;
  - **100%** of shares in **Pro Halduse OÜ**, a limited liability company registered in Estonia with the registered address at Põhja pst 21, Tallinn, 10414, Estonia, and with the share capital of EUR 25,560. The main activity of Pro Halduse OÜ is real estate management;
  - **96%** of shares in **AS Tallinna Moekombinaat**, a limited liability company registered in Estonia with the registered address at Põhja pst 21, Tallinn, 10414, Estonia, and with the share capital of EUR 12,072,000. AS Tallinna Moekombinaat is the owner of one of the land plots designated for the Peterburi Rd. Shopping Centre and the developer thereof. To the knowledge of the Management Board, 4% of the shares in AS Tallinna Moekombinaat are owned by Celensia Limited;
  - **100%** of shares in **OÜ Hotel Management Services**, a limited liability company registered in Estonia with the registered address at Põhja pst 23, Tallinn, 10414, Estonia, and with the share capital of EUR 25,000. OÜ Hotel Management Services is operating PK Ilmarine Hotel in Ilmarine Quarter;
- **100%** of shares in **Akciju sabiedrība "Pro Kapital Latvia" (AS "Pro Kapital Latvia")**, a joint stock company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia, and with the share capital of LVL 7,000,000 (approx. EUR 9,960,103). AS "Pro Kapital Latvia" is the direct holding company for the following Group Companies:
  - **100%** of shares in **Sabiedrība "PK Latvia" SIA**, a limited liability company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia, and with the share capital of LVL 2,000 (approx. EUR 2,846). Sabiedrība "PK Latvia" SIA is the owner of certain real estate at Stabu street 19 in Riga, Latvia;
  - **100%** of shares in **Sabiedrība ar ierobežotu atbildību "Klīversala RE" (SIA "Klīversala RE")**, a limited liability company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia, and with the share capital of LVL 10,212,223 (approx. EUR

14,530,684). SIA “Klīversala RE” is the company, which plans to develop Klīversala Residential Complex in Riga, Latvia;

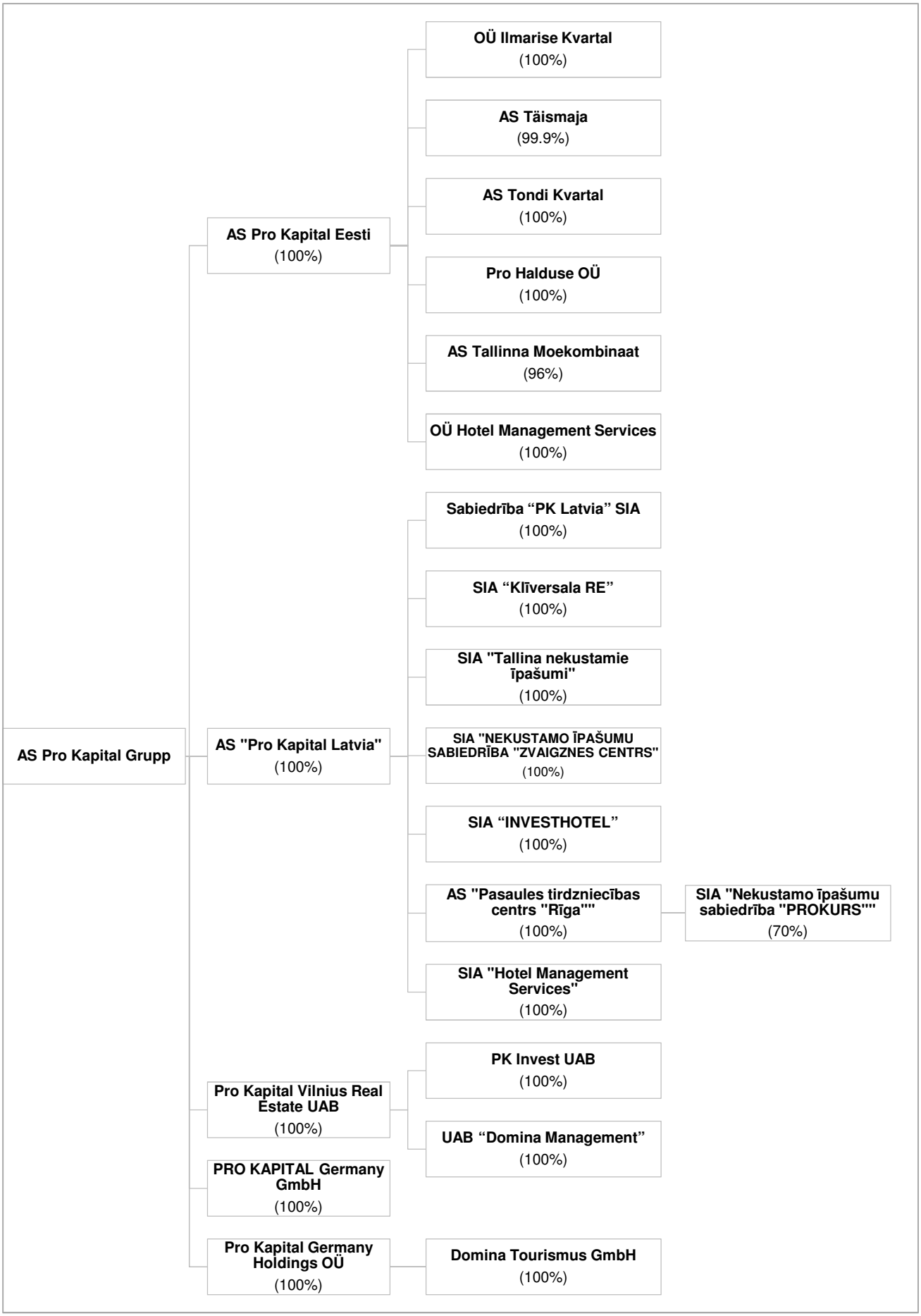
- **100%** of shares in **Sabiedrība ar ierobežotu atbildību "Tallina nekustamie īpašumi" (SIA "Tallina nekustamie īpašumi")**, a limited liability company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia, and with the share capital of LVL 1,600,000 (approx. EUR 2,276,595). SIA "Tallina nekustamie īpašumi" is the company, which develops Tallinas St. Residential Complex in Riga, Latvia;
- **100%** of shares in **Sabiedrība ar ierobežotu atbildību "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"" (SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS")**, a limited liability company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia, and with the share capital of LVL 1,200,000 (approx. EUR 1,707,446). SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"" is the company, which plans to develop Zvaigznes Centre in Riga, Latvia;
- **100%** of shares in **Sabiedrība ar ierobežotu atbildību “INVESTHOTEL” (SIA “INVESTHOTEL”)**, a limited liability company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia and with the share capital of LVL 700,000 (approx. EUR 996,010). SIA “INVESTHOTEL” is the company, which owns the property of PK Riga Hotel;
- **100%** of shares in **Akciju sabiedrība "Pasaules tirdzniecības centrs "Rīga" (AS "Pasaules tirdzniecības centrs "Rīga"")**, a joint stock company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia, and with the share capital of LVL 1,192,777 (approx. EUR 1,697,169). AS "Pasaules tirdzniecības centrs "Rīga"" is the company, which operates World Trade Centre Riga. AS "Pasaules tirdzniecības centrs "Rīga"" is also the owner of **70%** of shares in in **Sabiedrība ar ierobežotu atbildību "Nekustamo īpašumu sabiedrība "PROKURS" (SIA "Nekustamo īpašumu sabiedrība "PROKURS"")**, a limited liability company registered in Latvia with registered address at Elizabetes iela 2, Riga, LV-1340, Latvia, and with the share capital of LVL 1,427,600 (approx. EUR 2,031,292), which owns certain real estate in a residential building at Kugu St. in Riga;
- **100%** of shares in **SIA "Hotel Management Services"**, a limited liability company registered in Latvia with registered address at Pulkveža Brieža iela 11, Riga, LV-1010, Latvia, and with the share capital of LVL 400,000 (approx. EUR 569,149). SIA "Hotel Management Services" is the company, which operates PK Riga Hotel;

- **100%** of shares in **Pro Kapital Vilnius Real Estate UAB**, a limited liability company registered in Lithuania with registered address at Didžioji g. 39/1, Vilniaus m. sav. Vilniaus m., Lithuania and with the share capital of LTL 4,610,000 (approx. EUR 1,335,148). Pro Kapital Vilnius Real Estate UAB is the direct holding company for the following Group Companies:
  - **100%** of shares in **PK Invest UAB**, a limited liability company registered in Lithuania with registered address at Didžioji g. 39/1, Vilniaus m. sav. Vilniaus m., Lithuania and with the share capital of LTL 2,840,000 (approx. EUR 822,521). PK Invest UAB is the company, which is developing Šaltinių Namai Residential Complex;
  - **100%** of shares in **UAB “Domina Management”**, a limited liability company registered in Lithuania with registered address at Didžioji g. 39, Vilniaus m. sav. Vilniaus m., Lithuania and with the share capital of LTL 10,000 (approx. EUR 2,896). UAB “Domina Management” is the company, which is providing management services to the Šaltinių Namai Residential Complex;
- **100%** shares in **PRO KAPITAL Germany GmbH**, a limited liability company registered in Germany with the registered address at Kaiser-Wilhelm-Ring 50, 50672 Köln, Germany and with the share capital of EUR 25,000. PRO KAPITAL Germany GmbH is the owner of a hereditary building right (building title) entitling it to own PK Parkhotel Kurhaus buildings, which it leases to Domina Tourismus GmbH;
- **100%** shares in **Pro Kapital Germany Holdings OÜ**, a limited liability company registered in Estonia with the registered address at Põhja pst 21, Tallinn, 10414, Estonia and with the share capital of EUR 2,500. Pro Kapital Germany Holdings OÜ owns **100%** of shares in **Domina Tourismus GmbH**, a limited liability company registered in Germany with the registered address at

Kurhausstraße 28, 55543 Bad Kreuznach, Germany and with the share capital of EUR 116,250. Domina Tourismus GmbH is the company, which operates PK Parkhotel Kurhaus.

The Company does not hold any shares in any other company in addition to the Group Companies referred to above.

The chart below illustrates the organisational structure of the Group as at the date of this Prospectus.


AS Pro Kapital Grupp
AS Pro Kapital Eesti
(100%)
OÜ Ilmarise Kvartal
(100%)
AS Täismaja
(99.9%)
AS Tondi Kvartal
(100%)
Pro Halduse OÜ
(100%)
AS Tallinna Moekombinaat
(96%)
OÜ Hotel Management Services
(100%)
AS "Pro Kapital Latvia"
(100%)
Sabiedrība “PK Latvia” SIA
(100%)
SIA “Klīversala RE”
(100%)
SIA "Tallina nekustamie īpašumi"
(100%)
SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"
(100%)
SIA “INVESTHOTEL”
(100%)
AS "Pasaules tirdzniecības centrs "Rīga""
(100%)
SIA "Nekustamo īpašumu sabiedrība "PROKURS""
(70%)
SIA "Hotel Management Services"
(100%)
Pro Kapital Vilnius Real Estate UAB
(100%)
PK Invest UAB
(100%)
UAB “Domina Management”
(100%)
PRO KAPITAL Germany GmbH
(100%)
Pro Kapital Germany Holdings OÜ
(100%)
Domina Tourismus GmbH
(100%)

14. RELATED PARTY TRANSACTIONS

The Company and certain other Group Companies have entered into certain agreements with related parties. The following table outlines the Group's receivables from and payable to the related parties as at 30 June 2012:

Receivables from related parties EUR ('000)	**Outstanding amount as at 30 June 2012**
Significant owners and owner related companies	
Current receivables from related parties	483
SIA RE & RE	318
Sitei Baltics SIA	164
AS Domina Vacanze Holding	1
Total	**483**

Payables to related parties EUR ('000)	**Outstanding amount as at 30 June 2012**
Significant owners and owner related companies	
Payables to related parties	4,077
Svalbork Invest OÜ	4,077
Total	**4,077**

Holdings in the Ultimate Parent Company	**As at 30 June 2012**
Members of the Council and individuals related to them	8.61%

The most relevant and material of the recent and on-going agreements with related parties are described below. The Management Board believes that all of the related party transactions have been made on an arm's length terms.

Transactions with Svalbork Invest OÜ

Loans given to Svalbork Invest OÜ

Svalbork Invest OÜ is an Estonian company controlled by Ms Evelyn Tihemets. Please also read Section 3 (Shareholders of the Company) of Part XIII (Information on Company, Shares and Share Capital). During 2002 to 2003 SIA "Klīversala RE" granted short term loans to Svalbork Invest OÜ under the following loan agreements (all such loans have been granted in LVL):

- Loan Agreement, dated 31 May 2002, loan amount EUR 1,422,872 (LVL 1,000,000), annual interest 3%;
- Loan Agreement, dated 10 March 2003, loan amount EUR 319,042 (LVL 224,224), annual interest 3%;
- Loan Agreement, dated 30 April 2003, loan amount EUR 1,422,872 (LVL 1,000,000), annual interest 3%.

These loans have been repaid by Svalbork Invest OÜ by way of set-off. Please see "Novation of loans given to Svalbork Invest OÜ" below.

Purchase of shares of AS Täismaja from Svalbork Invest OÜ

On 8 September 2011 AS Pro Kapital Eesti purchased 551,775 shares of AS Täismaja owned by Svalbork Invest OÜ for EUR 2,427,810. On 13 October 2011 AS Pro Kapital Eesti purchased 867,439 shares of AS Täismaja for EUR 3,816,732 and on 31 October 2011 8,310,515 shares of AS Täismaja for EUR 36,566,266. Thus the total purchase price for the 9,729,729 shares of AS Täismaja pur-

chased from Svalbork Invest OÜ, which constituted 38.2% of the share capital of AS Täismaja, was EUR 42,810,808.

EUR 11,962,215 of the purchase price has been paid in cash. EUR 21,328,593 of the purchase price was paid to Svalbork Invest OÜ as follows:

- EUR 3,816,732 was paid by way of mutual assignment of claims between the Company and Svalbork Invest OÜ, whereas the Company assigned a claim in the amount of EUR 3,816,732 against AS "Pro Kapital Latvia" (which arose from a loan agreement) to Svalbork Invest OÜ and Svalbork Invest OÜ assigned the claim in the same amount for the purchase price for shares in AS Täismaja to the Company;
- EUR 17,511,861 was also paid by way of mutual assignment of claims between the Company and Svalbork Invest OÜ, whereas the Company assigned a claim in the amount of EUR 17,511,861 against Pro Kapital Rus OOO to OÜ Svalbork Invest (please see "Transfer of Group's Russian business" below) on 1 November 2011 and Svalbork Invest OÜ assigned the claim in the same amount for the purchase price for shares in AS Täismaja to the Company on 22 November 2011.

The rest of the purchase price payable to Svalbork Invest OÜ in the amount of EUR 9,520,000 was transferred by Svalbork Invest OÜ to the Company under a claim transfer agreement concluded between the Company and Svalbork Invest OÜ on 24 January 2012. Pursuant to such claims transfer agreement, the Company undertook to pay the same amount to Svalbork Invest OÜ by 31 March 2012. The Company used the right to postpone partially the due date for such payment until 31 March 2013. The Company is required to pay interest in the amount of 5% p.a on the outstanding amount of such debt. As at 30 June 2012, the outstanding amount payable by the Company to Svalbork Invest OÜ was EUR 4,000,000.

Novation of loans given to Svalbork Invest OÜ

Under a Novation Agreement concluded between SIA "Klīversala RE" as the creditor, Svalbork Invest OÜ as the debtor and AS "Pro Kapital Latvia" as the new debtor, dated 14 October 2011, the claims of SIA "Klīversala RE" deriving from the loan agreements against Svalbork Invest OÜ in the total amount of EUR 3,816,732 (please see "Loans given to Svalbork Invest OÜ" above) were assigned to AS "Pro Kapital Latvia". Such claim of AS "Pro Kapital Latvia" against Svalbork Invest OÜ was set off against the claim in the same amount that Svalbork Invest OÜ had acquired from the Company against AS "Pro Kapital Latvia" (please see " Purchase of shares of AS Täismaja from Svalbork Invest OÜ" above).

Transfer of Group's Russian business

On 28 November 2011 the Company and AS Pro Kapital Eesti sold their shares representing 100% of the entire share capital of Pro Kapital Rus OOO to OÜ Svalbork Invest for EUR 253. Transfer of the Russian business also included transfer of all claims of the Company against Pro Kapital Rus OOO to OÜ Svalbork Invest for EUR 17,511,861. In consideration of such assignment, Svalbork Invest OÜ assigned to the Company a claim in the same amount against AS Pro Kapital Eesti arising from the sale of shares in AS Täismaja to AS Pro Kapital Eesti. In addition, AS Täismaja assigned all its rights and obligations arising from investment agreement between AS Täismaja and OOO Dom Na Moike to OÜ Svalbork Invest in consideration for a payment of EUR 5,900,000 by Svalbork Invest OÜ to the Company. The Group recorded a profit of EUR 6,589,233 from the above transactions, which accumulated as follows: sales price figure minus the figure of net assets of Pro Kapital Rus OOO. The net assets of Pro Kapital Rus OOO were negative. The Company and Svalbork Invest OÜ made a set-off with mutual claims and obligations to settle the payment for the shares and claim transfers. There is no outstanding amounts payable by Svalbork Invest OÜ for the transfer of the Group's Russian business.

Loans to SIA "RE & RE"

SIA "RE & RE" is a Latvian company owning minority shareholding in SIA "Nekustamo īpašumu sabiedrība "PROKURS"". SIA "Nekustamo īpašumu sabiedrība "PROKURS"" granted a short term loan to SIA "RE & RE" under the Loan Agreement, dated 24 August 2006, loan amount EUR 213,431 (LVL 150,000), annual interest of 4%. On 5 February 2007, another short-term loan in the amount of EUR 1,932,128 (LVL 1,357,907) with annual interest of 4%, was granted by SIA "Nekustamo īpašumu sabiedrība "PROKURS"" to SIA "RE & RE". Loans were given in LVL. Pursuant to the loan agreement the loan could be repaid in a manner of the offset against upcoming dividends. The parties have set off the claims of SIA "Nekustamo īpašumu sabiedrība "PROKURS"" against SIA "RE & RE" arising

from the above-referred loan agreement against the payments of dividends resolved to be paid by SIA "Nekustamo īpašumu sabiedrība "PROKURS"" to SIA “RE & RE” under the following covenants:

- Covenant on set-off of mutual claims, dated 11 April 2007, amount of set off EUR 103,473 (LVL 72,721);
- Covenant on set-off of mutual claims, dated 14 April 2008, amount of set off EUR 1,676,338 (LVL 1,178,137);
- Covenant on set-off of mutual claims, dated 14 April 2009, amount of set off EUR 88,302 (LVL 62,059);
- Covenant on set-off of mutual claims, dated 14 April 2010, amount of set off EUR 76,085 (LVL 53,473);
- Covenant on set-off of mutual claims, dated 27 April 2012, amount of set off EUR 24,008 (LVL 16,873).

As at 30 June 2012, the outstanding loan amount (principal) under the above-referred loan agreements was EUR 313,888 (LVL 220,602). Accumulated unpaid interest as at 30 June, 2012 was EUR 4,207 (LVL 2,956).

Loans to Sitei Baltics SIA

Sitei Baltics SIA is a Latvian company owning minority shareholding in SIA "Nekustamo īpašumu sabiedrība "PROKURS"". SIA "Nekustamo īpašumu sabiedrība "PROKURS"" granted a short term loan to Sitei Baltics SIA under the Loan Agreement, dated 5 February 2007, loan amount EUR 539,735 (LVL 379,329), annual interest of 4%. On 26 April, 2007, another short-term loan in the amount of EUR 533,043 (LVL 374,625) with annual interest of 4%, was granted by SIA "Nekustamo īpašumu sabiedrība "PROKURS"" to Sitei Baltics SIA. Loans were given in LVL. Pursuant to the loan agreement the loan could be repaid in a manner of the offset against upcoming dividends. The parties have set off the claims of SIA "Nekustamo īpašumu sabiedrība "PROKURS"" against Sitei Baltics SIA arising from loan agreement against the payments of dividends resolved to be paid by SIA "Nekustamo īpašumu sabiedrība "PROKURS"" to Sitei Baltics SIA under the following covenants:

- Covenant on set-off of mutual claims, dated 11 April 2007, amount of set off EUR 51,737 (LVL 36,361);
- Covenant on set-off of mutual claims, dated 14 April 2008, amount of set off EUR 817,262 (LVL 574,375);
- Covenant on set-off of mutual claims, dated 14 April 2009, amount of set off EUR 44,152 (LVL 31,030);
- Covenant on set-off of mutual claims, dated 14 April 2010, amount of set off EUR 38,043 (LVL 26,737);
- Covenant on set-off of mutual claims, dated 27 April 2012, amount of set off EUR 12,003 (LVL 8,436).

As at 30 June 2012, the outstanding loan amount under the above-referred loan agreement was EUR 160,987 (LVL 113,142). Accumulated unpaid interest as at 30 June 2012 was EUR 2,467 (LVL 1,734).

Sale of property to OÜ Colosseum

OÜ Colosseum is a Company owned by Trell LLC, Estonian company controlled by Ms Evelyn Tihemets. Please also read Section 3 (Shareholders of the Company) of Part XIII (Information on Company, Shares and Share Capital). The following transactions were concluded between the Group Companies and OÜ Colosseum at the end of 2011 and in the beginning of 2012:

- OÜ Ilmarise Kvartal has sold to OÜ Colosseum 29 apartments at Põhja pst 23 and 29 parking spaces at Jahu 1 (all in form of apartment ownerships);
- AS Tondi Kvartal has sold to Colosseum OÜ 8 apartments at Tondi 51 and 4 parking spaces at Tondi 51 (all in form of apartment ownerships);
- AS Pro Kapital Grupp has sold to Colosseum OÜ its legal share of 451/10,000 of Narva road 13 immovable (office building).

- SIA "Nekustamo īpašumu sabiedrība "PROKURS"" has sold 1 apartment ownership to SIA Colosseum Latvia, a Latvian subsidiary of OÜ Colosseum, at Kugu St. 26.
- Pro Kapital Vilnius Real Estate UAB has sold 3 premises to UAB Colosseum Real Estate Vilnius, a Lithuanian subsidiary of OÜ Colosseum, at Didžioji St. 39.
- PK Invest UAB has sold 23 apartments and 13 parking spaces (all in form of apartment ownerships) to UAB Colosseum Real Estate Vilnius, a Lithuanian subsidiary of OÜ Colosseum, at Aguonu St. (Šaltinių Namai Residential Complex).

Transactions in the amount of EUR 2,384,000 were made in the second half of 2011 and transactions in the amount of EUR 4,634,000 were made in the first half of 2012. The total value of the transactions was EUR 7,018,000, which was entirely paid as at 30 June 2012.

Real estate management services provided to OÜ Colosseum

The Group is providing real estate management services regarding the real estate developed by the Group Companies and acquired by OÜ Colosseum. Such services are provided to OÜ Colosseum on the same terms and conditions as to other owners of respective real estate. As at 30 June 2012, the outstanding amount payable by OÜ Colosseum to the Group for its services was EUR 6,000.

Convertible bonds issued to related parties

The Company has issued 4,025,758 convertible bonds. According to the Management Board's knowledge, as at 15 August 2012, the following related parties owned convertible bonds of the Company:

Name of the related party	Name of the convertible bond	Number of convertible bonds
Eurofiduciaria S.L.R	Pro Kapital Grupp convertible bond PKG1 13.08.2013	809,893
	Pro Kapital Grupp convertible bond PKG2 20.01.2014	311,632
	Pro Kapital Grupp convertible bond PKG3 10.08.2014	450,862
	Pro Kapital Grupp convertible bond PKG4 16.09.2014	466,673
	Pro Kapital Grupp convertible bond PKG5 29.11.2014	249,977
	Pro Kapital Grupp convertible bond PKG6 08.03.2015	495,538
	Pro Kapital Grupp convertible bond PKG7 25.05.2015	58,387
Anndare Ltd.	Pro Kapital Grupp convertible bond PKG1 13.08.2013	2,252
	Pro Kapital Grupp convertible bond PKG2 20.01.2014	9
	Pro Kapital Grupp convertible bond PKG3 10.08.2014	156,602
	Pro Kapital Grupp convertible bond PKG5 29.11.2014	152,276
	Pro Kapital Grupp convertible bond PKG6 08.03.2015	73,735
	Pro Kapital Grupp convertible bond PKG7 25.05.2015	30,500
Mr. Emmanuele Bozzone	Pro Kapital Grupp convertible bond PKG7 25.05.2015	22,224

The above-referred related parties hold 3,250,365 convertible bonds in total. Eurofiduciaria S.L.R, a shareholder of the Company, holds 2,842,962 convertible bonds. Anndare Ltd., a shareholder of the

Company, holds 385,179 convertible bonds. Mr. Emmanuele Bozzone, chairman of the Supervisory Council, holds 22,224 convertible bonds.

Each such convertible bond may be converted to one Share or is redeemable in consideration for a payment of EUR 2.8 added by accrued interest thereon. Please see Section 6 (Option Rights, Convertible Securities and Securities with Warrants) of Part XIII (Information on Company, Shares and Share Capital) regarding the terms of the convertible bonds.

Payments to the managers of the Group

The Group Companies made payments to the members of the Management Board, Supervisory Council and other Key Executives in the amount of EUR 1,214,321 in 2009, in the amount of EUR 1,105,672 in 2010 and in the amount of EUR 1,155,000 in 2011. These amounts include income tax paid by the Group. For additional information regarding related party transactions, please see:

- Note 29 to the Special Purpose Combined Financial Statements;
- Note 29 to the Interim Financial Statements;
- Section 3 (Management Remuneration and Benefits) of Part XII (Management).

PART XII. MANAGEMENT

1. STRUCTURE OF THE MANAGEMENT

Pursuant to the provisions of the Estonian Commercial Code and the Company's Articles of Association, the control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Council and the Management Board. Please also read Section 1 (Introduction to Estonian Company Law) of Part XIV (Estonian Securities Market).

Supervisory Council

The Supervisory Council is responsible for planning the business activities of the Company, organizing the management of the Company and supervising the activities of the Management Board. The Supervisory Council reports to the General Meeting of Shareholders. According to the Articles of Association, the functions of the Supervisory Council also include approval of the Company´s budget.

The consent of the Supervisory Council is required for conclusion of transactions which are beyond the scope of everyday economic activities and, above all, for conclusion of transactions which bring about:

- the acquisition or termination of holdings in other companies; or
- the foundation or dissolution of subsidiaries; or
- the acquisition or disposal of an enterprise, or the termination of its activities; or
- the disposal or encumbrance of immovable property or registered movable property; 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; or
- the granting of loans or the security for debt obligations if this is beyond the scope of everyday economic activities.

According to the Articles of Association, the Supervisory Council consists of three to seven members elected by the General Meeting of Shareholders for a term of 3 years. Members of the Supervisory Council elect a chairman among themselves. The chairman is responsible for organizing the activities of the Supervisory Council.

Meetings of the Supervisory Council are held when necessary but not less frequently than once every three months. A meeting of the Supervisory Council is also convened when so demanded by a member of the Supervisory Council, the Management Board, the auditor of the Company or the shareholders whose shares represent at least 1/10 of the share capital of the Company.

Meeting of the Supervisory Council has a quorum when more than half of the members of the Supervisory Council are present. Resolutions of the Supervisory Council adopted at the meeting require simple majority of votes. The Supervisory Council may also adopt resolutions without convening a meeting if all of the members of the Supervisory Council consent thereto. In order to adopt a resolution of the Supervisory Council without convening a meeting, more than one-half of all votes of the members of the Supervisory Council must be in favour.

According to the Company's Articles of Association, the General Meeting of Shareholders may resolve to grant the Supervisory Council the right to increase the share capital of the Company. As at the date of this Prospectus, no resolution of the General Meeting of Shareholders exists permitting the Supervisory Council to increase the share capital of the Company.

As at the date of this Prospectus, the Supervisory Council consists of six members:

Name	Citizenship	Year of birth	Member since	Position	Current term expires
Emanuele Bozzone	Swiss	1964	05.07.2010	Chairman	05.07.2013
Sari Aitokallio	Finnish	1960	13.04.2012	Member	13.04.2015
Renato Lorenzo Bullani	Italian	1945	05.07.2010	Member	05.07.2013
Pertti Huuskonen	Finnish	1956	13.04.2012	Member	13.04.2015
Petri Olkinuora	Finnish	1957	13.04.2012	Member	13.04.2015
Giuseppe Prevosti	Italian	1946	05.07.2010	Member	05.07.2013

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

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

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

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

Mr Petri Olkinuora holds M.Sc. (construction engineering) and MBA degrees. Mr Olkinuora has a long and successful career as the CEO of Citycon Oyj (a Helsinki based listed property company), vast experience in real estate, acquisition, finance and development. Mr Olkinuora is the Deputy Chairman of the Board of BPT Asset Management A/S (leading real estate asset manager around the Baltic Sea area) (since 2011) and a member of the Board of A-Insinöörit Oy (leading engineering company in Finland) (since 2011), Tapiolan jalkapallostadion Oy (developer of the first closed roof football stadium and arena) (since 2012), Koja-Yhtiot Oy (industrial company making ventilation machines for buildings and ships) (since 2004), Rapal Oy (software company which developed Optimaze and Fore programmes) (since 2002), VRP Rakennuspalvelut Oy (small residential developer and construction company in Finland) (since 2012) and Tampereen Keskusareena Oy (a company that will develop a grand ice hockey and event arena in Tampere, Finland) (since 2012). Mr Olkinuora is also running his own investment business within Forbia Oy, which is providing advisory services in property and construction related companies (since 2011). During 2002 – 2011 Mr Olkinuora was the Chief Executive Officer of Citycon Oyj, a Helsinki based real estate company active in Finland, Sweden and

the Baltic States and a board member of several of its subsidiaries (real estate and holding companies). Mr Olkinuora has also, *inter alia*, served as the Deputy Chairman (2002-2003) and a Board Member (2007-2009) of the Board of Finnish Association for Building Owners RAKLI ry, member of the Board of European Public Real Estate Association EPRA (2006-2009) and a founding member of the Board of Finnish Green Building Association ry (2010-2012).

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

The business address of members of the Supervisory Council of the Company is c/o AS Pro Kapital Grupp, Põhja pst 21, Tallinn, 10414, Estonia.

Management Board

The Management Board manages the Company's daily business operations. The Management Board must, in managing, adhere to the lawful orders of the Supervisory Council. Transactions, which are beyond the scope of ordinary economic activities of the Company, may only be concluded by the Management Board with the consent of the Supervisory Council. The Management Board is required to act in the most economically purposeful manner. The Management Board must present an overview of the economic activities and economic situation of the Company to the Supervisory Council at least once every four months and must immediately give notice of any material deterioration of the economic condition of the Company or of any other material circumstances related to the economic activities of the Company. The Management Board must organise the accounting of the Company. The Management Board must also prepare the matters to be discussed at the General Meeting of Shareholders, prepare the draft resolutions for the General Meeting of Shareholders and guarantee the enforcement of the resolutions of the General Meeting of Shareholders.

On the basis of a resolution of the General Meeting of Shareholders on the conditional increase of the share capital of the Company, the Management Board is entitled to resolve to actually increase the share capital of the Company and to issue new Shares. Please also read Section 6 (Option Rights, Convertible Securities and Securities with Warrants) of Part XIII (Information on Company, Shares and Share Capital).

According to the Articles of Association of the Company, the Management Board consists of one to five members elected by the Supervisory Council. Each member of the Management Board is elected for a term of three years unless the Supervisory Council resolves to elect such member for a different term not exceeding five years. If the Management Board has more than two members, the Supervisory Council appoints a chairman for the Management Board. In such a case the chairman for the Management Board must organise the activities of the Management Board. According to the Articles of Association of the Company, each member of the Management Board is entitled to represent the Company and to sign on its behalf.

As at the date of this Prospectus, the Management Board consists of the following members:

Name	Year of birth	Member since	Position	Current term expires
Paolo Vittorio Michelozzi	1961	22.11.2001	Member	10.12.2013
Allan Remmelkoor	1971	30.05.2008	Member	16.05.2014

Mr Paolo Vittorio Michelozzi holds General Certificate of Education (building surveyor) from Collegio Arcivescovile, Saronno, Italy. Mr Michelozzi has been employed in the Company since 1994. Mr Michelozzi has an extensive experience of more than 30 years in different real estate development projects in Italy as well as other European countries. Mr Michelozzi is a member of the Management Board and management boards of several other Group Companies. 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. SIA PB11 is an asset holding company without active business.

Mr Allan Remmelkoor holds bachelor degree in small business administration from Tallinn Technical University. Mr Remmelkoor has held executive positions in the Group since 1997. In addition to being a member of the management board of the Company and several other Group Companies (*inter alia* AS Pro Kapital Eesti) Mr Remmelkoor is a member of the management board of Hypermarket SIA. He 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 (from 2006 until April 2012), a company listed on the Tallinn Stock Exchange, the managing director and a member of the management board of SIA PK Investments (2003-2011) and a member of the management board of AS Hypermakrket (2001-2008). In addition, Mr Remmelkoor is a member of the management board of two non-profit associations: MTÜ Eesti Boule Liit and MTÜ Spordiklubi SCHNELLI.

The business address of the members of the Management Board of the Company is c/o AS Pro Kapital Grupp, Põhja pst 21, Tallinn, 10414, Estonia.

Other Key Executives

As at the date of this Prospectus, the other Key Executives of the Group include:

Name	Year of birth	Position
Rūta Juzulėnaitė	1976	Chief financial officer (CFO)
Ervin Nurmela	1982	Member of the management board of AS Pro Kapital Eesti and Chief legal counsel of AS Pro Kapital Eesti [1)]
Olga Rudzika	1973	Managing director of AS "Pro Kapital Latvia" [2)]
Neringa Rasimavičienė	1973	General director of Pro Kapital Vilnius Real Estate UAB [3)]

1) The management board of AS Pro Kapital Eesti consits of Mr Allan Remmelkoor, also a member of the Management Board of the Company and Mr Ervin Nurmela.
2) The management board of AS "Pro Kapital Latvia" consits of Mr Paolo Michelozzi and Mr Allan Remmelkoor.
3) The management board of Pro Kapital Vilnius Real Estate UAB consits of Mr Paolo Michelozzi, Mr Ervin Nurmela and Ms Neringa Rasimavičienė.

Ms Rūta Juzulėnaitė holds BA degree in international administration from Concordia International University Estonia (Audentes University) and is acquiring MBA (finance) from Tartu University. Ms Juzulėnaitė works as the Chief Financial Officer of the Company since 2012. Before joining the Company, she worked as the head of Financial Department of MAXIMA Eesti OÜ (2004-2011) and was a member of the management board of MAXIMA Eesti OÜ (2005-2008 and 2010).

Mr Ervin Nurmela holds BA degree in law from Tartu University Law Institute. He has worked as the chief legal counsel of the company AS Pro Kapital Eesti since 2007. Before joining the Group, he worked in law firm Legalia. Mr Nurmela is also a member of the management board of several Group Companies, including AS Pro Kapital Eesti, OÜ Hotel Management Services, OÜ Ilmarise Kvartal, AS Tallinna Moekombinaat and OÜ Pro Kapital Germany Holdings in Estonia, Pro Kapital Germany GmbH and Domina Tourismus GmbH in Germany and Pro Kapital Vilnius Real Estate UAB and PK Invest UAB in Lithuania. Mr Nurmela has an employment contract with AS Pro Kapital Eesti. He is a member of the supervisory council of two Group Companies: AS Tondi Kvartal and AS "Pasaules tirdzniecības centrs "Rīga". Mr Nurmela has acted as management board member of the following former Group companies, OÜ Põhja pst 23 Hotell (2009-2011), OÜ Vana-Posti 11/13 Hotell (2009-2011) and as the liquidator of OÜ Vegacorp (2007) and Blumberg Halduse OÜ (2008). Mr Nurmela has also represented Group Companies as creditors in bankruptcy proceedings. Mr Nurmela was also a member of bankruptcy committee in OÜ Moda Group until 2010 and is a member of the bankruptcy committee in PJL Trading OÜ. In addition, Mr Nurmela has been a management board member of Domina Hotels Hungary Kft (operating company of Domina Budapest Hotel), which was declared bankrupt 05.11.2010, and Domina Hotel Holland BV (declared bankrupt on 17.01.2012). Outside the Group Mr Nurmela is currently a management board member of the following companies: E.N.Co Holdings OÜ, E.N.Co Projektid OÜ, E.N.Co Investments OÜ, Nurmela & Co Law Firm OÜ, OÜ Coffee Distribution (under liquidation – liquidator), OÜ Tasuta Vihik, OÜ Scholar, OÜ Sommersby and OÜ Õuehaldus. Mr Nurmela has acted as a management board member in Berg Interiors OÜ (until 2009), in Domina Business Estonia OÜ (for a short period in 2007 and 2008), in KÜ Tööstuse 47A (2009-2011), in OÜ Gnadeberg Kinnisvara (for a short period in 2007), in OÜ E.N.Co Finance (for a short period in 2007),

in OÜ Kardirada, a company that has been merged to Nurmela & Co Law Firm OÜ (2006-2011). Mr Nurmela has acted as the member of the management board and liquidator of OÜ Vetares (2007). He has also been a member of the management board of two apartment associations: Korteriühistu Nafta 6 (2003-2007) and Korteriühistu Tööstuse 47A (2009-2011).

Ms Olga Rudzika holds bachelor's degree in English philology and master's degree in social sciences (public administration) from the University of Latvia. She has been working for the Group since 2001, including as the managing director of AS "Pro Kapital Latvia" since May 2008. Ms Olga Rudzika also acts as member of the board of several Group Companies, including SIA "Klīversala RE", SIA "Tallina nekustamie īpašumi", SIA "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"", SIA "Hotel Management Services". Additionally, she is a board member of AS "Pasaules tirdzniecības centrs "Rīga"" (company, which operates World Trade Centre Riga) and of Condominium's Dzīvokļu īpašnieku kooperatīvā sabiedrība "Kuģu 26". Ms Rudzika's previous positions include board membership in condominium of Dzīvokļu īpašnieku kooperatīvā sabiedrība "Pulkveža Brieža 11".

Ms Neringa Rasimavičienė holds bachelor's degree in International Trade from International Business School of Vilnius University. She has also graduated from Management School at "Johnson & Wales" University in United States. She has been working for the Group since 2001. She has been acting as a member of the management board and general manager of PK Invest UAB since 2006 and is currently holding these positions, as well as the member of the board and director of Pro Kapital Vilnius Real Estate UAB since 2008. She was the director of operations of UAB "Domina Management" and project manager in Pro Kapital Vilnius Real Estate UAB and PK Invest UAB until 2007. As from 2005 she holds a position of director of UAB "Domina Management" and from 2006 she is the director of PK Invest UAB. Ms Rasimavičienė has been a key person behind the success of projects like Šaltinių Namai Residential Complex.

The business address of Ms Rūta Juzulėnaitė and of Mr Ervin Nurmela is c/o AS Pro Kapital Grupp, Põhja pst 21, Tallinn, 10414, Estonia. The business address of Ms Olga Rudzika is c/o AS "Pro Kapital Latvia", Elizabetes iela 2, Riga, LV-1340, Latvia. The business address of Ms Neringa Rasimavičienė is c/o Pro Kapital Vilnius Real Estate UAB, Aguonų g. 12, LT03213 Vilnius, Lithuania.

Committees

Pursuant to Estonian law a listed company must have an audit committee, an advisory body involved in accounting, auditing, risk management, internal control and internal audit, supervision over compliance with laws and budgeting. The members of an audit committee are elected or removed by the Supervisory Council. The audit committee of the Company operates in accordance with Estonian laws and its charter that has been adopted by the Supervisory Council on 16 May 2012. The function of an audit committee is to monitor and analyse

- processing of financial information;
- efficiency of risk management and internal control;
- the process of auditing of annual accounts and consolidated accounts; and
- independence of the auditor and compliance of the auditor's activities with the requirements of laws.

The audit committee is required to make recommendations or proposals to Supervisory Council in the following issues:

- appointment or removal of an audit firm;
- appointment or removal of an internal auditor;
- prevention or elimination of problems and inefficiencies in an organisation; and
- compliance with legislation and the good practice of the professional activities.

The audit committee of the Company must have at least two members. At least two of the members of Company's audit Committee must be experts in accounting, finance or law. As at the date of this Prospectus, the audit committee consists of three members – Sari Aitokallio, Emanuele Bozzone and Pertti Huuskonen.

The Company also has a remuneration committee consisting of two members – Emanuele Bozzone and Petri Olkinuora. The remuneration committee was formed by a resolution of the Supervisory

Council for advising the Supervisory Council regarding remuneration and benefits of the Management Board.

Internal Auditor

The Company does not have an internal auditor.

Observance of the Corporate Governance Recommendations

The Corporate Governance Recommendations of NASDAQ OMX Tallinn have been in force since 1 January 2006 and, subject to the Listing taking place, require the Company to either comply with the recommendations or explain reasons for its non-compliance ("comply or explain").

Subject to the below exceptions, as at the time of Listing the Company will fully comply with the Corporate Governance Recommendations. The exceptions include:

- the Company shall not make participation in the General Meeting of Shareholders possible by means of communication equipment (Internet), as this is not ordinary practice by companies listed on the Tallinn Stock Exchange and it would result in considerable additional costs for the Company;
- not all Management Board Members have a contract of service with the Company. Allan Remmelkoor who is the Management Board Member of the Company does not have a service contract with the Company, but has service contracts with Company's subsidiaries AS Pro Kapital Eesti and AS "Pro Kapital Latvia".
- the members of the Management Board shall be at the same time members of more than two management boards of the Company's subsidiaries, as the subsidiaries would benefit from the additional competence of the Company's current Management Board members, Mr Paolo Vittorio Michelozzi and Mr Allan Remmelkoor;
- the remuneration of each Management Board member of the Company shall not be individually disclosed on the Company's website and in the Corporate Governance Report, including the details about the Management Board member's base salary, performance related bonuses, severance packages, other financial benefits and bonuses. Such personal information is not generally disclosed in the Baltic States and its publication could potentially damage the Company and may seriously damage the privacy of the members of the Management Board. Nevertheless, remuneration related information in respect of Management Board members shall be disclosed as aggregate figures on the Company level.

2. MANAGEMENT HOLDINGS

None of the members of the Supervisory Council and the Management Board nor any of the other Key Executives owns any Shares in the Company except that:

- Mr Giuseppe Prevosti, member of the Supervisory Council of the Company, together with family and through controlled entities holds 8.36% of the existing Shares (including 0.07% of Shares owned by his wife); and
- Mr Renato Lorenzo Bullani, member of the Supervisory Council of the Company, holds 0.3% of the shares in the Company.

The persons among the Key Executives, who have holdings in the Company (above), do not have any restrictions within a certain period of time, regarding their holdings in the Company's shares.

As at 31 July 2012, the members of the Management Board, Supervisory Council or other Key Executives do not possess convertible bonds or stock options over the Company shares, except Mr Emanuele Bozzone who possesses 22,224 convertible bonds.

3. MANAGEMENT REMUNERATION AND BENEFITS

The Group Companies made payments to the the members of the Managing Board, Supervisory Council and other Key Executives in the amount of EUR 1,155,000 in 2011 (including income tax).

No salaries or other remuneration were paid by the Group Companies to the members of the Supervisory Council for the financial year ended on 31 December 2011. The aggregate gross amount of salaries and other remuneration paid by the Group Companies to the members of the Management Board for the financial year ended on 31 December 2011 was EUR 955,141, whereas:

- EUR 526,195 was paid as ordinary salaries and other remunerations;
- EUR 420,666 was paid as extraordinary salaries and other remunerations payable on the basis of the performance of the Group, including EUR 420,033 that was paid in relation to the sale of Kristiine Shopping Centre. Please also read Divestments – Sale of Kristiine Shopping Centre under Section 9 (Material Contracts) of Part XI (Business); and
- EUR 8,280 was paid as reimbursement for the costs incurred by the members of the Management Board.

The aggregate gross amount of salaries and other remuneration paid by the Group to its other Key Executives for the financial year ended on 31 December 2011 was EUR 133,446.

On 13 April 2012, the General Meeting of Shareholders resolved that the Supervisory Council members Ms Sari Aitokallio, Mr Pertti Huuskonen and Mr Petri Olkinuora will be entitled to:

- EUR 25,000 (gross) remuneration per year, which is payable in consecutive monthly instalments; and

EUR 600 (gross) remuneration for every council meeting, where respective Council Member participated in.

On 14 August 2012, the General Meeting of Shareholders resolved that the Supervisory Council members Mr Giuseppe Prevosti, Mr Renato Lorenzo Bullani and Mr Emanuele Bozzone will be entitled to:

- EUR 25,000 (gross) remuneration per year (except for Mr Emanuele Bozzone who as Chairman of the Supervisory Council will be entitled to EUR 27,500 (gross) remuneration per year), which is payable in consecutive monthly instalments; and
- EUR 600 (gross) remuneration for every council meeting, where respective Council Member participated in.
- additional onetime payment of 10,000 EUR (net amount) payable to Mr Giuseppe Prevosti, Mr Renato Lorenzo Bullani and 15,000 EUR (net amount) payable to Mr Emanuele Bozzone to compensate the work done before the remuneration was decided by the shareholders.

The Company has not entered into service agreements with the members of the Supervisory Council. No benefits have been granted by the Group to the members of the Supervisory Council in addition to the remunerations referred to above (except Lunacon OY and Forbia OY contract – see below, concluded before election of Mr Olkinuora and Mr Huuskonen to the Council).

In addition to the remunerations referred to above, other benefits granted to the members of the Management Board and the other Key Executives include:

- benefits required to be granted to the employees pursuant to applicable laws;
- documented expenses incurred by the members of the Management Board related to their tasks are reimbursable by the Group Companies and the members of the Management Board have the right to a compensated holiday of up to 30 days per year; and
- right to use company cars or reimbursement of costs of use of cars, compensation of travel expenses, mobile phone costs, parking costs.

Members of the Supervisory Council are not entitled to compensation in the event of their dismissal from the Supervisory Council. Under their service and employment agreements, members of the Management Board and members of the management boards and supervisory councils of other Group

Companies are entitled to compensation in the event of their dismissal from the respective management board or supervisory council:

- Mr Michelozzi is entitled to a compensation in the amount of the remuneration paid to him within 24 preceding months (including remuneration paid on the basis of the performance of the Group) (i) upon expiration of his term, he is not elected to the Management Board for the subsequent term, (ii) if he is removed from the Management Board by the Supervisory Council (unless this is made due to just case), he dies or the Company is resolved to be dissolved or (iii) if he applies for the resignation from the Management Board for the reason that the Company has breached obligations towards him arising from his service agreement, the laws, Company's Articles of Association, resolutions of the Supervisory Council, Management Board or the General Meeting of Shareholders;
- Mr Remmelkoor is entitled to a compensation in the amount his 8 months' fixed remuneration payable to him by the Company (i) upon expiration of his term, he is not elected to the Management Board for the subsequent term or (ii) if he is removed from the Management Board by the Supervisory Council (unless he is removed due to the breach of his duties or if he has applied for his removal);
- Mr Gilles Serge Toffoletto (a management board member of OÜ Hotel Management Services and SIA "Hotel Management Services") is entitled to compensation in the amount his 2 months' fixed remuneration payable to him by the Company (i) upon expiration of his term, he is not elected to the Management Board for the subsequent term or (ii) if he is removed from the Management Board by the Supervisory Council (unless he is removed due to the breach of his duties or if he has applied for his removal).

The Group does not have pension plans, arrangements or executive schemes for the members of the Management Board, the Supervisory Council or other Key Executives.

Please also read Section 4 (Transactions with Supervisory Council Members, Management Board Members and Key Executives) with regard to the transactions concluded between the members of the Management Board, Supervisory Council and other Key Executives and the Group Companies.

4. TRANSACTIONS WITH SUPERVISORY COUNCIL MEMBERS, MANAGEMENT BOARD MEMBERS AND KEY EXECUTIVES

The Management Board is not aware of any conflicts of interest or potential conflicts of interest between any duties of members of the Supervisory Council, the Management Board and other Key Executives to the Company and their private interests and other duties. The Management Board does not consider any position held by any member of the Management Board or Supervisory Council or other Key Executive referred to in this Part XII (Management) as raising any conflicts of interest or potential conflicts of interest. Further, all members of the Supervisory Council and other Key Executives have confirmed to the Management Board of having no conflict of interest or potential conflict of interest.

According to the knowledge of the Management Board, neither any member of the Supervisory Council nor any legal entity or any private person affiliated to any member of the Supervisory Council has made any transactions with the Group Companies since 2009.

Mr Paolo Michelozzi is the sole shareholder and chairman of the management board of SIA PB11. On 4 October 2011 an apartment lease agreement was concluded between SIA PB11 as the lessor and SIA "Hotel Management Services" as the lessee. SIA "Hotel Management Services" pays monthly rent of EUR 1,000 (plus VAT 21%). In addition, a management agreement between SIA PB11 and AS "Pro Kapital Latvia" for accounting and legal services existed but was terminated on 31 December 2011.

Mr Allan Remmelkoor is leasing a car to the Company pursuant to an agreement concluded on 11 January 2011.

SIA "Klīversala RE" has concluded a maintenance management contract with condominium Dzīvokļu īpašnieku kooperatīvā sabiedrība "Kuģu 26". Pursuant to the agreement SIA "Klīversala RE" is providing maintenance and accounting services for the condominium, where Ms Olga Rudzika acts as mem-

ber of the board. Pursuant to the agreement SIA “Klīversala RE” is providing maintenance and accounting services for the condominium.

PK Invest UAB sold an apartment in 2009 to the husband of Ms Neringa Rasimavičienė.

The Company and Nurmela & Co Law Firm OÜ, a company owned and managed by Mr Ervin Nurmela, have entered into a legal service agreement, whereby Mr Ervin Nurmela provides legal services to the Company as the Company does not have a legal department. Thus, the Company outsources legal services from different law firms, including from Nurmela & Co Law Firm OÜ. Nurmela & Co Law Firm OÜ has also occasionally provided legal services to AS Täismaja (former AS Kristiine Kaubanduskeskus).

On 4 Jaunary 2010 AS “Pro Kapital Latvia” and Zvērinātu advokātu birojs ECOVIS CONVENTS have entered into a legal service agreement, whereby Zvērinātu advokātu birojs ECOVIS CONVENTS provides legal services to the Group’s Latvian subsidiaries. Zvērinātu advokātu birojs ECOVIS CONVENTS is a law office, a partner of which is Mr Aivars Blūmiņš, the deputy chairman of supervisory board of AS “Pro Kapital Latvia”. According to the management, in 2011 AS “Pro Kapital Latvia” paid to Zvērinātu advokātu birojs ECOVIS CONVENTS legal fees in amount of LVL 66,112 (EUR 94,069).

On 15 February 2012, the Company and Lunacon Oy, a company owned by member of the Supervisory Council Mr Huuskonen, concluded a consultation services agreement. Pursuant to the agreement, Lunacon Oy provided expert advisory and consultation services relating to the Offering. Pursuant to the Agreement, Lunacon Oy is entitled to receive a fee of EUR 12,000 and additionally, upon successful Offering, a success fee of EUR 18,000.

On 15 February 2012, the Company and Forbia Oy, a company owned by member of the Supervisory Council Mr Petri Olkinuora, concluded a consultation services agreement. Pursuant to the agreement, Forbia Oy provided expert advisory and consultation services relating to the Offering. Pursuant to the Agreement, Forbia Oy is entitled to receive a fee of EUR 12,000 and additionally, upon successful Offering, a success fee of EUR 18,000.

The capacity in which Lunacon Oy and Forbia Oy acted under the consultation services agreements concluded with the Company, included *inter alia*: i) participating in meetings and negotiations regarding the Offering; ii) monitoring and developing the activities planned in relation to the Offering; iii) consulting the Company regarding communication with media; and iv) advising the Management Board, Supervisory Council and Key Executives regarding preparations and activities of the Offering.

The Management Board believes that all of the above-referred transactions have been concluded by respective Group Companies on arms’ length terms. The Management Board is not aware of any other transactions, which the Group Companies have concluded with any member of the Management Board or another Key Executive or any legal entity or private person affiliated to any member of the Management Board or another Key Executive since 2009.

The Management Board is not aware of any arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person was elected to the Supervisory Council, Management Board or was given any other key position in the Company.

5. LEGAL ISSUES

The Management Board is not aware of any convictions in relation to fraudulent offences with respect to the members of the Supervisory Council, the Management Board or other Key Executives of the Group. The Management Board is not also aware that any official public incrimination and/or sanctions of any of the members of its Supervisory Council, Management Board or other Key Executives by statutory or regulatory authorities (including designated professional bodies) and that any such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships between the Key Executives and/or members of the Management Board and/or Supervisory Council and/or other members of administrative, management, and supervisory bodies and other senior management of the Group.

Except as provided below, the Management Board is not aware of any liquidations or bankruptcies of companies in which any of the members of its Supervisory Council, Management Board or other Key

Executives has acted as a member of the supervisory, management or administrative body at any time in the previous five years.

- Mr Nurmela was a management board member of Domina Hotels Hungary Kft (operating company of Domina Budapest Hotel), which was declared bankrupt 5 November 2010. One of the reasons for bankruptcy was a change of strategy of Domina hotel chain. It was a decision of the Domina Hotel Group S.p.A. (new business name Serval Srl) to close all hotels, which were operated outside Group properties. Rental agreement was terminated with the owner of the property where the hotel operated. Due to substantial losses earned before the new management board was appointed, including the appointment of Mr Nurmela and termination of business activities of the company, it was decided to file for bankruptcy of the company.
- Mr Nurmela was a management board member of Domina Hotel Holland BV (declared bankrupt on 17 January 2012). Domina Hotel Holland BV was the operator company of Domina Rotterdam hotel. Domina Hotel Holland BV was subleasing the property from parent company Domina Hotel Group S.p.A. (new business name Serval Srl). The main rent agreement between the owner and DHG was terminated due to non-payment of rental fees by DHG and change in strategy (closing all non Pro Kapital property hotels). The reason for bankruptcy was that Domina Hotel Holland BV was ordered to vacate the premises right before the start of the high season (the most profitable season for a hotel by which it recovers the losses of low season). The goal of the management board was to find a compromise with creditors in regards to payment of outstanding amounts (reduction of amounts). As the compromise was not found, it was decided to allow the company to be declared bankrupt.
- Mr Nurmela acts as the liquidator of OÜ Coffee Distribution, a company outside the Group, which is currently under liquidation.
- In 2007, Mr Nurmela acted as the liquidator of the former Group Company OÜ Vegacorp and as a member of the management board and liquidator of OÜ Vetares (2007), which has not belonged to the Group.
- Mr Paolo Vittorio Michelozzi was a management board member of former group company Serval Srl (former Domina Hotel Group Spa) (until 2010), which in 2011 started liquidation proceedings. Process of coming to an agreement with creditors for reduction of creditors' claims is on-going.

PART XIII. INFORMATION ON COMPANY, SHARES AND SHARE CAPITAL

1. GENERAL INFORMATION ON THE COMPANY

The legal (business) name of the Company is AS Pro Kapital Grupp. The Company is a public limited liability company (*aktsiaselts*) incorporated pursuant to the laws of the Republic of Estonia. The Company is registered with the Estonian Commercial Register under registration code 10278802. The Company's registered office is in Tallinn, Estonia at the address Põhja pst 21, Tallinn, 10414, Estonia, telephone (+372) 6 144 920.

The Company was registered in the Estonian Commercial Register on 26 September 1997 under the business name AS Pro Kapital. In June 2000, the business name of the Company was changed to AS Pro Kapital Grupp. The Company has been established for an indefinite term. The financial year of the Company runs from 1 January to 31 December.

As of 1 January 2007, public limited companies established under Estonian law are not required to list their fields of activities in their articles of association. Instead, when preparing their annual reports, they must indicate in the report their fields of activities for the previous financial year and contemplated fields of activities for the next financial year, using the Estonian Classificatory of Economic Activities (EMTAK). The fields of business activity of the Company include (a) activities of holding companies (EMTAK 64200), (ii) buying and selling of own real estate (EMTAK 68100); (iii) renting and operating of own or leased real estate (EMTAK 68200); and (iv) management of real estate on a fee or contract basis (EMTAK 68320). The Company does not contemplate introducing any changes in its fields of activities in the financial year 2012.

The Company is the operating parent company of the Group. Please see Section 13 (Structure of the Group and Subsidiaries) of Part XI (Business) for further information on the shareholdings of the Company.

2. INFORMATION ON SHARE CAPITAL AND SHARES

As at the date of this Prospectus, the Company's registered share capital is EUR 10,637,084.40 divided into 53,185,422 authorised, fully paid and issued Shares with a nominal value of EUR 0.2 each. The existing Shares have been issued under the laws of the Republic of Estonia. All existing Shares are fully paid up. All existing Shares rank *pari passu* in all respects with each other. The Shares are registered in book-entry form in the ECRS maintained by AS Eesti Väärtpaberikeskus, a company with business address at Tartu mnt 2, Tallinn, 10145 ("**ESCD**") under ISIN EE3100006040. Free transferability of the Shares has not been restricted in the Company's Articles of Association, nor are the Shares subject to any general transfer restrictions.

The General Meeting of Shareholders has adopted a resolution, dated 14 August 2012, on the conditional increase of the share capital of the Company to EUR 19,442,236. Upon the registration of such conditional increase, the Management Board of the Company is entitled to actually increase the share capital of the Company within the range of the conditional share capital and issue:

- up to 4,025,758 new Shares to the bondholders of the convertible bonds issued by the Company. Please also read Section 6 (Option Rights, Convertible Securities and Securities with Warrants) of this Part XIII (Information on Company, Shares and Share Capital); and
- up to 37,000,000 Offer Shares and up to 1,000,000 Over-Allotment Shares to the investors participating in the Offering. Please also read Section 5 (Issue of Offer Shares and Dilution) of this Part XIII (Information on Company, Shares and Share Capital) and Part III (Offering).

3. SHAREHOLDERS OF THE COMPANY

According to the list of shareholders of the Company as maintained by AS Eesti Väärtpaberikeskus, the registrar of the ECRS (the "**ECSD**"), as at 15 August 2012:

- Shares were held in 51 securities' accounts (including 49 ordinary securities' accounts and 2 nominee accounts); and
- at least 5% of the Shares are held in the following securities' accounts:

Name of the owner	Balance (No. of Shares)	Holding in the Company (%)	Type of securities' account
Clearstream Banking Luxembourg S.A. Clients	11,387,230	21.41	nominee account
Eurofiduciaria S.R.L. [1)]	7,067,431	13.29	ordinary account
Svalbork Invest OÜ	6,839,938	12.86	ordinary account
Sueno Latino AG	4,528,531	8.51	ordinary account
A.F.I. American Financial Investments Ltd.	4,359,935	8.20	ordinary account
Anndare Ltd. [2)]	3,323,202	6.25	ordinary account
UNICREDIT BANK AUSTRIA AG	3,287,801	6.18	nominee account

[1)] Eurofiducaria S.L.R also holds 2,842,962 convertible bonds of the Company, which are convertible to 2,842,962 new Shares.
2) Anndare Ltd. holds 385,179 convertible bonds of the Company, which are convertible to 385,179 new Shares.

According to the Management Board's knowledge, the following persons directly or indirectly control at least 5% of the Shares:

Controlling person	Shares of the Company controlled	Shareholding in the Company (%)
Mr Ernesto Preatoni and his affiliates[1)]	18,352,025	34.51
Mr Ernesto Preatoni	1,759,603	3.31
Mr David Trausti Oddsson	2,716,445	5.11
Ms. Evelyn Tihemets	13,875,977	26.09
Mr Vladimir Maslov[2)]	6,132,598	11.53
Mr Giuseppe Prevosti and his affiliates [3)]	4,447,597	8.36

[1)] In the above table the following Shares are considered as being controlled by Mr Preatoni because the Management Board believes that Mr Preatoni is able to control the use of voting rights by such persons: (a) OÜ Svalbork Invest, Estonian company controlled by Evelyn Tihemets, which holds 6,839,938 Shares representing 12.86% of the share capital of the Company, (b) Sueno Latino A.G., a Liechtenstein company controlled by Ms Evelyn Tihemets, which controls 4,528,531 Shares representing 8.51% of the share capital of the Company; (c) 2,507,508 Shares representing 4.71% of the share capital of the Company, which are held through a nominee account opened by Clearstream Banking Luxembourg and are held for the benefit of Ms Evelyn Tihemets; (d) 2,716,445 Shares representing 5.11% of the share capital of the Company held through a nominee account opened by Clearstream Banking Luxembourg for the benefit of Mr David Trausti Oddsson; (e) 612,872 Shares representing 1.15% of the share capital of the Company held by Katmandu Stiftung, a Liechtenstein company controlled by Mr Ernesto Preatoni; and (f) 1,146,731 Shares representing 2.16% of the share capital of the Company held by A.F.I American Financial Investments Ltd, a Liechtenstein company, for the benefit of Mr Ernesto Preatoni.

[2)] 11.53% of all Shares, which are held through the nominee account opened by Clearstream Banking Luxembourg are controlled by Mr Vladimir Maslov, a Russian citizen.

[3)] 8.36% of all Shares are owned by Mr Giuseppe Prevosti and his affiliates. Mr Giuseppe Prevosti, a member of the Supervisory Council, owns directly and indirectly Shares of the Company, including 1,058,060 Shares representing 1.99% of the share capital of the Company owned directly by Mr Prevosti, 2,987,801 Shares representing 5.62% of the share capital of the Company held for the benefit of Mr Prevosti in the nominee account opened by UNICREDIT BANK AUSTRIA AG, 365,807 Shares representing 0.69% of the share capital of the Company held through the company Zunis S.A, a Luxembourg company, and 35,929 Shares representing 0.07% of the share capital of the Company held directly by Mr Prevosti's wife Donatella Grigioni.

According to Management Board's knowledge and belief:

- Anndare Ltd. is an Irish company holding 3,323,202 Shares representing 6.25% of the share capital of the Company, who is holding (a) 3.11% of the share capital of the Company for the benefit of 11 investors, none of who hold more than 0.97% of the share capital of the Company and (b) 3.14% of the share capital of the Company for the benefit of Adan Limited, who is representing 64 investors, none of who hold more than 0.53% of the share capital of the Company;
- Eurofiduciara S.R.L., an Italian fiduciary company, is holding 7,067,431 Shares representing 13.29% of the share capital of the Company for the benefit of more than 243 investors, none of who hold more than 1.37% of the share capital of the Company;
- A.F.I. American Financial Investments Ltd., a Liechtenstein company, is holding 4,359,935 Shares representing 8.20% of the share capital of the Company, including Shares representing (a) 3.19% of the share capital of the Company held for the benefit of Equinox Ltd, a United Arab Emirates company who's beneficial owner is Alessandro Eugenio Kern, (b) 2.85% of the share capital of the Company held for the benefit of Cranberries Ltd, a United Arab Emirates company who's beneficial owner is Ricardo Tedeschi and (c) 2.16% of the share capital of the Company held for the benefit of Ernesto Preatoni.

None of the shareholders have any different voting rights compared to other shareholders. As at the date of this Prospectus, neither the Company nor any other Group Company owns any of the Shares.

The Company is neither a party to, nor is the Management Board aware of any shareholders' agreements among shareholders of the Company in relation to their holdings of Shares. The Management Board is not also aware of any arrangements, the operation of which may at a subsequent date result in any person gaining control of the Company.

4. CHANGES IN THE SHARE CAPITAL

Since the registration of the Company in the Estonian Commercial Register on 12 September 1997, the amount of the share capital has changed as follows:

	Change in share capital	New share capital	Registered in Estonian Commercial Register
Registration of Company in Estonian Commercial Register		EEK 14,600,000	26 September 1997
Share capital increase	+ EEK 85,400,000	EEK 100,000,000	10 November 1997
Share capital increase	+ EEK 25,000,000	EEK 125,000,000	22 May 1998
Share capital increase	+ EEK 10,000,000	EEK 135,000,000	6 October 1998
Share capital increase	+ EEK 90,000,000	EEK 225,000,000	26 May 1999
Share capital increase	+ EEK123,083,660	EEK 348,083,660	4 September 2000
Share capital increase	+ EEK 69,616,730	EEK 417,700,390	15 April 2002
Share capital increase	+ EEK 114,153,830	EEK 531,854,220	5 August 2003
Share capital decrease	- EUR 2'080,426.80	EUR 31,911,253.20	11 August 2011
Share capital decrease	- EUR 21,274,168.80	EUR 10,637,084.40	23 November 2011

On 11 August 2011 the share capital of the Company was decreased as a result of the conversion of the share capital from EEK to EUR. Before the conversion, the nominal value of each Share was EEK 10. Pursuant to Estonian law, the conversion of the share capital could have either resulted in the nominal value of each Share being either EUR 0.6 or 0.7. The General Meeting of Shareholders resolved to round the nominal value of the Shares downwards to EUR 0.6 resulting in the decrease of the share capital. No payments were made to the shareholders in connection with the decrease of the share capital.

On 23 November 2011 the share capital of the Company was decreased in relation to the Division. Please also read "Division of the Company" in Section 9 (Material Contracts) of Part XI (Business) in respect of the terms and conditions of the Division.

5. ISSUE OF OFFER SHARES AND DILUTION

In the Offering the Company offers up to 37,000,000 Offer Shares. The Offer Shares represent approximately 69.57% of Company's share capital immediately prior to the Offering. The Offer Shares will be of the same class as all existing Shares and will also be registered in book-entry form in the ECRS (as maintained by ESCD) under ISIN EE3100006040 (during the Offering, the Offer Shares will have temporary ISIN EE3800046676, which will be changed to the permanent ISIN EE3100006040 after the settlement has occurred and AS LHV Pank has confirmed to ESCD that the investors have paid for the Offer Shares). Please also read Section 2 (Information on Share Capital and Shares) of Part XIII (Information on Company, Shares and Share Capital).

The Offer Shares will be issued and registered in the ECRS pursuant to a resolution of the Management Board to be made after the end of the Offer Period. Subject to conditional increase of the share capital of the Company being registered with the Estonian Commercial register the Management Board will be entitled to resolve to issue the Offer Shares in accordance with a resolution of the General Meeting of Shareholders, dated 14 August 2012, whereby the General Meeting of Shareholders resolved to conditionally increase the share capital of the Company and thereby to enable issue of the Offer Shares. The Company has submitted necessary application for the registration of the conditional increase of share capital to the Commercial Register on 16 August 2012

Following the completion of the Offering assuming that all offered Offer Shares will be subscribed for and issued and none of the convertible bonds issued by the Company has been converted to Shares, the Offer Shares and Over-Allotment Shares will represent approximately:

- 41.67% of Company's share capital assuming that all Over-Allotment Shares will be issued; or
- 41.03% of Company's share capital assuming that none of the Over-Allotment Shares will be issued.

The table below presents changes in net tangible book value per Share following the completion of the Offeing after deducting the fees and expenses of the Offering. Calculation assumes that all the Offer Shares will be subscribed for and issued and none of the convertible bonds issued by the Company will be converted to the Shares. Net tangible book value per Share represents the amount of total tangible assets reduced by the amount of total liabilities and divided by the total number of Shares outstanding. Net tangible assets are calculated as total assets less intangible assets and total liabilities. Net tangible book value per share is expected to increase from EUR 1.29 as at 30 June 2012 to EUR 1.53 after the Offering (assuming that all of the Over-Allotment Shares will be issued).

Net tangible book value per share as at 30 June 2012	EUR 1.29
Number of offered Offer Shares	37,000,000
Offer Price (mid-point of the Offer Price Range)	EUR 1.975
Net tangible book value per share after the Offering assuming that none of the Over-Allotment Shares will be issued and none of the convertible bonds issued by the Company have been converted to the Shares	EUR 1.53
Net tangible book value per share after the Offering assuming that all of the Over-Allotment Shares will be issued and none of the convertible bonds issued by the Company have been converted to the Shares	EUR 1.53

6. OPTION RIGHTS, CONVERTIBLE SECURITIES AND SECURITIES WITH WARRANTS

In absence of express authorisation in the Articles of Association, any decision which alters the share capital or number of shares in an Estonian public limited company must be passed by the general meeting of shareholders. Under Estonian law, convertible bonds are the only debt instruments granting a conversion right into the company's shares. The general meeting of shareholders can decide on the issuance of convertible bonds, if such right has been provided for in the Articles of Association.

In addition, upon the decision of the general meeting of shareholders, share subscription rights may be granted to the employees and members of governing bodies of the company or related undertakings. Such subscription rights may be granted also in connection with the preparation for a merger. The Company's Articles of Association allow the Company to issue convertible bonds upon the decision of the General Meeting of Shareholders.

The Company has not issued any convertible bonds or option rights, securities with warrants, capital loans or other securities or instruments convertible into or exchangeable for Shares other than the following convertible bonds:

Name of the convertible bond	ISIN	Number of convertible bonds
Pro Kapital Grupp convertible bond PKG1 13.08.2013	EE3300104033	1,164,807
Pro Kapital Grupp convertible bond PKG2 20.01.2014	EE3300106574	382,304
Pro Kapital Grupp convertible bond PKG3 10.08.2014	EE3300108711	840,184
Pro Kapital Grupp convertible bond PKG4 16.09.2014	EE3300109248	536,012
Pro Kapital Grupp convertible bond PKG5 29.11.2014	EE3300109917	422,067
Pro Kapital Grupp convertible bond PKG6 08.03.2015	EE3300109982	569,273
Pro Kapital Grupp convertible bond PKG7 25.05.2015	EE3300110048	111,111

The total number of issued convertible bonds is 4,025,758. Each convertible bond referred to above can be converted by its holder to one Share. Thus, up to 4,025,758 new Shares may be issued to the bondholders of the above-referred convertible bonds. In accordance with a resolution of the General Meeting of Shareholders, dated 14 August 2012, each such convertible bond is convertible to a Share based on a notice by respective bondholder, which must be submitted to the Company 10 business days before the conversion.

Assuming that all 37,000,000 Offer Shares will be subscribed for and issued and all Over-Allotment Shares will be issued and all above-referred convertible bonds will be converted to the Shares, the Company's share capital would be EUR 19,042,236 and the Shares issued as a result of conversion would represent 4.23% of the share capital of the Company.

Terms and conditions of the convertible bonds

The General Meeting of Shareholders approved the terms and conditions of convertible bond issue by the Company on 13 April 2009. Such terms and conditions have been amended by the division plan for the Division of the Company. Please also read "Division of the Company" in Section 9 (Material Contracts) of Part XI (Business) in respect of the terms and conditions of the Division. The General Meeting of Shareholders also resolved on 13 April 2012 to clarify that each convertible bond is convertible to one Share with the nominal value of EUR 0.2 and therefore, the share capital of the Company will be increased upon exchange of convertible bonds by up to EUR 805,151.6. The General Meeting of Shareholders also resolved to amend the terms and conditions for the conversion of the convertible bonds on 14 August 2012.

Such terms and conditions are applicable to all above-referred convertible bonds. Pursuant to the terms and conditions of the convertible bonds (as amended):

- the issue price for each convertible bond was EUR 4.5 (whereas EUR 1.7 of such purchase price has been transferred to AS Domina Vacanze Holding in the course of the Division);
- the interest payable for each convertible bond is 7% p.a. (whereas until 9 December 2011 such interest accrued on the amount of EUR 4.5 and thereafter from the amount of EUR 2.8);
- each convertible bond of the Company entitled its holder to convert such bond to one Share at any time before the redemption of such bond, if the holder notifies the Company thereof at least 10 (ten) business days in advance;
- each convertible bond, which has not been converted to a Share will be redeemed by the Company against a payment by the Company of EUR 2.8 to the bondholder.

The convertible bonds that have not been converted to the Shares will be redeemed as follows:

Name of the convertible bond	ISIN	Number of convertible bonds	Redemption Date
Pro Kapital Grupp convertible bond PKG1 13.08.2013	EE3300104033	1,164,807	13 August 2013
Pro Kapital Grupp convertible bond PKG2 20.01.2014	EE3300106574	382,304	20 January 2014
Pro Kapital Grupp convertible bond PKG3 10.08.2014	EE3300108711	840,184	10 August 2014
Pro Kapital Grupp convertible bond PKG4 16.09.2014	EE3300109248	536,012	16 September 2014
Pro Kapital Grupp convertible bond PKG5 29.11.2014	EE3300109917	422,067	29 November 2014
Pro Kapital Grupp convertible bond PKG6 08.03.2015	EE3300109982	569,273	08 March 2015
Pro Kapital Grupp convertible bond PKG7 25.05.2015	EE3300110048	111,111	25 May 2015

7. SHAREHOLDER RIGHTS

General meetings of shareholders

Under the Estonian Commercial Code, shareholders exercise their power to decide on corporate matters at general meetings of shareholders. The general meeting of shareholders considers, among other things, the annual report and the distribution of profits. Resolutions may be adopted at either annual or extraordinary general meetings.

In accordance with the Estonian Commercial Code, an annual general meeting of shareholders must be held within six months after the end of a financial year. An extraordinary general meeting of shareholders may be convened whenever the management board deems it appropriate. However, the management board is obliged to convene an extraordinary general meeting in cases set forth by the Estonian Commercial Code, for example, if the equity capital decreases below the legally required minimum equity, if the supervisory council, the auditor of the company or shareholders whose shares represent at least one-twentieth of the share capital (one-tenth in case of non-listed companies) - make such a request to the management board, or if this is clearly in the interests of the company. If the management board does not convene an extraordinary general meeting within one month following the receipt of a request of one or more shareholders, the supervisory council or the auditor, the person or the persons who have submitted the respective request are entitled to convene an extraordinary general meeting themselves. The Articles of Association of the Company do not set forth any additional cases in which the Management Board is required to convene an extraordinary General Meeting of Shareholders.

In accordance with the Estonian Commercial Code, notices to convene annual general meetings of shareholders must be given at least three weeks prior to the meeting (one week in case of extraordinary general meeting of a non-listed company). Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the shareholders' register of the company as maintained in the ECRS). If the company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such address. Notices may be sent also by unregistered mail or fax provided that the letter or fax is accompanied by a notice requesting the recipient to immediately return the confirmation of receipt to the management board. However, if the company has more than 50 shareholders, notices need not be sent to shareholders, but must be published in at least one national daily newspaper in Estonia. A listed company must additionally publish the notice via methods that ensure fast access to the information contained therein, using media that can be assumed to effectively transmit information to the public within the entire European Union.

The supervisory council of the company usually determines the agenda of the general meeting of shareholders. If, however, the shareholders or the auditor convene a general meeting of shareholders, they also determine the agenda of that meeting. The management board or one or more shareholders whose shares represent at least one-tenth of the share capital of the company - one twentieth in case of listed companies - are entitled to request that items be included on the agenda of a general meeting

of shareholders, if such a request is made not later than 15 days before the day of the general meeting. If, upon convening a general meeting of shareholders, the requirements of law or the articles of association have been materially breached, no decision may be adopted at the meeting unless all shareholders participate or are represented at the meeting. Resolutions adopted at such meeting are void unless the shareholders with respect to whom the procedure for calling the meeting was breached approve the resolutions.

If an extraordinary meeting is called at the request of the auditor or the shareholders, the auditor or the shareholders who have submitted the respective request may also request items to be included on the agenda of the general meeting, concurrently with the request to convene the meeting.

An item that was not previously included on the agenda may be included at the approval of at least nine-tenths of the shareholders participating in the general meeting, if their shares represent at least two-thirds of the share capital of the company, except shareholders participating in the general meeting via mail or electronic voting.

In order to have the right to attend and vote at a general meeting of shareholders, a shareholder must be registered in the shareholders' register on the cut-off date which is seven days before the meeting. Voting rights may not be exercised by a shareholder whose shares are registered in the name of a nominee unless the nominee account holder has given a power of attorney to the shareholder.

A general meeting of shareholders is capable of passing resolutions if more than one-half of the votes represented by shares held by the shareholders are present at the meeting. If the meeting has no quorum, the management board must call a new general meeting of shareholders for a date not later than within three weeks but not earlier than seven days after the date of the original meeting. There are no quorum requirements for the newly called general meeting.

The above-referred rules are also applicable to the General Meetings of Shareholders of the Company.

Voting rights

The Company has one class of Shares. Each Share entitles the holder to one vote.

Pursuant to Estonian Commercial Code, a shareholder may attend and vote at a general meeting of shareholders in person or by proxy. At a general meeting of shareholders, resolutions generally require the approval of a majority of the votes represented at the meeting. However, certain resolutions, such as amending the articles of association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division, reorganisation or liquidation of the company, require a majority of two-thirds of the votes represented at the general meeting of shareholders. Any issuance of new shares on terms other than in accordance with the existing shareholders' pre-emptive subscription rights requires a majority of at least three quarters of the votes represented at the general meeting. Issuing a different class of shares requires amendment of the articles of association by a two-thirds majority of votes represented at the general meeting.

The rights attaching to any class of shares may be amended only by a decision of the general meeting of shareholders which is supported by a qualified majority of four-fifths of all votes and nine-tenths of the shareholders whose rights are proposed to be amended.

The above-referred rules are also applicable to the voting rights attached to the Shares.

Shareholders' right to information

Shareholders have the right to receive information on the activities of the Company from the management board at the general meeting of shareholders. The management board may refuse to give information if there is a basis to presume that this may cause significant damage to the interests of the Company. If the management board refuses to give information, the shareholder may demand that the general meeting of shareholders decide on the legality of the shareholder's request or to file, within two weeks after the general meeting of shareholders, a petition to a court by way of proceedings on petition in order to oblige the management board to give information.

The above-referred rights also belong to the shareholders of the Company.

Dividends and other distributions

Under the Estonian Commercial Code, a general meeting of shareholders may authorize the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the

management board. The supervisory council has the right to make changes to the proposal of the management board before submission to the general meeting.

Dividends, if any, should be paid in cash or, if the shareholders consent, in other property. The shareholders decide annually the dividend amount and procedure of payment on the basis of the approved annual report (the decision may, however, stipulate that the dividends are to be paid out in several instalments). As a general rule, no interim dividends may be paid in respect of a financial period for which an annual report (together with the audited financial statements) has not yet been approved by the general meeting of shareholders. However, the articles of association may provide that the management board has the right, upon the consent of the supervisory council, to make advance payments to the shareholders on account of the estimated profit after the end of a financial year but before the approval of the annual report, provided that such advance payments do not exceed one half of the amount that may be distributed among shareholders. The Company's Articles of Association do not provide for such right of the Management Board.

Dividends may only be paid out from net profit or undistributed profit from previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid to the shareholders if the net assets of the company, as recorded in the approved annual report of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law or the articles of association, may not be distributed to the shareholders.

Dividends of listed companies are paid only to those shareholders (or their nominees) who are entered on the list of shareholders (shareholders' register) as maintained in the ECRS on the respective record date. If a general meeting of shareholders adopts a resolution that relates to rights attached to the shares (for example, the declaration of payment of dividends), the record date may not be earlier than the tenth trading day after the date of the relevant general meeting of shareholders.

All existing Shares rank pari passu with regard to dividends and other distributions of the Company (including distribution of assets in the event of dissolution). The Company's Articles of Association do not provide for different rules in respect of dividend payments as compared to those set out in the Commercial Code and described above.

Pre-emptive subscription rights

Under Estonian law, existing shareholders of a public limited company have pre-emptive rights to subscribe for new shares in the company, in proportion to their existing shareholding. A resolution waiving pre-emptive rights must be approved by at least three-fourths of all votes represented at the general meeting of shareholders. Such pre-emptive right is also attached to the Shares.

Right to acquire own shares

A public limited company is entitled to acquire its own shares only if all the following conditions are met:

- the acquisition occurs within five years after the adoption of a resolution of the general meeting of shareholders which specifies the conditions and term for the acquisition and the amounts to be paid for the shares;
- the sum of the nominal value of the shares held by the company does not exceed one-tenth of its share capital; and
- the shares are paid for from assets excluding the share capital, reserve capital and premium.

However, a public limited company may acquire its shares by inheritance. A public limited company may also acquire its shares by a resolution of the supervisory council without requiring a resolution of the general meeting of shareholders if the acquisition of the shares is necessary to prevent significant damage to the company. In such case, the shareholders must be informed of the circumstances and details of the acquisition of the company's own shares at the next general meeting of shareholders.

In the event that the shares acquired contribute to more than one-tenth of the share capital, such excess shares must be disposed of within three years of their acquisition. In the event that the public limited company acquires its own shares in violation of the law, such shares must be disposed of or cancelled (by decreasing the share capital) within one year of acquisition.

The rules regarding the acquisition of a company's own shares are also applied to the acquisition of a parent company's shares by the subsidiaries. In the event that a subsidiary acquires the shares of its parent company, the parent company shall be regarded as the acquiring party.

The above-referred rules are also applicable to the acquisition of Shares by the Company.

Disclosure of shareholdings

Pursuant to the Estonian Commercial Code, the management board is required to submit to the Estonian Commercial Register, together with the approved annual report, a proposal for profit distribution, a sworn auditors' report and a list of shareholders holding more than 10% of the votes as at the date of the approval of the annual report by the general meeting of shareholders. This requirement is also applicable to the Management Board. See "Estonian Securities Market - ECRS and Registration of Shares" for a description of other instances when information concerning the shareholders is accessible to the public.

Squeeze-out rules

The Commercial Code provides that a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90% of the share capital of a public limited company, is entitled to make an offer to acquire the remaining outstanding shares of the company for fair monetary compensation. Such an offer must be presented to the general meeting of shareholders and, if at least 95% of the votes represented by the shares of the Company are cast in favour, the offer will be binding on all shareholders. These squeeze-out rules are also applicable to the Company.

Taxation of dividends

Please read Part XV (Taxation)

Specific features relating to shares held in a nominee account

According to the Estonian Central Registry of Securities Act (the "**ECRSA**"), nominee accounts can be set up for the purpose of administering securities held for the clients of the owner of the nominee account (i.e. the nominee). Nominee accounts are used to only hold the securities, which the nominee acquires in its own name but for the client under a mandate or in other similar legal relationship, as well as securities gained, including in dividends or as a result of replacement or exchange of securities and other securities received on account of such securities. Therefore, the Shares held by a nominee in the nominee account for the investors, are held in the name of such nominee but for the benefit of the investors.

According to ECRSA the securities, which have been acquired for the client but in the name of the nominee under a mandate or other similar legal relationship or have been transferred to the nominee under a contract or otherwise shall be regarded *vis-à-vis* the nominee and its creditors as the securities of the client. Therefore, the Shares, which a nominee holds in the nominee account for the investors, shall be regarded *vis-à-vis* such nominee and its creditors as the securities of the investors for whom the Shares are held by such nominee.

According to ECRSA where the nominee holds on its payment account any funds for and on behalf of a client for the nominee account purposes, the nominee shall keep account of such funds held on its account per each client individually. The nominee shall dispose of the funds held on such payment account according to the mandate or other instructions given in a similar legal relationship. The funds held for the client on the payment account for the nominee account purposes shall be regarded *vis-à-vis* the nominee and its creditors as the funds of the client. Therefore, if the Company pays any dividends and if respective funds are paid to a nominee in relation to the Shares held by that nominee in the nominee account for the investors; such funds shall be regarded *vis-à-vis* such nominee and its creditors as the funds of the investors.

According to ECRSA, the securities and funds of a client referred to above cannot be seized or attached in execution proceedings brought against the nominee and are to be exempted from the nominee's bankruptcy estate. The restrictions and limitations on transfers applied in respect of the nominee as the measures securing an action brought against the nominee do not extend to include the securities held on the nominee account or the funds on the related payment account.

According to ECRSA, the rights attaching to, and the obligations arising from, the securities (e.g. the Shares) held on the nominee account shall be exercised and performed by the nominee. The nominee shall exercise the voting and other rights attaching to the securities (e.g. the Shares) in accordance with the client's (i.e. investors') instructions. Upon request of the client the nominee shall issue to the

client a proper authorisation for the exercise of the rights attaching to the securities held by the nominee. The nominee may exercise the voting rights attaching to the securities (e.g. the Shares) in accordance with the instructions received from the client (e.g. investors for whom the Shares are held in the nominee account).

PART XIV. ESTONIAN SECURITIES MARKET

The following describes certain provisions of Estonian laws regulating the legal status and management of public limited companies. The following description does not constitute an exhaustive description of the subject matter. It is based on the laws of Estonia as in force on the date of this Prospectus, and is subject to changes as a result of any future amendments to Estonian laws.

The information presented in this Section is provided for the general background purposes only. Therefore, investors should obtain an opinion of their own legal advisor concerning the provisions of law related to the acquisition, holding and disposal of Shares.

1. INTRODUCTION TO ESTONIAN COMPANY LAW

Under Estonian law, limited liability companies are divided into two main categories – private limited companies (*osaühing, OÜ*) and public limited companies (*aktsiaselts, AS*). Shareholders of private limited companies and public limited companies are generally not personally liable for the obligations of the companies. The two types of companies mainly differ in their requirements for capital and management structures. Public limited companies have greater capital requirements and can issue more classes of shares than private limited companies, and are required to register their shares with the ECRS. Please also read "ECRS and Registration of Shares" below under Section 3 (Tallinn Stock Exchange and the Estonian Securities Market) regarding the functions of the ECRS.

A public limited company organized under Estonian law must be registered with the Estonian Commercial Register and its shares have to be registered with the ECRS. A public limited company acquires legal capacity upon its registration in the Estonian Commercial Register. The Estonian Commercial Register is maintained by the registration departments of the courts of first instance.

Public limited companies must have a minimum share capital of EUR 25,000. A public limited company's share capital must be fully paid-up as a condition of registration in the Estonian Commercial Register. Shares must be paid up in cash, unless the company's Articles of Association allows payment by means of a non-monetary contribution. The valuation of non-monetary contributions must be confirmed by the auditor.

Shares of public limited companies may be issued as shares with nominal value (a nominal value of 10 cents each or a full multiple thereof) or shares without nominal value. The simultaneous issue of both types of shares is prohibited. An equal part of the share capital shall conform to all shares without nominal value. Book value of shares without nominal value (i.e. the part of the share capital corresponding to one share without nominal value) is established by dividing the share capital by the number of shares. Shares are freely transferable, but the company's Articles of Association may confer a pre-emptive right on shareholders. Dividends must be distributed to shareholders pro rata, based upon the nominal value or book value of the shares held by each shareholder. A public limited company may issue different classes of shares, whose owners enjoy different rights upon distribution of profits and upon distribution of remaining assets in case of liquidation of the company. A public limited company may issue non-voting shares, which grant a preferential right to receive dividends and to participate in the distribution of the remaining assets of the company upon dissolution (preferred shares). The Articles of Association may prescribe that a preferred share shall grant the right to vote on the adoption of certain resolutions (restricted voting right). The sum of the nominal values of preferred shares may not be greater than one-third of the share capital.

2. CORPORATE GOVERNANCE

Under Estonian law, the control and management of a public limited company is divided among the general meeting of shareholders, the supervisory council and the management board.

General meeting of shareholders is the highest authority in a public limited company and makes the most important decisions in the company, such as amending the articles of association, increasing and reducing share capital, approving the annual report and distributing profit. Please also read Part XIII (Information on the Company, Shares and Share Capital) for further information on the tasks and procedures related to the general meeting of shareholders.

The supervisory council engages in oversight and longer-term management activities, such as supervising the management board and devising business plans. The supervisory council must have at least three members, who are elected by the general meeting for a period of five years, unless a shorter period is prescribed in the Articles of Association. The supervisory council reports to the gen-

eral meeting. A member of the supervisory council may not simultaneously serve as a member of the management board of the same company, or any of its subsidiaries.

The management board is an executive body in charge of the day-to-day management of the company, and it represents the company in relations with third parties, for example, in entering into contracts on behalf of the company. The management board is elected by the supervisory council for a term of three years, unless the Articles of Association prescribe another term, which, however, may not be longer than five years. The management board must adhere to the lawful orders of the supervisory council. Members of the management board may not simultaneously serve as the members of the supervisory council of the same company.

Members of the supervisory council and management board have a number of general obligations towards the company, such as a fiduciary duty of loyalty, the obligation to act with due diligence and sufficient skills and to the maximum benefit of the company. They must inform the company about any material facts related to the performance of their duties. Members of the supervisory council and management board are subject to a strict confidentiality obligation that applies to any information that they learn in connection with the discharge of their duties that the company has a legitimate interest to keep confidential, and above all, information relating to the trade and business secrets of the company. The confidentiality obligation continues after the management board or supervisory council member's term of service expires, to the extent necessary to protect the company's justified interests. Exceptions to the confidentiality obligation arise where the company authorizes disclosure, or where the law requires disclosure. Unauthorized disclosure of business secrets may result in criminal sanctions.

Under the Estonian Commercial Code, a public limited company is required to engage an auditor who must be appointed by the general meeting of shareholders. The general meeting of shareholders also determines the principles of remuneration of the company's auditors. The auditors may be appointed for a specified term or for a single audit.

A public limited company is required to have its annual report audited. After the end of the financial year, the management board must prepare the annual accounts and activity report and present them to the auditor for review. The management board presents the annual report (comprising the annual accounts and management report), the sworn auditor's report and a proposal regarding the distribution of profit to the general meeting of shareholders for approval. The supervisory council has the right to make amendments to the profit distribution proposal before it is presented to the general meeting of shareholders. In addition, the supervisory council must review the annual report and prepare a written report thereon, which must, among other things, indicate whether or not the supervisory council approves the annual report. This report must be presented to the general meeting of shareholders together with the annual report.

Shareholders whose shares represent at least one tenth of the share capital of the company may demand from the company that the auditor who prepared the sworn auditor's report participates in the making of the decision regarding the approval of the annual report, and provides explanations concerning the auditor's report. Such a request must be submitted to the company in writing at least five days before the general meeting of shareholders.

3. TALLINN STOCK EXCHANGE AND THE ESTONIAN SECURITIES MARKET

Tallinn Stock Exchange and the ECSD are the leading securities market infrastructure operators in Estonia. Herein is a summary of the information concerning the Estonian regulated securities market and certain provisions of Estonian law and current securities market regulations in effect on the date of this Prospectus.

Tallinn Stock Exchange

The Tallinn Stock Exchange is the single stock exchange operating in Estonia. It is operated by NASDAQ OMX Tallinn AS, a public limited company whose principal shareholder is NASDAQ OMX Nordic OY, a company controlled by NASDAQ Stock Market Inc. which is the world's largest exchange company. The Tallinn Stock Exchange is a self-regulated organisation, issuing and enforcing its own rules and regulations consistent with standard exchange operating procedures, but is licensed and supervised by the Estonian Authority. The Rules of Tallinn Stock Exchange are established by NASDAQ OMX Tallinn AS, the operator of the Tallinn Stock Exchange, in order to ensure the regular and lawful operation of the stock exchange. The operator may unilaterally amend the Tallinn Stock Exchange Rules, though the Estonian Authority must approve such amendments. The rules and regulations of the Tallinn Stock Exchange regulate the listing of securities and trading in them on the Tallinn Stock Exchange and the performance of the obligations arising from securities transactions per-

formed on the Tallinn Stock Exchange. The Tallinn Stock Exchange Rules are established by the management board of the Tallinn Stock Exchange. The Tallinn Stock Exchange Rules are binding on the members of the Tallinn Stock Exchange and the issuers whose securities are listed or admitted to trading on the Main List or the Secondary List which is a separate market also regulated by the Tallinn Stock Exchange. The activities of, and trading on, the Tallinn Stock Exchange are subject to two tiers of regulation. Laws and government regulations comprise the basic regulatory framework, which is then supplemented by the Tallinn Stock Exchange Rules. The principal laws governing the activities of, and trading on, the Tallinn Stock Exchange are the Estonian Securities Market Act and the Estonian Central Register of Securities Act.

ECRS and Registration of Shares

The ECRS is a public register established, among other matters, for the registration of shares and other securities stipulated in the ECRSA and transactions executed with such securities (including pledges). The ECRS is operated by ECSD. The ECSD is organized as a public limited company, and its shares are fully owned by NASDAQ OMX Tallinn AS. The ECSD's primary functions include clearing and settling securities transactions, maintaining records of share ownership and pledges, and providing securities-related services to issuers and investors. The ECSD is the responsible body for the only securities settlement system (SSS) in Estonia, which settles stock exchanges and over-the-counter trades. The Estonian Central Bank acts as a settlement bank of the netted cash position of the participants in the SSS.

The public has access to certain information, and has the right to obtain extracts and transcripts of documents from the ECRS, concerning the issuer (its name, seat and registry code) and the securities (the type, nominal value and amount of securities) registered with the ECRS. If shares are quoted on the stock exchange, the information concerning the shareholders is also accessible to the public. The ECRSA stipulates further circumstances when additional information registered with the ECRS is accessible to third parties.

A securities account can be opened in the ECRS by any Estonian or foreign person. The opening of the account takes place through an account operator (custodian). Account operators are institutions that qualify under Estonian law as professional participants in the securities market, such as credit institutions, investment firms, and other persons specified by law. In certain cases, foreign persons may act as account operators. Under certain conditions, a nominee account can be opened in the ECRS, in which case a notation is made in the ECRS indicating the nominee status of the relevant account. Shares held in the nominee account are deemed to be the client's shares, and not the shares of the account owner, and thus cannot be brought into the bankruptcy estate of the owner of the nominee account. The person who is entitled to exercise the rights arising from shares held in the nominee account is the account owner. In the exercise of voting rights and other rights arising from a share, the owner of a nominee account must follow the instructions of the client. At the request of the client, the owner of a nominee account must grant authorization in the required format to the client for the client to represent the owner in the exercise of rights arising from the shares.

Listing on the Tallinn Stock Exchange

In order to list shares on the Main List of the Tallinn Stock Exchange, among other requirements, a sufficient number of such shares must be held by the public. As a general rule, this condition is fulfilled if at least 25% of the share capital represented by the shares to be listed is held by the public, or taking into consideration the number of shares and their distribution among the public, the market would also operate properly at a lower percentage of shares held by the public, or such level of distribution is expected to be achieved shortly after listing. The Tallinn Stock Exchange Rules set out certain specific criteria as to determining whether shares are held by the public.

Trading on the Tallinn Stock Exchange

The trading system of the Tallinn Stock Exchange is open for trading to its members. Trading on the Tallinn Stock Exchange takes place on each business day from 10:00 a.m. to 3:55 p.m. (Estonian time). From 3:55 p.m. to 4:00 p.m. on the Tallinn Stock Exchange, the pre post-market trading is carried out. From 4:00 p.m. to 4:30 p.m. the Tallinn Stock Exchange carries out post-market trading. The Tallinn Stock Exchange uses the trading system INET, which in addition to Estonia is used by exchanges in Sweden, Finland, Denmark, Iceland, Latvia, Lithuania, and by exchanges of NASDAQ Group in the United States of America. The official trading currency of the Tallinn Stock Exchange trading system is euro. Transactions can be concluded on the Tallinn Stock Exchange either through automatic matching or through manual trades. In the case of automatic matching, the buy and sell

orders are matched by the trading system automatically according to price and time priorities. Automatically matched transactions are settled on the third day after the transaction (T+3), unless agreed otherwise. Manual trades are negotiated between stock exchange members outside the system and brokers must enter the deal in the trading system as soon as possible, but not later than three minutes after its conclusion. Manual trades may have a settlement day between T+1 (inclusive) and T+6 (inclusive). Generally, member firms may agree on a different settlement date of the transaction than the one provided in the previous sentence only on the consent of the Tallinn Stock Exchange.

The operator of the Tallinn Stock Exchange is required to ensure constant access on its website to information on the securities traded on the market, including the acquisition and transfer prices of the securities, recent prices, price changes, the highest and lowest prices and the volume and number of transactions. According to the Estonian Securities Market Act such information must be accurate, clear, precise and complete. The Tallinn Stock Exchange operates an electronic trading system that provides real-time stock quotes, distributes issuer announcements and displays information regarding executed transactions, statistics and other such data. The operator of the Tallinn Stock Exchange must record at least the following regarding transactions concluded on the exchange: (i) the time at which the transaction is concluded; (ii) information regarding the market participant who concluded the transaction; (iii) the securities which served as the object of the transaction; and (iv) their number, nominal value and price. In accordance with the Tallinn Stock Exchange Rules, the operator of the Tallinn Stock Exchange has the right to request additional information regarding a transaction for the purposes of recording the transaction.

The Listing and Surveillance Committee of the Tallinn Stock Exchange has the right, for the purpose of ensuring sufficient liquidity of a security, to demand that the issuer concludes a market-making agreement with a member of the Tallinn Stock Exchange with respect to the securities to be listed.

Supervision of the Tallinn Stock Exchange

Activities of the Tallinn Stock Exchange are supervised by the Estonian Authority, which is a body carrying out the supervision of all Estonian financial institutions including banks, insurance companies, investment and pension funds and the securities market. Compliance with the Tallinn Stock Exchange Rules by its members is monitored by the Listing and Surveillance Committee of the Tallinn Stock Exchange. The operator of the Tallinn Stock Exchange exercises supervision over the exchange with respect to the prices of securities traded on the exchange and the conduct and execution of transactions for the purpose of detecting and reducing transactions conducted on the basis of inside information, market manipulation and other violations of the law. The operator of the Tallinn Stock Exchange also supervises the disclosure of adequate information to the investors, protection of the interests of the investors as well as their fair and equal treatment. The operator of the Tallinn Stock Exchange can apply contractual penalties, full or partial suspensions of up to 30 days, suspension of the listing of or trading with the security of up to 30 days, termination of membership of the exchange, or permanent termination of the listing or trading with the security. The operator is under an obligation to notify the Estonian Authority immediately of any violation of law. The Estonian Authority also has specific supervisory obligations for monitoring transactions concluded on the exchange.

4. DISCLOSURE OF TRANSACTIONS AND OWNERSHIP

A person who has acquired in an issuer, either directly or indirectly, individually or together with persons operating in concert, a qualifying holding and in connection therewith or thereafter has acquired or increased the number of votes owned by such person over 5%, 10%, 15%, 20%, 25%, one-third, 50% or two-thirds of all votes represented by the shares of the issuer, must immediately, and in any event by no later than four business days thereafter, notify the issuer and the Estonian Authority of the number of votes owned by such person. The same notification requirements also apply in case the holding falls below the prescribed levels. Moreover, the notification obligation also applies if the number of the person's votes in the issuer of shares reaches, exceeds or falls below the specified amounts due to an event changing the breakdown of the voting rights.

The notification must contain at least the following information:

- breakdown of voting rights according to the situation at hand;
- where possible, information concerning the controlled companies through which the securities related to such voting rights are actually held;
- the date of reaching or exceeding the corresponding limit amount;

- information concerning the shareholder, including in the case where the shareholder has no right to perform the voting right, and information concerning the person who has the right to perform the voting right on behalf of such shareholder.

If more than one person has the notification obligation, such persons may submit a joint one-time notice. The submission of a joint one-time notice does not release any of the persons from compliance with the obligations related to the notice of such person.

With respect to voting rights represented by issuer's shares which a person has the right to acquire on the basis of the securities held by him or her directly or indirectly only on own initiative and on the basis of a binding arrangement pursuant to the law applicable thereto, the person holding the securities must total all the securities related to the underlying the same issuer's shares and must correspondingly give notice thereof.

The above notification obligation does not apply to:

- shares which are acquired only for settlement purposes within a short settlement cycle (maximum three trading days following the transaction);
- shares held by a person providing the service of safekeeping of shares, within the limits of its authority to provide such service, provided that such service provider is permitted to perform the voting rights represented by such shares only in writing or based on instructions received through electronic media;
- a 5% holding acquired or transferred by a market-maker within its market-making authority, provided that the market-maker does not interfere with the management of the issuer or influence the issuer to buy the shares held by the market-maker or to guarantee their price;
- voting rights represented by the shares included in the trading book of the credit institution or investment firm, provided that such voting rights do not exceed 5% of all the voting rights represented by the shares issued by the issuer and the credit institution or investment firm guarantees that such voting rights are not performed or used to interfere in the management of the issuer.

Upon demand of the Estonian Authority or the issuer of the share, the person who notified of the number of votes based on the notification requirement described above is required to provide certification concerning the number of votes directly or indirectly owned thereby, and on the size, acquisition, possession or transfer of the holding.

The issuer must organise the publication of the information received on the basis of the above described notification requirements without delay but not later than within three trading days after receiving the notice, unless the information is published by the Estonian Authority within three trading days after receiving the notice.

If the issuer of shares acquires or transfers the shares itself or through a third person acting in its own name but at the expense of the issuer, and as the result the proportion of its shares in the voting rights reaches, exceeds or falls below 5 or 10%, then the issuer is required to make public such proportion without delay but not later than within four trading days after the acquisition or transfer of the shares. The proportion of own shares is calculated on the basis of all the voting rights represented by the shares issued by the issuer.

The Estonian Authority has the right to make exemptions from such notification requirements in certain circumstances.

The issuer is also required to ensure that shareholders holding more than 5% of the shares of the issuer disclose, through the issuer, all the significant provisions of all the agreements made with other shareholders or third parties which are aimed at restricting the free transferability of the shares or which may have a significant effect on the price of the shares.

In order to ensure that disclosure obligations established by law are also fulfilled in respect of shareholdings held by nominee accounts, the operator of a nominee account is required to enter into written agreements with the clients on whose behalf the operator holds securities. These agreements must, among other requirements, require the client to notify the issuer and/or the competent supervisory body (the exact person to whom the notification must be submitted may vary depending on a particular transaction) if a holding in a company exceeds the threshold established by law or to obtain the permission of the competent supervisory body for the holding to exceed the threshold established by law (such permission is required, for example, in the case of the acquisition of a holding above a certain

level in financial institutions, or in the case of an acquisition subject to concentration control by competition authorities).

5. MARKET ABUSE

Estonian law prohibits market abuse, which, within the meaning of the Estonian Securities Market Act (the "**ESMA**"), is misuse of inside information and market manipulation. Restrictions established for the misuse of inside information also apply to financial instruments that are not admitted to trading in Estonia or in a Member State of the EEA but the value of which depends on a financial instrument that is admitted to trading in Estonia or in an EEA Member State.

Inside information is precise information which has not been made public, relating, directly or indirectly, to the financial instrument or its issuer and which, if it were made public, would be likely to have a significant effect on the price of the financial instrument or on the price of related derivative financial instruments. The law establishes additional conditions under which information may qualify as inside information.

Misuse of inside information comprises, among other actions, the trading on the basis of inside information, unauthorized disclosure of inside information, and the making of recommendations on the basis of inside information for the acquisition or disposal of financial instruments to which that information relates.

An insider who, directly or indirectly, on its own account or on the account of a third party, acquires or transfers a financial instrument to which the inside information relates or a derivative security related to such financial instrument or who makes recommendations to third parties or influences third parties to acquire or transfer such financial instrument or derivative security, commits a criminal offence, and may be subject to fines or imprisonment up to three years. The ESMA also provides under certain circumstances the right to demand directly from the issuer of the financial instrument traded on the Estonian market compensation of damages arising from the failure to disclose the information.

Issuers of publicly-traded securities and other individuals or entities that have regular access to inside information are required to establish internal rules and procedures to prevent the disclosure of such information.

The ESMA contains a non-exhaustive list of actions including price fixing, dissemination of rumours and false news and other methods that are deemed to constitute market manipulation. Credit institutions, investment firms and others providing investment recommendations must disclose any conflicts of interest they may have when providing investment advice. Under the ESMA, market manipulation may be punishable as a misdemeanour offence with a fine of up to EUR 1,200 in case of individuals and with a fine of up to EUR 32,000 in case of legal persons. Under the Estonian Penal Code, certain actions of market manipulation conducted by shareholders of the issuer or persons related to the issuer due to their employment or work duties may be subject to fines or imprisonment up to three years. Additionally, under the Estonian Penal Code a legal person may be punished for market manipulation with a fine up to EUR 16,000,000.

The Tallinn Stock Exchange Rules also restrict transactions involving an issuer's securities by certain officials of the issuer and by persons connected with such officials, to avoid profiting from short-term price fluctuations of the issuer's securities and during restricted periods (in particular, after the end of a financial period but when the financial results of the issuer have not yet been made public). The Listing and Supervisory Committee of the Tallinn Stock Exchange has the right to make exemptions from the requirement to abstain from trading during a restricted period if the Committee is of the opinion that the transaction will not be executed on the basis of confidential information.

6. MANDATORY TAKEOVER BIDS

Mandatory takeover bid rules are provided in the ESMA where the rules stipulated in the Takeover Directive have been transposed. Pursuant to ESMA, the Estonian law applies in matters relating to the information to be provided to the employees of the offeree company and in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, as well as the conditions under which the board of the offeree company may undertake any action which might result in the frustration of the bid.

A person, who has gained, either directly or together with other persons acting in concert, a dominant influence over a company whose shares are listed on a stock exchange, is required to make within 20 days a takeover bid for all the outstanding shares of such issuer. Exemptions from the obligation to

make the mandatory take-over bid may be granted by the Estonian Authority in case of certain specific circumstances provided by law.

For these purposes, a “dominant influence” is a situation where a person: (i) owns the majority of votes represented by the issuer’s shares; or (ii) being a shareholder of the company, has the right to appoint or remove majority of the members of the supervisory council or management board of the company; or (iii) being a shareholder of the company, controls simple majority of the votes represented by the company’s shares on the basis of an agreement entered into with other shareholders.

The ESMA requires that the purchase price payable for the shares which are the object of the mandatory takeover bid must be fair. The ESMA furthermore contains detailed provisions of how the fairness of the purchase price is determined, as well as regulating the overall course and preconditions of the entire takeover process.

7. ANTITRUST LAWS

Under Estonian law, a concentration is deemed to arise where previously independent undertakings merge or parts of undertakings are merged or where an undertaking acquires control of the whole or a part of another undertaking, or of several undertakings or parts thereof, also where undertakings jointly acquire control of the whole or a part of another undertaking, or of several undertakings or parts thereof.

Further, a merger is deemed to arise where a natural person already controlling at least one undertaking acquires control of the whole or a part of another undertaking, or of several undertakings or parts thereof or where several natural persons already controlling at least one undertaking jointly acquire control of the whole or a part of another undertaking, or of several undertakings or parts thereof.

A concentration will be subject to control by the Estonian Competition Authority if, during the previous financial year, the aggregate turnover in Estonia of the parties to the concentration exceeded EUR 6,391,200 and the aggregate turnover in Estonia of each of at least two parties to the concentration exceeded EUR 1,917,350. However, a concentration is not controlled by the Estonian Competition Authority if the concentration is subject to control pursuant to Council Regulation 139/2004/EC on the control of concentrations between undertakings (the “**Council Regulation**”), unless the European Commission appoints the Estonian Competition Authority as the authority competent to exercise control over the concentration.

The Estonian Competition Authority must be notified of a concentration subject to control before the entry into force of the concentration and after the conclusion of a merger agreement or the performance of a transaction or other act for acquisition of parts of the undertaking or after the performance of a transaction or other act for acquisition of control or after the performance of a transaction or other act for acquisition of joint control or after the announcement of a public bid for securities.

The Estonian Competition Authority may be notified of a planned concentration subject to control also before a transaction or act for such merger or acquisition of control is performed or a public bid is announced, if the parties to the concentration prove their intention to perform such act or transaction or if, in the case of a public bid, the parties to the concentration have publicly announced their intention to carry out such a bid.

The requirements regarding concentration control also arise from the Council Regulation on the control of concentrations between undertakings. This regulation governs the concentrations with so-called Community dimension. Concentrations with a Community dimension are subject to notification of the European Commission before they are executed.

Concentrations with a Community dimension are defined as those where either: (i) the combined aggregate worldwide turnover of all undertakings concerned is more than EUR 5 billion; and (ii) the aggregate turnover in the European Community of each of at least two undertakings concerned is more than EUR 250 million unless each of the undertakings concerned achieves more than two-thirds of its aggregate turnover in the European Community in the same member state.

Concentrations with a Community dimension are also defined as those where either: (i) the aggregate worldwide turnover of all the undertakings concerned is more than EUR 2 500 million; (ii) in each of at least three member states, the combined aggregate turnover of all undertakings concerned is more than EUR 100 million; (iii) in each of at least three member states, the aggregate turnover of each of at least two of the undertakings concerned is more than EUR 25 million and (iv) the aggregate turnover in the European Community of each of at least two undertakings concerned is more than EUR 100

million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate turnover in the European Community within one and the same member state.

8. ENFORCEMENT OF CIVIL LIABILITIES IN ESTONIA

European Council Regulation (EC) No 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters sets forth a requirement that judgments of the courts of the member states of the European Union (except for Denmark) should be recognized and enforced in Estonia.

Recognition and enforcement of judgments of all other foreign courts in Estonia is regulated by the Code of Civil Procedure. Pursuant to the Code of Civil Procedure, each judgement in a civil matter made by a foreign state other than a Member State of the European Union is subject to recognition in Estonia, except in the case where: (i) recognition of the decision would be clearly contrary to the essential principles of Estonian law (public order) and, above all, the fundamental rights and freedoms of persons; (ii) the defendant or other debtor was unable to reasonably defend the rights thereof and, above all, if the summons or other document initiating the proceeding was not served on time and in the requisite manner, unless such person had a reasonable opportunity to contest the decision and the person failed to do so within the prescribed term; (iii) the decision is in conflict with an earlier decision made in Estonia in the same matter between the same parties or if an action between the same parties has been filed with an Estonian court; (iv) the decision is in conflict with a decision of a foreign court in the same matter between the same parties which has been earlier recognised or enforced in Estonia; (v) the decision is in conflict with a decision made in a foreign state in the same matter between the same parties which has not been recognised in Estonia, provided that the earlier court decision of the foreign state is subject to recognition or enforcement in Estonia; (vi) the court which made the decision could not make the decision in compliance with the provisions of Estonian law regulating international jurisdiction. Unless otherwise provided by law or an international treaty, a court decision of a foreign state is subject to enforcement in Estonia only after the decision has been declared to be subject to enforcement by the Estonian court.

Estonia is a party to the 1958 New York Convention on recognition and enforcement of foreign arbitral awards. Therefore, Estonian courts are legally bound to enforce decisions of foreign arbitration courts notwithstanding in which country such award has been adopted (i.e., whether a convention member state or not).

PART XV. TAXATION

1. ESTONIAN TAX CONSIDERATIONS

The following summary is based on the tax laws of Estonia as in effect on the date of this Prospectus, and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Estonia. Each person is encouraged to consult its own professional tax advisors as to the Estonian or any tax consequences in relation to Shares. Each person who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Corporate income tax

The Estonian Income Tax Act (*Tulumaksuseadus*) provides that the accrued profit of a legal entity resident in Estonia, such as the Company, is not subject to corporate income tax at the moment the profits are generated, but corporate income tax is charged on dividend and other profit distributions (e.g. payments from the equity, non-business expenses, gifts and donations and fringe benefits). Estonia applies also transfer pricing taxation principles.

In particular, pursuant to the Income Tax Act, corporate income tax is applied on:

- dividends;
- payments made by the Company upon reduction of share capital or share buy-back as well as liquidation proceeds;
- non-business expenses;
- fringe benefits granted to employees and the management;
- gifts, donations and costs of entertaining, catering, accommodation and transportation of guests which exceed tax exempt limits.

The corporate income tax at a rate of 21/79 has to be paid on the net amount of dividend or other profit distributions made by the Company (which equals 21% of the gross amount of distribution). The corporate income tax has to be paid and declared by the tenth day of the month following the month in which the payment was made.

In case of redistribution of dividends the Income Tax Act provides specific exemptions from the corporate income tax. In particular, dividend payable by an Estonian resident company is exempt of corporate income tax, if the dividend is payable on the account of dividend income received from a company being a resident of a state belonging to the European Economic Area or Switzerland (except companies located in low tax rate territories) and the holding belonging to the Estonian resident company upon receipt of dividends is at least 10%. Dividends payable on the account of profits attributable to a permanent establishment located in the European Economic Area or Switzerland are also exempt of corporate income tax. Certain other exemptions apply.

Dividends

Estonia does not apply withholding income tax on dividends. Nevertheless the corporate income tax on profit distributions is applied based on the above-mentioned principles.

Capital Gains

The Estonian legal persons do not pay corporate income tax on capital gains received from the sale or exchange of Shares until distribution.

As a general rule, income tax is not charged on gains realized also by non-residents (whether legal persons or individuals). However, Estonian income tax is charged on the capital gain realized from the sale or exchange of Shares of a “real estate company” if the non-resident’s holding exceeds 10%. A “real estate company” for these purposes is a company, contractual investment fund or other pool of assets of whose property, at the time of the transfer or during a period within 2 years before transfer, more than 50% was directly or indirectly made up of immovable properties or structures as movables located in Estonia.

As at 30 June 2012, immovable properties or structures as movables located in Estonia constituted directly or indirectly less than 50% of the assets of the Company.

In case of Estonian individuals capital gains received from the sale or exchange of Shares are subject to taxation even if the company is not a “real estate company”.

The income tax is charged on the gains realized from the sale or exchange of a shareholding, with the gains being equal to the difference between the acquisition cost and the sale price/exchange value of the relevant shareholding. A shareholder is entitled to deduct documented expenses directly related to the sale or exchange from the amount of the gain as well. Realized capital gains are currently subject to income tax of 21%. The tax return is due by 31 March following the year the gain was received. After the tax return is submitted, income tax has to be paid: non-residents have to pay income tax by 30 June and resident individuals by 1 October.

Payments made by the Company upon reduction of share capital or share buy-back as well as liquidation proceeds are, as a general rule, subject to taxation at the level of the Company. Under certain conditions tax consequences may follow also to a non-resident (whether legal persons or individuals) or resident individual shareholders.

Exemptions or more favourable tax consequences may be available to non-residents under double taxation treaties. In general, the double taxation treaties provide that capital gains from the alienation of immovable property located in Estonia or shares in a company the assets of which consist mainly of such property may be taxed in Estonia. The double taxation treaty with the Netherlands, on the other hand, precludes Estonian taxation on the sale or exchange of shares in a “real estate company”.

Stamp Duty and Other Transfer Taxes

There are currently no stamp duties or other transfer taxes payable on the transfer of Shares. However, fees and charges are generally levied by the operators of securities accounts in the ECRS on transactions in the Shares which are cleared and settled through the ECRS.

2. LATVIAN TAX CONSIDERATIONS

The following summary is based on the tax laws of Latvia as in effect on the date of this Prospectus, and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Latvia. Each person is encouraged to consult its own professional tax advisors as to the Latvian or any tax consequences in relation to Shares. Each person who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Corporate income tax

The Latvian Corporate Income Tax Act (likums Par uzņēmumu ienākuma nodokli) provides that taxable income of a legal entity resident in Latvia is subject to corporate income tax at a flat rate of 15%.

Taxable income is the company's annual net income adjusted by a range of non-deductible expenses, tax-exempt fractions of income and other items.

The corporate income tax is payable by the 15th date of the month following the date on which the company's annual financial statements are approved. During the taxation year, the company is required to make monthly tax advance payments.

Latvia applies also transfer pricing taxation principles.

Dividends

Dividends payable by one Latvian resident company to another Latvian resident company are exempted from any taxation.

Dividends payable by a Latvian resident company to a non-resident company are subject to a 10% withholding tax in Latvia. However, no withholding tax is applicable if the recipient of dividends, e.g. the Estonian resident company:

- under the terms of any double taxation treaties with third states, is not considered to be a tax resident outside the EU and European Economic Area; and

- is subject to corporate income tax in Estonia, without the possibility of an option or of being exempt from the above tax.

Dividends received by individuals – tax residents in Latvia – will be subject to personal income tax in Latvia at a flat rate of 10%. The tax is payable by filing the annual income tax return which is due by the 1st of July of the post-taxation year.

Capital Gains

Capital gains from the sale of shares received by Latvian resident companies will be exempted from corporate taxation as from 1 January 2013 (currently capitals gains are taxable at a standard rate of 15%).

Capital gains from the sale of shares in a Latvian resident company received by Estonian resident company are not subject to taxation in Latvia. However, if 50% or more of the Latvian company's total assets in which the shares are sold consist of real estate (also in the form of shareholdings in other real estate companies), the sale of such shares to a non-resident is subject to a 2% withholding tax in Latvia.

Capital gains from the sale of shares received by individuals – tax residents in Latvia – will be subject to personal income tax in Latvia at a flat rate of 15%. The taxable capital gains are calculated as the difference between the sales price and the costs associated with the purchase of the shares. The tax is payable either on a monthly or a quarterly basis depending on the volume of the capital gains derived.

Stamp Duty and Other Transfer Taxes

There are currently no stamp duties or other transfer taxes payable on the transfer of Shares. However, fees and charges are generally levied by the operators of securities accounts in the ECRS and Latvian Central Depository on transactions in with the Shares which are cleared and settled through the ECRS and Latvian Central Depository.

3. LITHUANIAN TAX CONSIDERATIONS

The following summary is based on the tax laws of Lithuania as in effect on the date of this Prospectus, and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Lithuania. Each person is encouraged to consult its own professional tax advisors as to the Lithuanian or any tax consequences in relation to Shares. Each person who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

The summary of certain tax implications related to the holding or disposal of shares, as presented below, is based on the provisions of the Republic of Lithuanian Law on Corporate Income Tax and the Republic of Lithuanian Law on Personal Income Tax.

Dividends

Dividends paid by a Lithuanian company to a natural person (a resident or non-resident of Lithuania) are subject to the personal income tax at a rate of 20%.

Dividends paid by a Lithuanian company to a Lithuanian or foreign legal person are subject to the corporate income tax at a rate of 15%.

If a shareholder (a Lithuanian or foreign legal person) controls at least 10% of all voting shares at the general meeting of shareholders of a Lithuanian company for an uninterrupted period of at least 12 months (including the moment of distribution of dividends), the dividends paid to such a shareholder are not subject to the corporate income tax.

Lithuania applies also transfer pricing taxation principles.

Capital Gains

Capital gains received from the transfer of shares are subject to corporate (personal) income tax. In this case, the gains are equal to the difference between the acquisition cost and the sale price of the relevant shareholding.

Natural persons

The following taxation rule is applied to the income of an individual (a Lithuanian resident) received from the sale of shares.

Capital gains received by an individual from the transfer of shares are subject to the personal income tax at a rate of 15%. Capital gains are not taxed if the person transfers his shares not earlier than 366 days after the date of their acquisition and if the individual had not held more than 10% of the shares in the Company for three years preceding the end of the calendar year during which the shares were transferred. This exemption does not apply if the buyer of the shares is the issuer of the shares, i.e. the Company, or if the income is received from the liquidation of the Company.

Capital gains received by a non-resident of Lithuania from the transfer of shares are not subject to personal income tax, except where the person operates in Lithuania through its permanent establishment.

Legal person

Capital gains received by a Lithuanian legal person from the transfer of shares are subject to the corporate income tax at a rate of 15%. The tax shall not apply if a shareholder (a Lithuanian or foreign legal person) has been in control of more than 25% of voting shares at the general meeting of shareholders of the Company for an uninterrupted period of at least two years (and if the shares have been transferred subsequent reorganisation or transfer of an entity, at least three years). This tax incentive does not apply if the shares are transferred to the company that issued such shares. This tax incentive does not apply if the income is received from the liquidation of the Company.

Capital gains received by a foreign legal person from the disposal of shares are not subject to the Lithuanian corporate income, personal income or other taxes, except where a foreign legal person operates in Lithuania though its permanent establishment.

Stamp Duty and Other Transfer Taxes

There are currently no stamp duties or other transfer taxes payable on the transfer of Shares. However, fees and charges are generally levied by the operators of securities accounts in the ECRS and Lithuanian Central Depository on transactions with the Shares which are cleared and settled through the ECRS and Lithuanian Central Depository.

4. PFIC CONSIDERATIONS

A corporation organized outside the United States generally will be classified as a “passive foreign investment company” (a “**PFIC**”) for U.S. federal income tax purposes in any taxable year in which either (i) 75% or more of its gross income is “passive income” or (ii) 50% or more of the average gross value of its assets are attributable to assets that produce “passive income” or are held for the production of passive income. In arriving at this calculation, the Company must also include a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

The Company has not evaluated whether it is, or is likely to be, or whether any of its subsidiaries is or is likely to be, a PFIC. Further, because the tests for determining passive foreign investment company status are applied as of the end of each taxable year and are dependent upon a number of factors, some of which are beyond the control of the Company or its subsidiaries, including the value of its assets, the market price of its ordinary shares, and the amount and type of its or their gross income, the Company cannot state with certainty that it is not and its subsidiaries are not a PFIC or will not be a PFIC in the future.

If the Company or a subsidiary of the Company is treated as a PFIC, United States Holders will be subject to the PFIC provisions of the United States federal income tax law with respect to the Company's stock or the subsidiary's stock, as the case may be. The PFIC provisions impose interest charges on gains from the sale of, and “excess distributions” with respect to, shares of a PFIC owned directly (or deemed to be owned directly or indirectly under certain attribution rules) by a United States Holder. In general, an excess distribution is any distribution to a United States Holder that is greater than 125% of the average annual distributions received by the United States Holder (including return of capital distributions) during the three preceding taxable years or, if shorter, the United States Holder’s holding period for the shares and gains on the disposition of shares.

Under these rules (i) the gain or excess distribution would be allocated rateably over a United States Holder's holding period for the Shares, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest rate in effect for that year, and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

United States Holders can avoid the interest charge by making a "mark to market" election with respect to the Shares, provided that the Shares are "marketable" within the meaning of U.S. Treasury Regulations during each calendar quarter. Such election cannot be revoked without the consent of the U.S. Internal Revenue Service unless the Shares cease to be marketable. A United States Holder that makes a mark to market election generally would be required to take into account the difference, if any, between the fair market value and the adjusted tax basis of the Shares at the end of a taxable year as ordinary income (or, subject to certain limitations, ordinary loss) in calculating its income for such year, subject to certain limitations. In the case of a mark to market election, gains from an actual sale or other disposition of the Shares will be treated as ordinary income. Any losses incurred on a sale or other disposition of the Shares will be treated as an ordinary loss to the extent of any net mark to market gains for prior years. It is unclear whether the "mark to market" election would have any effect with respect to any subsidiary of the Company if such subsidiary were a PFIC.

If the Company were to agree to provide the necessary information, United States Holders could also avoid the interest charge imposed by the PFIC rules by making a qualified electing fund election (a "**QEF election**"). A United States Holder making a QEF election generally would be required to include in income on a current basis its pro rata share of the ordinary income and net capital gains of the Company. However, the Company does not expect to provide United States Holders the information that would be necessary in order for a United States Holder to make a QEF election with respect to the Shares.

THE ABOVE PFIC CONSIDERATIONS IS NOT INTENDED TO CONSTITUTE A COMPREHENSIVE ANALYSIS OF ALL THE TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP OR DISPOSITION OF SHARES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES TO THEM IN LIGHT OF THEIR PARTICULAR SITUATIONS.

PART XVI. LEGAL MATTERS

In respect of Estonian law, certain legal matters will be passed upon for the Company by Advokaadibüroo Tark Grunte Sutkiene AS, Estonian counsel to the Company, address Roosikrantsi 2, Tallinn 10119, Estonia.

In respect of Latvian law, certain legal matters will be passed upon for the Company by Zvērinātu advokātu birojs TARK GRUNTE SUTKIENE, Latvian counsel to the Company, address Brivibas 43, Riga, LV-1010, Latvia.

In respect of Lithuanian law, certain legal matters will be passed upon for the Company by Advokatų kontora Tark, Grunte, Sutkienė ir partneriai TARK GRUNTE SUTKIENE, Lithuanian counsel to the Company, address Didžioji 23, LT-01128 Vilnius, Lithuania.

In respect of German law, certain legal matters will be passed upon for the Company by Noerr LLP, German counsel to the Company, address Speditionstrasse 1, 40221 Düsseldorf, Germany.

In respect of US law, certain legal matters will be passed upon for the Company by McLaughlin & Stern, LLP, US counsel to the Company, address 260 Madison Avenue, New York, New York 10016, the Unites States of America.

The legal counsels referred to in this Part XVI (Legal Matters) are not liable for the information contained in the Prospectus and shall be liable only to the Company and to the extent agreed upon with the Company. In respect of the persons responsible for the information contained in this Prospectus, please read "Responsibility" under "Notices to Investors" on page 2 hereof.

PART XVII. INDEPENDENT AUDITORS

Pursuant to the Estonian Commercial Code, the General Meeting of Shareholders decides the number of auditors and elects the auditors. Pursuant to a resolution dated 13 April 2012, the general meeting of shareholders of the Company appointed AS Deloitte Audit Eesti (address: Roosikrantsi 2, Tallinn 10119, Estonia) as auditor of the Company for one year (until the next annual General Meeting of Shareholders). AS Deloitte Audit Eesti is a member of the Estonian Auditing Board. The auditor of the Company for the financial years ended 31 December 2009, 2010 and 2011 was also AS Deloitte Audit Eesti.

The Special Purpose Combined Financial Statements (i.e. special purpose consolidated combined financial statements of the Company for the three years ended 31 December 2011), which have been prepared in accordance with the IFRS-EU as described in Note 2 thereto, have been audited by AS Deloitte Audit Eesti, as set out in their report.

The consolidated condensed interim financial information of the Company for the six months ended 30 June 2012 included in this Prospectus has not been audited. AS Deloitte Audit Eesti conducted an examination of the un-audited adjusted financial information of the Company for the six months ended 30 June 2011 contained in the consolidated condensed interim financial information of the Company for the six months ended 30 June 2012 and issued a report, included elsewhere in this Prospectus.

The audit reports issued with respect to Financials Statements have not included qualifications. Notwithstanding the foregoing, the independent sworn audit report regarding AS Pro Kapital Grupp Financial Statements for the Year ended 31 December 2010 included the following qualifications: (a) the auditors were unable to obtain sufficient audit evidence for consolidated other income in the amount of EEK 31,052,933 (EUR 1,984,644) and expenses in the amount of EEK 30,601,956 (EUR 1,955,821) arising from Multiservice S.l.r (a subsidiary at that time) and (b) as of 31 December 2010, the Management Board had not performed the impairment test on the financial investments into subsidiaries at their cost value of EEK 2,137,460 (EUR 136,609). Please also see auditor's report appended to AS Pro Kapital Grupp Consolidated Financial Statements for the Year Ended 31 December 2010, a document that is incorporated hereto by reference.

The AS Pro Kapital Grupp Financial Statements for the Year ended 31 December 2009 included an emphasis of matter. Without qualifying its opinion, attention was drawn to the matter that the real estate markets where the Group Companies operated were influenced by the global financial crisis and economic downturn, which caused insufficient liquidity and very passive purchase demand. The deterioration of the real estate market created an uncertainty as to the fairness of valuation of the of the Group's assets (investment properties, inventories and long term receivables). The value of respective assets presented in the consolidated annual accounts is based on the management's estimates as of the consolidated annual accounts' preparation date. Thus, the final net realizable value of the recorded assets may differ from the estimates used. Please also see auditor's report appended to AS Pro Kapital Grupp Consolidated Financial Statements for the Year Ended 31 December 2009, a document that is incorporated hereto by reference.

PART XVIII. INFORMATION INCORPORATED BY REFERENCE

The information and documents are incorporated into this Prospectus by reference. Such information is publicly available at the website of the Company (www.prokapital.com) under www.prokapital.com/investors:

- the Company's Articles of Association;
- the Special Purpose Combined Financial Statements (AS Pro Kapital Grupp Combined Financial Statements For Financial Years ended 31 December 2011, 2010 and 2009) and the Independent Auditor's Report on Combined Financial Statements;
- the Interim Financial Statements (AS Pro Kapital Grupp Interim Report 01.01.-30.06.2012) and Certified Auditor's Report on Review of Interim Financial Information;
- AS Pro Kapital Grupp Consolidated Annual Report for the Year Ended 31 December 2011;
- AS Pro Kapital Grupp Consolidated Financial Statements for the Year Ended 31 December 2010;
- AS Pro Kapital Grupp Consolidated Financial Statements for the Year Ended 31 December 2009; and
- the Appraisal Report (Investment Value Summary – Pro Kapital Property Portfolio Estonia, Germany, Latvia and Lithuania).

PART XIX. DEFINITIONS AND GLOSSARY

"**Advisor**"	Means Porta Finance, UAB
"Appraisal Report"	means Investment Value Summary Pro Kapital Property Portfolio Estonia, Germany, Latvia and Lithuania, which is incorporated hereto by reference
"**Book-runner**"	means AS LHV Pank
"**CAB**"	means Cluster of Apartment Blocks
"**CBD**"	means Central Business District
"**CEE**"	means Central and Eastern Europe
"**Company**"	means AS Pro Kapital Grupp
"Council Regulation"	means Council Regulation 139/2004/EC on the control of concentrations between undertakings
"Custodian"	means the relevant operator of the investor's securities account (or the operator of the relevant nominee account) opened with the ECRS, Latvian Central Depository or Lithuanian Central Depository
"**Division**"	means the division of the Company, which is described under "Division of the Company" in Section 9 (Material Contracts) of Part XI (Business) of the Prospectus;
"**Domina Shopping Centre**"	means the Domina Shopping Centre, a shopping mall in Riga, which was sold to KanAm in 2007
"**ECSD**"	means the registrar of the ECRS being AS Eesti Väärtpaberikeskus at the date of the Prospectus
"**ECRS**"	means the Estonian Central Register of Shares (*Eesti väärtpaberite keskregister*)
"**ECRSA**"	means the Estonian Central Registry of Securities Act (*Eesti väärtpaberite keskregistri seadus*)
"**EEA**"	means the European Economic Area
"**EEK**"	means the Estonian kroon, which was the lawful currency of Estonia until 31 December 2010
"**ESMA**"	means the Estonian Securities Market Act (*väärtpaberituru seadus*)
"**Estonian Authority**"	means the Estonian Financial Supervision Authority (*Finantsinspektsioon*)
"**Estonian Commercial Register**"	means the Estonian commercial register (*äriregister*)
"**EUR**" or "**euro**"	means to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community
"Exchange Act"	means the United States Securities Exchange Act of 1934, as amended from time to time
"**FDI**"	means foreign direct investment
"**Financial Statements**"	means each and all of the Special Purpose Combined Financial Statements and the Interim Financial Statements, which are incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference))
"FSMA"	means United Kingdom Financial Services and Markets Act 2000
"**GBA**"	means gross building area
"**GDP**"	means gross domestic product
"**General Meeting of Shareholders**"	General Meeting of Shareholders (*aktsionäride üldkoosolek*) of the Company
"**GLA**"	means gross leasable area

"**Global Coordinator**"	means AS LHV Pank.
"**Group**"	means the Company and its consolidated subsidiaries
"**Group Company**"	means each company, which belongs to the Group
"GSA"	means gross saleable area
"**IFRS**"	means the International Financial Reporting Standards
"**IFRS-EU**"	means the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union
"**Ilmarine Quarter**"	means Ilmarine Quarter described under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**IMF**"	means the International Monetary Fund
"**Institutional Offering**"	means the offering of Offer Shares to qualified investors in and outside of Estonia, Latvia and Lithuania
"**Interim Financial Statements**"	AS Pro Kapital Grupp Interim Report 01.01.-30.06.2012, which are incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference))
"**Investment Value**"	means the investment value as described in the Appraisal Report Summary
"**Kalaranna Residential Complex**"	means Kalaranna residential Complex described under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**KanAm**"	means KanAm Grund Kapitalanlagegesellschaft GmbH
"**Key Executives**"	means the persons listed under "Other Key Executives" in Section 1 (Structure of the Management) of Part XII (Management)
"**Klīversala Residential Complex**"	means Klīversala Residential Complex described under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"Kristiine Sale Agreement"	means the Kristiine Sale Agreement described under "Kristiine Sale Agreement" in 9 (Material Agreements) of Part XI (Business)
"**Kristiine Shopping Centre**"	means Kristiine Keskus, a shopping mall located in Tallinn, which was sold to a subsidiary of Citiycon Oy in 2011
"**Latvian Authority**"	means the Latvian Financial and Capital Market Commission (*Finanšu un Kapitāla Tirgus Komisija*), address Kungu iela 1, Riga, LV-1050, Latvia
"**Latvian Central Depository**"	means Joint Stock Company "Latvijas Centrālais depozitārijs", registered in the Latvian Commercial Register, registration number 40003242879, registered address Valnu iela 1, Riga, LV-1050, Latvia, which is the sole central securities depository in the Republic of Latvia, which administers Latvian central register of publicly issued securities and is owned by NASDAQ OMX Riga
"**Latvian Commercial Register**"	means the Commercial Register of the Republic of Latvia kept by the Latvian Enterprise Register
"Latvian Land Register"	means Land Register of the Republic of Latvia, which is publicly reliable register of immovable properties and the rights related thereto
"**Listing**"	means listing of the Shares on the Main List of the Tallinn Stock Exchange
"**Lithuanian Authority**"	means the Bank of Lithuania (*Lietuvos Bankas*)
"**Lithuanian Central Depository**"	means the Central Securities Depository of Lithuania
"**Lithuanian Commercial Register**"	means the Register of Legal Persons of Lithuania
"**LTL**"	means Lithuanian litas, the lawful currency of the Republic of Lithuania

"**LVL**"	means Latvian lats, the lawful currency of the Republic of Latvia
"**Management Board**"	means the management board (in Estonian *juhatus*) of the Company
"**Managers**"	means the Advisor, the Global Coordinator and the Book-runner
"**Newsec**"	means SIA "NEWSEC VALUATIONS LV", registered in the Latvian Commercial Register, registration No 40103216919
"**NSA**"	means net saleable area
"**Offering**"	means the Retail Offering and the Institutional Offering together
"**Offer Period**"	means the Offer Period as defined in Section 3 (Offer Period) of Part III (Offering)
"**Offer Price**"	means the offer price per Offer Share, which will be determined through a book-building process and will be the same for all investors in the Offering
"**Offer Price Range**"	means the range of the Offer Price being EUR 1.90 to 2.05
"**Offer Share**"	means up to 37,000,000 shares of the Company with the nominal value of EUR 0.2 each that will be offered and issued by the Company in the course of the Offering
"**Over-Allotment Shares**"	means up to 1,000,000 new Shares, which the Global Coordinator is entitled to require the Company to issue at the same time with the issuance of the Offer Shares for purposes of covering possible over-allotments
"**Participant**"	means an investor who is entitled to participate in the Preferential Allocation
"**PCAOB Standards**"	means auditing standards of the U.S. Public Company Accounting Oversight Board
"**Peterburi Rd. Shopping Centre**"	means the Peterburi Rd. Shopping Centre described under "Commercial Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**PFIC**"	means passive foreign investment company
"**PK Ilmarine Hotel**"	means the PK Ilmarine Hotel (Domina Inn Ilmarine Hotel until July 2012) described under "Properties in Real Estate Management" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**PK Parkhotel Kurhaus**"	means PK Parkhotel Kurhaus (Domina Hotel and Kurhaus until July 2012) described under "Properties in Real Estate Management" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**PK Riga Hotel**"	means the PK Riga Hotel (Domina Inn Riga Hotel until July 2012) described under "Properties in Real Estate Management" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**Preferential Allocation**"	means Preferential Allocation described under "Preferential Allocation" in Section 9 (Distribution and Allocation) of Part III (Offering)
"**Preferential Offer Shares**"	means Preferential Offer Shares described under "Preferential Allocation" in Section 9 (Distribution and Allocation) of Part III (Offering)
"**Preferred Employees**"	Means Preferred Employees as defined in under "Preferential Allocation" in Section 9 (Distribution and Allocation) of Part III (Offering)
"**Prospectus**"	means the prospectus for the public offering of Offer Shares and the Listing
"**Prospectus Directive**"	means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended
"**Prospectus Regulation**"	means the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing the Prospectus Directive, as amended
"**QIBs**"	means a qualified institutional buyers as defined in Rule 144A
"**Regulation S**"	means Regulation S under the Securities Act

"**Retail Offering**"	means the public offering of the Offer Shares in Estonia, Latvia and Lithuania
"**Rule 144A**"	means Rule 144A under the Securities Act
"**Šaltinių Namai Residential Complex**"	means the Šaltinių Namai Residential Complex described under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**SEC**"	means the United States Securities and Exchange Commission
"**Securities Act**"	means the United States Securities Act of 1933, as amended
"**Share**"	means a share in the Company
"**Special Purpose Combined Financial Statements**"	means AS Pro Kapital Combined Financial Statements For Financial Years ended 31 December 2011, 2010 and 2009, which are incorporated hereto by reference (please see Part XVIII (Information Incorporated by Reference))
"**Subscription Price**"	means the Subscription Price as defined in Section 5 (Subscription) of Part III (Offering)
"**Subscription Undertaking**"	means the undertakings to subscribe for the Offer Shares as defined in Section 3 (Offer Period) of Part III (Offering)
"**Supervisory Council**"	means the supervisory council (in Estonian *nõukogu*) of the Company
"**Tallinas St. Residential Complex**"	means Tallinas St. Residential Complex described under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**Tallinn Stock Exchange**"	means NASDAQ OMX Tallinn, a stock exchange operated by operated by NASDAQ OMX Tallinn AS
"**Terms**"	means the terms and conditions set out in this Part III (Offering) of the Prospectus, which are applicable to the Retail Offering
"**Tondi Quarter**"	means Tondi Quarter described under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**U.S. GAAP**"	Means accounting principles generally accepted in the U.S.
"**U.S. GAAS**"	Means accounting standards generally accepted in the U.S.
"**USD**"	means U.S. dollars, the lawful currency of the United States of America
"**World Trade Centre Riga**"	means World Trade Centre Riga described under "Properties in Real Estate Management" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus
"**Zvaigznes Centre**"	means Zvaigznes Centre described under "Residential Development Projects and Properties" in Section 6 (Projects and Properties) of Part XI (Business) of the Prospectus

AS PRO KAPITAL GRUPP
PÕHIKIRI

AS Pro Kapital Grupp (edaspidi „aktsiaselts") põhikiri on kinnitatud aktsiaseltsi aktsionäride erakorralisel koosolekul 14.08.2012 Tallinnas.

1. ÄRINIMI JA ASUKOHT

1.1. Aktsiaseltsi ärinimi on AS Pro Kapital Grupp.

1.2. Aktsiaseltsi asukoht on Tallinn, Eesti Vabariik.

2. AKTSIAKAPITAL JA RESERVKAPITAL

2.1. Aktsiaseltsi miinimumaktsiakapital on 6 000 000 (kuus miljonit) eurot ja maksimumaktsiakapital 24 000 000 (kakskümmend neli miljonit) eurot.

2.2. Miinimumaktsiakapitali ja maksimumaktsiakapitali piires võib aktsiaseltsi aktsiakapitali suurendada ja vähendada käesolevat põhikirja muutmata.

2.3. Aktsiakapitali võib suurendada uute aktsiate väljalaskmisega või olemasolevate aktsiate nimiväärtuse suurendamisega, täiendavate sissemaksete tegemise või fondiemissiooni teel. Aktsiaseltsil on õigus aktsiaid välja lasta hinnaga, mis ületab nende nimiväärtuse (ülekurss).

2.4. Aktsiate eest võib tasuda nii rahaliste kui ka mitterahaliste sissemaksetega. Mitterahalise sissemakse väärtust hindab nõukogu ja hindamist kontrollib audiitor. Õigusaktides sätestatud juhtudel tuleb mitterahalise sissemakse väärtus lasta hinnata eksperdil.

2.5. Aktsiakapitali võib vähendada aktsiate nimiväärtuse vähendamisega või aktsiate tühistamisega, kuid mitte alla seaduses sätestatud aktsiakapitali minimaalse suuruse.

2.6. Kahjumi katmiseks ja aktsiakapitali suurendamiseks moodustab aktsiaselts reservkapitali, mille suuruseks on 1/10 (üks kümnendik) aktsiakapitalist.

2.7. Aktsiakapitali suurendamisel ilma põhikirja muutmata suurendatakse proportsionaalselt ka aktsiaseltsi reservkapitali.

2.8. Põhikirjas ettenähtud suuruse saavutamisel kantakse reservkapitali igal aastal vähemalt 1/20 (üks kahekümnendik) puhaskasumist.

2.9. Reservkapitali võib üldkoosoleku otsusel kasutada kahjumi katmiseks, kui seda ei ole võimalik katta aktsiaseltsi vabast omakapitalist (eelmiste perioodide jaotamata kasumi ja põhikirjas ettenähtud reservkapitali arvelt), samuti aktsiakapitali suurendamiseks. Reservkapitalist ei või teha aktsionäridele väljamakseid.

3. AKTSIAD

3.1. Aktsiakapital on jaotatud aktsiateks (edaspidi vastavalt „aktsia" ja „aktsiad"). Iga Aktsia nimiväärtus on 0,2 (null koma kaks) eurot. Iga Aktsia annab aktsionärile ühe (1) hääle.

3.2. Aktsiaseltsil on ühte liiki Aktsiad.

3.3. Aktsiad registreeritakse Eesti Väärtpaberite Keskregistris. Aktsiaseltsi juhatus tagab aktsiaraamatu pidajale seadusega sätestatud ja õigete andmete õigeaegse esitamise.

3.4. Aktsiaselts võib aktsionäride üldkoosoleku otsusel aktsiakapitali tingimuslikuks suurendamiseks lasta välja vahetusvõlakirju, mille omanikul on õigus vahetada võlakiri aktsia vastu. Vahetusvõlakirjade nimiväärtuste summa ei tohi olla suurem kui 1/3 (üks kolmandik) aktsiakapitalist.

3.5. Aktsionär on kohustatud tasuma ettenähtud aja jooksul märgitud aktsiate maksumuse. Aktsionär, kes ei tasu aktsiate eest õigeaegselt, on kohustatud tasuma aktsiaseltsile viivist null koma kaks protsenti (0,2%) tasumata summalt päevas.

3.6. Aktsiad on vabalt võõrandatavad. Aktsiat võib pantida.

4. AKTSIONÄRIDE ÕIGUSED, KOHUSTUSED JA ÜLDKOOSOLEK

4.1. Aktsionärid teostavad oma õigusi Aktsiaseltsi aktsionäride üldkoosolekul, mis on Aktsiaseltsi kõrgeim juhtimisorgan. Aktsionärid on võrdsetel asjaoludel võrdsed. Aktsionäride õigused on ette nähtud seaduse ja aktsiaseltsi põhikirjaga. Aktsionär on kohustatud täitma temale seaduse ja aktsiaseltsi põhikirjaga pandud kohustusi. Aktsionär on kohustatud hoidma saladuses aktsiaseltsi või selle tegevusega seonduvat konfidentsiaalset teavet.

4.2. Korralise üldkoosoleku kutsub kord aastas kokku juhatus mitte hiljem kui kuue kuu jooksul majandusaasta lõppemisest. Erakorraline üldkoosolek kutsutakse kokku äriseadustikus ettenähtud juhtudel ja korras. Erakorralise üldkoosoleku kokkukutsumise taotlus esitatakse aktsiaseltsi juhatusele kirjalikult. Üldkoosoleku toimumisest teatab aktsiaseltsi juhatus aktsionäridele õigusaktides nõutud tähtaja võrra ette.

4.3. Juhatus saadab üldkoosoleku toimumise teate aktsiaraamatusse kantud aadressil või avaldab vastavasisulise teate üleriigilise levikuga päevalehes.

4.4. Üldkoosoleku toimumise teade koostatakse vastavalt äriseadustikule.

4.5. Üldkoosolek viiakse läbi aktsiaseltsi asukohas või muus juhatuse määratud kohas.

4.6. Üldkoosolek võib vastu võtta otsuseid kui kohal on üle poole aktsiatega esindatud häältest. Kui nimetatud hääled ei ole esindatud, kutsub juhatus kolme nädala jooksul, kuid mitte varem kui seitsme päeva pärast, kokku uue koosoleku sama päevakorraga. Uus koosolek on pädev vastu võtma otsuseid, sõltumata koosolekul esindatud häältest.

4.7. Aktsionäride üldkoosolekul osalemiseks õigustatud aktsionäride ring määratakse kindlaks vastavalt õigusaktides sätestatule.

4.8. Üldkoosoleku pädevus:

4.8.1. Põhikirja muutmine;
4.8.2. Aktsiakapitali suurendamine ja vähendamine;
4.8.3. Vahetusvõlakirjade väljalaskmine;
4.8.4. Nõukogu liikmete valimine ja tagasikutsumine;
4.8.5. Audiitori valimine;
4.8.6. Erikontrolli määramine;
4.8.7. Majandusaasta aruande kinnitamine ja kasumi jaotamine;
4.8.8. Aktsiate liigiga seotud õiguste muutmine;
4.8.9. Aktsiaseltsi lõpetamise, ühinemise, jagunemise ja ümberkujundamise otsustamine;
4.8.10. Muude seadusega üldkoosoleku pädevusse antud küsimuste otsustamine.

4.9. Üldkoosoleku otsus on vastu võetud, kui selle poolt on antud üle poole üldkoosolekul esindatud häältest, kui käesoleva põhikirjaga või seadusega ei ole ette nähtud suuremat häälteenamuse nõuet.

4.10. Üldkoosoleku otsused protokollitakse. Protokollile kirjutavad alla koosoleku juhataja ja protokollija.

5. NÕUKOGU

5.1. Nõukogu on aktsiaseltsi juhtimisorgan, mis planeerib aktsiaseltsi tegevust, korraldab aktsiaseltsi juhtimist ning teostab järelevalvet juhatuse tegevuse üle. Kontrolli tulemused teeb nõukogu teatavaks aktsionäride üldkoosolekule.

5.2. Nõukogu kinnitab aktsiaseltsi eelarve.

5.3. Aktsiaseltsi nõukogu koosneb vähemalt kolmest (3) liikmest ning maksimaalselt seitsmest (7) liikmest. Nõukogu liikmed valitakse aktsionäride üldkoosoleku poolt kolmeks (3) aastaks. Aktsionäride üldkoosoleku otsusel võib nõukogu liikme sõltumata põhjustest tagasi kutsuda.

5.4. Nõukogu liikmed valivad enda hulgast esimehe, kes korraldab nõukogu tegevust ja juhib nõukogu koosolekuid.

5.5. Nõukogu koosolekud toimuvad vastavalt vajadusele, kuid mitte harvemini kui üks kord kolme (3) kuu jooksul.

5.6. Nõukogu koosoleku toimumisest ja selle päevakorrast teatatakse nõukogu liikmetele ette vähemalt 7 päeva. Nõukogu koosoleku teade ja materjalid saadetakse nõukogu liikmetele e-posti teel.

5.7. Nõukogu koosolek on otsustusvõimeline, kui sellest võtab osa üle poole nõukogu liikmetest. Nõukogu liiget ei või koosolekul ega otsuse tegemisel esindada teine nõukogu liige ega kolmas isik.

5.8. Nõukogul on õigus suurendada Aktsiaseltsi aktsiakapitali kolme (3) aasta jooksul üldkoosoleku otsuse tegemisest.

5.9. Nõukogu teeb oma otsused osalejate lihthäälteenamusega. Nõukogu liikmel on üks (1) hääl. Nõukogu liikmel ei ole õigust hääletamisest keelduda ega jääda erapooletuks. Häälte võrdsel jagunemisel on otsustav nõukogu esimehe hääl.

5.10. Nõukogu koosolek protokollitakse. Protokollile kirjutavad alla kõik koosolekul osalenud nõukogu liikmed ja koosoleku protokollija.

5.11. Nõukogul on õigus otsuseid vastu võtta koosolekut kokku kutsumata. Nimetatud juhul saadab nõukogu esimees kirjaliku otsuse eelnõu kõigile nõukogu liikmetele, määrates tähtaja, mille jooksul nõukogu liige peab esitama oma kirjaliku seisukoha. Juhul, kui nõukogu liige ei teata nimetatud tähtaja jooksul, kas ta on otsuse poolt või vastu, loetakse, et ta hääletab otsuse vastu. Kui otsus tehakse käesolevas punktis sätestatud korras, on otsus vastu võetud, kui selle poolt antakse üle poole nõukogu liikmete häältest v.a. kui õigusaktide või põhikirja kohaselt on nõutud suurem häälteenamus.

5.12. Nõukogu teeb otsuseid seaduses ja põhikirjas sätestatud korras ja pädevuses.

5.13. Nõukogu annab juhatusele korraldusi aktsiaseltsi juhtimise korraldamisel.

5.14. Nõukogu nõusolek on juhatusele vajalik tehingute tegemiseks, mis väljuvad aktsiaseltsi igapäevase majandustegevuse raamest, eelkõige tehingute tegemiseks, millega kaasneb:

5.14.1. osaluse omandamine ja lõpetamine teistes ühingutes või;

5.14.2. ettevõtte omandamine, võõrandamine või selle tegevuse lõpetamine või;

5.14.3. kinnisasjade ja registrisse kantud vallasasjade võõrandamine väärtusega üle 300 000 EUR ja koormamine (sõltumata väärtusest) või;

5.14.4. välisfiliaalide asutamine ja sulgemine või ;

5.14.5. investeeringute tegemine, mis ületavad selleks majandusaastaks ettenähtud kulutuste summa või;

5.14.6. laenude ja võlakohustuste võtmine, mis ületavad selleks majandusaastaks ettenähtud summa (välja arvatud grupisisesed laenud) või;

5.14.7. laenude andmine ja võlakohustuste tagamine, (välja arvatud grupisisesed laenud) kui see väljub igapäevase majandustegevuse raamest.

5.15. Aktsionäride üldkoosolek võib anda nõukogule õiguse suurendada aktsiakapitali äriseadustikus ettenähtud ulatuses ja korras.

5.16. Nõukogu liikmetel on keelatud osa võtta hääletamisest juhul kui otsustakse tehingu teostamist aktsiaseltsi ja nõukogu liikme või juriidilise isiku vahel, milles nõukogu liikmel või tema lähikondlasel on oluline osalus.

6. JUHATUS

6.1. Juhatus on aktsiaseltsi juhtimisorgan, mis esindab ja juhib aktsiaseltsi. Juhatus peab aktsiaseltsi juhtimisel kinni pidama põhikirjast ja nõukogu seaduslikest korraldustest.

6.2. Juhatus koosneb ühest (1) kuni viiest (5) liikmest. Juhatuse liikmed valitakse ja kutsutakse tagasi nõukogu otsusega. Juhatuse liikme volituste tähtaeg on kolm (3) aastat, kui nõukogu ei otsusta teisiti. Juhatuse liikme valimiseks peab olema tema kirjalik nõusolek.

6.3. Juhul kui aktsiaseltsi juhatusel on üle kahe (2) liikme, määrab nõukogu juhatusele esimehe. Juhatuse esimees korraldab juhatuse tööd ja juhib aktsiaseltsi igapäevast tegevust.

6.4. Aktsiaseltsi võib kõigis õigustoimingutes esindada iga juhatuse liige ainuisikuliselt.

6.5. Juhatus määrab ametisse ja vabastab ametist aktsiaseltsi direktorid ja raamatupidamise eest vastutava isiku (tegevjuhtkonna). Juhatus kinnitab nimetatud isikute pädevuse.

6.6. Juhatuse liige ei võta osa hääletamisest, kui otsustatakse nõusoleku andmist tehingu tegemiseks aktsiaseltsi ja juhatuse liikme vahel, samuti aktsiaseltsi ja juriidilise isiku vahel, milles juhatuse liikmel või tema lähikondsel on oluline osalus.

7. KAHJUDE HÜVITAMINE

7.1. Aktsionär, juhatuse või nõukogu liige on kohustatud aktsiaseltsile täies ulatuses hüvitama tema süülise tegevuse või tegevusetusega aktsiaseltsile tekitatud kahju.

7.2. Aktsionär, juhatuse või nõukogu liige on kohustatud aktsiaseltsi võlausaldajatele täies ulatuses hüvitama tema süülise tegevuse või tegevusetusega aktsiaseltsi võlausaldajatele tekitatud kahju.

8. AUDIITOR

8.1. Audiitorite arvu määrab ja audiitori(d) nimetab aktsionäride üldkoosolek, kes määrab ka audiitorite tasustamise korra. Audiitor(id) nimetatakse ühekordse audiitorkontrolli tegemiseks või teatud tähtajaks. Audiitori nimetamiseks on vajalik tema kirjalik nõusolek.

9. ARUANDLUS

9.1. Aktsiaseltsi majandusaasta algab 1. jaanuaril ning lõppeb 31. detsembril.

9.2. Pärast majandusaasta lõppu koostab juhatus majandusaasta aruande seaduses sätestatud korras.
9.3. Aruannete kinnitamine ja nende esitamine toimub seaduses ettenähtud korras.
9.4. Kasumi jaotamine toimub üldkoosoleku otsuse alusel.

10. LÕPPSÄTTED

10.1. Aktsiaseltsi likvideerimine, ühinemine, jagunemine ja ümberkujundamine toimub seaduses sätestatud korras.
10.2. Aktsiaseltsi likvideerijad nimetab likvideerimisotsuse vastu võtnud üldkoosolek, kui seadus ei näe ette teisiti. Likvideerijaid võib olla üks või enam.

Allan Rennelkor

[allkirjastava juhatuse liikme nimi]
Aktsiaseltsi juhatuse liige

AS PRO KAPITAL GRUPP

Combined Financial Statements
For Financial Years ended
31 December 2011, 2010 and 2009

Parent company of the Group	**AS Pro Kapital Grupp**
Beginning of the financial year End of the financial year	1 January 31 December
Registration code	10278802
Address	21 Põhja Avenue 10414 Tallinn Estonia
Telephone Facsimile E-mail	+372 6 144 920 +372 6 144 929 prokapital@prokapital.ee
Fields of activity	Activities of holding companies Buying and selling of own real estate Renting and operating of own or leased real estate Management of real estate on a fee or contract basis

These combined financial statements of AS Pro Kapital Grupp for the periods ended on 31 December 2011, 2010 and 2009 have been approved by the Management Board and authorized for issue on 08 June 2012.

AS PRO KAPITAL GRUPP

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AS PRO KAPITAL GRUPP

COMBINED STATEMENT OF FINANCIAL POSITION

Signed for identification purposes:
AS Deloitte Audit Eesti

(Th. EUR)	Notes	31.12.2011	31.12.2010	31.12.2009	01.01.2009
ASSETS					
Current Assets					
Cash and cash equivalents	8	8 637	1 194	3 159	1 880
Current receivables	9	2 865	9 562	11 304	13 165
Inventories	10	53 186	58 736	67 935	68 914
Non-current assets classified as held for sale	13	0	50 044	0	0
Total Current Assets		64 688	119 536	82 398	83 959
Non-Current Assets					
Non-current receivables	11	152	19 949	12 492	10 086
Deferred tax assets	27	370	0	0	0
Property, plant and equipment	12	21 863	12 049	10 207	14 668
Investment property	13	26 111	26 600	61 785	60 382
Intangible assets		288	307	264	261
Total Non-Current Assets		48 784	58 905	84 748	85 397
TOTAL ASSETS	7	**113 472**	**178 441**	**167 146**	**169 356**

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

Signed for identification purposes:
AS Deloitte Audit Eesti

COMBINED STATEMENT OF FINANCIAL POSITION

(Th. EUR)	Notes	31.12.2011	31.12.2010	31.12.2009	1.01.2009
LIABILITIES AND EQUITY					
Current Liabilities					
Current debt	14	14 002	83 271	16 080	44 181
Customer advances		838	1 352	2 962	4 615
Current payables	15	1 791	3 648	2 825	3 212
Taxes payable		95	178	479	181
Short-term provisions		1 091	4 184	284	3
Total Current Liabilities		17 817	92 633	22 630	52 192
Non-Current Liabilities					
Long-term debt	16	21 462	18 717	67 929	32 246
Non-current payables		0	0	300	300
Deferred income tax liability	27	1 962	419	445	551
Long-term provisions		173	166	97	38
Total Non-Current Liabilities		23 597	19 302	68 771	33 135
Total Liabilities	7	**41 414**	**111 935**	**91 401**	**85 327**
Equity attributable to equity holders of the parent					
Share capital in nominal value	20	10 637	33 992	33 992	33 992
Share premium	20	0	45 089	45 089	45 089
Statutory legal reserve	20	0	2 938	2 938	2 938
Revaluation surplus	20	11 330	0	0	0
Foreign currency differences		-1 130	-1 382	-1 373	-848
Retained earnings					
Accumulated profits (losses)		27 693	106 373	111 925	116 073
Accumulated profits (losses) separated	2	0	-142 761	-142 761	-142 761
Profit (loss) for the financial year		21 931	-7 413	-3 455	1 072
Total equity attributable to equity holders of the parent		70 461	36 836	46 355	55 555
Non-controlling interest	21	1 597	29 670	29 390	28 474
Total equity		72 058	66 506	75 745	84 029
TOTAL LIABILITIES AND EQUITY		**113 472**	**178 441**	**167 146**	**169 356**

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

Signed for identification purposes:
AS Deloitte Audit Eesti

(Th. EUR)	Notes	2011	2010	2009	2008
Operating income					
Revenue	7, 22	17 449	21 051	21 999	28 818
Cost of goods sold	23	16 407	17 015	17 917	18 901
Gross profit		**1 042**	**4 036**	**4 082**	**9 917**
Marketing expenses	24	352	609	1 103	1 276
Administrative expenses	24	5 237	4 029	4 130	3 558
Other income	25	54 280	219	1 357	4 473
Other expenses	25	1 875	4 600	1 397	2 225
Operating profit (loss)	7	**47 858**	**-4 983**	**-1 191**	**7 331**
Financial income	26	4 770	2 120	2 733	2 811
Financial expense	26	2 877	4 174	2 883	4 297
Profit (loss) before income tax		**49 751**	**-7 037**	**-1 341**	**5 845**
Income tax	27	351	17	26	-897
Profit (loss) for the financial year		**50 102**	**-7 020**	**-1 315**	**4 948**
Net profit (loss) attributable to:					
Equity holders of the parent		21 931	-7 413	-3 455	1 072
Non-controlling interest		28 171	393	2 140	3 876
Other comprehensive profit (loss), net of income tax					
Appropriation to revaluation reserve		11 330	0	0	0
Loss for retranslation of foreign currency		-62	-9	-525	0
Comprehensive profit (loss) for the financial year		**61 370**	**-7 029**	**-1 840**	**4 948**
Comprehensive profit (loss) attributable to:					
Equity holders of the parent		33 199	-7 422	-3 980	1 072
Non-controlling interest		28 171	393	2 140	3 876
Share profit (loss) calculated for equity holders from net profit / (loss) for the financial year:					
Net profit (loss) per share (EUR)	28	0,41	-0,14	-0,06	0,02
Diluted net profit (loss) per share (EUR)	28	0,41	-0,14	-0,06	0,02

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

Signed for identification purposes:
AS Deloitte Audit Eesti

(Th. EUR)	Notes	2011	2010	2009
Net profit (loss) for the financial year		**50 102**	**-7 020**	**-1 315**
Adjustments:				
Depreciation charge for the period	12	572	605	677
Amortisation charge for the period		19	-43	3
Loss from change in fair value of investment property	13	331	0	0
Profit from sale of investment property	13	-54 057	0	0
Interest income		-1 514	-2 150	-2 097
Profit from disposal of subsidiaries	6	-2 736	0	-635
Interest expenses		3 097	4 046	3 205
Non-monetary transactions		-1 081	-1 613	11 841
Change in:				
Current receivables	9	6 697	1 742	1 861
Inventories	10	5 550	9 200	979
Customer advances		-514	-1 610	-1 653
Current payables	15	-1 857	823	-387
Taxes payable		-83	-301	298
Short-term provisions		-3 093	3 900	282
Other long-term liabilities		0	-300	0
Deferred income tax liability	27	1 543	-26	-105
Long-term provisions		7	69	59
Other changes		-22 377	-6 389	-1 727
Change in cash from (used in) operating activities		**-19 394**	**933**	**11 286**
Additions to fixed assets	12	-40	-43	-95
Additions to investment property	13	-332	-14 832	-1 101
Proceeds from sale of investment property	13	104 997	0	0
Acquisition of subsidiaries	5	-22 825	107	93
Disposal of subsidiaries	6	6 323	0	700
Interests collected		7 641	0	0
Change in cash from (used in) investing activities		**95 764**	**-14 768**	**-403**
Proceeds from convertible bonds	19	1 905	5 714	3 279
Proceeds from loans / debt		2 843	28 183	466
Repayment of loans / debt		-70 578	-17 981	-10 144
Interests paid		-3 097	-4 046	-3 205
Change in cash from (used in) financing activities		**-68 927**	**11 870**	**-9 604**
Net change in cash and cash equivalents		**7 443**	**-1 965**	**1 279**
Opening balance	8	1 194	3 159	1 880
Closing balance	8	8 637	1 194	3 159

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

AS PRO KAPITAL GRUPP

COMBINED STATEMENT OF CHANGES IN EQUITY

(Th. EUR)	Share capital in nominal value	Share premium	Statutory legal reserve	Revaluation reserve	Foreign currency differences	Retained earnings: Accumulated profits (losses)	Retained earnings: Accumulated profits (losses) separated	Retained earnings: Profit (loss) for the financial year	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
NBV 01.01.2009	**33 992**	**45 089**	**2 938**	**0**	**-848**	**116 073**	**-142 761**	**1 072**	**55 555**	**28 474**	**84 029**
Transfer to retained earnings						1 072		-1 072	0		0
Profit (loss) for the financial year								-3 455	-3 455	2 140	-1 315
Change in interest in subsidiaries						-5 220			-5 220	- 1 224	- 6 444
Foreign currency differences					-525				-525		-525
NBV 31.12.2009	**33 992**	**45 089**	**2 938**	**0**	**-1 373**	**111 925**	**-142 761**	**-3 455**	**46 355**	**29 390**	**75 745**
Transfer to retained earnings						-3 455		3 455	0		0
Profit (loss) for the financial year								-7 413	-7 413	393	-7 020
Change in interest in subsidiaries						-2 097			-2 097	-113	-2 210
Foreign currency differences					-9				-9		-9
NBV 31.12.2010	**33 992**	**45 089**	**2 938**	**0**	**-1 382**	**106 373**	**-142 761**	**-7 413**	**36 836**	**29 670**	**66 506**
Transfer to retained earnings						-7 413		7 413	0		0
Profit (loss) for the financial year								21 931	21 931	28 171	50 102
Decrease in share capital 30.06.2011	-2 081					2 081			0		0
Decrease in share capital 16.09.2011	-21 274	-45 089	-2 938			69 301			0		0
Impact of separation (Note 2)						-142 761	142 761		0		0
Appropriation to revaluation reserve (Note 12)				11 330					11 330		11 330
Change in interest in subsidiaries						112			112	-56 244	-56 132
Foreign currency differences					252				252		252
NBV 31.12.2011	**10 637**	**0**	**0**	**11 330**	**-1 130**	**27 693**	**0**	**21 931**	**70 461**	**1 597**	**72 058**

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

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NOTE 1. GENERAL INFORMATION

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

Shareholder	Country of incorporation	Share of ownership 31.12.2011	Share of ownership 31.12.2010	Share of ownership 31.12.2009	Share of ownership 01.01.2009
Anndare Ltd.	Ireland	41,69%	42,00%	57,79%	57,79%
Svalbork Invest OÜ	Estonia	12,86%	12,86%	12,86%	12,86%
Eurofiduciaria S.r.l.	Italy	11,98%	11,49%	0,59%	0,00%
A.F.I. American Financial Investments Ltd.	Liechtenstein	9,57%	9,57%	9,57%	9,57%

For the purpose of these combined financial statements, AS Pro Kapital Grupp (hereinafter also referred to as "PKG") is a holding company, which owns subsidiary groups in Estonia (Pro Kapital Eesti AS), Latvia (Pro Kapital Latvia PJSC), Lithuania (Pro Kapital Vilnius Real Estate UAB), and Germany (Pro Kapital Germany GmbH) (hereinafter also referred to as „the Group" or *Baltic Markets*) and whose main fields of activity are to coordinate and control the development and implementation of the subsidiaries' business strategies, to administrate the Group's financial management, business reporting, and to forward information to investors.

These combined financial statements represent the combined assets, liabilities, equity, results of operations and cash flows of the Ultimate Parent Company and its subsidiaries (hereinafter also referred together to as "the Group") enlisted in Note 4 to these financial statements.

NOTE 2. BASIS OF PREPARATION OF COMBINED FINANCIAL STATEMENTS

Basis of preparation

In 2011, PKG initiated and completed a major strategic project involving the demerger of its two core businesses, *Baltic Markets* (AS Pro Kapital Grupp) and *Other Markets* (AS Domina Vacanze Holding). The demerger was approved by Shareholder's Meeting on 16 September 2011.

In order to create a separate, self-managing group, a certain number of assets and liabilities have been transferred between *Baltic Markets* and *Other Markets* prior to PKG being listed. AS Domina Vacanze Holding was thus created by transferring shares between holding companies without modifying PKG's direct or indirect interests in the companies concerned.

In connection with the initial public offering of PKG bonds, to present an economic view of the *Baltic Markets'* business as a whole, historical combined financial statements have been prepared for the years 2010, 2009 and 2008 based on the financial statements historically included in the consolidated financial statements of AS Pro Kapital Grupp.

These combined financial statements are not necessarily indicative of the consolidated financial statements that would have been prepared if *Baltic Markets* had been created at an earlier date than the actual or planned creation date. They provide an indicative vew of the *Baltic Markets* businesses' historical operations within AS Pro Kapital Grupp.

Compliance with International Financial Reporting Standards

International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union do not include any guidance on preparing combined financial statements. This section describes how IFRSs have been applied to prepare the historical combined financial statements.

These historical combined financial statements include the companies owned directly or indirectly by companies in *Baltic Markets*. Following the same logic, companies in *Other Markets* have been excluded from the scope of combination.

These combined financial statements ("financial statements") have been prepared in accordance with IFRSs and in accordance with Estonian Accounting Act, with the exception of the following principles:

> IAS 27 requires that a group consolidates its operations as if it was a single entity. Group's operations are defined through existence of control that the parent company exercices over other entities (subsidiaries), i.e. the parent company has the power to govern, directly or indirectly, the financial and operating policies of other entities so as to obtain benefits from its activities. The comparative financial statements to 31 December 2011, have been

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compiled in line with the existance of control over entities as of 31 December 2011 (listed in Note 4 to these financial statements) and in accordance with consolidation principes described in Note 3 below.

Consequently, the comparative financial information provided does not reflect factual legal structure nor presence of control over other entities by the Group in the prior periods. The purpose for such presentation is providing sufficiently comparable historical information about the operations of the group entities retained after legal split (demerger) of AS Pro Kapital Grupp and AS Domina Vacanze Holding resolved upon by the shareholders and executed in 2011, and after sell-out of certain segment operations. The impact of the demerger is measured at 142 761 Th.EUR at each of the comparative balance sheet dates representing retrospectively the net book values of the net assets transferred in 2011 at each of the given date.

This results in deviation from IFRS 5 principles for reporting on discontinuing operations, as after applying the IAS 27 deviation described above, has lost its relevance for the context purposes.

Use of judgements, estimates and assumptions

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

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

Classification of real estate

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

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

Estimation of net realization value of inventories

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

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

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Fair value of property investments

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

Recoverable value of fixed assets

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

Useful life of property, plant and equipment

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

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated separately. Receivables overdue for more than 180 days are considered to be non-collectible and are fully written off.

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

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NOTE 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been compiled under principles of consistency and comparability, meaning adherence to the principles of the accounting policies and representation are altered in case of the require of new or revised IFRS's or the interpretations of the standards issued or if a change of the policy provides a more objective overview of the financial position, the economic performance and cash flows of the Group.

These combined financial statements are prepared on the accrual basis.

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

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

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

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.

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If the initial accounting for business combination is incomplete by the end of the reporting period in which the combiination 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.

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Foreign currency transactions

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

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

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

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

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

(in euros)	31.12.2011	2011 average	31.12.2010	2010 average	31.12.2009	2009 average
Latvian lat (LVL)	1,42959	1,41583	1,40884	1,41101	1,4093	1,4168
Lithuanian lita (LTL)	0,28962	0,28962	0,28962	0,28962	0,28962	0,28962
Estonian kroon (EEK)	-	-	15,6466	15,6466	15,6466	15,6466

Cash and cash flows

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

Cash flows from operating activities are presented using the indirect method, according to which the net profit (loss) for the financial year is adjusted by the effect of transactions of a non-monetary nature, net changes in assets and liabilities related

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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.

Inventories

Inventories are recorded at cost, which comprises purchase price, non-refundable taxes and other direct acquisition expenditures, which are necessary to transfer inventories to their current location and condition. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, then weighted average cost method is used. Inventories are stated on the balance sheet at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less all estimated costs of making the sale. Revaluation of inventories to net realizable value is recognized as expense for the accounting period.

Real estate held for sale

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

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

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

Property, plant and equipment

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

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

Revaluation model for land and buildings was initially adopted in 2011. Transition from cost model to revaluation model represents a change in accounting policy, which is (exceptionally, under IAS 8.17) dealt with as a revaluation and recognised in the period of initial adoption (prior periods are not adjusted) as follows:

- Valuation uplift is recognised in other comprehensive income and accumulated in the revaluation surplus; and
- Write-down is recognised in profit and loss statement for the period.

Revaluation of land and buildings to fair value are performed with sufficient regularity such that the carrying amounts do not differ materiality 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 the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation of property, plant and equipment commences when the assets are taken into use. Depreciation is calculated on the straight-line method. Depreciation rate to each tangible asset item is determined according to its estimated useful life. Depreciation on revalued buildings in 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 os transferred directly to retained earnings.

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.

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Investment property

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

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

Investment property is initially recognized at cost, which comprises of purchase price, non-refundable taxes and other expenditures directly related to taking the investment property into use. Subsequently to initial recognition, investment properties are measured using the fair value method.

Fair value model for investment property was initially adopted in 2011. Transition from cost model to fair value model represents a voluntary change in accounting policy and is applied retrospectively. Change in fair value is recognised in profit and loss statement for each period.

Intangible assets

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

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

Impairment of assets (excluding goodwill)

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

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

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

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

Investments in subsidiaries (in Parent company's unconsolidated financial statements (Note 4)

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

Financial instruments

Financial instruments held to maturity

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

Financial instruments available for sale

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

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

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

Interest income calculated using the effective interest method and dividends available for sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available for sale financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Loans granted and receivables

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

Bank borrowings

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

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

Other financial liabilities

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Other financial liabilities are initially recognized at cost which is equal to their fair value at the date of transaction. The cost of a financial liability includes all transactions costs that are directly attributable to its acquisition. After initial recognition, financial liabilities are measured at amortized cost (except for financial liabilities acquired for resale).

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

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

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

Provisions

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

Contingent liabilities

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

Reserves

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

Revenue recognition

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

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

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

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

Expenses

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

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

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

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

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

Leases

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

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

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

The Group as a lessee

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

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

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

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

The Group as a lessor

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

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

Taxation

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Estonia

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

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

Other subsidiaries

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

Operating segments

The Group discloses its operating segments on basis of internal information used and analysed by the Ultimate Parent Company. The primary decisions are made on country basis. Primary criteria for monitoring of operating segments are the following: Revenue from third parties, EBIT, net profit earned and total assets.

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NOTE 4. ENTITIES OF THE (COMBINED) GROUP

Unconsolidated financial statements of the parent

Statement of Financial Position (Th. EUR)	**31.12.2011**	**31.12.2010**	**31.12.2009**	**01.01.2009**
ASSETS				
Current Assets				
Cash and cash equivalents	419	225	192	177
Current receivables	3 162	6 329	5 597	3 409
Total Current Assets	3 581	6 554	5 789	3 586
Non-Current Assets				
Investments in subsidiaries	28 196	30 544	30 544	30 544
Non-current receivables	59 340	68 949	59 970	54 209
Property, plant and equipment	0	0	1	2
Total Non-Current Assets	87 536	99 493	90 515	84 755
TOTAL ASSETS	**91 117**	**106 047**	**96 304**	**88 341**
LIABILITIES AND EQUITY				
Current Liabilities				
Current debt	0	756	392	0
Current payables	3 732	9 631	7 859	52 598
Taxes payable	0	0	6	25
Short-term provisions	700	0	0	0
Total Current Liabilities	4 432	10 387	8 257	52 623
Non-Current Liabilities				
Long-term debt	11 272	15 054	5 242	374
Non-current payables	104 824	64 447	62 566	55 298
Long-term provisions	36	26	16	6
Total Non-Current Liabilities	116 132	79 527	67 824	55 678
Total Liabilities	**120 564**	**89 914**	**76 081**	**108 301**
Equity attributable to equity holders of the parent				
Share capital in nominal value	10 637	33 992	33 992	33 992
Share premium	0	45 089	45 089	45 089
Statutory legal reserve	0	2 938	2 938	2 955
Retained earnings				
Accumulated profits (losses)	-31 200	42 171	-2 792	1 340
Accumulated profits (losses) separated	0	-106 065	-103 968	-99 203
Profit (loss) for the financial year	-8 884	-1 992	44 964	-4 133
Total equity	-29 447	16 133	20 223	-19 960
TOTAL LIABILITIES AND EQUITY	**91 117**	**106 047**	**96 304**	**88 341**

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Statement of Comprehensive Income (Th. EUR)	**2011**	**2010**	**2009**	**2008**
Operating income				
Revenue	554	353	378	390
Cost of goods sold	0	3	7	17
Gross profit	**554**	**350**	**371**	**373**
Marketing expenses	7	0	8	48
Administrative expenses	2 227	1 199	1 473	1 031
Other income	0	0	0	22
Other expenses	700	0	1	4
Operating profit (loss)	**-2 380**	**-849**	**-1 111**	**-688**
Financial income and expense, net	-6 504	-1 143	46 075	-3 445
Profit (loss) before income tax	**-8 884**	**-1 992**	**44 964**	**-4 133**
Profit (loss) for the financial year	**-8 884**	**-1 992**	**44 964**	**-4 133**
Comprehensive profit (loss) for the financial year	**-8 884**	**-1 992**	**44 964**	**-4 133**

Statement of Adjusted Unconsolidated Equity (Th. EUR)	**Share capital in nominal value**	**Share premium**	**Statutory legal reserve**	**Retained earnings / Accumulated losses**	**Total equity**
NBV 01.01.2009	33 992	45 089	2 955	-101 996	**-19 960**
NBV 31.12.2009	33 992	45 089	2 938	-61 796	**20 223**
(Less) cost of shares of subisidaries					-30 544
Investments into subsidiaries calculated in equity method					70 906
Adjusted unconsolidated equity 31.12.2009					**60 585**
NBV 31.12.2010	33 992	45 089	2 938	-65 886	**16 133**
(Less) cost of shares of subisidaries					-30 544
Investments into subsidiaries calculated in equity method					66 226
Adjusted unconsolidated equity 31.12.2010					**51 815**
NBV 31.12.2011	10 637	0	0	-40 084	**-29 447**
(Less) cost of shares of subisidaries					-28 196
Investments into subsidiaries calculated in equity method					128 241
Adjusted unconsolidated equity 31.12.2010					**70 598**

Information about combined subsidiaries	Country of incorporation	Share of ownership 31.12.2011	Share of ownership 31.12.2010	Share of ownership 31.12.2009	Share of ownership 01.01.2009	Field of activity
Pro Kapital Eesti AS	Estonia	100,00%	100,00%	100,00%	100,00%	Real estate development
Ilmarise Kvartal OÜ	Estonia	100,00%	100,00%	100,00%	100,00%	Real estate development
Täismaja AS (Kristiine Kaubanduskeskus AS)	Estonia	99,99%	52,00%	52,00%	52,00%	Real estate development
Tondi Kvartal AS	Estonia	100,00%	100,00%	100,00%	100,00%	Real estate development
Pro Halduse AS	Estonia	100,00%	100,00%	100,00%	100,00%	Real estate management
Tallinna Moekombinaat AS	Estonia	96,00%	96,00%	96,00%	100,00%	Real estate development
Domina Management AS	Estonia	100,00%	100,00%	0%	0%	Hotel management
Pro Kapital Vilnius Real Estate UAB	Lithuania	100,00%	100,00%	100,00%	100,00%	Real estate development
PK Invest UAB	Lithuania	100,00%	100,00%	100,00%	100,00%	Real estate development
Domina Management UAB	Lithuania	100,00%	100,00%	100,00%	100,00%	Real estate management
Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	100,00%	100,00%	Real estate development
PK Latvia SIA	Latvia	100,00%	100,00%	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība A Centrs SIA[1]	Latvia	0%	0%	51,00%	51,00%	Real estate development
Klīversala RE SIA	Latvia	100,00%	100,00%	100,00%	100,00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Latvia	100,00%	100,00%	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	Latvia	100,00%	100,00%	100,00%	100,00%	Real estate development
Investhotel SIA	Latvia	100,00%	100,00%	100,00%	100,00%	Real estate development
PK Investments SIA	Latvia	0%	67,00%	67,00%	67,00%	Real estate development
Kugu Real Estate SIA[2]	Latvia	0%	0%	70,00%	70,00%	Real estate development
Pasaules tirdzniecības centrs "Rīga" SIA	Latvia	100,00%	100,00%	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība Prokurs SIA	Latvia	70,00%	70,00%	70,00%	70,00%	Real estate development
Hotel Management Services SIA	Latvia	100,00%	100,00%	100,00%	0%	Hotel management
OÜ Pro Kapital Germany Holdings	Estonia	100,00%	0%	0%	0%	Real estate development
Pro Kapital Germany GmbH	Germany	100,00%	100,00%	100,00%	100,00%	Real estate development
Domina Tourismus GmbH	Germany	100,00%	100,00%	100,00%	100,00%	Hotel management

[1] Liquidated in 2010
[2] Liquidated in 2010

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(Th. EUR) **Subsidiary**	**FCCY**	**Cost 31.12.2011**	**Cost 31.12.2010**	**Cost 31.12.2009**	**Cost 01.01.2009**	**Net assets 31.12.2011**	**Net assets 31.12.2010**	**Net assets 31.12.2009**	**Net assets 01.01.2009**
Pro Kapital Eesti AS	EUR/EEK	17 981	17 981	17 981	17 981	109 017	54 997	54 465	47 028
Ilmarise Kvartal OÜ	EUR/EEK	286	286	286	286	2 531	2 907	3 141	3 960
Täismaja AS (Kristiine Kaubanduskeskus AS)	EUR/EEK	65 853	12 007	12 007	12 007	115 338	54 867	51 603	46 990
Tondi Kvartal AS	EUR/EEK	4 362	4 362	4 362	4 362	6 647	6 928	7 285	1 711
Pro Halduse AS	EUR/EEK	27	27	27	27	440	425	416	412
Tallinna Moekombinaat AS	EUR/EEK	12 345	12 345	12 345	12 859	9 315	9 400	9 470	12 790
Domina Management AS	EUR/EEK	520	1	-	-	84	(326)	-	-
Pro Kapital Vilnius Real Estate UAB	LTL	688	688	688	688	(460)	(791)	1 332	2 558
PK Invest UAB	LTL	6 679	942	942	942	827	(2 614)	(516)	751
Domina Management UAB	LTL	43	43	43	3	45	54	41	53
Pro Kapital Latvia PJSC	LVL	10 188	10 188	10 188	10 188	13 893	11 229	15 109	70 287
PK Latvia SIA	LVL	188	188	188	188	10	36	80	111
Nekustamo īpašumu sabiedrība A Centrs SIA	LVL	-	-	53	53	-	-	1	1
Klīversala RE SIA	LVL	9 725	9 725	9 725	9 725	13 303	13 415	13 390	13 510
Tallina Nekustamie Īpašumi SIA	LVL	4 889	4 677	4 261	3 344	(2 274)	690	764	111
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	LVL	1 716	1 550	1 550	847	680	595	762	-
Investhotel SIA	LVL	987	987	987	987	1 739	1 579	1 422	1 035
PK Investments SIA	LVL	-	9 440	9 440	9 440	-	5 428	8 975	13 001
Kugu Real Estate SIA	LVL	-	-	4	10	-	-	1	10
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	9 641	9 641	9 641	3 050	10 262	10 025	9 930	9 645
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	1 408	1 408	1 408	1 408	2 161	2 012	762	2 452
Hotel Management Services SIA	LVL	801	228	-	-	310	(170)	231	-
Pro Kapital Germany Holding OÜ	EUR	2	-	-	-	137	-	-	-
Domina Tourismus GmbH	EUR	1	-	-	-	137	-	-	-
Pro Kapital Germany GmbH	EUR	25	25	25	25	5 056	(9)	(52)	(75)

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NOTE 5 ACQUISTIONS OF / CHANGE IN OWNERSHIP IN SUBSIDIARIES

(Th. EUR)	AS Täismaja (2011)	Domina Tourismus GmbH (2011)	Domina Management AS (2010)	Domina Management SIA (2009)
Total assets	x	615	724	846
incl. Cash	x	173	107	93
Total liabilities	x	478	724	615
Non-controlling interest	54 454	-	-	-
Net assets	x	137	0	231
Share of ownership before acquisition	52,00%	0,00%	0,00%	0,00%
Share (%) of ownership acquired	47,99%	100,00%	100,00%	100,00%
Share of ownership after acquisition	99,99%	100,00%	100,00%	100,00%
Acquisition cost	53 847	0	0	231
Paid in cash	(22 998)	0	0	0
Net cash flow in acquisition	(22 998)	173	107	93
Goodwill and gain on bargain purchase	-	(137)	-	-
Profit (loss) in acquisition (equity)	(607)	-	-	-

NOTE 6 DISPOSALS OF SUBSIDIARIES

(Th. EUR)	PK Investments SIA (2011)	Tallinna Moekombinaat AS (2009)
Non-controlling interest	x	65
Share of ownership before disposal	67,00%	100,00%
Share (%) of ownership disposed	67,00%	4,00%
Share of ownership after disposal	0%	96,00%
Cash at the moment of disposal	(114)	x
Received in cash	6 437	700
Net cash flow in disposal	6 323	700
Sales price	6 441	700
Profit (loss) at disposal	2 736	635

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NOTE 7. SEGMENT REPORTING

(Th. EUR)	Estonia	Latvia	Lithuania	Germany	Total
2011					
Revenue	10 569	3 038	3 406	436	17 449
Other operating income	54 087	146	0	47	54 280
Segment operating profit (loss)	51 501	(3 916)	(57)	330	47 858
Financial income and expense (net)	(213)	2 626	(520)	0	1 893
Profit (loss) before income tax					**49 751**
Income tax	0	(330)	(24)	3	(351)
Non-controlling interest					28 171
Net profit (loss) for the financial year attributable to equity holders of the parent					**21 931**
Assets	59 413	26 544	18 403	9 112	113 472
Liabilities	25 919	6 047	8 050	1 398	41 414
Acquisition of non-current assets	354	17	1	0	372
Depreciation and amortisation	(194)	(258)	(19)	(120)	(591)
2010					
Revenue	11 779	2 356	6 480	436	21 051
Other operating income	92	81	1	45	219
Segment operating profit (loss)	974	(4 889)	(1 263)	195	(4 983)
Financial income and expense (net)	(1 417)	(19)	(617)	(1)	(2 054)
Profit (loss) before income tax					**(7 037)**
Income tax	0	26	(43)	0	(17)
Non-controlling interest					393
Net profit (loss) for the financial year attributable to equity holders of the parent					**(7 413)**
Assets	123 039	31 797	20 821	2 784	178 441
Liabilities	90 173	11 272	10 462	28	111 935
Acquisition of non-current assets	14 804	43	28	0	14 875
Depreciation and amortisation	(67)	(325)	(50)	(120)	(562)
2009					
Revenue	13 534	5 759	2 269	437	21 999
Other operating income	384	890	38	45	1 357
Segment operating profit (loss)	657	(892)	(1 143)	187	(1 191)
Financial income and expense (net)	6 838	(6 902)	(86)	0	(150)
Profit (loss) before income tax					**(1 341)**
Income tax	0	147	(173)	0	(26)
Non-controlling interest					2 140
Net profit (loss) for the financial year attributable to equity holders of the parent					**(3 455)**
Assets	103 537	32 742	27 993	2 874	167 146
Liabilities	65 414	8 138	17 821	28	91 401
Acquisition of non-current assets	1 165	1	26	4	1 196
Depreciation and amortisation	(151)	(366)	(43)	(120)	(680)

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NOTE 8. CASH AND CASH EQUIVALENTS

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

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Cash at hand	63	47	38	46
Bank accounts	8 574	1 147	2 162	1 834
Short-term deposits	0	0	959	0
Total	**8 637**	**1 194**	**3 159**	**1 880**

NOTE 9 CURRENT RECEIVABLES

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Trade receivables	669	1 774	2 295	1 151
Receivables from related parties (Note 29)	516	0	639	251
Other receivables	1 358	6 684	6 534	7 597
Accrued income	55	305	777	660
Prepaid expenses	267	799	1 059	3 506
Total	**2 865**	**9 562**	**11 304**	**13 165**

NOTE 10 INVENTORIES

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Property held for resale	17 947	21 192	30 982	5 692
WIP (property under construction)	35 107	37 479	36 892	62 890
Goods held for resale	132	65	61	41
Prepayments	0	0	0	291
Total	**53 186**	**58 736**	**67 935**	**68 914**
Impairment loss recognized (reversed)	3 028	(280)	1 639	-

The reversal of inventory impairment losses in 2010 relate to profitable sales of inventories for which impairment loss was previously recognized.

NOTE 11 NON-CURRENT RECEIVABLES

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Receivables from related parties (Note 29)	0	19 895	12 057	10 086
Other	152	54	435	0
Total	**152**	**19 949**	**12 492**	**10 086**

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NOTE 12 PROPERTY, PLANT AND EQUIPMENT

Land and buildings are measured at their revalued amounts (initial adoption of the revaluation model in 2011 with prospective application; effective date of the revaluation was 31 December 2011). The carrying amount that would have been recognized had those assets been carried under the cost model amounts to 9 739 Th. EUR as of 31 December 2011.

As of 31 December 2011 Group's land and buildings was valued into their fair value based on the valuation of independent expert. The valuation, which confirms to International Valuation Standards, was performed by indpenendent real estate appraiser SIA Newsec Valuation LV and was determined by reference to discounted cash flow method. Current market conditions (at the moment the valuation was perfomed) were used as assumptions for the valuations performed.

Based on independent appraiser's valuation, following fair value adjustments were performed as of 31 December 2011 (Th. EUR):

	Carrying amount before revaluation 31.12.2011	Fair value 31.12.2011
Pulkvieza Brieza 11, Riga	1 795	6 070
Põhja pst. 21, 21a, 21b-1, Tallinn	3 602	6 100
Põhja pst.21c, Tallinn	198	268
Kurhausstrasse 28, Bad Kreuznach	3 793	8 280

Revaluation reserve (accounted for under equity) was formed to account for revaluation differences (refer to Note 20).

(Th. EUR)	**31.12.2011**	**31.12.2010**	**31.12.2009**	**01.01.2009**
Land and buildings	21 069	11 285	9 311	12 256
Machinery and equipment	548	642	725	828
Other property, plant and equipment	246	122	159	229
Construction in progress	0	0	0	1 350
Prepayments	0	0	12	5
Total	**21 863**	**12 049**	**10 207**	**14 668**

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(Th. EUR)	Land and buildings	Machinery and equipment	Other property, plant and equipment	Construction in progress	Prepay-ments	Total
Cost 01.01.2009	**15 025**	**1 159**	**1 958**	**1 350**	**5**	**19 497**
Additions:						
Acquired	4	6	50	35	0	95
Disposals:						
Sold	0	0	-1	0	0	-1
Written off	0	0	-30	0	-5	-35
Other changes:						
Reclassified	0	-15	15	-12	12	0
Reclassified to/from inventories	-3 446	0	-77	0	0	-3 523
Reclassified to/from investment property	0	0	0	-1 373	0	-1 373
Foreign currency differences	-8	-2	-1	0	0	-11
Cost 31.12.2009	**11 575**	**1 148**	**1 914**	**0**	**12**	**14 649**
Additions:						
Acquired	0	1	42	0	0	43
Acquired in business combination	0	166	384	0	0	550
Disposals:						
Sold	0	-19	-27	0	0	-46
Written off	0	-7	-40	0	0	-47
Other changes:						
Reclassified to/from inventories	2 398	26	-79	0	0	2 345
Reclassified to/from investment property	-242	0	0	0	-12	-254
Cost 31.12.2010	**13 731**	**1 315**	**2 194**	**0**	**0**	**17 240**
Additions:						
Acquired	0	12	28	0	0	40
Acquired in business combination	0	0	398	0	0	398
Disposals:						
Sold	0	-6	-3	0	0	-9
Written off	0	-9	-231	0	0	-240
Application of revaluation model:						
Fair value gain	12 878	0	0	0	0	12 878
Reversal of accumulated depreciation	-1 955	0	0	0	0	-1 955
Other changes:						
Reclassified to/from inventories	-2 807	0	0	0	0	-2 807
Reclassified to/from non-current assets held for sale	0	0	-14	0	0	-14
Foreign currency differences	50	12	17	0	0	79
Cost 31.12.2011	**21 897**	**1 324**	**2 389**	**0**	**0**	**25 610**

(Th. EUR)	Land and buildings	Machinery and equipment	Other property, plant and equipment	Total
Accumulated depreciation 01.01.2009	**2 769**	**331**	**1 729**	**4 829**

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Additions:				
Depreciation charge for the period	451	99	127	677
Disposals:				
Written off	0	0	-29	-29
Other changes:				
Reclassified	0	-7	7	0
Reclassified to/from inventories	-952	0	-77	-1 029
Foreign currency differences	-4	0	-2	-6
Accumulated depreciation 31.12.2009	**2 264**	**423**	**1 755**	**4 442**
Additions:				
Depreciation charge for the period	408	106	91	605
Acquired in business combination	0	143	354	497
Disposals:				
Sold	0	-18	-16	-34
Written off	0	-7	-47	-54
Other changes:				
Reclassified	0	26	-26	0
Reclassified to/from inventories	0	0	-39	-39
Reclassified to/from investment property	-226	0	0	-226
Accumulated depreciation 31.12.2010	**2 446**	**673**	**2 072**	**5 191**
Additions:				
Depreciation charge for the period	415	108	49	572
Acquired in business combination	0	0	235	235
Disposals:				
Sold	0	-2	-2	-4
Written off	0	-9	-206	-215
Application of revaluation model:				
Reversal of accumulated depreciation	-1 955	0	0	-1 955
Other changes:				
Reclassified to/from inventories	-100	0	0	-100
Reclassified to/from non-current assets held for sale	0	0	-9	-9
Foreign currency differences	22	6	4	32
Accumulated depreciation 31.12.2011	**828**	**776**	**2 143**	**3 747**

Information about property, plant and equipment pledged as collaterals is disclosed in note 18 to these combined financial statements.

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NOTE 13 INVESTMENT PROPERTY

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Investment property held for increase in value	26 023	26 132	25 697	26 120
Investment property held for earning rentals	88	468	36 088	34 262
Total	**26 111**	**26 600**	**61 785**	**60 382**

Investment property is measured at its fair value (initial adoption of the fair value model in 2011 with retrospective application). The principles of fair value considerations are disclosed in Note 2 and 30 to these combined financial statements.

(Th. EUR)	Investment property held for increase in value	Investment property held for earning rentals	Total
NBV 01.01.2009	**26 120**	**34 262**	**60 382**
Additions:			
Acquired	37	1 064	1 101
Disposals:			
Written off	-460	0	-460
Other changes:			
Reclassified to/from inventories	0	304	304
Reclassified to/from property, plant and equipment	0	458	458
NBV 31.12.2009	**25 697**	**36 088**	**61 785**
Additions:			
Acquired	443	14 389	14 832
Disposals:			
Written off	0	-1	-1
Other changes:			
Reclassified	-8	8	0
Reclassified to/from property, plant and equipment	0	28	28
Reclassified to/from non-current assets held for sale	0	-50 044	-50 044
NBV 31.12.2010	**26 132**	**468**	**26 600**
Additions:			
Acquired	332	0	332
Disposals:			
Written off	-110	-380	-490
Changes in fair value:			
Loss from change in fair value of IP	-331	0	-331
NBV 31.12.2011	**26 023**	**88**	**26 111**

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

On 17 March 2011, Täismaja AS signed a contract for selling of its shopping center for 104 997 Th.EUR. The contract was executed on 2 May 2011. As of 31 December 2010 the book value of the property, which is part of disposed operations amounted to 50 044 Th.EUR, and it is presented on the balance sheet as of 31 December 2010 as *Non-current assets held for sale*. At the moment of sales, the book value of relevant property amounted to 50 940 Th.EUR, resulting in gain from the sales transaction 54 057 Th.EUR.

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

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(Th. EUR)	2011	2010	2009	2008
Rental income	6	5 921	6 139	6 961
Direct operating costs				
Maintenance	44	1 012	916	1 070
Other direct costs	0	1 065	713	674

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

NOTE 14 CURRENT DEBT

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Bank loans and overdrafts (Note 17)	4 402	74 058	8 538	39 171
Convertible debt (Note 19)	0	0	392	0
Lease liabilities	0	0	0	2
Payables to related parties (Note 29)	9 520	0	0	0
Other	80	9 213	7 150	5 008
Total	**14 002**	**83 271**	**16 080**	**44 181**

NOTE 15 CURRENT PAYABLES

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Trade payables	724	2 679	1 868	2 602
Payables to related parties (Note 29)	0	91	1	13
Accrued expenses	1 063	877	956	584
Deferred income	4	1	0	13
Total	**1 791**	**3 648**	**2 825**	**3 212**

NOTE 16 NON-CURRENT DEBT

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Bank loans and overdrafts (Note 17)	10 190	9 350	64 668	31 872
Convertible debt (Note 19)	11 272	9 367	3 261	374
Total	**21 462**	**18 717**	**67 929**	**32 246**

NOTE 17 BANK LOANS AND OVERDRAFT

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Current debt (Note 14)	4 379	74 058	8 538	39 171
Non-current debt (Note 16)	10 190	9 350	64 668	31 872
Total	**14 569**	**83 408**	**73 206**	**71 043**

Creditor	31.12.2011	31.12.2010	31.12.2009	CCY	Interest %
Swedbank AS (EE)	2 746	5 280	6 090	EUR	2,0% + 6m Euribor
Swedbank AS (EE)	0	62 699	46 169	EUR	2,5% + 6m Euribor
AS Swedbank (LV)	4 623	5 842	6 126	EUR	3,0% + 6m Euribor
"Swedbank" AB (LT)	7 200	9 587	14 821	EUR	2,4% + 6m Euribor
Volksbank Bad Kreusnach	23	0	0	EUR	5,1%
Total	**14 569**	**83 408**	**73 206**		

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(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Due within 1 year	4 379	74 058	8 538	39 171
Due between 2 to 5 years	10 190	9 350	64 668	19 631
Due after 5 years	0	0	0	12 241
Total	**14 569**	**83 408**	**73 206**	**71 043**

The collaterals and pledged assets are disclosed in Note 18 to these combined financial statements.

NOTE 18 COLLATERALS AND PLEDGED ASSETS

Debt disclosed in Note 17 to these combined financial statements is pledged with the following properties:

(Th. EUR)		Carryng value of the pledged assets		
Beneficiary	**Collateral description**	**31.12.2011**	**31.12.2010**	**31.12.2009**
Swedbank AS (Estonia)	Kalaranna 1, Tallinn	-	314	314
Swedbank AS (Estonia)	Ülemiste Road 5, Tallinn	-	1 700	1 700
Swedbank AS (Estonia)	Seebi 24a/ Tondi 53b, Tondi tn 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare Road 56/58, Tallinn	-	528	528
Swedbank AS (Estonia)	Põhja Avenue. 23, Tallinn	1 116	76	243
Swedbank AS (Estonia)	Peterburi Road 2, Tallinn	-	24 300	24 300
Swedbank AS (Estonia)	Endla 45,Tulika 35, 33a/37a, Kotkapoja 7, 9, 11, Tallinn	-	50 044	50 044
Swedbank AS (Estonia)	Tondi 51, Tallinn	1 781	166	206
Swedbank AS (Estonia)	Põhja Avenue 21a, 21b, 21 (703/6962), Tallinn	6 100	236	241
Swedbank AS (Estonia)	Põhja Avenue 21 (6259/6962), Tallinn	89	89	89
AS Swedbanka (Latvia)	Pulkveza Brieza Str. 11, Riga	10 891	122	149
AS Swedbanka (Latvia)	Trijadibas str.5, Riga	8 911	-	-
Swedbank AB (Lithuania)	Aguonu str.10, Vilnius	17 385	1 689	1 279
Total		**46 273**	**79 264**	**79 093**

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

- To Hotel Blijdorp B.V. to assure the rental liabilities to Serval S.r.l. related to the hotel, located in Rotterdam, rental agreement concluded between Serval S.r.l. and Hotel Blijdorp B.V. The guarantee letter is only to assure the rental payments in amount up to 2 300 Th. EUR (31.12.2011; 31.12.2010);
- To Swedbank AS (Latvia) to assure the potential liability of Klīversala RE SIA, an entity belonging to Pro Kapital Latvia subsidiary group, in the amount of 8 002 Th. EUR (5 681 334 LVL), as AS Swedbank (Latvia) has issued a guarantee letter in the same amount to VAS „Privatizācijas aģentūra" to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra" (31.12.2011; 31.12.2010).
- To Swedbank AS (Latvia) in the amount of 5 778 Th. EUR.
- AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ of which they assure in solitary the monetary liabilities of Täismaja AS. In case Täismaja AS violates the confirmations given in the contract of sales of the shopping centre, Kristiine Keskus OÜ can lodge a claim with Täismaja AS. The guarantee is conditional and the guarantors are responsible only if Täismaja AS is unable to settle the claim. The guaranteed amount is five million euros and it is effective for 18 months from the enforcement of the sales contract, i.e. until 02 November 2012.
- Guarantee letter to Kristiine Keskus OÜ to secure (jointly with Pro Kapital Eesti AS) possible claims against Täismaja AS arising from a loan contract concluded between AS Pro Kapital Eesti and Täismaja AS on 09 March 2004. The guarantee letter is limited to the maximum amount of potential claim. The guarantee is effective for 72 months from concluding the sales-purchace agreement, i.e. until 02 May 2017.
- To AS Swedbank (Estonia) to assure loan liabilities of AS Tondi Kvartal, which amounted to 605 Th. EUR as of 31 December 2011 (31.12.2010: 1 188 Th. EUR).
- To Swedbank AB (Lithuania) to assure loan liabilities of UAB PK Invest in the amount of 7 479 th. EUR.

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NOTE 19 CONVERTIBLE BONDS

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Current debt (Note 14)	0	0	392	0
Non-current debt (Note 16)	11 272	9 367	3 261	392
Total	**11 272**	**9 367**	**3 653**	**392**

On 3 April 2009, AS Pro Kapital Grupp shareholders' extraordinary meeting decided to issue up to 10 000 000 convertible bonds of the Ultimate Parent Company in nominal value of 0.6 EUR (10 EEK) (per convertible bond, and increase conditionally the Ultimate Parent Company's share capital by up to 10 000 000 shares in nominal value of 0.6 EUR (10 EEK) per share in order to exchange convertible bonds for shares of the Ultimate Parent Company. Management of the Ultimate Parent Company 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 bond in each separate subscription period was determined by management of the Ultimate Parent Company not to be less than 4 EUR per convertible bond. Convertible bonds were offered for subscription in the quantity that was limited to the minimum total sum payable based on the issue price 50 Th.EUR. The interest rate of convertible bond was 7% per annum from its issue price. On 24 April 2009 the conditional increase of the Ultimate Parent Company's share capital was registered in the Commercial Register.

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

In the third subscription period 840 184 convertible bonds were subscribed, for which the Ultimate Parent Company received 3 781 Th.EUR in the reporting period. On 10 August 2010, the issued convertible bonds were registered in the Estonian Central Register of Securities.

In the fourth subscription period 536 012 convertible bonds were subscribed, for which the Ultimate Parent Company received 2 412 Th.EUR in the reporting period. On 16 September 2010, the issued convertible bonds were registered in the Estonian Central Register of Securities.

In the fifth subscription period 422 067 convertible bonds were subscribed, for which the Ultimate Parent Company received 1 899 Th.EUR in the reporting period. On 29 November 2010, the issued convertible bonds were registered in the Estonian Central Register of Securities.

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

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

According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the period 2009-2010 can be converted to shares of the Ultimate Parent Company until and 31 December 2012 with the exchange rate one convertible bond per share.

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Registration date of bonds issued	**13.05.1999**	**13.08.2009**	**20.01.2010**	**10.08.2010**	**16.08.2010**	**29.11.2010**	**25.05.2011**
Issuance CCY	EEK	EUR	EUR	EUR	EUR	EUR	EUR
Issue price of bond	3.20 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR
Bond return per annum (% from issue price)	6%	7%	7%	7%	7%	7%	7%
Bond interest payment frequency	Once a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Latest date for the repurchase of bonds	20.01.2010	13.08.2013	20.01.2014	10.08.2014	16.08.2014	29.11.2014	25.05.2015
Latest date for the exchange of bonds to shares	10.01.2010	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012
Discount rate (%)	11%	7%	7%	7%	7%	7%	7%

(Pcs.)	**31.12.2011**	**31.12.2010**	**31.12.2009**	**01.01.2009**
Number of convertible bonds at the beginning of period	**3 345 374**	**1 287 344**	**122 537**	-
Number of convertible bonds issued	680 384	2 180 567	1 164 807	-
Number of repurchased bonds	-	-122 537	-	-
Number of convertible bonds at the end of period	**4 025 758**	**3 345 374**	**1 287 344**	**122 537**

(Th. EUR)	**2011**	**2010**	**2009**	**2008**
Value of convertible bonds at the beginning of period	9 366	3 654	392	-
Principal of convertible bonds issued	1 905	9 812	5 242	392
Principal of convertible bonds transferred through separation	-	-3 708	-1 980	-
Repurchased bonds in repurchase price	-	-392	-	-
Principal of the bonds issued at the end of the period	11 271	9 366	3 654	392
Short-term portion of liabilities on the balance sheet at the end of the period	-	-	**392**	-
Long-term portion of liabilities on the balance sheet at the end of the period	**11 271**	**9 366**	**3 261**	**392**

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NOTE 20 SHARE CAPITAL AND RESERVES

Share capital

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

As of 31 December 2011, the share capital in the amount of 10 637 Th.EUR (2010; 2009; 2008: 33 992 Th.EUR) consists of 53 185 422 (2010; 2009; 2008: 53 185 422) ordinary shares at a nominal value of 0,2 euros (2010; 2009; 2008: 0,64 euros (10 EEK)) per share. All shares have been paid for in full.

According to the articles of association effective on 31 December 2011, the minimum share capital amounts to 6 000 Th.EUR, wheras maximum share capital amounts to 24 000 Th.EUR.

Due to euro introduction in Republic of Estonia on 01 January 2011 and the requirements of the Commercial Code, the nominal value of a share must be rounded to one decimal. Therefore, on 30 June 2011 the shareholders meeting decided to decrease the share capital by reduction of the nominal value of shares. The decrease in share capital down to 31 911 Th.EUR (53 185 422 shares at 0,6 euros per share) was registered in Commercial Registry on 08 August 2011.

On 16 September 2011, shareholders resolved further to decrease the share capital by 21 274 Th.EUR down to 10 637 Th.EUR by decreasing the nominal value of a share from 0,6 euros to 0,2 euros. As a part of this change, share premium in the amount of 45 089 Th.EUR and accumulated statutory legal reserve in the amount of 2 938 Th.EUR was released to retained earnings.

As described in Note 19 to these 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 Ultimate Parent Company is recorded based on the requirements of the Estonian Commercial Code § 336 and is comprised of the provisions made from the net profit. The statutory legal reserve as of 31 December 2011 amount nil, as it has been released against retained earnings based on the shareholders resolution of 16 September 2011. In comparative balance sheet dates (31 December 2010, 2009 and 2008), the respective reserve amounted to 2 938 euros.

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

The right to repurchase own shares

On 30 October 2008, the shareholders' meeting of AS Pro Kapital Grupp decided to allow the entity to acquire 1 000 000 own shares with repurchase price of 3.83 EUR (60 EEK) per share during the period of five years. Under the terms and conditions of such resolution, the Management Board had the right to repurchase own shares in several offer rounds and the Management Board was obligated to dispose the reacquired shares or make a proposal on the shareholders' meeting to decrease the share capital, during the three years' time after the acquiring of own shares.

On 13 April 2012 the shareholder's meeting decided to recall the shareholders's resolution from 30 October 2008 that established the terms and conditions of the right to repurchase up to 1 000 000 own shares. The Group did not exercise the repurchase option during the period from 30 October 2008 to 13 April 2012.

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NOTE 21 NON-CONTROLLING INTEREST

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Arising from Pro Kapital Estonia	949	27 279	25 715	23 440
Arising from Pro Kapital Latvia	648	2 391	3 675	5 034
Total	**1 597**	**29 670**	**29 390**	**28 474**

NOTE 22 REVENUE

(Th. EUR)	2011	2010	2009	2008
Revenue from sales of real estate	7 490	7 310	5 958	11 148
Rental revenue	4 138	7 472	9 005	10 023
Hotel operating revenue	4 719	5 355	6 655	7 070
Other services	1 102	914	381	577
Total	**17 449**	**21 051**	**21 999**	**28 818**

NOTE 23 COST OF GOODS SOLD

(Th. EUR)	2011	2010	2009	2008
Cost of real estate sold	9 685	7 733	8 212	8 096
Cost of providing rental services	1 928	2 977	2 748	3 520
Cost of hotel operations	4 333	5 902	6 930	7 248
Cost of other services	461	403	27	37
Total	**16 407**	**17 015**	**17 917**	**18 901**

(Th. EUR)	2011	2010	2009	2008
Staff costs	736	763	639	626
Depreciation charge	510	526	487	643
Impairment of tangible and intangible assets	1	0	0	583
Inventory write-offs	3 028	-283	1 639	0
Other	12 132	16 009	15 152	17 049
Total	**16 407**	**17 015**	**17 917**	**18 901**

NOTE 24 MARKETING AND ADMINISTRATIVE EXPENSES

(Th. EUR)	2011	2010	2009	2008
Staff costs	38	15	0	0
Other	314	594	1 103	1 276
Total	**352**	**609**	**1 103**	**1 276**

(Th. EUR)	2011	2010	2009	2008
Staff costs	2 399	1 656	1 704	1 495
Depreciation charge	62	79	190	197
Amortisation charge	7	2	3	3
Gain on bargain purchase	-137	0	0	0
Inventory write-offs	0	2	0	370
Other	2 906	2 290	2 233	1 493
Total	**5 237**	**4 029**	**4 130**	**3 558**

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NOTE 25 OTHER INCOME AND OTHER EXPENSES

Other income (Th. EUR)	**2011**	**2010**	**2009**	**2008**
Fines collected	21	72	420	230
Gain from sales of property, plant and equipment	4	11	0	3 323
Gain from sales of non-current assets classified as held for sale	54 057	0	0	0
Release of allowance for bad debt	7	136	937	1
Other	191	0	0	919
Total	**54 280**	**219**	**1 357**	**4 473**

Other expenses (Th. EUR)	**2011**	**2010**	**2009**	**2008**
Local taxes	420	461	376	330
Fines paid	18	451	9	69
Loss from sales of investment property	0	1	0	0
Loss from sales of property, plant and equipment	0	4	6	0
Loss from sales of intangible assets	0	2	0	0
Write-off of property, plant and equipment	0	0	1	0
Fair value measurement of investment property	332	0	0	0
Maintenance / repair expenses	0	0	264	1 105
Provisions recognised	700	3 585	283	0
Allowance for bad debt	349	38	313	206
Other	56	58	145	515
Total	**1 875**	**4 600**	**1 397**	**2 225**

NOTE 26 FINANCIAL INCOME AND EXPENSES

Financial income (Th. EUR)	**2011**	**2010**	**2009**	**2008**
Interest income	1 514	2 150	2 097	2 776
Income arising from transactions with particiaptions in subsidiaries	2 736	0	635	0
Gain from foreign currency translation	520	-30	0	24
Other	0	0	1	11
Total	**4 770**	**2 120**	**2 733**	**2 811**

Financial expenses (Th. EUR)	**2011**	**2010**	**2009**	**2008**
Interest expenses	2 853	4 046	3 205	3 980
Loss from foreign currency translation	0	0	-533	248
Other	24	128	211	69
Total	**2 877**	**4 174**	**2 883**	**4 297**

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NOTE 27 INCOME TAX

Statutory corporate income tax (on earnings) rates:	2011	2010	2009	2008
Estonia	0%	0%	0%	0%
Latvia	15%	15%	15%	15%
Lithuania	15%	15%	20%	15%
Germany	15%	15%	15%	25%

(Th. EUR)	2011	2010	2009	2008
Profit (loss) before income tax (combined)	55 797	-7 037	-1 341	5 845
Estimated income tax respective to the tax rates	129	-1 366	-266	9 007
Adjustments to estimated income tax:				
Non-deductible expenses (+)	152	1 004	661	209
Non-taxable income and tax incentive	-924	-164	-466	-8 608
Deductions (-)	-20	-20	-74	-150
Reversal loss carry forward (+)	686	555	224	240
Income tax expense	**23**	**9**	**79**	**698**
Effective tax rate	0,05%	X	X	11,94%
Deferred income tax expense	0	18	70	199
Deferred income tax returns	-374	-44	-175	0
Effect on income statement	**-351**	**-17**	**-26**	**897**
Income tax paid	0	0	0	-14 977

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Deferred income tax liability (+)	1 962	419	445	551
Deferred income tax assets (-)	-370	0	0	0
Total	**1 592**	**419**	**445**	**551**

Contingent 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".

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

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	1.01.2009
Combined retained earnings (attributable to parent and non-controlling interest)	51 221	-14 131	-4 901	2 858
Statutory tax rate applicable	21%	21%	21%	21%
Contingent CIT obligation	10 756	0	0	600

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NOTE 28 EARNINGS PER SHARE

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

Average number of shares:	
In period 01.01.2011 - 31.12.2011	(53 185 422 x 12/12) = 53 185 422
In period 01.01.2010 - 31.12.2010	(53 185 422 x 12/12) = 53 185 422
In period 01.01.2009 - 31.12.2009	(53 185 422 x 12/12) = 53 185 422
In period 01.01.2008 - 31.12.2008	(53 185 422 x 12/12) = 53 185 422

Indicative net profit/loss per share (in EUR) attributable to the equity holders of the parent:

2011	21 931 000 / 53 185 422 = 0,41
2010	(7 413 000) / 53 185 422 = (0,14)
2009	(3 455 000) / 53 185 422 = (0,06)
2008	1 072 000 / 53 185 422 = 0,02

The convertible bonds issued did not have a dilutive effect on earnings in 2011, 2010, 2009 or 2008, and therefore they have not been included in the calculation of the diluted net loss per share and the diluted loss per share equals the net loss per share indicator.

NOTE 29 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are considered to be transactions between the entities within the combined Group, its shareholders, the members of the Supervisory Council and the Management Board (defined as "key management"), their families and the companies in which they hold majority interest or have significant influence.

Transactions with related parties (Th. EUR)	**2011**	**2010**	**2009**	**2008**
Significant owners and owner related companies				
Goods and services sold	5	1 502	2 185	2 286
Goods and services purchased	2 615	0	45	6
Interest income earned	148	202	217	729
Received interest (-)	-764	0	0	0
Issued loans	477	0	1 118	6 359
Repaid loans issued (-)	-5 222	-19	0	0
Granted claims	23 412	0	0	0
Acquisition of shares in subsidiaries	42 811	0	231	0
Interest expense incurred	945	480	0	0
Paid interest (-)	-764	-240	0	0
Received claims	0	169	0	0
Issued convertible bonds	3 062	5 577	3 502	0
Repurchased convertible bonds (-)	0	-392	0	0
Short-term employee benefits to key management	1 155	1 106	1 214	1 323

There were no post-employment benefit, long-term benefit, termination benefit of share based payment arrangements concluded benefiting key management personnel.

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Receivables from related parties

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Significant owners and owner related companies				
Current receivables from related parties	516	0	639	251
Non-current receivables from related parties	0	19 895	12 057	10 086
Total	**516**	**19 895**	**12 696**	**10 337**

The non-current receivables relate to former Russian operations of AS Pro Kapital Grupp that were carved out for the purpose of compilation of these combined financial statements. By the last balance sheet date, such outstanding receivables were settled in full.

Payables to related parties

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Significant owners and owner related companies				
Outstanding convertible bonds (incl. interest)	9 265	12 028	-	-
Payables to related parties	9 520	91	1	13
Total	**18 785**	**12 119**	**1**	**13**

The outstanding balance as of 31 December 2011 in the amount of 9 520 Th. EUR represents the balance outstanding from acquisition of non-controlling interest in AS Täismaja (disclosed in Note 5). After the balance sheet date, the due date for full repayment was set to 31 December 2013 with interest rate of 5% p.a.

Holdings in the Ultimate Parent Company

(Th. EUR)	31.12.2011	31.12.2010	31.12.2009	01.01.2009
Members of the Council and individuals related to them	8.61%	2.31%	2.31%	2.31%

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.
No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. The Group has provided loans to related parties at rates comparable to the average commercial rate of interest. The loans to related parties are not collaterised.

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NOTE 30 RISK MANAGEMENT

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

Business risk

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

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

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

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

Interest risk

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

Currency risk

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

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

Credit risk

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

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

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Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group constantly monitors proportion of short-term liabilities and current assets.

Fair value

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

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

Capital risk management

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

	31.12.2011	**31.12.2010**	**31.12.2009**	**01.01.2009**
Equity to total assets	63.5%	37.3%	45.3%	49.6%
Debt to total assets	31.3%	57.2%	50.3%	45.1%
Long term debt level	18.9%	10.5%	40.6%	19.0%

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

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

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

Estonian Commercial Code §301 establishes 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 ultimate 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 4 to these combined financial statements, the Company has been in compliance with such an equity restriction as of 31 December 2011, 2010 and 2009.

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NOTE 31 LAWSUITS

Ultimate parent company

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

On 27 May 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter with what AS Pro Kapital Grupp assures the rental liabilities of the Serval S.r.l arising from the rental agreement of the Rotterdam hotel, concluded on 4 August 2006 between Serval S.r.l and Hotel Blijdorp B.V. In 2007 Aprisco B.V acquired the hotel that was managed by subsidiary of Serval and the rental agreement with Serval S.r.l was transferred to Aprisco B.V. Serval S.r.l has not fulfilled the rental obligations to Aprisco B.V, therefore Aprisco B.V claims the payments according to the guarantee letter. Aprisco has filed alternative claims to the court. Firstly, Aprisco B.V claims the payment of caused loss in the amount of 2 300 thousand euros or in the amount stated by the court.

As an alternative claim, Aprisco B.V claims overdue rental payments in the amount of 904 thousand euros with accumulated interest for default or in the amount of 504 thousand euros with accumulated interest for default.

On 31 August 2011 Aprisco B.V changed its claim and claims the payment of caused loss in the amount of 2 300 thousand euros with accumulated interest for default, or in the amount stated by the court. As an alternative claim, Aprisco B.V claims overdue rental payments in the amount of 1776 thousand euros with accumulated interest for default or in the amount of 1 409 thousand euros with accumulated interest for default.

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

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

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

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

Pro Kapital Estonia sub-group

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

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

- OÜ Donum Trading – in the amount of 15 thousand euros, with accumulated interest for default (settlement agreed subsequently to the balance sheet date).
- OÜ Nordwell – in the amount of 15 thousand euros, with accumulated interest for default (enforced subsequently to the balance sheet date).
- OÜ Trendmaker - in the amount of 46 thousand euros, with accumulated interest for default (settlement agreed subsequently to the balance sheet date).
- OÜ Lossi Arenduse – in the amount of 33 thousand euros, with accumulated interest for default (enforced subsequently to the balance sheet date).

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

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

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

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

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

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Pro Kapital Latvia sub-group

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

During August – October 2007 the Tax Board audited the VAT accounting of Pro Kapital Latvia PJSC for the period from January 2005 to December 2006. As a result the Tax Board found that the entity's loss should be 60 thousand Latvian latts smaller (approx. 86 thousand euros). Pro Kapital Latvia PJSC disputed the decision. The trial court left the claim unsatisfied. The entity appealed and the hearing is set on 1 March 2012.

SIA Hotel Management has one pending court case regarding recalling prior member of the Board, Inese Tomase, and compensating her average pay. On 25 October 2011 the entity filed a counterclaim based on Notes 1.3 and 4 of the emplyment contract which Inese Tomase used to file her claim and demands leaving Ms Tomase's claim left unsatisfied and returning her income received without legal basis in the amount of 19 thousand Latvian latts (approx. 27 thousand euros). On 22 March 2012 the Parties have entered into a settlement providing that the Company pays approximately two thousand euros plus respective resident income tax, and the Parties withdraw from the other claims. On 27 March 2012 the court confirmed the settlement and decided to terminate court proceedings.

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

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

As of 31 December 2010 a subsidiary of Pro Kapital Latvia, PK Investments SIA has one pending legal arbitration proceeding. The pending arbitrage dispute between PK Investments SIA and KanAM Grund Kapitalanlagegesellschaft GmbH has no significance from the point of view of Pro Kapital Latvia sub-group as PK Investments SIA is no longer part of the sub-group as of 31 December 2011. Pro Kapital Latvia PJSC has completed all monetary liabilities to PK Investments SIA and transferred the company to a third party.

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

Pro Kapital Vilnius sub-group

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

UAB „Apskaitos ir mokesčių konsultacijos" has filed a claim in the amount of 70 thousand Lithuanian litas (approx. 20 thousand euros), plus interest 6%, to the Vilnius court to be returned prepayment for an apartment sale contract. PK Invest UAB filed a counter claim for the withdrawal from the contract to be annulled. On 2 March 2011 the court ruled in favour of UAB „Apskaitos ir mokesčių konsultacijos "and left the claim of PK Invest UAB unsatisfied. PK Invest UAB logded the appeal but the hearing has not been announced yet in the Court of Appeal of Lithuania.

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UAB "Natalex" filed a claim to the Vilnius court to be returned prepayment for an apartment sale contract in the amount of 166 thousand Lithuanian litas (approx. 48 thousand euros), plus interest 6%. PK Invest UAB found that UAB "Natalex" had breached the contract and the prepayment has been netted with the fine held against UAB "Natalex". The first instance court rejected the claim on in April 2011 but the Plaintiff lodged the appeal.

In February 2012, UAB "Gatvių statyba" submitted the claim to the Vilnius district court requesting for the LTL 197 thousand Lithuanian litas (approx.. 57 thousand euros), plus 8,06 % interest, for the performed works in Saltiniu Namai. PK INVEST did not agree with the claim because the works were performed unduly and the deficiencies were recorded by the parties in writing.

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

Domina Tourismus GmbH

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

INDEPENDENT CERTIFIED AUDITOR'S REPORT ON COMBINED FINANCIAL STATEMENTS

Deloitte.

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INDEPENDENT CERTIFIED AUDITOR'S REPORT ON COMBINED FINANCIAL STATEMENTS

To the shareholders of AS Pro Kapital Grupp:

For the purpose of the Prospectus prepared in connection with the planned listing of AS Pro Kapital Grupp and pursuant to Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (Official Journal, EC L 149 of 30 April 2004), we have audited the accompanying combined financial statements of AS Pro Kapital Grupp which comprise the statement of financial position as at 31 December 2011, 31 December 2010, 31 December 2009 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Combined Financial Statements

Management Board of AS Pro Kapital Grupp is responsible for the preparation and fair presentation of these combined financial statements in accordance with the International Financial Reporting Standards and the related Interpretations issued in the form of EC Regulations and applied in the manner as described in Basis of Preparation as disclosed in Note 2 to these combined financial statements, and for such internal control as the Management Board determines is necessary to enable the preparation of annual account that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the combined financial statements.

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

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Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, for the purpose of the Prospectus described above, the combined financial statements of AS Pro Kapital Grupp present fairly in all material respects the financial position as at 31 December 2011, 31 December 2010, 31 December 2009 and its financial performance and its cash flows for the years then ended in accordance with the accounting principles presented in Basis of Preparation specifying the manner in which the International Financial Reporting Standards as adopted in the European Union were applied in the preparation of the combined financial statements.

Emphasis of Matter

In connection with the planned listing of AS Pro Kapital Grupp, the historical financial statements described above have been prepared based on the structure of AS Pro Kapital Grupp as at 31 December 2011, as described on Note 2. These combined financial statements are not necessarily indicative of the consolidated financial position or results of operations that would have existed had the group existed in this way for all periods presented. Our opinion is not qualified in respect of this matter.

27 June 2012

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

AS PRO KAPITAL GRUPP

Interim Financial Statements 30 June 2012

Parent company of the Group	**AS Pro Kapital Grupp**
Beginning of the financial year	1 January
End of the financial year	31 December
Reporting period	01.01.2012 - 30.06.2012
Registration code	10278802
Address	21 Põhja Avenue 10414 Tallinn Estonia
Telephone	+372 6 144 920
Facsimile	+372 6 144 929
E-mail	prokapital@prokapital.ee
Fields of activity	Activities of holding companies Buying and selling of own real estate Renting and operating of own or leased real estate Management of real estate on a fee or contract basis

AS PRO KAPITAL GRUPP

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CERTIFIED AUDITOR´S REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION **Error! Bookmark not defined.**

PKG in brief

Pro Kapital Grupp AS (the Company) is a leading Estonian real estate company with a focus on development, management and sale of modern large-scale retail and residential real estate in the capitals of Estonia, Latvia and Lithuania.
The Company also owns and manages three hotels in Tallinn, Riga and Bad Kreuznach, Germany.
Since its establishment in 1994, Pro Kapital has completed 20 development projects with *ca* 180 000 square meters of total saleable area.
Pro Kapital follows a conservative policy in financing the projects – a high proportion of equity and low leverage compared to the industry average enables the company to develop the most profitable sales.
The estimated value of the investments in Pro Kapital's current real estate portfolio is approximately 180.2 million euros: 63% residential developments, 24% commercial premises and 13% hotels. (Newsec, April 2012).

Key Finacial Figures

	2012 1st half	**2011 1st half**
Revenue, th. EUR	9 932	8 016
Gross profit, th. EUR	1 862	2 260
Gross profit, %	18,8%	28,2%
Operating result, th. EUR	-2 236	53 536
Operating result, %	-22,5%	667,9%
Net result, th. EUR	-2 889	52 047
Net result, %	-29,10%	649,30%
Total Assets, th. EUR	102 702	113 472
Total Liabilites, th. EUR	33 570	41 414
Total Equity, th. EUR	69 132	72 058
Debt/Equity	0,49	0,57
Return on Assets, %	-2,7%	35,7%
Return on Equity, %	-4,1%	75,1%

CEO Review

The first half of 2012 has been very intensive for the Company defining its long-term strategies and continuing preparations for the new real estate developments planned for the coming years and initial public offering scheduled for the 2nd half of the year. In April the shareholders elected 3 new independent Supervisory Council members - Ms. Sari Aitokallio, Mr. Pertti Huuskonen and Mr. Petri Olkinuora - as persons with wide experience in administrating of public companies and relationship with international institutional investors. Starting from 16th of April Ms. Ruta Juzulenaite started to work as Chief Financial Officer of the company. Her experience in the financial sector has contributed to introduce strong and focused financial and administrative structures of Pro Kapital in order to strengthen the Company's position in the market.

During the reporting period the Company continued with projecting works of 3 new development projects, Peterburg road shopping centre and first part of new stage in Tondi Quarter in Tallinn and Tallinnas Residential Complex in Riga for obtaining building licences. In connection with the shopping centre project we have signed the agreements for preprojecting of tram line Majaka str. – Peterburi road 2, projecting of rainwater sewage line on Kivimurru street and connection agreement with AS Eesti Gaas. In June we received the building licence for the entrance crossroad from the Peterburi road to the eastern side of the projected shopping centre.The Company has also started successfully the leasing activities for the shopping centre premises with first lease agreements signed at the end of the reporting period.

Alongside with the real estate development activities the Company continued with preparation works for the initial public offering of its new shares, scheduled to take place in September 2012 at Tallinn Stock Exchange with Porta Finance UAB and AS LHV Pank respectively as advisor and global coordinator.

At the end of the reporting period the Company recorded net revenue 9,93 mln EUR, +23,9% compared to the same period in 2011. Recorded net loss 2,89 mln EUR include non-recurring costs related to IPO preparations in amount of 0,37 mln EUR and additional provision regarding legal dispute in Netherland (see Legal overview and developments) in amount of 0,71 mln EUR.

In Tallinn the sale of residential recorded 2 flats and 3 parking places as well 6 lease agreements signed for parking places and 4 agreements for offices. In total in Tallinn there are at the moment for sale 16 flats (11 in Ilmarise Quarter and 5 in Tondi), 11 office premises (Tondi), 4 basement premises (3 in Narva str. 13 and 1 in Vene 19) and several underground parking places in Ilmarine Quarter.

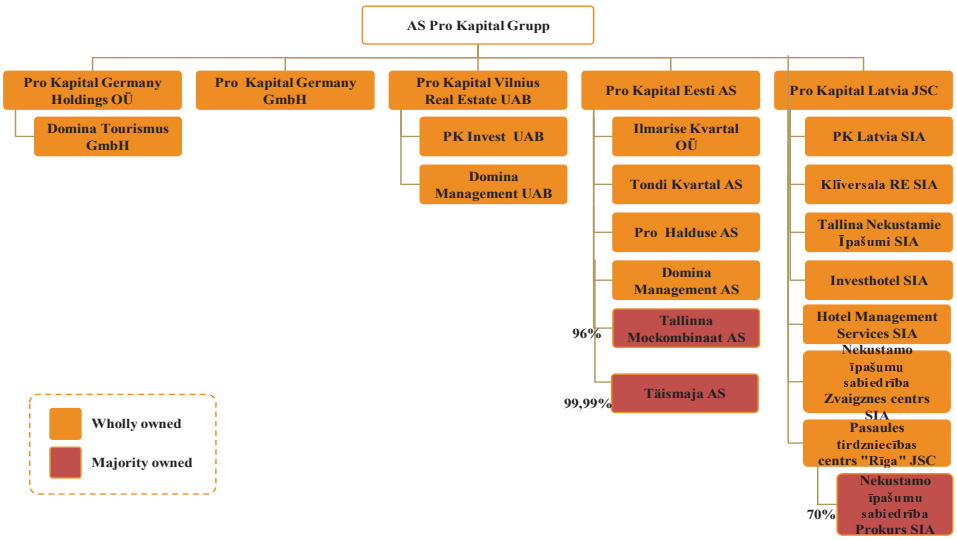
Domina Inn Ilmarine Hotel showed results well above expectations, with occupancy rate growth by 4,1% the gross operating profit was 223 484 EUR, recording the increase more than 2 times.

In Riga 1 flat has been sold and in total 20 lease agreements were signed for World Trade Centre office premises. There are 3 flats in Riga for sale at the end of the reporting period. We are pleased with the results of Domina Inn Riga Hotel, with occupancy rate growth by 26,4% compared to last year and the gross operating profit being 282 529 EUR, increased by 7,8%.
In Vilnius the sale of residential properties recorded 31 flats and commercial premises and 13 parking places. Major part (27 flats and all parking places) was part of a bulk deal. In total the are 55 apartments and 113 parking places for sale in Vilnius.
Bad Kreuznach Domina Parkhotel Kurhaus, Germany, occupancy rate dropped by *ca* 13%, with gross operating profit decreasing by 2% to 255 th EUR. Bad Kreuznach hotel operating company was acquired in November 2011 and currently is undergoing the process of cost review and efficiency means.
The Company's outstanding bank loan at the end of the period was 12,3 mln EUR, which has decreased by 15,7% during the reporting period. The Company will introduce additional overdraft agreement of 3,0 mln EUR shortly after the end of the reporting period.
The Company as of June 30, 2012 had 11,272 mln EUR worth convertible bonds, no changes since the start of reporting period.
As of June 30, 2012 there were 142 employees working in the Company, 102 of them were employed in hotel and property maintenance business.

Paolo Michelozzi
CEO
Pro Kapital Grupp AS

July 24, 2012

Group Structure
As of 30.06.2012



Overview of development projects

Project name	Type	Location	Ownership	Planned Volume	Classification
Pet. road	Ret.	Tallinn	96%	GLA 55 000 m2	Inv. Property
Ülemiste 5	Office	Tallinn	100%	GLA 22 880 m2	Inv. property
Tondi	Res.	Tallinn	100%	NSA 83 462 m2 *71 280 m2 resid.* *12 182 m2 comm.*	Inventories
Kalaranna	Res.	Tallinn	100%	NSA 33 013 m2 *27 600 m2 resid.* *5 413 m2 comm.*	Inventories
Tallinas	Res.	Riga	100%	NSA 18 845 m2 *17 650 m2 resid.* *1 195 m2 comm.*	Inventories
Kliversala	Res.	Riga	100%	NSA 49 920 m2 *31 600 m2 resid.* *7 920 m2 comm.* *10 400 m2 hotel*	Inventories
Zvaigznes	Res.	Riga	100%	NSA 17 949 m2 *11 277 m2 resid.* *6 672 m2 comm.*	Inventories
Salt. Namai	Res.	Vilnius	100%	NSA 22 086 m2 *20 343 m2 resid.* *2 713 m2 comm.*	Inventories

NSA – Net Sellable Area
GLA – Gross Leasible Area

Status of the projects:

Pet. Road	Application submitted for obtaining the building licence
Ülemiste	Detail plan adopted. Project not started
Tondi	Application submitted for obtaining the building licence for 2nd stage
Kalaranna	Detail plan approval in process
Tallinas	Projecting works in process in order to apply for the building licence
Kliversala	Detail plan approval in process
Zvaigznes	Building licence for reconstruction of the existing building issued
Saltiniu Namai	1st stage completed and on sale with an exception of two more buildings what have received the building licence. 2nd stage is being projected in order to apply for the building licence

Segments and Key Performance Indicators

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

The Company's operations in **Estonia** mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of premises in retail and office properties, and management of cash flow generating retail, office and hotel properties.
The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted 17,3% compared to 70,1% of the comparable period last year, when major part of the revenue was created by Kristiine Shopping Centre, that was sold in May 2011.

The Company's operations in **Latvia** mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of office properties, and management of cash flow generating hotel properties.
The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period amounted 13,7% compared to 14,9% of the comparable period last year.

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 53,5% compared to 12,2% of the comparable period last year. The reason of such increase was a bulk sale of 27 flats and 13 parking places.

The Company's operations in **Germany** consist of the development and management of Domina Kurhaus hotel located in Bad Kreuznach, Germany.

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 15,5% compared to 2,7% of the comparable period last year.

The reason of such increase was the acquisition of the Bad Kreuznach hotel operating company in November 2011.

In addition to geographical segmentation described above Group's revenues can also be divided along four business lines - sales of real estate, rental income, real estate management, and other operations. Sales of real estate consist of the development and sales of apartments in premium residential real estate properties in the Baltic capitals. Lease of commercial premises includes the development and lease of premises in retail and office properties in the Baltic capitals. Real estate management business line revenues are generated by the management of cash flow generating retail, office and hotel properties. Other operations mainly include provision of consulting or other services.

Revenue structure, th. EUR

	EST 2012 H1	EST 2011 H1	LV 2012 H1	LV 2011 H1	LT 2012 H1	LT 2011 H1	GER 2012 H1	GER 2011 H1	TOTAL 2012 H1	TOTAL 2011 H1
Real Estate	290	463	105	-	5256	938	-	-	5 651	1 401
Rent	47	2 865	418	344	35	22	-	217	500	3 448
Hotels	681	423	590	533	-	-	1 538	-	2 809	956
Maintenance	692	1 779	11	23	25	20	-	-	728	1 822
Other	5	93	238	296	1	-	-	-	244	389
TOTAL	**1 715**	**5 623**	**1 362**	**1 196**	**5 317**	**980**	**1 538**	**217**	**9 932**	**8 016**

Otherselected data

	EST 2012 H1	EST 2011 H1	LV 2012 H1	LV 2011 H1	LT 2012 H1	LT 2011 H1	GER 2012 H1	GER 2011 H1	TOTAL 2012 H1	TOTAL 2011 H1
M^2 sold	117	320	60	0	2 356	523	-	-	2 533	843
Average price/m^2, EUR	1 363	1 429	1 583	-	2 151	2 191	-	-	2 101	1 902
M^2 under maintenance management	42 685	50 363	15 013	15 013	7 826	7 826	-	-	65 524	73 202
Occupancy rate, hotels, %	66,1	63,5	78,2	61,9	-	-	48,4	55,6	62,7	60,1

Financing sources and policies

Pro Kapital Group persues conservative financing policy, targeting for high ratio of equity in its projects, as compared to the industry stadards. Company's goal is to use external financing in a manner to avoid interest and loan covernant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. The Company seeks to maintain such long term debt levels that are in reasonable proportion to growth in operations and which preserve Company's credit standing. During first half of 2012 the Company has repaid 2,37 mln EUR of its bank loans. The Company is about to sign bank overdraft agreement of 3,0 mln EUR, to enhance its working capital flexibility.

Shares and shareholders

As of 30.06.2012 AS Pro Kapital Grupp has issued total 53 185 422 shares with the nominal value 0,2 euros. The registered share capital of the company is 10 637 084.40 EUR**.**
By the shareholders decision of 13.04.2009 the share capital has been increased conditionally. By the 13.04.2012 shareholders decision the decision of the conditional share capital increase was amended and it was confirmed the share capital is increase conditionally by 805 151.60 EUR in connection with possible conversion of the issued convertible bonds to the shares of the Company.

As of 30.06.2012 there are 51 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

Shareholders holding over 5% of the shares as of 30.06.2012:

	Shareholders	Number of shares	Participation in %
1	Clearstream Banking Luxembourg S.A. Clients	11 387 230	21,41
2	Eurofiduciaria S.R.L.	7 067 431	13,29
3	Svalbork Invest OÜ	6 839 938	12,86
4	Sueno Latino AG	4 528 531	8,51
5	A.F.I. American Financial Investments Ltd.	4 359 935	8,20
6	Anndare Ltd.	3 323 202	6,25
7	UNICREDIT BANK AUSTRIA AG	3 287 801	6,18

Participation of Member of the Management Board and the Council Members as of 30.06.2012:

Name	Position	Number of shares	Participation in %	Number of convertible bonds
Paolo Vittorio Michelozzi	CEO	0	0,00	0
Allan Remmelkoor	COO	0	0,00	0
Emanuele Bozzone	Chairman of the Council	0	0,00	22 224
Sari Aitokallio	Council Member	0	0,00	0
Petri Olkinuora	Council Member	0	0,00	0
Pertti Huuskonen	Council Member	0	0,00	0
Giuseppe Prevosti	Council Member	4 447 597*	8,36	0
Renato Lorenzo Bullani	Council Member	133 000	0,25	0

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

Legal overview and developments

As of 30.06.2012 AS Pro Kapital Grupp companies had 6 pending court cases (as of 31.12.2012 there were 10 pending court cases). During the reporting period AS Pro Kapital Grupp companies won or settled 5 court cases and one additional court case was filed against AS Pro Kapital Grupp company.
The most material ongoing court case is between the AS Pro Kapital Grupp as the ultimate parent company and Aprisco B.V.

On May 27, 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter with what AS Pro Kapital Grupp assures the rental liabilities of the Serval S.r.l arising from the rental agreement of the Rotterdam hotel.

On July 4, 2012 Rotterdam City Court made a decision and awarded Aprisco B.V claim in the amount of 1 409 265,2 EUR to be paid. The part of the claim in the amount of 786 434.7 EUR has to be paid without delay, while the payment of the remaining part of 622 830.52 EUR is dependent on the outcome of Aprisco B.V court case against Serval S.r.l in regards to the rent reduction agreement validity.

The Management Board of AS Pro Kapital Grupp does not agree with the court decision. The Management Board of AS Pro Kapital Grupp does not recognize the claim and states that the guarantee was given to Hotel Blijdorp B.V and not to Aprisco B.V and AS Pro Kapital Grupp was not informed for the transfer of the guarantee letter and therefore Aprisco B.V cannot file the claim related to the guarantee letter. The Management Board of AS Pro Kapital Grupp claims alternatively that according to the guarantee letter Aprisco B.V can claim only unpaid rental payments in amount of 406 thousand euros with accumulated interest for default and which could increase by 282 thousand euros in case the rental lowering agreement between Serval S.r.l. and Aprisco B.V. is found to be unbinding. In addition the Management Board of AS Pro Kapital Grupp is of opinion that the Rotterdam City Court has incorrectly considered the period for which the rent payments are due. The court acknowledged in the decision that AS Pro Kapital Grupp is liable just for rent payments and not the damages. Serval S.r.l was ordered by Aprisco B.V. do vacate the premises and did so on 17.06.2010. Despite this the court ruled that AS Pro Kapital Grupp is liable for rent difference between the new tenant and Aprisco B.V. until 29.07.2011. The Management Board of AS Pro Kapital Grupp is of opinion that the difference in rent is not to be considered as rent payments, but should be considered as damaged, which are not secured by the letter of guarantee issued by AS Pro Kapital Grupp.

The Management Board of AS Pro Kapital Grupp is planning to appeal the court decision.
For further details on legal disputes please see Note 31 of the Interim Report.

People

At the end of first half of 2012 the Company employed 142 people compared to 153 at the end of first half of 2011. 102 of them were engaged in hotel and property maintenance services (115 at the end of first half of 2011). The total remuneration expenses for the Company at the end of first half of 2012 were 1 920 777 EUR compared to 2 618 930 EUR for corresponding period of 2011 (included one-time premiums in amount of 559 486 EUR for successful sale of Kristiine Shopping Centre).

Risks

Market risk and liquidity risk are of the most significant influence on the Company. While real estate market has demonstrated some significant fluctuations during last five years, due to its long- term orientation in business model the Company has sucessfully 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 liqudity risk.

Asset risks are covered by effective insurance contracts.

(Th. EUR)	Notes	30.06.2012	31.12.2011
ASSETS			
Current Assets			
Cash and cash equivalents	8	2 142	8 637
Current receivables	9	2 857	2 865
Inventories	10	49 395	53 186
Total Current Assets		**54 394**	**64 688**
Non-Current Assets			
Non-current receivables	11	152	152
Deferred tax assets	27	368	370
Property, plant and equipment	12	21 393	21 863
Investment property	13	26 111	26 111
Intangible assets		284	288
Total Non-Current Assets		**48 308**	**48 784**
TOTAL ASSETS		**102 702**	**113 472**

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

(Th. EUR)	Notes	30.06.2012	31.12.2011
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	14	6 898	14 002
Customer advances		579	838
Current payables	15	1 497	1 791
Taxes payable		106	95
Short-term provisions	31	1 755	1 091
Total Current Liabilities		**10 835**	**17 817**
Non-Current Liabilities			
Long-term debt	16	20 673	21 462
Other long-term liabilities		132	0
Deferred income tax liability	27	1 878	1 962
Long-term provisions		52	173
Total Non-Current Liabilities		**22 735**	**23 597**
TOTAL LIABILITIES		**33 570**	**41 414**
Equity attributable to equity holders of the parent			
Share capital in nominal value	20	10 637	10 637
Revaluation reserve	20	11 337	11 330
Foreign currency differences		-1 130	-1 130
Retained earnings			
Accumulated profits		49 624	27 693
Profit (loss) for the period		-2 889	21 931
Total equity attributable to equity holders of the parent		**67 579**	**70 461**
Non-controlling interest	21	**1 553**	**1 597**
TOTAL EQUITY		**69 132**	**72 058**
TOTAL LIABILITIES AND EQUITY		**102 702**	**113 472**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Th. EUR)	Notes	2012 1st half	2011 1st half
Operating income			
Revenue	7, 22	9 932	8 016
Cost of goods sold	23	-8 070	-5 756
Gross profit		**1 862**	**2 260**
Marketing expenses	24	-289	-169
Administrative expenses	24	-2 707	-2 776
Other income	25	118	54 692
Other expenses	25	-1 220	-471
Operating profit (loss)		**-2 236**	**53 536**
Financial income	26	16	659
Financial expense	26	-679	-2 155
Profit (loss) before income tax		**-2 899**	**52 040**
Income tax	7, 27	-42	7
Deferred tax	7	56	0
Net profit (loss) for the period		**-2 885**	**52 047**
Net profit (loss) attributable to:			
Equity holders of the parent		**-2 889**	**23 909**
Non-controlling interest		**4**	**28 138**
Other comprehensive income (loss), net of income tax			
Comprehensive income (loss) for the period		-2 885	52 047
Equity holders of the parent		**-2 889**	**23 909**
Non-controlling interest		**4**	**28 138**
Earnings per share (EUR)	28	-0,05	0,45
Diluted earnings per share (EUR)	28	-0,05	0,45

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Th. EUR)	Notes	2012 1st half	2011 1st half
Profit (loss) for the period		**-2 885**	**52 047**
Adjustments:			
Depreciation charge for the period	7, 12	650	297
Amortisation charge for the period		4	4
Loss from change in fair value of investment property	13	230	0
Profit from sale of investment property		0	-54 057
Interest income	26	-16	-659
Interest expenses	26	679	2 155
Non-monetary transactions		614	334
Change in:			
Current receivables	9	8	-277
Inventories	10	3 791	-277
Customer advances		-259	1 065
Current payables	15	-294	-3 883
Taxes payable		11	0
Short-term provisions		664	0
Other long-term liabilities		132	0
Deferred income tax liability	27	-84	0
Long-term provisions		-121	0
Other changes		-6 282	-8 327
Cash used in operating activities		**-3 158**	**-11 578**
Additions to fixed assets	7, 12	-66	-822
Additions to investment property	13	-230	0
Proceeds from sale of investment property	13	0	104 997
Proceeds from sale of tangible assets	5	0	5
Acquisition of subsidiaries	5	-9	-8 866
Interests collected		16	47
Cash from (used in) investing activities		**-289**	**95 361**
Proceeds from convertible bonds	19	0	3 062
Proceeds from loans / debt		0	1 642
Repayment of loans / debt		-2 369	-67 286
Interests paid		-679	-2 151
Cash sed in financing activities		**-3 048**	**-64 733**
Net change in cash and cash equivalents		**-6 495**	**19 050**
Opening balance	8	8 637	1 194
Closing balance	8	2 142	20 244

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Th. EUR)	Share capital in nominal value	Share premium	Statutory legal reserve	Revaluation reserve	Foreign currency differences	Retained earnings: Accumulated profits (losses)	Retained earnings: Accumulated profits (losses) separated	Retained earnings: Profit (loss) for the financial period	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
NBV 01.01.2010	**33 992**	**45 089**	**2 938**	**0**	**-1 373**	**111 925**	**-142 761**	**-3 455**	**46 355**	**29 390**	**75 745**
Transfer to retained earnings	0	0	0	0	0	-3 455	0	-3 455	0	0	0
Profit (loss) for the financial period	0	0	0	0	0	0	0	-7 413	-7 413	393	-7 020
Change in interest in subsidiaries	0	0	0	0	0	-2 097	0	0	-2 097	- 112	- 2 209
Foreign currency differences	0	0	0	0	-9	0	0	0	-9	0	-9
NBV 31.12.2010	**33 992**	**45 089**	**2 938**	**0**	**-1 382**	**106 373**	**-142 761**	**-7 413**	**36 836**	**29 670**	**66 507**
Transfer to retained earnings	0	0	0	0	0	-7 413	0	7 413	0	0	0
Decrease in share capital 30.06.2012	-2 081	0	0	0	0	2 081	0	0	0	0	0
Impact of separation	0	0	0	0	0	-142 761	142 761	0	0	0	0
Profit (loss) for the financial period	0	0	0	0	0	0	0	23 905	23 905	28 138	52 043
Change in interest in subsidiaries	0	0	0	0	0	-22 105	0	0	-22 105	-9 855	-31 960
Foreign currency differences	0	0	0	0	4	0	0	0	4	0	4
NBV 30.06.2011	**31 911**	**45 089**	**2 938**	**0**	**-1 378**	**-63 825**	**0**	**23 905**	**38 640**	**47 953**	**86 594**
Decrease in share capital 16.09.2011	-21 274	-45 089	-2938	0	0	69 301	**0**	0	0	**0**	**0**
Appropriation to revaluation reserve	0	0	0	11 330	0	0	**0**	0	11 330	0	11 330
Profit (loss) for the financial period	0	0	0	0	0	0	0	-1 974	-1 974	33	-1 941
Change in interest in subsidiaries	0	0	0	0	0	22 217	0	0	22 217	-46 389	-24 172
Foreign currency differences	0	0	0	0	247	0	0	0	247	0	247
NBV 31.12.2011	**10 637**	**0**	**0**	**11 330**	**-1 130**	**27 693**	**0**	**21 931**	**70 461**	**1 597**	**72 058**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Th. EUR)	Share capital in nominal value	Share premium	Statutory legal reserve	Revaluation reserve	Foreign currency differences	Accumulated profits (losses)	Accumulated profits (losses) separated	Profit (loss) for the financial period	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
NBV 01.01.2012	**10 637**	**0**	**0**	**11 330**	**-1 130**	**27 693**	**0**	**21 931**	**70 461**	**1 597**	**72 058**
Transfer to retained earnings	0	0	0	0	0	21 931	0	-21 931	0	0	0
Profit (loss) for the financial period	0	0	0	0	0	0	0	-2 889	-2 889	4	-2 885
Change in interest in subsidiaries	0	0	0	0	0	0	0	0	0	-48	-48
Foreign currency differences	0	0	0	7	0	0	0	0	7	0	7
NBV 30.06.2012	**10 637**	**0**	**0**	**11 337**	**-1 130**	**49 624**	**0**	**-2 889**	**67 579**	**1 553**	**69 132**

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

NOTE 1. GENERAL INFORMATION

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

Shareholder	Country of incorporation	Share of ownership 30.06.2012	Share of ownership 31.12.2011
Clearstream Banking Luxembourg S.A.	Luxembourg	21,41%	0,00%
Eurofiduciaria S.r.l.	Italy	13,29%	11,98%
Svalbork Invest OÜ	Estonia	12,86%	12,86%
Sueno Latino AG	Liechenstein	8,51%	8,51%
A.F.I. American Financial Investments Ltd.	Liechtenstein	8,20%	9,57%
Anndare Ltd.	Ireland	6,25%	41,69%

For the purpose of comparative financial figures of these interim financial statements as at 30 June 2011, AS Pro Kapital Grupp (hereinafter also referred to as "PKG") is a holding company, which owns subsidiary groups in Estonia (Pro Kapital Eesti AS), Latvia (Pro Kapital Latvia PJSC), Lithuania (Pro Kapital Vilnius Real Estate UAB), and Germany (Pro Kapital Germany GmbH) (hereinafter also referred to as „the Group") and whose main fields of activity are to coordinate and control the development and implementation of the subsidiaries' business strategies, to administrate the Group's financial management, business reporting, and to forward information to investors.

For the comparative period of 6-months 2011, these interim financial statements represent the consolidated assets, liabilities, equity, results of operations and cash flows of the Ultimate Parent Company and its subsidiaries (hereinafter also referred together to as "the Group") enlisted in Note 4 to these financial statements.

NOTE 2. BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS

Basis of preparation

In 2011, PKG disposed its operations in Ukraine and Russia:

- By 14 September 2011 liquidation of subsidiary of the Ultimate Parent Company, Pro Kapital Ukraine ЗАТ was finished. In regard of this, the business activity of the Group ended in Ukraine.
- On 28 November 2011 the Ultimate Parent Company sold 100% of Pro Kapital Rus OOO shares at the price of 10 thousand Russian roubles (292 EUR). Profit from sale of ownership amounted to 6 589 th. EUR. In regard of this, business activity of the Group ended in Russia.

In connection with the initial public offering of PKG bonds, to present an economic view of the Group business as a whole, historical financial statements for the period 1 January – 30 June 2011 have been prepared based on the financial statements historically included in the consolidated financial statements of AS Pro Kapital Grupp and excluding financial effect arising from Pro Kapital Ukraine ЗАТ and Pro Kapital Rus OOO.

These comparative financial statements for the period 1 January – 30 June 2011 are not necessarily indicative of the consolidated financial statements that would have been prepared if the subsidiaries in Ukraine and Russia had been disposed at an earlier date than the actual. They provide an indicative view of the Group businesses' historical operations within AS Pro Kapital Grupp.

Compliance with International Financial Reporting Standards

International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union do not include any guidance on preparing comparative combined financials. This section describes how IFRSs have been applied to prepare the comparative financial statements for the six-month period ended 30 June 2011.

Comparative historical financial statements for the six-month period ended 30 June 2011 include the companies owned directly or indirectly by the Group. Following the same logic, subsidiaris in Ukraine and Russia have been excluded from the scope.

These interim financial statements ("financial statements") have been prepared in accordance with IFRS as adopted in the European Union, with the exception of the following Principes :

> IAS 27 requires that a group consolidates its operations as if it was a single entity. Group's operations are defined through existence of control that the parent company exercices over other entities (subsidiaries), i.e. the parent company has the power to govern, directly or indirectly, the financial and operating policies of other entities so as to obtain benefits from its activities. The comparative financial statements for the six-month periood ended 30 June 2011, have been compiled in line with the existance of control over entities as of 31 December 2011 (listed in Note 4 to these financial statements) and in accordance with consolidation principes described in Note 3 below.
>
> Consequently, the comparative financial information provided does not reflect factual legal structure nor presence of control over other entities by the Group as at 30 June 2011. The purpose for such presentation is providing sufficiently comparable historical information about the operations of the group entities retained after the disposal of Ukraine and Russian operations on the second half of 2011.
>
> This results in deviation from IFRS 5 principles for reporting on discontinuing operations, as after applying the IAS 27 deviation described above, has lost its relevance for the context purposes.

Use of judgements, estimates and assumptions

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

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

Classification of real estate

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

Estimation of net realization value of inventories

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

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

Fair value of property investment

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

Recoverable value of fixed assets

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

Useful life of property, plant and equipment

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

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated separately. Receivable overdue for more than 180 days, are considered to be non-collectible and are fully written-off.

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

Application of new and revised IFRS

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

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

- Amendments to IAS 1 “Presentation of financial statements” - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),

- Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 30 June 2012:

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

IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),

IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),

IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013),

IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),

IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),

IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),

Amendments to IFRS 1 "First-time Adoption of IFRS" - Government Loans (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures,

Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

Amendments to IAS 32 "Financial instruments: presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),

Amendments to various standards "Improvements to IFRSs (2012)" resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013). The Entity anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the entity's estimates, application of hedge accounting for the 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.

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

NOTE 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been compiled under principles of consistency and comparability, meaning adherence to the principles of the accounting policies and representation are altered in case of the require of new or revised IFRS's or the interpretations of the standards issued or if a change of the policy provides a more objective overview of the financial position, the economic performance and cash flows of the Group.

These interim financial statements are prepared on the accrual basis.

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

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

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Foreign currency transactions

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

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

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

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

(in EUR)	30.06.2012	2012 1st half year average	31.12.2011	2011 1st half year average
Latvian lat (LVL)	1,42287	1,42287	1,42959	1,41583
Lithuanian lita (LTL)	0,28962	0,28962	0,28962	0,28962

Cash and cash flows

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

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

Inventories

Inventories are recorded at cost, which comprises purchase price, non-refundable taxes and other direct acquisition expenditures, which are necessary to transfer inventories to their current location and condition. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, then weighted average cost method is used. Inventories are stated on the balance sheet at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less all estimated costs of making the sale. Revaluation of inventories to net realizable value is recognized as expense for the accounting period.

Real estate held for sale

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

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

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

Property, plant and equipment

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

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

Revaluation of land and buildings to fair value are performed with sufficient regularity such that the carrying amounts do not differ signifivantly 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 the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation of property, plant and equipment commences when the assets are taken into use. Depreciation is calculated on the straight-line method. Depreciation rate to each tangible asset item is determined according to its estimated useful life. Depreciation on revalued buildings in 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.

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.

Investment property

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

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property.

Investment property is initially recognized at cost, which comprises of purchase price, non-refundable taxes and other expenditures directly related to taking the investment property into use. Subsequently to initial recognition, investment properties are measured using the fair value method.

In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied.

Intangible assets

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

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

Impairment of assets (excluding goodwill)

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

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

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

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

Investments in subsidiaries (in Parent company´s unconsolidated financial statements (Note 4))

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

Financial instruments

Financial instruments held to maturity

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

Financial instruments available for sale

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

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

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

Interest income calculated using the effective interest method and dividends available for sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available for sale financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Loans granted and receivables

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

Bank borrowings

Interest-bearing loans and overdrafts are initially measured at their fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Financial expenses, including the transaction costs and the settlement costs, are recorded on an accrual basis. Interest expenses are charged to the income statement as

an expense of the period, unless the interest expense is related to loans obtained to finance development of property or similar assets, in which case the interests are capitalized as acquisition cost of the asset.

Convertible bonds

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

Other financial liabilities

Other financial liabilities are initially recognized at cost which is equal to their fair value at the date of transaction. The cost of a financial liability includes all transactions costs that are directly attributable to its acquisition. After initial recognition, financial liabilities are measured at amortized cost (except for financial liabilities acquired for resale).

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

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

Equity instruments

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

Provisions

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

Contingent liabilities

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

Reserves

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

Revenue recognition

Net sales

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

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

Other income

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

Financial income

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

Expenses

Cost of sales

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

Marketing expenses

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

Administrative expenses

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

Other expenses

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

Financial expense

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

Leases

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

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

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

The Group as a lessee

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

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

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

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

The Group as a lessor

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

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

Taxation

Estonia

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

As a result of such taxation principles, the notion of "tax base of assets and liabilities" has lost its economic meaning and deferred income tax and assets cannot be calculated in accordance with IAS 12 "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.

Operating segments

The Group discloses its operating segments on basis of internal information used and analysed by the Ultimate Parent Company. The primary decisions are made on country basis. Primary criteria for monitoring of operating segments are the following: revenue from third parties, EBIT, net profit earned and total assets.

NOTE 4. ENTITIES OF THE GROUP

Unconsolidated financial statements of the parent

Statement of Financial Position

(Th. EUR)	**30.06.2012**	**31.12.2011**
ASSETS		
Current Assets		
Cash and cash equivalents	466	419
Current receivables	3 049	3 162
Inventories	49	0
Total Current Assets	**3 564**	**3 581**
Non-Current Assets		
Investments in subsidiaries	30 571	28 196
Non-current receivables	64 862	59 340
Property, plant and equipment	1	0
Total Non-Current Assets	**95 434**	**87 536**
TOTAL ASSETS	**98 998**	**91 117**

Statement of Financial Position (Th. EUR)	**30.06.2012**	**31.12.2011**
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	4 000	0
Current payables	6 176	3 732
Taxes payable	1	0
Short-term provisions	1 409	700
Total Current Liabilities	**11 586**	**4 432**
Non-Current Liabilities		
Long-term debt	11 272	11 272
Non-current payables	105 167	104 824
Long-term provisions	0	36
Total Non-Current Liabilities	**116 439**	**116 132**
TOTAL LIABILITIES	**128 025**	**120 564**
Equity attributable to equity holders of the parent		
Share capital in nominal value	10 637	10 637
Accumulated losses		
Accumulated losses	-36 046	-31 200
Loss for the financial year	-3 618	-8 884
TOTAL EQUITY	**-29 027**	**-29 447**
TOTAL LIABILITIES AND EQUITY	**98 998**	**91 117**

Statement of Comprehensive Income (Th. EUR)	**2012 1st half**	**2011 1st half**
Operating income		
Revenue	0	71
Gross profit	**0**	**71**
Marketing expenses	-130	-1
Administrative expenses	-1 163	-1 135
Other expenses	-715	0
Operating loss	**-2 008**	**-1 065**
Financial income and expense, net	-1 610	-960
Loss for the financial period	**-3 618**	**-2 025**
Total comprehensive loss for the financial period	**-3 618**	**-2 025**

Statement of Adjusted Unconsolidated Equity (Th. EUR)	**Share capital in nominal value**	**Accumulated losses**	**Total equity**
NBV 31.12.2011	10 637	-40 084	**-29 447**
(Less) cost of shares of subisidaries			-28 196
Investments into subsidiaries calculated in equity method			128 240
Adjusted unconsolidated equity 31.12.2011			**70 597**
NBV 30.06.2012	10 637	-39 664	**-29 027**
(Less) cost of shares of subisidaries			-28 205
Investments into subsidiaries calculated in equity method			125 402
Adjusted unconsolidated equity 30.06.2012			**68 170**

Information about consolidated subsidiaries	Country of incorporation	Share of ownership 30.06.2012	Share of ownership 31.12.2011	Field of activity
Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate development
Ilmarise Kvartal OÜ	Estonia	100,00%	100,00%	Real estate development
Täismaja AS (Kristiine Kaubanduskeskus AS)	Estonia	99,99%	99,99%	Real estate development
Tondi Kvartal AS	Estonia	100,00%	100,00%	Real estate development
Pro Halduse AS	Estonia	100,00%	100,00%	Real estate management
Tallinna Moekombinaat AS	Estonia	96,00%	96,00%	Real estate development
Domina Management AS	Estonia	100,00%	100,00%	Hotel management
Pro Kapital Vilnius Real Estate UAB	Lithuania	100,00%	100,00%	Real estate development
PK Invest UAB	Lithuania	100,00%	100,00%	Real estate development
Domina Management UAB	Lithuania	100,00%	100,00%	Real estate management
Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
PK Latvia SIA	Latvia	100,00%	100,00%	Real estate development
Klīversala RE 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	100,00%	100,00%	Real estate development
Pasaules tirdzniecības centrs "Rīga" SIA	Latvia	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība Prokurs SIA	Latvia	70,00%	70,00%	Real estate development
Hotel Management Services SIA (former Domina Management SIA)	Latvia	100,00%	100,00%	Hotel management
Pro Kapital Germany Holding OÜ	Estonia	100,00%	100,00%	Real estate development
Pro Kapital Germany GmbH	Germany	100,00%	100,00%	Real estate development
Domina Tourismus GmbH	Germany	100,00%	100,00%	Hotel management

(Th. EUR) **Subsidiary**	**FCCY**	**Cost 30.06.2012**	**Cost 31.12.2011**	**Net assets 30.06.2012**	**Net assets 31.12.2011**
Pro Kapital Eesti AS	EUR	17 981	17 981	109 016	109 017
Ilmarise Kvartal OÜ	EUR	286	286	2 533	2 531
Täismaja AS	EUR	65 853	65 853	118 133	115 338
Tondi Kvartal AS	EUR	4 364	4 364	6 583	6 647
Pro Halduse AS	EUR	27	27	469	440
Tallinna Moekombinaat AS	EUR	12 345	12 345	9 212	9 315
Domina Management AS	EUR	520	520	104	84
Pro Kapital Vilnius Real Estate UAB	LTL	688	688	(934)	(460)
PK Invest UAB	LTL	6 679	6 679	1 079	827
Domina Management UAB	LTL	43	43	46	45
Pro Kapital Latvia PJSC	LVL	10 188	10 188	13 092	13 893
PK Latvia SIA	LVL	188	188	4	10
Klīversala RE SIA	LVL	9 819	9 819	13 135	13 241
Tallina Nekustamie Īpašumi SIA	LVL	4 866	4 866	661	(460)
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	LVL	1707	1 707	624	677
Investhotel SIA	LVL	996	996	1 869	1 731
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	9 733	9 733	10 373	10 213
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	1 422	1 422	2 054	2 151
Hotel Management Services SIA (former Domina Management SIA)	LVL	797	797	785	309
Pro Kapital Germany Holding OÜ	EUR	2	2	137	137
Domina Tourismus GmbH	EUR	1	1	83	137
Pro Kapital Germany GmbH	EUR	25	25	5 019	5 056

NOTE 5. ACQUISTIONS OF / CHANGE IN OWNERSHIP IN SUBSIDIARIES

(Th. EUR)	**AS Täismaja 2012**	**AS Täismaja 2011**	**Domina Tourismus GmbH 2011**
Total assets	x	x	615
Incl. Cash	x	x	173
Total liabilities	x	x	478
Non-controlling interest		54 454	-
Net assets	x	x	137
Share of ownership before acquisition	99,99%	52,00%	0,00%
Share (%) of ownership acquired	0,00784%	47,99%	100,00%
Share of ownership after acquisition	99,99%	99,99%	100,00%
Acquisition cost	9	53 847	0
Paid in cash	-9	-22 998	0
Net cash in(out) flow in acquisition	-9	-22 998	173
Goodwill and gain on bargain purchase	-	-	-137
Profit (loss) in acquisition (equity)	-	-607	-

NOTE 6. DISPOSALS OF SUBSIDIARIES

(Th. EUR)	**PK Investments SIA 2011**
Non-controlling interest	x
Share of ownership before disposal	67,00%
Share (%) of ownership disposed	67,00%
Share of ownership after disposal	0%
Cash at the moment of disposal	-114
Received in cash	6 437
Net cash flow in disposal	6 323
Sales price	6 441
Profit at disposal	2 736

There have been no disposals of the shares of subsidiaries during the first half of year 2012.

NOTE 7. SEGMENT REPORTING

(Th. EUR)	Estonia	Latvia	Lithuania	Germany	Total
2012 1st half					
Revenue	1 715	1 362	5 317	1 538	9 932
Other operating income	14	24	2	79	119
Segment operating profit (loss)	-2 511	-622	948	-51	-2 236
Financial income and expense (net)	-212	-101	-285	-65	-663
Profit (loss) before income tax	-2 723	-723	663	-116	**-2 899**
Income tax	0	22	-8	0	14
Non-controlling interest	3	-7	0	0	-4
Net profit (loss) for the financial year attributable to equity holders of the parent	**-2 720**	**-708**	**655**	**-116**	**-2 889**
30.06.2012					
Assets	53 485	25 745	15 039	8 433	102 702
Liabilities	20 552	5 761	5 958	1 299	33 570
Acquisition of non-current assets	53	7	4	2	66
Depreciation and amortisation	-164	-291	-13	-186	-654
2011 1st half					
Revenue	5 623	1 195	980	218	8 016
Other operating income	54 503	50	0	139	54 692
Segment operating profit (loss)	54 135	-592	-103	96	53 536
Financial income and expense (net)	-765	-17	-714	0	-1 496
Profit (loss) before income tax	53 370	-609	-817	96	**52 040**
Income tax	0	0	7	0	7
Non-controlling interest	28 127	11	0	0	28 138
Net profit for the financial year attributable to equity holders of the parent					**23 909**
31.12.2011					
Assets	59 413	26 544	18 403	9 112	113 472
Liabilities	25 919	6 047	8 050	1 398	41 414
Acquisition of non-current assets	812	9	1	0	822
Depreciation and amortisation	-99	-132	-10	-60	-301

During first half of 2012, Pro Kapital Lithuanian segment sold 4 535 th. EUR worth real estate properties (both residential, commercial and parking lots) to UAB Colosseum Real Estate Vilnius, which is a related party, in a bulk deal. Related party information is further disclosed in Note 29.

NOTE 8. CASH AND CASH EQUIVALENTS

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

(Th. EUR)	**30.06.2012**	**31.12.2011**
Cash at hand	71	63
Bank accounts	2 071	8 574
Total	**2 142**	**8 637**

NOTE 9. CURRENT RECEIVABLES

(Th. EUR)	**30.06.2012**	**31.12.2011**
Trade receivables	779	669
Receivables from related parties (Note 29)	483	516
Other receivables	1 361	1 358
Accrued income	17	55
Prepaid expenses	217	267
Total	**2 857**	**2 865**

NOTE 10. INVENTORIES

(Th. EUR)	**30.06.2012**	**31.12.2011**
Property held for resale	14 229	17 947
WIP (property under construction)	35 044	35 107
Goods held for resale	121	132
Prepayments	1	0
Total	**49 395**	**53 186**

As of 30 June 2012 inventories in value of 39 527 th. EUR are pledged as security for loan liabilities.

NOTE 11. NON-CURRENT RECEIVABLES

(Th. EUR)	**30.06.2012**	**31.12.2011**
Other	152	152
Total	**152**	**152**

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

As of 31 December 2011 Group's land and buildings was valued into their fair value based on the valuation of independent expert. The valuation, which confirms to International Valuation Standards, was performed by indpenendent real estate appraiser SIA Newsec Valuation LV and was determined by reference to discounted cash flow method. Current market conditions (at the moment the valuation was perfomed) were used as assumptions for the valuations performed.

Based on independent appraiser's valuation, following fair value adjustments were performed as of 31 December 2011 (th. EUR):

	Carrying amount 31.12.2011	Fair value 31.12.2011	Fair value 30.06.2012
Pulkvieza Brieza 11, Riga	1 795	6 070	5 837
Põhja pst. 21, 21a, 21b-1, Tallinn	3 602	6 100	6 037
Põhja pst.21c, Tallinn	198	268	265

Revaluation reserve (accounted for under equity) was formed to account for revaluation differences.

No additional adjustments were considered relevant as of 30 June 2012.

(Th. EUR)	**Land and buildings**	**Machinery and equipment**	**Other tangible assets**	**Prepay-ments**	**Total**
Cost 01.01.2011	**13 731**	**1 315**	**2 194**	**0**	**17 240**
Additions:					
Acquired	0	12	15	0	**27**
Disposals:					
Sold	0	-6	-3	0	**-9**
Written off	0	0	-21	0	**-21**
Other changes:					
Reclassified to/from inventories	-41	0	0	0	**-41**
Reclassified to/from investment property	0	0	-14	0	**-14**
Cost 30.06.2011	**13 690**	**1 321**	**2 171**	**0**	**17 182**
Additions:					
Acquired	0	0	12	0	**12**
Acquired in business combination	0	0	399	0	**399**
Disposals:					
Written off	0	-9	-203	0	**-212**
Application of revaluation model:					
Fair value gain	12 878	0	0	0	**12 878**
Reversal of accumulated depreciation	-1 955	0	0	0	**-1 955**
Other changes:					
Reclassified to/from inventories	-2 766	0	0	0	**-2 766**
Foreign currency differences	57	15	15	0	**87**
Cost 31.12.2011	**21 904**	**1 327**	**2 394**	**0**	**25 625**
Additions:					
Acquired	0	9	51	6	**66**
Disposals:					
Written off	0	-15	-62	0	**-77**
Other changes:					
Reclassified to/from inventories	-2 553	0	0	0	**-2 553**
Reclassified to/from investment property					
Change in value, total amount	2 569	0	0	0	**2 569**

Change in value, acc. depr.	-607	0	0	0	**-607**
Cost 30.06.2012	**21 313**	**1 321**	**2 383**	**6**	**25 023**

(Th. EUR)		Land and buildings	Machinery and equipment	Other tangible assets	Total
Accumulated depreciation 01.01.2011		**2 446**	**673**	**2 072**	**5 191**
Addition:					
	Depreciation charge for the period	214	56	26	297
Disposal:					
	Sold	0	-2	-2	-4
	Written off	0	0	-14	-14
Other changes:					
	Reclassified to/from non- current assets held for sale	0	0	-9	-9
Accumulated depreciation 30.06.2011		**2 660**	**726**	**2 075**	**5 461**
Additions:					
	Depreciation charge for the period	201	53	27	**281**
	Acquired in business combination	0	0	235	**235**
Application of revaluation model:					
	Reversal of accumulated depreciation	-1 955	0	0	**-1 955**
Disposals:					
	Sold	0	0	-2	**-2**
	Written off	0	-9	-195	**-204**
Other changes:					
	Reclassified				
	Reclassified to/from inventories	-100	0	0	**-100**
	Reclassified to/from investment property	0	0	0	**0**
	Foreign currency differences	29	8	9	**46**
Accumulated depreciation 31.12.2011		**835**	**779**	**2 148**	**3 762**
Additions:					
	Depreciation charge for the period	541	80	29	**650**
	Acquired in business combination	0	0	0	**0**
Disposals:					
	Written off	0	-15	-61	**-76**
Other changes:					
	Reclassified				
	Reclassified to/from inventories	-99	0	0	**-99**
	Change in value, fair value	-607	0	0	**-607**
Accumulated depreciation 30.06.2012		**670**	**844**	**2 116**	**3 630**

NOTE 13. INVESTMENT PROPERTY

(Th. EUR)	**30.06.2012**	**31.12.2011**
Investment property held for increase in value	26 023	26 023
Investment property held for earning rentals	88	88
Total	**26 111**	**26 111**

(Th. EUR)	**Investment property held for increase in value**	**Investment property held for earning rentals**	**Total**
NBV 01.01.2011	**26 132**	**468**	**26 600**
Additions:			
Acquired	40	767	807
Other charges:			
Reclassified to/from inventories	0		0
Reclassified to/from assets held for sale			
NBV 30.06.2011	**26 172**	**1 235**	**27 407**
Additions:			
Acquired	292	-767	-475
Disposals:			
Written off	-110	-380	-490
Changes in fair value:			
Loss from change in fair value of IP	-331	0	-331
NBV 31.12.2011	**26 023**	**88**	**26 111**
Additions:			
Acquired	230	0	**230**
Fair value adjustments	-230	0	**-230**
NBV 30.06.2012	**26 023**	**88**	**26 111**

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

As of 30 June 2012 the management of the Group revisisted the assumptions used during valuations made by independent real estate appraisals as of 31 Decemebr 2011 and found no need to make adjustments in used assumptions and inputs. Consequently, as of 30 June 2012 the fair value of investment property was found to be unchanged since 31 December 2011. Fair value adjustment of 230 th. EUR comes from change in methology.

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

(Th. EUR)	2012 1st half	2011 1st half
Rental income	5	6
Direct operating costs		
Maintenance	45	44

NOTE 14. CURRENT DEBT

(Th. EUR)	30.06.2012	31.12.2011
Bank loans and overdrafts (Note 17)	2 822	4 402
Payables to related parties (Note 29)	4 076	9 520
Other	0	80
Total	**6 898**	**14 002**

NOTE 15. CURRENT PAYABLES

(Th. EUR)	30.06.2012	31.12.2011
Trade payables	593	724
Payables to related parties (Note 29)	6	0
Accrued expenses	898	1 063
Deferred income	0	4
Total	**1 497**	**1 791**

NOTE 16. NON-CURRENT DEBT

(Th. EUR)	30.06.2012	31.12.2011
Bank loans and overdrafts (Note 17)	9 401	10 190
Convertible debt (Note 19)	11 272	11 272
Total	**20 673**	**21 462**

NOTE 17. BANK LOANS AND OVERDRAFT

(Th. EUR)	30.06.2012	31.12.2011
Current debt (Note 14)	2 822	4 402
Non-current debt (Note 16)	9 401	10 190
Total	**12 223**	**14 592**

Creditor	**30.06.2012**	**31.12.2011**	**CCY**	**Interest %**
Swedbank AS (EE)	2 001	2 141	EUR	2% + 6m Euribor
Swedbank AS (EE)	605	605	EUR	2,5% + 6m Euribor
AS Swedbank (LV)	4 445	4 623	EUR	3,0% + 3m Euribor
“Swedbank” AB (LT)	5 156	7 200	EUR	2,4% + 6m Euribor
Volksbank Bad Kreusnach	16	23	EUR	5,1%
Total	**12 223**	**14 592**		

(Th. EUR)	30.06.2012	31.12.2011
Due within 1 year	2 822	4 402
Due between 2 to 5 years	9 401	10 190
Due after 5 years	0	0
Total	**12 223**	**14 592**

The collaterals and pledged assets are disclosed in Note 18 to these financial statements.

NOTE 18. COLLATERALS AND PLEDGED ASSETS

(Th. EUR)		Carrying value of the pledged assets	
Beneficiary	**Collateral description**	**30.06.2012**	**31.12.2011**
Swedbank AS (Estonia)	Kalaranna 1, Tallinn	4 927	4 927
Swedbank AS (Estonia)	Ülemiste Road 5, Tallinn	1 700	1 700
Swedbank AS (Estonia)	Seebi 24a/ Tondi 53b, Tondi 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare Road 56/58, Tallinn	8 425	8 410
Swedbank AS (Estonia)	Põhja Avenue. 23, Jahu 1, Tallinn	1 113	1 205
Swedbank AS (Estonia)	Peterburi Road 2, Tallinn	24 300	24 300
Swedbank AS (Estonia)	Tondi 51, Tallinn	1 781	1 781
Swedbank AS (Estonia)	Põhja Avenue 21a, 21b, 21 (703/6962), Tallinn	6 100	6 037
AS Swedbanka (Latvia)	Pulkveza Brieza St. 11, Riga	5 837	6 070
AS Swedbanka (Latvia)	Trijadibas St.5, Riga	8 869	8 869
Swedbank AB (Lithuania)	Aguonu str.10, Vilnius	14 412	17 772
Total		**77 464**	**81 071**

As of 30 June 2012, obligations connected to collaterals of Kalaranna 1, Ülemiste Road 5, Seebi 24a/ Tondi 53b, Tondi 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare Road 56/58 and Peterburi Road 2 (all of the properties located in Tallinn) have been fully repaid.

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

- To Hotel Blijdorp B.V. to assure the rental liabilities to Serval S.r.l. related to the hotel, located in Rotterdam, rental agreement concluded between Serval S.r.l. and Hotel Blijdorp B.V. The guarantee letter is only to assure the rental payments in amount up to 2 300 Th. EUR (30 June 2012);
- To AS Swedbank (Latvia) to assure the potential liability of Klīversala RE SIA, an entity belonging to Pro Kapital Latvia subsidiary group, in the amount of 8 002 Th. EUR (5 681 334 LVL), as AS Swedbank (Latvia) has issued a guarantee letter in the same amount to VAS „Privatizācijas aģentūra" to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra" (30 June 2012).
- To Swedbank AS (Latvia) to assure loan liabilities of SIA Investhotel in the amount of 4 521 th. EUR as of 30 June 2012.
- AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ of which they assure in solitary the monetary liabilities of Täismaja AS. In case Täismaja AS violates the confirmation given in the contract of sales of the shopping centre, Kristiine Keskus OÜ can lodge a claim with Täismaja AS. The guarantee is conditional and guarantors are responsible only if Täismaja AS is unable to settle the claim. The guaranteed amount is 5 000 th. EUR and it is effective for 18 months after enforcement of the sales contract, i.e. until 2 November 2012.

- Guarantee letter to Kristiine Keskus OÜ to secure (jointly with Pro Kapital Eesti AS) possible claims against Täismaja AS arising from a loan contract concluded between Pro Kapital Eesti and Täismaja AS on 9 March 2004. The guarantee letter is limited to maximum amount of potential claim. The guarantee is effective for 72 months from concluding sales- purchase agreement, i.e. until 2 May 2017.
- As AS Swedbank (Estonia) to assure loan liabilities of AS Tondi Kvartal that amounted to 605 th. EUR as of 30 June 2012
- To Swedbank AB (Lithuania) to assure loan liabilities of UAB PK Invest in the amount of 5 156 th. EUR as of 30 June 2012.

NOTE 19. CONVERTIBLE BONDS

(Th. EUR)	30.06.2012	31.12.2011
Non-current debt (Note 16)	11 272	11 272
Total	**11 272**	**11 272**

Convertible bond can be exchanged for share of the Ultimate Parent Company on 31 December 2010, 2011 and 2012. The Ultimate Parent Company's shareholders' pre-emptive right to submit for the convertible bonds and shares issued upon conversion of these bonds are excluded with decision.
The issuance of convertible bonds of AS Pro Kapital Grupp in 1999 is redeemed in accordance with the terms of issue, for the issue price, on 20 January 2010. Redemption fees are paid to the owners in cash because the owners did not exercised the right to exchange the convertible bonds for the Ultimate Parent Company share 1:1. According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the period 2009-2010 can be converted to shares of the Ultimate Parent Company on 31 December 2010, 31 December 2011 and 31 December 2012 with the rate one convertible bond per share.

Registration date of bonds issued

	13.05.1999	13.08.2009	20.01.2010	10.08.2010	16.08.2010	29.11.2010	25.05.2011
Issuance CCY	EEK	EUR	EUR	EUR	EUR	EUR	EUR
Issue price of bond	3.20 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR
Bond return per annum (% from issue price)	6%	7%	7%	7%	7%	7%	7%
Bond interest payment frequency	Once a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Latest date for the repurchase of bonds	20.01.2010	13.08.2013	20.01.2014	10.08.2014	16.08.2014	29.11.2014	25.05.2015
Latest date for the exchange of bonds to shares	10.01.2010	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012
Discount rate (%)	11%	7%	7%	7%	7%	7%	7%

(Pcs.)	30.06.2012	31.12.2011	31.12.2010
Number of convertible bonds at the beginning of period	**4 025 758**	**3 345 374**	**1 287 344**
Number of convertible bonds issued	0	680 384	2 180 567
Number of repurchased bonds	0	0	-122 537
Number of convertible bonds at the end of period	**4 025 758**	**4 025 758**	**3 345 374**

(Th. EUR)	30.06.2012	31.12.2011	31.12.2010
Value of convertible bonds at the beginning of period	11 272	9 367	3 654
Principal of convertible bonds issued	-	1 905	9 813
Principal of convertible bonds transferred through separation	-	-	-3 708
Repurchased bonds in repurchase price	-	-	-392

(Pcs.)	30.06.2012	31.12.2011	31.12.2010
Principal of the bonds issued at the end of the period	**11 272**	**11 272**	**9 367**
Short-term portion of liabilities on the balance sheet	**-**	**-**	**-**
Long-term portion of liabilities on the balance sheet	**11 272**	**11 272**	**9 367**

NOTE 20. SHARE CAPITAL AND RESERVES

Share capital

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

As of 30 June 2012, the share capital in the amount of 10 637 th. EUR (31 December 2011: 10 637 Th. EUR) consists of 53 185 422 ordinary shares at a nominal value of 0,2 euros per share. All shares have been paid for in full.

According to the articles of association effective on 30 June 2012, the minimum share capital amounts to 6 000 th. EUR, whereas maximum share capital amounts to 24 000 th. EUR.

Due to euro introduction in Republic of Estonia on 01 January 2011 and the requirements of the Commercial Code, the nominal value of a share must be rounded to one decimal. Therefore, on 30 June 2011 the shareholders meeting decided to decrease the share capital by reduction of the nominal value of shares. The decrease in share capital down to 31 911 th. EUR (53 185 422 shares at 0,6 euros per share) was registered in Commercial Registry on 08 August 2011.

On 16 September 2011, shareholders resolved further to decrease the share capital by 21 274 th. EUR down to 10 637 th. EUR by decreasing the nominal value of a share from 0,6 euros to 0,2 euros. As a part of this change, share premium in the amount of 45 089 th. EUR and accumulated statutory legal reserve in the amount of 2 938 th. EUR was released to retained earnings.

As described in Note 19 to these 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 Ultimate Parent Company is recorded based on the requirements of the Estonian Commercial Code § 336 and is comprised of the provisions made from the net profit. The statutory legal reserve as of 30 June 2012 amount nil, as it has been released against retained earnings based on the shareholders resolution of 16 September 2011. As of 31 December 2011 the statutory legal reserve has been nil.

Revaluation reserve in the amount of 11 337 th. EUR results from adoption revaluation model to property, plant and equipment (specifically land and buildings) under IAS 16 "Property, Plant and Equipment" in 2011.

The right to repurchase own shares

On 30 October 2008, the shareholders' meeting of AS Pro Kapital Grupp decided to allow the entity to acquire 1 000 000 own shares with repurchase price of 3.83 EUR (60 EEK) per share during the period of five years. The Management Board had the right to repurchase own shares in several offer rounds and the Management Board was obligated to dispose the shares or make a proposal on the shareholders' meeting to decrease the share capital, during the three years' time after the acquiring of own shares.

On 13 April 2012 shareholder's meeting decided to recall the shareholders' resolution from 30 October 2008 that established the terms and conditions of the right to repurchase up to 1 000 000 of own shares. The Group did not exercise the repurchase option during the period of 30 October 2008 to 13 April 2012.

NOTE 21. NON-CONTROLLING INTEREST

(Th. EUR)	**30.06.2012**	**31.12.2011**
Arising from Pro Kapital Estonia	937	949
Arising from Pro Kapital Latvia	616	648
Total	**1 553**	**1 597**

NOTE 22. REVENUE

(Th. EUR)	**2012 1st half**	**2011 1st half**
Revenue from sales of real estate	5 661	1 401
Rental revenue	500	3 449
Hotel operating revenue	2 808	2 734
Other services	963	432
Total	**9 932**	**8 016**

NOTE 23. COST OF GOODS SOLD

(Th. EUR)	**2012 1st half.**	**2011 1st half**
Cost of real estate sold	4 419	1 309
Cost of providing rental services	490	1 416
Cost of hotel operations	2 076	2 827
Cost of other services	1 085	204
Total	**8 070**	**5 756**

(Th. EUR)	**2012 1st half**	**2011 1st half**
Staff costs	881	527
Depreciation charge	516	551
Impairment of tangible and intangible assets	0	0
Inventory write-offs	0	0
Other	6 673	4 678
Total	**8 070**	**5 756**

NOTE 24. MARKETING AND ADMINISTRATIVE EXPENSES

Marketing expenses

(Th. EUR)	**2012 1st half**	**2011 1st half**
Staff costs	77	21

Other	212	148
Total	**289**	**169**

Administrative expenses

(Th. EUR)	**2012 1st half.**	**2011 1st half**
Staff costs	995	1 348
Depreciation charge	53	95
Amortisation charge	4	4
Other	1 655	1 329
Total	**2 707**	**2 776**

NOTE 25. OTHER INCOME AND OTHER EXPENSES

Other income

(Th. EUR)	**2012 1st half**	**2011 1st half**
Fines collected	7	5
Gain from sales of non-current assets classified as held for sale	0	54 497
Release of allowance for bad debt	5	0
Other	106	190
Total	**118**	**54 692**

Other expenses

(Th. EUR)	**2012 1st half**	**2011 1st half**
Local taxes	205	223
Fines paid	25	6
Write-off of property, plant and equipment	1	0
Fair value measurement of investment property	230	0
Provisions recognised	709	0
Allowance for bad debt	8	108
Other	42	134
Total	**1 220**	**471**

NOTE 26. FINANCIAL INCOME AND EXPENSES

Financial income

(Th. EUR)	**2012 1st half**	**2011 1st half**
Interest income	15	655
Income arising from transactions with participations in subsidiaries	0	0
Gain from foreign currency translation	1	4
Total	**16**	**659**

Financial expenses

(Th. EUR)	**2012 1st half**	**2011 1st half**
Interest expenses	670	2 129
Loss from foreign currency translation	9	0
Other	0	26
Total	**679**	**2 155**

NOTE 27. INCOME TAX

Statutory corporate income tax (on earnings) rates:	**2012 1st half**	**2011 1st half**
Estonia	0%	0%
Latvia	15%	15%
Lithuania	15%	15%
Germany	15%	15%

(Th. EUR)	**2012 1st half**	**2011 1st half**
Profit (loss) before income tax	-21 299	52 487
Estimated income tax respective to the tax rates	195	-152
Adjustments to estimated income tax:		
Non-deductible expenses (+)	23	53
Non-taxable income and tax incentive	-22	--22
Deductions (-)	0	-23
Reversal loss carry forward (+)	-154	143
Income tax expense	**42**	**0**
Effective tax rate	-0,20%	0,00%
Deferred income tax expense	0	0
Deferred income tax returns	-368	370
Effect on income statement	**-54**	**7**
Income tax paid	0	0

(Th. EUR)	**30.06.2012**	**31.12.2011**
Deferred income tax liability (+)	1 878	1 962
Deferred income tax assets (-)	-368	-370
Total	**1 510**	**1 592**

Contingent 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".

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

(Th. EUR)	**30.06.2012**	**31.12.2011**
Consolidated retained earnings (attributable to parent and non-controlling interest)	-21 280	51 221
Statutory tax rate applicable	21%	21%
Contingent CIT obligation	-	10 756

NOTE 28. EARNINGS PER SHARE

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

Average number of shares:
In period 01.01.2012 - 30.06.2012 (53 185 422 x 6/6) = 53 185 422
In period 01.01.2011 - 30.06.2011 (53 185 422 x 6/6) = 53 185 422

Indicative earnings per share (in EUR):
01.01-30.06.2012 (2 889 thousand)/53 185 422=(0,05)
01.01-30.06.2011 23 909 thousand/53 185 422= 0,45

The convertible bonds issued did not have a dilutive effect on earnings in 2012 and 2011, therefore they have not been included in the calculation of the diluted net gain (loss) per share and the diluted gain (loss) per share equals the net gain (loss) per share indicator.

NOTE 29. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are considered to be transactions between the entities within the consolidated Group, its shareholders, the members of the Supervisory Council and the Management Board, their families and the companies in which they hold majority interest or have significant influence.

Transactions with related parties

(Th. EUR)	**2012 1st half**	**2011 1st half**
Significant owners and owner related companies		
Goods and services sold	4 634	0
Interest income earned	7	651
Received interest (-)	0	-47
Issued loans	330	477
Granted claims	23 412	23 412
Acquisition of shares in subsidiaries	9	9
Issued convertible bonds	0	3 062
Salaries and bonuses paid to management	442	937

Receivables from related parties

(Th. EUR)	**30.06.2012**	**31.12.2011**
Significant owners and owner related companies		
Current receivables from related parties	483	516
Total	**483**	**516**

Payables to related parties

(Th. EUR)	**30.06.2012**	**31.12.2011**
Significant owners and owner related companies		
Payables to related parties	4 077	9 520
Total	**4 077**	**9 520**

Holdings in the Ultimate Parent Company	**30.06.2012**	**31.12.2011**
Members of the Council and individuals related to them	8,61%	8,61%

Furthermore, 22 224 pieces of convertible bonds are held by the members of the council.
The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

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

NOTE 30. RISK MANAGEMENT

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

Business risk

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

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

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

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

Interest risk

Main interest risk rises from long-term liabilities of the Group. In general the interest rates of loans raised by the entities belonging to Group are fixed through Euribor plus a risk margin. Interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. It has been estimated that 100 point change in interest rate would result in approximately 9,7 th. EUR change in the Company's interest expenses. Minimum amount of financial instruments is used to diversify the interest risk, as the 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 medium term financing strategy.

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. The management, however, considers currency risk as insignificant, as most of its foreign assets are of tangible nature and foreign liabilities are nominated mainly in Group's reporting currency (EUR).

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

Credit risk

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

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

Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group constantly monitors proportion of short-term liabilities and current assets. To smooth out working capital fluctuations, the Company plans to introduce usage of bank overdrafts. The Company has introduced thorough roll- on based cash planning procedures and active usage of intergroup funds among its subsidiaries.

Fair value

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

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

Capital risk management

The purpose of capital risk management is to provide the Group's sustainability and to ensure profit for the shareholders through optimal structure of capital.
The Company finances its activities through using internal and external sources of capital.
Proactively, the Company uses working capital (as defined by as current assets, excluding cash and non-current assets held for sale, minus current liabilities, excluding short-term debt) management on a regular basis as a tool for achieving its overall capital strategies. The Company regularly inspects its receivables and actively reviews customer policies, if needed.
Retained earnings are substantial source of internal financing.
The Company has repeatedly issued convertible bonds in order to finance its activites.
Though long term bank loans are used as a source of external financing, the Company is very cautious when it comes to debt financing and strives to keep debt financing at less than 50% of total capital. The Company monitors on regular basis its interest coverage, gearing and debt/equity indicators. As debt financing implies stricter restrictions to the Company's ownership structure, lending and asset transfer procedures, debt financing has to be approved by the Company's Council.

NOTE 31. LAWSUITS

Ultimate parent company

As of 30 June 2012 the AS Pro Kapital Grupp had one pending court case.

On 27 May 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter with what AS Pro Kapital Grupp assures the rental liabilities of the Serval S.r.l arising from the rental agreement of the Rotterdam hotel, concluded on 4 August 2006 between Serval S.r.l and Hotel Blijdorp B.V. In 2007 Aprisco B.V acquired the hotel that was managed by

subsidiary of Serval and the rental agreement with Serval S.r.l was transferred to Aprisco B.V. Serval S.r.l has not fulfilled the rental obligations to Aprisco B.V, therefore Aprisco B.V claims the payments

according to the guarantee letter. Aprisco has filed alternative claims to the court. Firstly, Aprisco B.V claims the payment of caused loss in the amount of 2 300 thousand euros or in the amount stated by the court.

As an alternative claim, Aprisco B.V claims overdue rental payments in the amount of 904 thousand euros with accumulated interest for default or in the amount of 504 thousand euros with accumulated interest for default.

On 31 August 2011 Aprisco B.V changed its claim and claims the payment of caused loss in the amount of 2 300 thousand euros with accumulated interest for default, or in the amount stated by the court. As an alternative claim, Aprisco B.V claims overdue rental payments in the amount of 1776 thousand euros with accumulated interest for default or in the amount of 1 409 thousand euros with accumulated interest for default.

On July 4, 2012 Rotterdam City Court made a decision and awarded Aprisco B.V claim in the amount of 1 409 265,2 EUR to be paid. The part of the claim in the amount of 786 434,7 EUR has to be paid without delay, while the payment of the remaining part of 622 830,52 EUR is dependent on the outcome of Aprisco B.V court case against Serval S.r.l in regards to the rent reduction agreement validity.

The Management Board of AS Pro Kapital Grupp does not agree with the court decision. The Management Board of AS Pro Kapital Grupp does not recognize the claim and states that the guarantee was given to Hotel Blijdorp B.V and not to Aprisco B.V and AS Pro Kapital Grupp was not informed for the transfer of the guarantee letter and therefore Aprisco B.V cannot file the claim related to the guarantee letter. The Management Board of AS Pro Kapital Grupp claims alternatively that according to the guarantee letter Aprisco B.V can claim only unpaid rental payments in amount of 406 thousand euros with accumulated interest for default and which could increase by 282 thousand euros in case the rental lowering agreement between Serval S.r.l. and Aprisco B.V. is found to be unbinding. In addition the Management Board of AS Pro Kapital Grupp is of opinion that the Rotterdam City Court has incorrectly considered the period for which the rent payments are due. The court acknowledged in the decision that AS Pro Kapital Grupp is liable just for rent payments and not the damages. Serval S.r.l was ordered by Aprisco B.V. do vacate the premises and did so on 17.06.2010. Despite this the court ruled that AS Pro Kapital Grupp is liable for rent difference between the new tenant and Aprisco B.V. until 29.07.2011. The Management Board of AS Pro Kapital Grupp is of opinion that the difference in rent is not to be considered as rent payments, but should be considered as damaged, which are not secured by the letter of guarantee issued by AS Pro Kapital Grupp.

The Management Board of AS Pro Kapital Grupp is planning to appeal the court decision.

Nevertheless, to keep in line with the Company's conservative policies, the provision has been formed for the maximum amount of the claim (700 000 EUR provisioned in 2011 and 709 265,2 EUR in 2012).

As of 31 December 2011 the Group's consolidated statement included potential liabilities related to the court case in the amount of 700 thousand euros. As of 30 June 2012, this provision was increased to 1,409 thousand euros.

Pro Kapital Estonia sub-group

As of 30 June 2012 the parent company of Pro Kapital Estonia sub-group and its subsidiaries did not have any court cases. AS Täismaja is involved in one law suit as a third party.

As of 31 December 2011 the Pro Kapital Estonia sub-group subsidiary AS Täismaja had 3 court cases to collect unpaid rent debts from previous tenants of Kristiine Shopping Center, all of the court cases were either settled with payment schedule or a favourable decision was made by the court in favour of AS Täismaja.

Pro Kapital Latvia sub-group

As of 30 June 2012 the Pro Kapital Latvia sub-group had one pending court cases.

During August – October 2007 the Tax Board audited the VAT accounting of Pro Kapital Latvia PJSC for the period from January 2005 to December 2006. As a result the Tax Board found that the entity's loss should be 60 thousand Latvian latts smaller (approx. 86 thousand euros). Pro Kapital Latvia PJSC disputed the decision. The trial court left the claim unsatisfied. The entity appealed and the hearing is set on 22 August 2012.

As of 31 December 2011 the Pro Kapital Latvia sub-group had 3 pending court cases. 2 of them were settled and compromise agreement signed.

SIA Hotel Management had one pending court case regarding recalling prior member of the Board, Inese Tomase, and compensating her average pay. On 25 October 2011 the entity filed a counterclaim based on Notes 1.3 and 4 of the emplyment contract which Inese Tomase used to file her claim and demands leaving Ms Tomase's claim left unsatisfied and returning her income received without legal basis in the amount of 19 thousand Latvian latts (approx. 27 thousand euros). On 22 March 2012 the Parties have entered into a settlement providing that the Company pays approximately 2 thousand euros plus respective resident income tax, and the Parties withdraw from the other claims. On 27 March 2012 the court confirmed the settlement and decided to terminate court proceedings.

SIA Pasaules tirdzniecības centrs "Rīga" had filed a court case against PJSC „Poligons" regarding the compensation for rental payments, contract fee and legal fees. On 11 May 2006 the court satisfied the claim and ruled for the debtor to pay 5 thousand Latvian latts (approx. 7 thousand euros). On 30 May 2006 the court declared the debtor's bankruptcy as of 31 December 2004. On 20 January 2011 the court reset the appeal date for verdict made on 11 May 2006 and the trustee in bankruptcy filed for appeal. On 9 March 2009 PJSC „Poligons" trustee in bankruptcy filed a case against SIA Pasaules tirdzniecības centrs "Rīga" demanding that the debt in the amount of 0.8 thousand Latvian latts (approx. 1.1 thousand euros) and the contract fine in the amount of 15.3 thousand Latvian latts (approx. 22 thousand euros) resulting from the contract between the entities be settled. On 30 August 2010 the court left the case against the entity unsatisfied. On 1 October 2011 the trustee in bankruptcy appealed. On 9 November 2011 the court decided to join both appeals into one case. On May 9, 2012 the Parties signed mutual settlement, according to which JSC Poligons paid 830,6 LVL and thus closed the case.

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

Pro Kapital Vilnius sub-group

As of 30 June 2012 the entities of Pro Kapital Vilnius sub-group have three pending court cases.

UAB „Apskaitos ir mokesčių konsultacijos" has filed a claim in the amount of 70 thousand Lithuanian litas (approx. 20 thousand euros), plus interest 6%, to the Vilnius court to be returned prepayment for an apartment sale contract. PK Invest UAB filed a counter claim for the withdrawal from the contract to be annulled. On 2 March 2011 the court ruled in favour of UAB „Apskaitos ir mokesčių konsultacijos "and left the claim of PK Invest UAB unsatisfied. PK Invest UAB logded the appeal but the hearing has not been announced yet in the Court of Appeal of Lithuania.

UAB "Natalex" filed a claim to the Vilnius court to be returned prepayment for an apartment sale contract in the amount of 166 thousand Lithuanian litas (approx. 48 thousand euros), plus interest 6%. PK Invest UAB found that UAB "Natalex" had breached the contract and the prepayment has been netted with the fine held against UAB "Natalex". On April, 2012, court left UAB "Natalex" claim unsatisfied. UAB "Natalex" has appealed court decision.

In February 2012, UAB "Gatvių statyba" submitted the claim to the Vilnius district court requesting for the LTL 197 thousand Lithuanian litas (approx. 57 thousand euros), plus 8,06 % interest, for the performed works in Saltiniu Namai. PK INVEST did not agree with the claim because the works were performed unduly and the deficiencies were recorded by the parties in writing.

As of 31 December 2011 the Pro Kapital Vilnius sub-group had 2 pending court cases.

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

Domina Tourismus GmbH

As of 30 June 2012 Domina Tourismus GmbH had 1 pending labour court case.

As of 31 December 2011 Domina Tourismus GmbH had the same labour court case pending.

The Management Board of AS Pro Kapital Grupp confirms to the best of its knowledge that the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards and that the Group Management Report gives a true and fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties the Company faces.

Paolo Vittorio Michelozzi July 24, 2012
Chairman of the Management Board

Allan Remmelkoor
Member of the Management Board

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CERTIFIED AUDITOR'S REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the shareholders of AS Pro Kapital Grupp:

We have reviewed the accompanying consolidated balance sheet of AS Pro Kapital Grupp as of 30 June 2012 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards as adopted in the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information does not present fairly, in all material respects, the financial position of AS Pro Kapital Grupp as at 30 June 2012, and of its financial performance and its cash flows for the six-month period then ended in accordance with the International Financial Reporting Standards as adopted in the European Union.

Emphasis of Matter

In connection with the planned listing of AS Pro Kapital Grupp, the comparative information in statements of income and cash flows for the six-month period ended 30 June 2011 have been prepared based on the structure of AS Pro Kapital Grupp as at 31 December 2011, as described on Note 2. Comparative information in these financial statements are not necessarily indicative of the consolidated financial results of operations that would have existed had the group existed in this way for the six-month period ended 30 June 2011. Our opinion is not qualified in respect of this matter.

23 July 2012

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

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AS PRO KAPITAL GRUPP

Consolidated Annual Report
for the Year Ended 31 December 2011

Parent company of the Group	**AS Pro Kapital Grupp**
Beginning of the financial year End of the financial year	1 January 2011 31 December 2011
Registration code	10278802
Address	Põhja Avenue 21 10414 Tallinn
Telephone Facsimile E-mail	+372 6 144 920 +372 6 144 929 prokapital@prokapital.ee
Fields of business activity	Activities of holding companies (EMTAK 64200) Buying and selling of own real estate (EMTAK 68100) Renting and operating of own or leased real estate (EMTAK 68200) Management of real estate on a fee or contract basis (EMTAK 68320)
Auditor	AS Deloitte Audit Eesti
Date of preparation of the financial statements	8 March 2012
Documents enclosed with the annual report	Independent certified auditor's report Proposal for profit distribution Revenue allocation by Estonian Classification of Economic Activities 2008

Member of the Management Board:

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Member of the Management Board:

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

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

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

The Ultimate Parent Company

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

Demerger by separation

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

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

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

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

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

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

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

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

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

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

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

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

Convertible bonds

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

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

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

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

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

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

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

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

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

Other events

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

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

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

Pro Kapital Eesti sub-group

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

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

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

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

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

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

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

Pro Kapital Latvia sub-group

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

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

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

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

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

Klīversala RE SIA, an entity belonging to the Pro Kapital Latvia sub-group continued the activities related to getting confirmation to detailed plan of the project in the Trijādības region in Riga. The detailed plan is expected to be confirmed in 2012. 86 500 m^2 of dwelling areas and 67 200 m^2 of commercial areas are planned onto the 56 000 m^2 territory.

To the subsidiary of Pro Kapital Latvia called Zvaigznes Centrs SIA belongs 19 000 property in Brivibas area. It is planned to build or renovate 23 600 m^2 residential and commercial propert there but no decision to start construction activities has been made during the reporting period.

In 2011 Tallina Nekustamie Īpašumi SIA, an entity belonging to the Pro Kapital Latvia sub-group continued preparations in developing the downtown area in Riga, a building permit is expected to be received in 2012 after which the construction can begin. It is planned to renovate 25 000 m^2 of dwelling and commercial areas on the territory owned by the entity.

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

Pro Kapital Vilnius sub-group

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

PK Invest UAB, an entity belonging to the Pro Kapital Vilnius sub-group continued to sell the first stage of 2009 completed commercial and dwelling areas in Aguonu, at the border of the old town of Vilnius. During the reporting period 1 610 m^2 of the area was sold, by the end of 2011 the unsold area was 7 990 m^2. The second stage of the project, which comprises 13 000 m^2 of commercial and residential areas, is expected to started in 2012.

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

Pro Kapital Germany Holdings OÜ

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

Pro Kapital Germany GmbH

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

.....
Paolo Vittorio Michelozzi

AS Pro Kapital Grupp
Member of the Management Board

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands euros)	Notes	31. 12.2011	Adjusted 31.12.2010	Adjusted 01.01.2010
Current assets				
Cash and bank accounts	2	8 637	4 303	7 040
Shares and securities	8	0	0	9
Receivables				
Trade receivables		669	14 780	19 894
Miscellaneous receivables		1 874	7 899	11 645
Accrued income		55	309	781
Prepaid expenses		267	16 475	19 174
incl. prepaid taxes and taxes reclaimable		193	12 732	13 460
Inventories	3			
Property held for sale		53 054	164 425	157 200
Other inventories		132	579	12 588
Total		53 186	165 004	169 788
Non-current assets classified as held for sale	12	0	50 044	0
Total current assets		**64 688**	**258 814**	**228 331**
Non-current assets				
Long-term financial investments				
Shares and securities	8	0	1 309	2 383
Miscellaneous long-term receivables	9	152	3 449	4 465
Total		152	4 758	6 848
Deferred income tax assets	28	370	32	0
Tangible assets	10	21 863	81 288	70 299
Investment property	12	26 111	26 111	61 265
Intangible assets	11	288	1 885	2 145
Total non-current assets		**48 784**	**114 074**	**140 557**
TOTAL ASSETS		**113 472**	**372 888**	**368 888**

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY

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

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

* Non-continuing operations (note 5)

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Attributable to equity holders of the parent							
(in thousand euros)	Notes	No of shares (pcs)	Nominal value of share (EUR)	Share capital	Share premium	Reserves	Retained earnings (accumulated loss)	Foreign currency differences	Total	Non-controlling interest	Total equity
1 January 2010		**53 185 422**	**0,64**	**33 992**	**45 089**	**2 938**	**47 066**	**-580**	**128 505**	**35 078**	**163 583**
Acquisition of holdings from non-controlling interest in subsidiary	6			0	0	0	-333	0	-333	-280	**-613**
Increase of share capital in subsidiaries				0	0	0	0	0	0	2	**2**
Change in non-controlling interest due to the declaration of dividends in subsidiaries				0	0	0	0	0	0	-113	**-113**
Comprehensive loss for the financial year				0	0	0	-22 351	-577	-22 928	-27	**-22 955**
31 December 2010		**53 185 422**	**0,64**	**33 992**	**45 089**	**2 938**	**24 382**	**-1 157**	**105 244**	**34 660**	**139 904**
Share capital conversion into EUR				-2 081	0	0	2081	0	0	0	**0**
Net assets allocated during demerger	5						-74 867	126	-74 741	-5 011	**-79 752**
Decrease in share capital to cover the negative equity				-21 274	-45 089	-2 938	69 301	0	0	0	**0**
Increase of share capital in subsidiaries				0	0	0	0	0	0	4	**4**
Acquisition of holdings from non-controlling interest in subsidiary	6			0	0	0	607	0	607	-56 279	**-55 672**
Change in non-controlling interest due to the sale of operating activities	5			0	0	0	0	0	0	158	**158**
Comprehensive profit for the financial year				0	0	11 330	28 120	-99	39 351	28 065	**67 416**
31 December 2011		**53 185 422**	**0,20**	**10 637**	**0**	**11 330**	**49 624**	**-1 130**	**70 461**	**1 597**	**72 058**

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

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NOTE 1. ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

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

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

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

1.2. BASIS FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements are prepared on the accrual basis.

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

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

Use of judgements, estimates and assumptions

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

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

Classification of real estate

Decision of real estate classification to inventory, property investment or tangible assets is done based on management's intention over the future use of the object. Property is recognized as inventory, if the objective of purchase is connected with development of environment, it is sale or resale during ordinary

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course of business. Objects recognized as property investment if purchase objective is gaining profit from rent or rise of market value. Also objects recognized as property investment if it is intended to keep them for long time and which have several purposes of use.

Property used for rendering services or for administrative purposes and with useful life of over one year is considered to be tangible assets.

Estimation of net realization value of inventories

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

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

Fair value of property investment

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

Recoverable value of fixed assets

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

Useful life of tangible assets

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

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated separately. Receivable overdue for more than 180 days, are considered to be non-collectible and are fully written-off.

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

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1.3. CHANGES IN ACCOUNTING PRINCIPLES

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

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

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

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

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

Change in presentation of accounting principles of Property Investment

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

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

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

Impact of the change in accounting principles is the following

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

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1.4. APPLICATION OF NEW AND REVISED IFRS

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

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

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

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

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

- Amendments to IFRS 7 *Financial Instruments: Disclosures* – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

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

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

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

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

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

1.5. PRINCIPAL ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

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

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

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

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When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

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

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

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Discontinuing operations

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

Foreign currency transactions

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

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

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

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

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

Cash and cash flows

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

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

Inventories

Inventories are recorded at cost, which comprises purchase price, non-refundable taxes and other direct acquisition expenditures, which are necessary to transfer inventories to their current location and condition. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, then weighted average cost method is used. Inventories are stated on the balance sheet at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less all estimated costs of

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

Real estate held for sale

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

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

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

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Tangible assets

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

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

Revaluation of land and buildings to fair value are performed with sufficient regularity such that the carrying amounts do not differ materiality 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 the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

The annual depreciation rates for groups of tangible assets are as follows:
Buildings in use 2 to 5% per annum;
Machinery and equipment 8 to 20% per annum;
Other fixtures 20 to 50% per annum.

Investment property

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

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property.

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

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

In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied.

Intangible assets

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

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

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

Non-current assets held for sale

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

Impairment of assets (excluding goodwill)

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

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

If the recoverable amount of an assets (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is trated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss

been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of goodwill

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

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

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

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

Financial instruments

Financial instruments held to maturity

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

Financial instruments held for sale

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

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

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

Interest income calculated using the effective interest method and dividends available for sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available for sale financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Loans granted and receivables

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

Bank borrowings

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

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Convertible bonds

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

Other financial liabilities

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

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

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

Equity instruments

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

Provisions

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

Pension benefit plans

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

Other provisions

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

Contingent liabilities

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

Reserves

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

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Revenue recognition

Net sales

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

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

Other income

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

Financial income

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

Expenses

Cost of sales

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

Marketing expenses

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

Administrative expenses

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

Other expenses

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

Financial expense

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

Leases

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

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

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

The Group as a lessee

An asset held under finance lease is recognized as an asset and a liability of the Group at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.
If ownership is to be transferred to the lessee, depreciation is calculated on the regular basis taking into account useful lifetime of the asset. If the leased asset is to be returned to the lessor, then the maximum depreciation period is the leasing period, whereas depreciation is not calculated for the guaranteed residual value.

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

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

The Group as a lessor

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

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

Taxation

Estonia

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

As a result of such taxation principles, the notion of "tax base of assets and liabilities" has lost its economic meaning and deferred income tax and assets cannot be calculated in accordance with IAS 12

Member of the Management Board

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"Income Taxes". Potential income tax liability from the retained earnings, which could otherwise be distributed as dividends, is not recorded in the Statement of Financial Position. Income tax expense to be incurred at the payment of dividends is recognized in the income statement as expense at announcement of dividends or any other distribution of equity.

Other subsidiaries

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

Operating segments

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

Subsequent Events

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

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

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

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

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

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

NOTE 3. INVENTORIES

Inventory balance consists of the following components:

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

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

NOTE 4. ENTITIES BELONGING TO THE CONSOLIDATION GROUP

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

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Name of the entity	Shareholder	Country of incorporation	Share of ownership % 31.12.2010	Share of ownership % 31.12. 2011	Field of activity
Domina Tourismus GmbH	OÜ Pro Kapital Germany Holdings	Germany	0,00%	100,00%	Hotel management (acquired)
Pro Kapital Rus OOO	AS Pro Kapital Grupp	Russia	100,00%	0,00%	Real estate development (sold)
Domina Rus OOO	Pro Kapital Rus OOO	Russia	100,00%	x	Real estate development (sold together with Pro Kapital Rus OOO)
Dom na Moike OOO	Pro Kapital Rus OOO	Russia	51,00%	x	Real estate development (sold together with Pro Kapital Rus OOO)
Pro Kapital Ukraine 3AT	AS Pro Kapital Grupp	Ukraine	100,00%	0,00%	Real estate development (liquidated)
PK-1 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	0,00%	Real estate development (liquidated)
PK-2 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	0,00%	Real estate development (liquidated)

Name of the entity separated during demerger	Shareholder (prior demerger)	Country of incorporation	Share of ownership % 31.12.2010	Share of ownership % 31.12.2011	Field of activity
Domina Vacanze S.p.A.	AS Pro Kapital Grupp	Italy	88,75%	0,00%	Real estate development, hotel management
Domina Case Vacanze S.r.l.	Domina Vacanze S.p.A	Italy	100,00%	x	Real estate development
Domina Hellas E.p.e.	Domina Vacanze S.p.A	Greece	100,00%	x	Hotel management
Computer Service S.r.l.	Domina Vacanze S.p.A	Italy	100,00%	x	Other (IT services)
Domina Health & Beauty S.r.l.	Domina Vacanze S.p.A	Italy	70,00%	x	Real estate development (under liquidation)
Prima Classe S.r.l.	Domina Vacanze S.p.A	Italy	100,00%	x	Travel services (under liquidation)
Immobiliare Novate S.p.A.	AS Pro Kapital Grupp	Italy	97,34%	0,00%	Real estate development, hotel management
Serval S.r.l.	AS Pro Kapital Grupp	Italy	99,82%	0,00%	Hotel management
Multiservice Hotels S.r.l.	Serval S.r.l.	Italy	100,00%	x	Hotellide management (under liquidation)
Domina Tourismus GmbH	Serval S.r.l.	Germany	100,00%	0,00%	Hotel management (sold)
Domina Hotels Hungary KFT	Serval S.r.l.	Hungary	100,00%	x	Hotel management (under liquidation)
Domina Tunisine S.A.	Serval S.r.l.	Tunesia	99,30%	x	Hotel management
Domina Hotel Holland B.V.	Serval S.r.l.	The Netherlands	100,00%	x	Hotel management
P.K. Sicily S.p.A.	AS Pro Kapital Grupp	Italy	100,00%	0,00%	Real estate development, hotel management

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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NOTE 5. DISCONTINUING OPERATIONS

Disposal

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

Liquidation

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

Demerger by separation

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

The demerger plan was signed and the assets and liabilities subject to transferral were evaluated based on the audited 2010 annual financial statements of AS Pro Kapital Grupp as of 31 December 2010. Accordingly AS Pro Kapital Grupp is required to transfer its net assets to AS Domina Vacanze Holding (assets less liabilities) in the amount equivalent to 74 741 thousand euros. Changes in the values of receivables or liabilities taken place between1 January 2011 and demerger moment are taken into account when calculating the amount of cash to be transferred.

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

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

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

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

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

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

Cash flow from discontinued operations

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

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

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

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

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

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

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NOTE 7. SHARES IN SUBSIDIARIES

	AS Pro Kapital Eesti	Pro Kapital Latvia PJSC	Pro Kapital Vilnius Real Estate UAB	Pro Kapital Germany GmbH	OÜ Pro Kapital Germany Holdings	Pro Kapital Rus OOO	Pro Kapital Ukraine 3AT	Domina Vacanze S.p.A.	Serval S.r.l.	P.K. Sicily S.p.A.	Immobiliare Novate S.p.A
Number of shares 31 December 2010	28 134 000	7 000 000	4 610	1	0	1	505 000	60 398 937	299 460	5 000 000	20 441 873
Acquired	0	0	0	0	1	0	0	0	0	0	0
Disposed / cancelled	0	0	0	0	0	-1	-505 000	0	0	0	0
Separated during demerger	0	0	0	0	0	0	0	-60 398 937	-299 460	-5 000 000	-20 441 873
Number of shares 31 December 2011	**28 134 000**	**7 000 000**	**4 610**	**1**	**1**	**0**	**0**	**0**	**0**	**0**	**0**
Ownership % at the end of the year	100	100	100	100	100	0	0	0,00	0,00	0	0,00
Ownership % at the beginning of the year	100	100	100	100	0	100	100	88,75	99,82	100	97,34

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(thousand euros)	AS Pro Kapital Eesti	Pro Kapital Latvia PJSC	Pro Kapital Vilnius Real Estate UAB	Pro Kapital Germany GmbH	OÜ Pro Kapital Germany Holdings	Pro Kapital Rus OOO	Pro Kapital Ukraine 3AT	Domina Vacanze S.p.A.	Serval S.r.l.	P.K. Sicily S.p.A.	Immobiliare Novate S.p.A	Total
Cost as of 31 December 2010	17 981	10 188	2 375	25	0	0	77	75 061	16 638	5 000	9 264	136 609
Parent company's share of subsidiary's net assets as of 31 December 2010	70 702	18 221	-865	-9	0	-6 370	32	39 011	-3 323	-2 956	5 212	119 655
Acquired at cost	0	0	0	0	2	0	0	0	0	0	0	2
Negative goodwill at acquisitrion	607	0	0	0	0	0	0	0	0	0	0	607
Revaluation of tangible assets	2 569	3 651	94	5 016	0	0	0	0	0	0	0	11 330
Change in unrealized foreign exchange rate differences	0	251	1	0	0	-381	30	0	0	0	0	-99
Realized foreign exchange rate differences	0	0	0	0	0	552	-30	0	0	0	0	522
Profit from the equity method	28 147	0	0	50	135	0	0	0	0	0	0	28 332
Loss from the equity method	0	-1 238	-893	0	0	-390	-10	0	0	0	0	-2 531
Profit / loss from disposal / liquidation (without exchange rate)	0	0	0	0	0	6 589	0	0	0	0	0	6 589
Liquidated (cost of acquisition)	0	0	0	0	0	0	-77	0	0	0	0	-77
Liquidated (book value)	0	0	0	0	0	0	-22	0	0	0	0	-22
Separated during demerger (cost of acquisition)	0	0	0	0	0	0	0	-75 061	-16 638	-5 000	-9 264	-105 963
Separated during demerger (book value)	0	0	0	0	0	0	0	-39 011	3 323	2 956	-5 212	-37 944
Parent company's share of subsidiary's net assets as of 31 December 2011	**102 025**	**20 885**	**-1 663**	**5 057**	**137**	**0**	**0**	**0**	**0**	**0**	**0**	**126 441**
Cost value as of 31 December 2011	**17 981**	**10 188**	**2 375**	**25**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**30 751**

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NOTE 8. SHARES AND SECURITIES

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

NOTE 9. MISCELLANEOUS LONG-TERM RECEIVABLES

Creditor	Debtor	Contract currency	Receivable as of 31.12.2010	Receivables as of 31.12.20111	Due within 1 year	Due 2-5 years	Due over 5 years	Interest rate	Comments
			(thousand euros)						
Pro Kapital Rus:									
Pro Kapital Rus OOO	Pro Kapital Siberia OOO	EUR	78	0	0	0	0	x	x
			78	**0**	**0**	**0**	**0**		
Pro Kapital Eesti:									
OÜ Ilmarise Kvartal	Different debtors	EEK	55	54	2	6	46	6%	Long-term trade receivables
AS Tondi Kvartal	Different debtors	EEK	280	0	0	0	0	x	x
			335	**54**	**2**	**6**	**46**		
Pro Kapital Vilnius:									
PK Invest UAB	Swedbank AB	EUR	0	100	0	100	0	0%	Deposit due 7.12.2014
			0	**100**	**0**	**100**	**0**		
Entities separated during demerger:									
Total	Different debtors	EUR	3 318	0	0	0	0	x	x
			3 318	**0**	**0**	**0**	**0**		
		Total	**3 731**	**154**	**2**	**106**	**46**		

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NOTE 10. TANGIBLE ASSETS

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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NOTE 11. INTANGIBLE ASSETS

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

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NOTE 12. INVESTMENT PROPERTY

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

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

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

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

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

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

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

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

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

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NOTE 13. SHORT TERM DEBT

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

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

NOTE 14. LONG TERM DEBT

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

Provisions

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

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NOTE 15. BANK LOANS

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

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NOTE 16. OTHER LONG TERM LOANS

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

NOTE 17. OTHER LONG TERM DEBT

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

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NOTE 18. CONVERTIBLE BONDS

Registration date of bonds issued	**13.05.1999**	**13.08.2009**	**20.01.2010**	**10.08.2010**	**16.08.2010**	**29.11.2010**	**08.03.2011**	**25.05.2011**		
Issue price of bond (EUR) before/after demerger	x	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80	4,50 / 2,80		
Bond return per annum (% from issue price)	6%	7%	7%	7%	7%	7%	7%	7%		
Latest date for redemption of bonds	20.01.2010	13.08.2013	20.01.2014	10.08.2014	16.08.2014	29.11.2014	08.03.2015	25.05.2015		
Latest date for the conversion of bonds to shares	10.01.2010	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012		
Discount rate (%)	11%	7%	7%	7%	7%	7%	7%	7%	**Total**	
	2011	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2010**
Number of convertible bonds at the beginning of period	**0**	**1 164 807**	**382 304**	**840 184**	**536 012**	**422 067**	**0**	**0**	**3 345 374**	**1 287 344**
Number of convertible bonds issued	0	0	0	0	0	0	569 273	111 111	680 384	2 180 567
Number of repurchased bonds	0	0	0	0	0	0	0	0	0	-122 537
Number of convertible bonds at the end of period	**0**	**1 164 807**	**382 304**	**840 184**	**536 012**	**422 067**	**569 273**	**111 111**	**4 025 758**	**3 345 374**

(thousand euros)	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2010**
Number of convertible bonds at the beginning of period	0	5 242	1 720	3 781	2 412	1 899	0	0	15 054	5 633
Principal of convertible bonds issued	0	0	0	0	0	0	2 562	500	3 062	9 812
Repurchased bonds in repurchase price	0	0	0	0	0	0	0	0	0	-391
Change in price of convertible bonds related to demerger	0	-1 980	-650	-1 428	-911	-718	-968	-189	-6 844	0
Principal of the bonds issued at the end of the period	0	3 262	1 070	2 353	1 501	1 181	1 594	311	11 272	15 054
Short-term portion of liabilities on the balance sheet	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Long-term portion of liabilities on the balance sheet	**0**	**3 262**	**1 070**	**2 353**	**1 501**	**1 181**	**1 594**	**311**	**11 272**	**15 054**

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

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

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

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

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

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

NOTE 19. LEASES

Finance lease – Group as the lessee

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

Finance lease principle payments for the following periods

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

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

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Operating lease – Group as the lessee

The most important asset used under the terms of operating lease is office building located at Riga, Latvia. During the reporting period the lease payments were amounted to 520 thousand euros (2010: 552 thousand euros).

Operating lease payments for the following periods:

(thousand euros)	31.12.2011	31.12.2010
Within 1 year	528	517
1 – 5 years	632	1 118
Total	**1 160**	**1 635**

Operating lease – Group as the lessor

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

During the accounting period, rental income amounted to 4 138 thousand euros (2010: 6 720 thousand euros) from the assets rented out under the terms of operating lease. Direct costs corresponding to the rental income amounted to 1 928 thousand euros (2010: 2 977 thousand euros).

Operating lease rental income for the following periods:

(thousand euros)	31.12.2011	31.12.2010
Within 1 year	680	2 798
Total	**680**	**2 798**

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

NOTE 20. NON-CONTROLLING INTEREST

(thousand euros)	31.12.2011	31.12.2010
Pro Kapital Estonia sub-group	949	27 279
Pro Kapital Latvia sub-group	648	2 391
Pro Kapital Rus sub-group	0	-21
Entities separated during demerger	0	5 011
Total	**1 597**	**34 660**

NOTE 21. EQUITY

Share capital

The share capital in the amount of 10 637 thousand euros consists of 53 185 422 ordinary shares at a nominal value of 0.2 euros per share. According to the articles of association, the maximum share capital is 24 000 thousand euros and minimum capital is 6 000 euros.

Due to euro introduction in Republic of Estonia and according to the requirements of the Commercial Code the nominal value of share must be rounded to one decimal place. Therefore, on 30 June 2011 the shareholders meeting of the Ultimate Parent Company decided to decrease the share capital by

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

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

No changes in share capital occurred during preceding reporting periods.

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

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

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

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

Reserves

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

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

The right to repurchase the shares

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

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

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

NOTE 22. SEGMENT REPORTING

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

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

The business activity of the Group is exercised in Estonia, Latvia, Lithuania and Germany. Operations discontinued in Russia, Ukraine and Italy.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 23. REVENUE

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

NOTE 24. COST OF GOODS SOLD

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

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

NOTE 25. MARKETING AND ADMINISTRATIVE EXPENSES

Marketing expenses:

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

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Administrative expenses:

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

NOTE 26. OTHER INCOME AND EXPENSES

Other income:

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

Other expenses:

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

NOTE 27. FINANCIAL INCOME AND EXPENSE

Financial income:

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

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Finance expense:

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

NOTE 28. INCOME TAX

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

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

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

Deferred income tax asset and liability (net) movements:

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

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

Deferred income tax balances

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

Contingent income tax

Retained earnings of the Group amounted to 49 624 thousand euros as of 31 December 2011 (24 382 thousand euros adjusted as of 31 December 2010). The maximum possible amount of income tax liability, which could be treated as contingent liability and which could realize as net dividend distriution of all retained earnings, is 10 421 thousand euros (as of 31 December 2010 thousand 5 120 thousand euros). The calculation of maximum possible income tax liability is based on the assumption that the sum of distributable net dividends and the income tax expense which occurs on distribution of dividends cannot exceed total retained earnings as of 31 December 2011.

The Ultimate Parent Company has potential opportunity (in case of retained earnings) to pay dividends that are not taxable with income tax in amount of 44 647 thousand euros because the Ultimate Parent Company has received dividends from its subsidiary Pro Kapital Latvia PJSC, which is the resident and taxable person in Republic of Latvia. The part of the profit related to payable dividends is taxed with income tax in Republic of Latvia. The maximum related possible income tax free amount that could be considered as contingent asset and could be paid as net dividend is 11 868 thousand euros (31.12.2010: 11 868 thousand euros).

NOTE 29. EARNINGS PER SHARE

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

Average number of shares:

Period 01.01.2011 - 31.12.2011	(53 185 422 x 12/12) = 53 185 422
Period 01.01.2010 - 31.12.2010	(53 185 422 x 12/12) = 53 185 422

Net profit/loss per share in euros:

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

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

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NOTE 30. TRANSACTIONS WITH RELATED PARTIES

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

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

(in thousand euros)

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

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

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

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

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. The Group has been provided loans to related parties at rates comparable to the average commercial rate of interest. The loans to related parties are unsecured.

NOTE 31. COLLATERAL AND PLEDGED ASSETS

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

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

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

NOTE 32. RISK MANAGEMENT

The business of the Group involves business risk and several financial risks: market risk (interest and currency risk), credit risk and liquidity risk. Risk management system is called to mitigate aforementioned risks and reduce potential negative impact on the Group. Main purpose of the risk management is to preserve the equity and going concern of the Group.

Business risk

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Interest risk

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

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

Currency risk

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

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

Credit risk

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

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

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

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

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

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Liquidity risk

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

Financial liabilities of the Group by due dates:

(thousand euros)

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

Fair value

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

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

Capital risk management

The purpose of capital risk management is to provide the Group with optimal capital structure and thus to ensure return to shareholders and sustainability of the Group.

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

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

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NOTE 33. LITIGATIONS

Ultimate parent company

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

On 27 May 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter with what AS Pro Kapital Grupp assures the rental liabilities of the Serval S.r.l arising from the rental agreement of the Rotterdam hotel, concluded on 4 August 2006 between Serval S.r.l and Hotel Blijdorp B.V. In 2007 Aprisco B.V acquired the hotel that was managed by subsidiary of Serval and the rental agreement with Serval S.r.l was transferred to Aprisco B.V. Serval S.r.l has not fulfilled the rental obligations to Aprisco B.V, therefore Aprisco B.V claims the payments according to the guarantee letter. Aprisco has filed alternative claims to the court. Firstly, Aprisco B.V claims the payment of caused loss in the amount of 2 300 thousand euros or in the amount stated by the court.

As an alternative claim, Aprisco B.V claims overdue rental payments in the amount of 904 thousand euros with accumulated interest for default or in the amount of 504 thousand euros with accumulated interest for default.

On 31 August 2011 Aprisco B.V changed its claim and claims the payment of caused loss in the amount of 2 300 thousand euros with accumulated interest for default, or in the amount stated by the court. As an alternative claim, Aprisco B.V claims overdue rental payments in the amount of 1776 thousand euros with accumulated interest for default or in the amount of 1 409 thousand euros with accumulated interest for default.

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

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

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

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

Pro Kapital Estonia sub-group

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

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

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

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

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

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

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

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

Pro Kapital Latvia sub-group

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

During August – October 2007 the Tax Board audited the VAT accounting of Pro Kapital Latvia PJSC for the period from January 2005 to December 2006. As a result the Tax Board found that the entity's loss should be 60 thousand Latvian latts smaller (approx. 86 thousand euros). Pro Kapital Latvia PJSC disputed the decision. The trial court left the claim unsatisfied. The entity appealed and the hearing is set on 1 March 2012.

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

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

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

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

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

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

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Pro Kapital Vilnius sub-group

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

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

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

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

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

Domina Tourismus GmbH

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

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NOTE 34. FINANCIAL STATEMENTS OF THE ULTIMATE PARENT COMPANY

Statement of financial position

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

LIABILITIES AND OWNER'S EQUITY

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Income statement

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of cash flows

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

Member of the Management Board

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in equity

(thousand euros)	Share capital	Share premium	Reserves	Retained earnings / accumulated deficit	Profit / loss for the financial year	Total
Balance as of 31 December 2009	**33 992**	**45 089**	**3 461**	**-2 793**	**44 964**	**124 713**
Adjustments (change in convertible bonds reserve)			**-523**			**-523**
Adjusted unconsolidated equity 31 December 2009	**33 992**	**45 089**	**2 938**	**-2 793**	**44 964**	**124 190**
Cost of subsidiaries shares	X	X	X	X	X	-134 512
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	116 130
Adjusted unconsolidated equity 31 December 2009	**X**	**X**	**X**	**X**	**X**	**105 808**
Allocation of net loss	0	0	0	44 964	-44 964	0
Result of the financial year	0	0	0	0	-1 992	-1 992
Balance as of 31 December 2010	**33 992**	**45 089**	**2 938**	**42 171**	**-1 992**	**122 198**
Adjusted balance as of 31 December 2010	**33 992**	**45 089**	**2 938**	**42 171**	**-1 992**	**122 198**
Cost of subsidiaries shares	X	X	X	X	X	-136 609
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	96 958
Adjusted unconsolidated equity 31 December 2010	**X**	**X**	**X**	**X**	**X**	**82 547**
Decrease in equity	-2 081	0	0	2 081	0	0
Decrease in equity	-21 274	-45 089	-2 938	69 301	0	0
Transferred due to demerger	0	0	0	-142 761	0	-142 761
Allocation of net loss	0	0	0	-1 992	1 992	0
Result of the financial year	0	0	0	0	-8 884	-8 884
Balance as of 31 December 2011	**10 637**	**0**	**0**	**-31 200**	**-8 884**	**-29 447**
Cost of subsidiaries shares (incl. impairment losses)	X	X	X	X	X	-28 196
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	128 104
Adjusted unconsolidated equity 31 December 2011	**X**	**X**	**X**	**X**	**X**	**70 461**

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

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

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

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

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

We have audited the accompanying consolidated annual accounts (page 8 to 70) of AS Pro Kapital Grupp, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Annual Accounts

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

Certified Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the consolidated annual accounts present fairly, in all material respects, the financial position of AS Pro Kapital Grupp as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted in the European Union.

9 March 2012

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

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Member of Deloitte Touche Tohmatsu Limited

PROPOSAL FOR PROFIT DISTRIBTUION

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

8 March 2012

Paolo Vittorio Michelozzi
Member of the Management Board

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

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

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

AS PRO KAPITAL GRUPP

Consolidated Financial Statements
for the Year Ended 31 December 2010

Parent company of the Group	**AS Pro Kapital Grupp**
Beginning of the financial year End of the financial year	1 January 2010 31 December 2010
Registration code	10278802
Address	21 Põhja avenue 10414 Tallinn
Telephone Facsimile E-mail	+372 6 144 920 +372 6 144 929 prokapital@prokapital.ee
Fields of activity	Activities of holding companies (EMTAK 64200) Buying and selling of own real estate (EMTAK 68100) Renting and operating of own or leased real estate (EMTAK 68200) Management of real estate on a fee or contract basis (EMTAK 68320)
Auditors	AS Deloitte Audit Eesti
Date of preparation of the financial statements	31 May 2011
Documents enclosed with the annual report	Independent sworn auditor's report Proposal for covering loss Revenue allocation by Estonian Classification of Economic Activities 2008

AS PRO KAPITAL GRUPP

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REVENUE ALLOCATION BY THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES (EMTAK 2008) 72

AS Pro Kapital Grupp (hereinafter also referred to as "the Ultimate Parent Company") is a holding company, which owns subsidiary groups in Estonia (Pro Kapital Eesti AS), Latvia (Pro Kapital Latvia PJSC), Lithuania (Pro Kapital Vilnius Real Estate UAB), Italy (Domina Vacanze S.p.A., Serval S.r.l. (former business name: Domina Hotel Group S.p.A.)), Russia (Pro Kapital Rus OOO), Ukraine (Pro Kapital Ukraine 3AT), and other subsidiaries not belonging into aforementioned subsidiary groups in Italy (P.K. Sicily S.p.A., Immobiliare Novate S.p.A.) and Germany (Pro Kapital Germany GmbH) (hereinafter also referred to as „the Group") and whose main fields of activity are to coordinate and control the development and implementation of the subsidiaries' business strategies, to administrate the Group's financial management, business reporting, and to forward information to investors.

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

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

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

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

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

The Ultimate Parent Company

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

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

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

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

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

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

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

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

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

Domina Vacanze subsidiary group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pro Kapital Eesti subsidiary group

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

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

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

Pro Kapital Latvia subsidiary group

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

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

On 13 April 2010 the liquidation process of Nekustamo īpašumu sabiedrība A Centrs SIA, a subsidiary of Pro Kapital Latvia PJSC was completed.
On 25 May 2010 the liquidation process of Kugu Real Estate SIA subsidiary Pro Kapital Latvia PJSC 1 was completed.

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

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

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

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

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

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

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

Pro Kapital Vilnius subsidiary group

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

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

Pro Kapital Rus subsidiary group

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

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

Pro Kapital Ukraine subsidiary group

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

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

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

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

P.K. Sicily S.p.A.

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

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

Pro Kapital Germany GmbH

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

Immobiliare Novate S.p.A.

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

.....
Paolo Vittorio Michelozzi

AS Pro Kapital Grupp
Member of the Management Board

Signed for identification purposes:
AS Deloitte Audit Eesti

AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2010

ASSETS

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

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

Signed for identification purposes:
AS Deloitte Audit Eesti

AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2010

LIABILITIES AND EQUITY

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

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

Signed for identification purposes:
AS Deloitte Audit Eesti

AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 2010

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

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

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD 2010

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

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD 2010

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

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 2010

(Th. EEK)	Notes	No of shares (pcs)	Nominal value of share (EEK)	Attributable to equity holders of the parent						Minority interest	Total equity
				Share capital	Share premium	Reserves	Retained earnings (accumulated loss)	Foreign currency differences	Total		
01 January 2009		**53 185 422**	**10**	**531 854**	**705 495**	**46 447**	**776 121**	**-2 626**	**2 057 291**	**530 806**	**2 588 097**
Increase in other reserves				0	0	-205	205	0	0	0	**0**
Change in reserve of convertible bonds	18,21			0	0	7 918	0	0	7 918	0	**7 918**
Increase of share capital in subsidiaries				0	0	0	0	0	0	15 951	**15 951**
Decrease of share capital in subsidiaries				0	0	0	0	0	0	-40	**-40**
Changes in minority interest due to changes in parent company's participation	5			0	0	0	0	0	0	1 016	**1 016**
Changes in minority interest due to liquidation of subsidiary				0	0	0	0	0	0	242	**242**
Change in minority interest due to the declaration of dividends in subsidiaries				0	0	0	0	0	0	-19 962	**-19 962**
Comprehensive loss for the financial year				0	0	0	-395 033	-6 449	-401 482	6 990	**-394 492**
31 December 2009		**53 185 422**	**10**	**531 854**	**705 495**	**54 160**	**381 293**	**-9 075**	**1 663 727**	**535 003**	**2 198 730**
Adjustments according to IAS 32 (Note 1)						-8 194			-8 194		**-8 194**
Adjustments in 31 December 2009		**53 185 422**	**10**	**531 854**	**705 495**	**45 966**	**381 293**	**-9 075**	**1 655 533**	**535 003**	**2 190 536**
Positive goodwill from acquisition of holdings from minority interest in subsidiary	5			0	0	0	-5 208	0	-5 208	0	**-5 208**
Increase of share capital in subsidiaries				0	0	0	0	0	0	39	**39**
Changes in minority interest due to changes in parent company's participation	5			0	0	0	0	0	0	-4 382	**-4 382**
Changes in minority interest due to liquidation of subsidiary										-3	**-3**
Change in minority interest due to the declaration of dividends in subsidiaries				0	0	0	0	0	0	-1 768	**-1 768**
Comprehensive loss for the financial year				0	0	0	-349 719	-9 029	-358 748	-422	**-359 170**
31 December 2010		**53 185 422**	**10**	**531 854**	**705 495**	**45 966**	**26 366**	**-18 104**	**1 291 577**	**528 467**	**1 820 044**

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

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NOTE 1 ACCOUNTING POLICIES

1. GENERAL INFORMATION

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

The consolidated financial statements as of 31 December 2010 represent the consolidated assets, liabilities, equity, results of operations and cash flows of the Ultimate Parent Company and its subsidiaries (hereinafter also referred together to as "the Group").

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

2. APPLICATION OF NEW AND REVISED IFRS's

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

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

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

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

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

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

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

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3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the Group for the financial year 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted by European Union, and in accordance with the Estonian Accounting Act.

The consolidated financial statements are prepared on the accrual basis.

The functional and presentation currency of the Group's Financial Statements is Estonian kroon (EEK). These consolidated financial statements of the Group are compiled in thousands of Estonian kroons (Th. EEK), if not specifically referred to another unit of measurement.

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

Basis of consolidation

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

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

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

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

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

Business combinations

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

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

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

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

Foreign currency transactions

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

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

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

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

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

Cash and cash flows

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

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

Inventories

Inventories are recorded at cost, which comprises purchase price, non-refundable taxes and other direct acquisition expenditures, which are necessary to transfer inventories to their current location

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and condition. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, then weighted average cost method is used.

Inventories are stated on the balance sheet at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less all estimated costs of making the sale. Revaluation of inventories to net realizable value is recognized as expense for the accounting period.

Property held for sale

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

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

In case the usage purpose of a real estate objects changes, the asset is reclassified and the accounting principles attributable to this asset group are implemented from the date of change.

Tangible assets

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

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

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

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

The annual depreciation rates for tangible asset group are as follows:

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

Investment property

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

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property.

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

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

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

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

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

Intangible assets

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

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

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

Non-current assets held for sale

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

Impairment of assets (excluding goodwill)

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

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

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

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

Impairment losses are recorded as expenses of the accounting period.

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

Impairment of goodwill

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

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

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

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

Financial instruments

Financial instruments held to maturity

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

Financial instruments held for sale

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

Loans granted and receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Trade receivables recorded in balance sheet are evaluated in light of collectible amounts. Doubtful receivables are recorded as expense for accounting period. Difference between the present and nominal value of collectible amounts is recognized as interest income in the income statements under "Other financial income and expenses" using the corresponding internal interest rate.

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Bank borrowings

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

Convertible bonds

Convertible bonds that are convertible into shares at bondholder's request are initially measured in fair value and are subsequently measured at amortized cost, using the effective interest rate method.

Interest expense from convertible bonds is recorded in the income statement for the reporting period on the basis of actual interest rates.

Trade payables

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

Equity instruments

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

Provisions

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

Pension benefit plans

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

Other provisions

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

Contingent liabilities

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

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Reserves

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

Revenue recognition

Net sales

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

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

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

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

Other income

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

Financial income

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

Expenses

Cost of sales

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

Marketing expenses

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

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Administrative expenses

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

Other expenses

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

Financial expense

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

Leases

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

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

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

The Group as a lessee

An asset held under finance lease is recognized as an asset and a liability of the Group at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. If ownership is to be transferred to the lessee, depreciation is calculated on the regular basis taking into account useful lifetime of the asset. If the leased asset is to be returned to the lessor, then the maximum depreciation period is the leasing period, whereas depreciation is not calculated for the guaranteed residual value.

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

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

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The Group as a lessor

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

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

Taxation

Estonia

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

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

Other subsidiaries

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

Subsequent events

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

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Use of judgements, estimates and assumptions

The preparation of the consolidated financial statements assumes judgements, estimates and assumptions by the management board of the Ultimate Parent Company to the Group's assets and liabilities which are not readily apparent from other sources as at the balance sheet date and income

earned and expenses covered during the reporting period. These estimates are based on historical experience and the up-to-date information about the state of the Group and considering the plans and risks as at the date of the preparation of the consolidated financial statements. The final results of these economic transactions may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods.

Change in accounting policy related to convertible bonds

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

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

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

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

(Th. EEK)

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

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

Cash and bank accounts recorded in the consolidated statement of financial position and statement of cash flows, with balances as of 31 December 2010 and 2009, were 67 326 Th. EEK and 110 145 Th. EEK, respectively, comprising cash on hand and bank deposits as of the end of the reporting period. Foreign currency accounts have been retranslated into EEK at the Bank of Estonia foreign currency exchange rates prevailing on the balance sheet date.

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

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

NOTE 3 INVENTORIES

Inventory consists of the following components:

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

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

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

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

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NOTE 4 ENTITIES BELONGING TO THE CONSOLIDATION GROUP

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

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

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

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

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

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

The intergroup reporting system is based on geographical segments.
Segment result, assets and liabilities are related to the accounts which are directly associated to the segment and the allocation of which between the segments is sufficiently justified.

Geographical segments

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

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

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

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

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Business segments

The Group includes following business segments:

- Sale of property
  Sales of residential, commercial and trade areas, hotels, hotel suites, villas, and time-shares purchased and/or developed by the Group entities.

- Real estate rent
  Rental services provided by the Group entities.

- Real estate development and administration services
  Management services related to the management and development of real estate and also hotel operating services provided by the Group entities to third parties.

(Th. EEK)

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

NOTE 5 ACQUISTIONS, DISPOSALS, INCREASES AND DECREASES OF OWNERSHIP IN SUBSIDIARIES

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

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

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

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

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

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

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

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NOTE 6 SHARES IN SUBSIDIARIES

	Pro Kapital Eesti AS	Pro Kapital Ukraine 3AT	Pro Kapital Rus OOO	Pro Kapital Latvia PJSC	Pro Kapital Vilnius Real Estate UAB	Domina Vacanze S.p.A.	Serval S.r.l.	P.K. Sicily S.p.A.	Pro Kapital Germany GmbH	Immobiliare Novate S.p.A	Total
Number of shares 31 December 2009	28 134 000	505 000	1	7 000 000	4 610	60 398 937	5 627 932	5 000 000	1	19 021 598	x
Acquired (extra-group)	0	0	0	0	0	0	299 460	0	0	1 420 275	x
Disposed / cancelled	0	0	0	0	0	0	-5 627 932	0	0	0	x
Number of shares 31 December 2010	**28 134 000**	**505 000**	**1**	**7 000 000**	**4 610**	**60 398 937**	**299 460**	**5 000 000**	**1**	**20 441 873**	x
Ownership % at the end of the year	100	100	100	100	100	88,75	99,82	100	100	97,34	x
Ownership % at the beginning of the year	100	100	100	100	100	88,75	99,82	100	100	90,58	x
(Th. EEK)											
Cost as of 31 December 2009	281 340	1 197	5	159 402	37 156	1 174 446	237 113	78 233	391	135 366	2 104 649
Parent company's share of subsidiary's net assets as of 31 December 2009	742 790	441	-90 983	345 812	19 690	702 001	-14 533	14 227	-817	98 401	1 817 029
Acquired cost	0	0	0	0	0	0	4 686	0	0	9 590	14 276
Impairment of goodwill	0	0	0	0	0	0	0	0	0	-5 208	-5 208
Reserve	0	0	0	0	0	0	18 535	0	0	0	18 535
Foreign currency differences	0	40	-8 840	-135	0	0	-94	0	0	0	-9 029
Profit under equity method	8 317	19	157	0	0	0	0	0	670	0	9 163
Loss under equity method	0	0	0	-60 580	-33 219	-91 619	-60 582	-60 473	0	-21 238	-327 711
Parent company's share of subsidiary's net assets as of 31 December 2010	**751 107**	**500**	**-99 666**	**285 097**	**-13 529**	**610 382**	**-51 988**	**-46 246**	**-147**	**81 545**	**1 517 055**
Cost as of 31 December 2010	**281 340**	**1 197**	**5**	**159 402**	**37 156**	**1 174 446**	**260 334**	**78 233**	**391**	**144 956**	**2 137 460**

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

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

NOTE 7 SHARES AND SECURITIES

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

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

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

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

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

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NOTE 9 MISCELLANEOUS LONG-TERM RECEIVABLES

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

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NOTE 10 TANGIBLE ASSETS

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

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

For additional information concerning finance lease obligations is presented in Note 19.

For additional information concerning mortgages set to Group's tangible assets is presented in Note 28.

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NOTE 11 INTANGIBLE ASSETS

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

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NOTE 12 INVESTMENT PROPERTY

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

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

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

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

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

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

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

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

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

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

NOTE 13 DEBT

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

NOTE 14 LONG-TERM LIABILITIES

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

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Provisions

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

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NOTE 15 BANK LOANS

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

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(Th. EEK)

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

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NOTE 16 LONG-TERM LOANS

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

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NOTE 17 OTHER LONG-TERM DEBT

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

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NOTE 18 CONVERTIBLE BONDS

Registration date of bonds issued	**13.05.1999**		**13.08.2009**		**20.01.2010**		**10.08.2010**		**16.08.2010**		**29.11.2010**			
Issue price of bond (EUR)	x		4.50		4.50		4.50		4.50		4.50			
Issue price of bond (EEK)	50.00		70.41		70.41		70.41		70.41		70.41			
Bond return per annum (% from issue price)	6%		7%		7%		7%		7%		7%			
Bond interest payment frequency	Once a year		Twice a year		Twice a year		Twice a year		Twice a year		Twice a year			
Latest date for the repurchase of bonds	20.01.2010		13.08.2013		20.01.2014		10.08.2014		16.08.2014		29.11.2014			
Latest date for the exchange of bonds to shares	10.01.2010		31.12.2012		31.12.2012		31.12.2012		31.12.2012		31.12.2012			
Discount rate (%)	11%		7%		7%		7%		7%		7%		**TOTAL**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Number of convertible bonds at the beginning of period	**122 537**	**122 537**	**1 164 807**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1 287 344**	**122 537**
Number of convertible bonds issued	0	0	0	1 164 807	382 304	0	840 184	0	536 012	0	422 067	0	2 180 567	1 164 807
Number of repurchased bonds	-122 537	0	0	0	0	0	0	0	0	0	0	0	-122 537	0
Number of convertible bonds at the end of period	**0**	**122 537**	**1 164 807**	**1 164 807**	**382 304**	**0**	**840 184**	**0**	**536 012**	**0**	**422 067**	**0**	**3 345 374**	**1 287 344**
incl. repurchase of convertible bonds in the following period	0	122 537	0	0	0	0	0	0	0	0	0	0	0	122 537

(Th. EEK)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Number of convertible bonds at the beginning of period	6 127	6 127	82 014	0	0	0	0	0	0	0	0	0	88 141	6 127
Principal of convertible bonds issued	0	0	0	82 014	26 918	0	59 157	0	37 740	0	29 718	0	153 533	82 014
Repurchased bonds in repurchase price	-6 127	0	0	0	0	0	0	0	0	0	0	0	-6 127	0
Principal of the bonds issued at the end of the period	0	6 127	82 014	82 014	26 918	0	59 157	0	37 740	0	29 718	0	235 547	88 141
incl. repurchase of convertible bonds in the following period	0	6 127	0	0	0	0	0	0	0	0	0	0	0	6 127
Short-term portion of liabilities on the balance sheet	**0**	**6 127**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**6 127**
Long-term portion of liabilities on the balance sheet	**0**	**0**	**82 014**	**82 014**	**26 918**	**0**	**59 157**	**0**	**37 740**	**0**	**29 718**	**0**	**235 547**	**82 014**

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

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

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

NOTE 19 LEASE OBLIGATIONS

Finance lease – Group as the lessee

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

Principals of finance lease for the following periods:

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

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

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

Operating lease – Group as the lessee

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

Operating lease payments for the following periods:

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

Operating lease – Group as the lessor

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

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

Rental income from operating lease for the next periods:

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

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

NOTE 20 MINORITY INTEREST

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

NOTE 21 EQUITY

Share capital

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

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

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

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

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

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

Reserves

Reserves in the amount of 45 966 Th. EEK (adjusted 31.12.2009: 45 966 Th. EEK) consist of the statutory legal reserve in the amount of 45 966 Th. EEK (31.12.2009: 45 966 Th. EEK), required according to the Estonian Commercial Code § 336.

Treasury shares

On 30 October 2008, the shareholders' meeting of AS Pro Kapital Grupp decided to allow the entity to acquire 1 000 000 own shares with repurchase price of 60 EEK per share during the period of five years. The Management Board has the right to repurchase own shares in several offer rounds. Acquiring own shares will not cause the decrease of net assets below the total amount of share capital and reserves of which the payments to shareholders are not permitted by the law and articles of association. According to the shareholders' decision the Management Board is obligated to dispose the shares or make a proposal on the shareholders' meeting to decrease the share capital, during the three years' time after the acquiring of own shares. As of 31 December 2010 and 2009, the Ultimate Parent Company has not exercised the right to repurchase the shares.

NOTE 22 COST OF GOODS SOLD, MARKETING EXPENSES, AND ADMINISTRATIVE EXPENSES

Cost of goods sold:

(Th. EEK)	2010	2009
Personnel expenses	188 198	198 366
Depreciation of tangible assets (see Note 10)	29 893	22 089
Depreciation of investment property (see Note 12)	16 179	14 447
Write down of inventories, (-) reversal of write down (see Note 3)	-4 422	25 649
Other	584 238	679 510
Total	**814 086**	**940 061**

Marketing expenses:

(Th. EEK)	2010	2009
Personnel expenses	9 867	25 833
Depreciation of tangible assets (see Note 10)	13	9
Other	66 980	77 338
Total	**76 860**	**103 180**

Administrative expenses:

(Th. EEK)	2010	2009
Personnel expenses	93 524	122 734
Depreciation of tangible assets (see Note 10)	14 758	15 812
Depreciation of investment property (see Note 11)	4 148	3 772
Impairment of non-current assets	0	3
Write down of inventories (see Note 3)	37	0
Other	127 583	134 362
Total	**240 050**	**276 683**

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NOTE 23 FINANCIAL INCOME AND EXPENSE

Financial income:

(Th. EEK)	2010	2009
Interest income	4 762	7 990
Gain from disposal of subsidiary	5 472	9 940
Gain from exchange rate differences	27 273	0
Other financial income	2 436	37
Total	**39 943**	**17 967**

Financial expense:

(Th. EEK)	2010	2009
Interest expense	87 119	67 888
Interest expense of convertible bonds	10 292	2 585
Interest expense of loans and overdrafts	96 160	91 612
Interest expense of capitalized acquisition cost of tangible assets	-14 458	-13 411
Interest expense of capitalized acquisition cost of inventories	-4 875	-12 898
Loss from currency exchange	0	1 923
Other financial expense	2 280	6 641
Total	**89 399**	**76 452**

NOTE 24 INCOME TAX

According to the Estonian Income Tax Act, the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends. Due to the difference in the income tax concept, the term "taxation base of assets and liabilities" has no economic meaning, and therefore deferred income tax liabilities and assets cannot be accounted for in accordance with IAS 12 "Income Taxes".

In accordance with income tax laws in Latvia, Lithuania, Italy, Germany, Russia and Ukraine, the applicable tax rates in these countries in year 2010 were 15%, 15%, 27.5%, 15%, 20% and 25% (2009: 15%, 20%, 27,5%, 15%, 20% and 25%) on taxable earnings respectively.

(Th. EEK)	31.12.2010	31.12.2009
Loss before income tax (consolidated)	-346 314	-389 306
Estimated income tax respective to the tax rates	-68 184	-47 790
Corrections of estimated income tax:		
Non-deductible expenses (+)	78 513	90 218
Non-taxable income and tax incentive	-49 368	-82 183
Deductions (-)	-2 921	-1 340
Reversal loss carry forward (+)	46 272	48 735
Income tax expenses	4 312	7 640
Deferred income tax expense (details as follows)	289	1 335
Deferred income tax returns (details as follows)	-1 270	-9 491
Effect on income statement	**3 331**	**-516**
Income tax paid (-)	**-5 133**	**-5 400**

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Deferred income tax asset and liability (net) movements:

(Th. EEK)	Accelerated tax depreciation	Revaluation of investment property	Deferred tax losses	Total
31 December 2009	**20 552**	**5 560**	**-837**	**25 275**
Effect on income statement:	-83	-682	-216	-981
Income tax expense during the reporting period	0	0	289	289
Income tax reclaims during the reporting period	-83	-682	-505	-1 270
Exchange rate differences	-1	0	0	-1
31 December 2010	**20 468**	**4 878**	**-1 053**	**24 293**

Deferred income tax balances

(Th. EEK)	31.12.2010	31.12.2009
Deferred income tax liability (+)	24 798	25 275
Deferred income tax assets (-)	-505	0
Total	**24 293**	**25 275**

Contingent income tax

The Group's retained earnings as of 31 December 2010 constituted 26 366 Th. EEK (31.12.2009: 381 293 Th. EEK). The maximum possible amount of income tax liability, which could be handled as contingent liability and which could realize as a net dividend on the payout of all retained earnings, is 5 537 Th. EEK (31.12.2009: 80 072 Th. EEK). The calculation of maximum possible income tax liability is based on the assumption that the sum of distributable net dividends and the income tax expense which occurs on the payout cannot exceed the retained earnings as of 31 December 2010.

The Ultimate Parent Company has potential opportunity (in case of retained earnings) to pay dividends that are not taxable with income tax in amount of 698 576 Th. EEK because the Ultimate Parent Company has received potentially payable dividends from its subsidiary Pro Kapital Latvia PJSC, who is the resident and taxable person in Republic of Latvia. The part of the profit related to payable dividends is taxed with income tax in Republic of Latvia. The maximum possible income tax free amount that could be considered as contingent asset and could be paid as net dividend is 185 698 Th. EEK (31.12.2009: 185 698 Th. EEK).

NOTE 25 EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit (loss) for the period with the weighted average number of shares in the period:

Average number of shares:

In period 01.01.2010 - 31.12.2010	(53 185 422 x 12/12) = 53 185 422
In period 01.01.2009 - 31.12.2009	(53 185 422 x 12/12) = 53 185 422

Net profit/loss per share (in EEK):

2010	-349 719 333 / 53 185 422 = -6.58
2009	-395 033 083 / 53 185 422 = -7.43

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The convertible bonds (see Note 18) did not have a dilutive effect on earnings in 2010 and 2009, and therefore they have not been included in the calculation of the diluted net loss per share and the diluted loss per share equals the net loss per share indicator.

NOTE 26 SUBSEQUENT EVENTS

As of 1 January 2011 Estonian official currency is Euro, which changed the functional and presentation currency of the Group and Entities located in Estonia. The change in functional currency is effective for the next period. As of 1 January 2011 the Entities, which functional currency was changed from EEK to EUR, will convert all the accounting balances. Account balances as of 31 December 2010 will be converted to euros according to the currency rate of regulation of European Union Council with official currency rate 15.6466 EEK/EUR.

On 5 January 2011 Pro Kapital Latvia PJSC disposed in intergroup transaction 25% ownership (75% remained) in Pro Kapital Latvia subsidiary group entity Zvaigznes Centrs SIA to Pro Kapital Latvia subsidiary group entity SIA PK Investments. The intergroup purchase-sale transaction has no influence to the assets, liabilities and equity of the Group.

On 5 January 2011 Pro Kapital Latvia PJSC disposed in intergroup transaction 24.73% ownership (75.27% remained) in Pro Kapital Latvia subsidiary group entity Pasaules tirdzniecības centrs "Rīga" SIA to Pro Kapital Latvia subsidiary group entity SIA PK Investments. The intergroup purchase-sale transaction has no influence to the assets, liabilities and equity of the Group.

According to the decision of AS Pro Kapital Grupp shareholders' extraordinary meeting held on 13 April 2009 the Ultimate Parent Company's management offered for subscription 1 000 000 convertible bonds on 8 March 2011 (seventh subscription) with an issue price of 4.5 EUR (appr. 70.4 EEK) per each convertible bond issued. 111 111 convertible bonds were noted in seventh subscription for which the Ultimate Parent Company's received was 500 Th EUR (appr. 7.8 million EEK) in the beginning of the 2011. Issued convertible bonds were noted in Estonian Central Register of Securities on 25 May 2011.

On 17 March 2011, Kristiine Kaubanduskeskus AS, a subsidiary of AS Pro Kapital Eesti, signed a contract for selling of its shopping center in the amount of 105 000 Th. EUR (appr. 1 642 893 Th. EEK). According to the terms of contract the price could change in insignificant amount. The contract entered into force on 2 May 2011. As of 31 December 2010 the book value of the property investment, which is part of disposed operating activities, was 783 025 Th. EEK.

On 17 March 2011 AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ of which they assure in solitary the monetary liabilities of Kristiine Kaubanduskeskus AS, entity belongs to Pro Kapital Eesti subsidiary group, to Kristiine Keskus OÜ in case Kristiine Kaubanduskeskus AS has violated the confirmations of the vendor in the contract of sales of the shopping center and according to the contract Kristiine Keskus OÜ can lodge to rise a claim with Kristiine Kaubanduskeskus AS for infracting the contractual confirmations. The guarantee is conditional and the guarantors are responsible in case Kristiine Kaubanduskeskus AS is not able to pay the claim. The guaranteed amount is 5 000 000 EUR (appr. 78.2 million EEK). The guarantee is effective for 18 months from the enforcement of the sales contract, i.e until 2 November 2012.

On 17 March 2011 AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ, to assure solitary probable claims related to loan agreement concluded on 9 March 2004

between Kristiine Kaubanduskeskus AS and AS Pro Kapital Eesti. The maximum amount of the liability is the amount of potential claim. The guarantee is valid for 72 months from the enforcement of the sales contract, i.e until 2 May 2017.

On 18 April 2011 the sole shareholder of P.K. Sicily S.p.A, a subsidiary of AS Pro Kapital Grupp to cover the losses of the entity in amount of 3 642 771 EUR (appr. 57.0 million EEK) by decreasing the entity's

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share capital from 5 000 000 EUR (appr. 78.2 million EEK) to 1 357 229 EUR (appr. 21.2 million EEK) by cancelling 3 642 771 shares in nominal value of 1 EUR (15.6 EEK).

At the same time the equity was increased by share issue up to 5 000 000 EUR (appr. 78.2 million EEK), issuing 3 642 771 shares in nominal value of 1 EUR (appr. 15.6 EEK) per share. According to the decision the payments were made from the reserve contributed in 23 February 2011 by the sole shareholder.

On 2 May 2011 Kristiine Kaubakeskus AS, subsidiary of AS Pro Kapital Eesti, repaid all the bank loans in the amount of 63.4 million EUR (appt. 992.0 million EEK). The mortgages of granting the loans of Kristiine Kaubanduskeskus AS were removed.

NOTE 27 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are considered to be transactions with the higher level Ultimate Parent Company within the Group, shareholders, the members of the Supervisory Council and the Management Board, their families and the companies in which they hold majority interest or have significant influence.

In 2010

Intra-group transactions
The Group companies decided to provide each other with rent and management, accounting, marketing, and administration services. Such transactions amounted to 23.5 million EEK in 2010.

The intra-group loans are disclosed in Note 8. The interest income and expenses from intra-group loans amounted to 80.1 million EEK.

All intra-group transactions have been eliminated from the consolidated financial statements.

Transactions with shareholders
The subsidiaries of Pro Kapital Latvia group have given short-term loans to Svalbork Invest OÜ, the shareholder of the Parent company. As of 31 December 2010 there were loan receivables in the amount of 81.7 million EEK and interest receivables in the amount of 12.7 million EEK. Interest income from loans was in amount of 3.1 million EEK.

AS Pro Kapital Grupp transactions with Parent company's convertible bonds and balances as of 31 December 2010:

(th. EEK)

	Convertible bonds (Issue price)				
Shareholder of Parent company	31.12.2009	Purchase from Parent Company	Sale back to the Parent company	Purchase/sale (net) from others	31.12.2010
Anndare Ltd.	0	0	0	38 859	38 859
Svalbork Invest OÜ	6 127	0	-6 127	0	0
Eurofiduciaria S.r.l.	54 794	87 264	0	1 674	143 732

As of 31 December 2010 Anndare Ltd has made prepayment for convertible bonds to be issued by AS Pro Kapital Grupp in amount of 11 827 thousand kroons.

(th. EEK)

	Interest of convertible bonds				
Shareholder of Parent company	31.12.2009	calculated	paid	31.12.2010	Paid after balance sheet date
Anndare Ltd.	0	733	0	733	-733
Svalbork Invest OÜ	368	0	-368	0	0
Eurofiduciaria S.r.l.	1 482	6 775	-3 384	4 873	-4 873

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During the accounting period AS Pro Kapital Grupp purchased from Eurofiducia S.r.l, the Parent company's shareholder, 6,76 % share in subsiaidary Immobiliare Novate S.p.A. with price 613 th. EUR (approximately 9 590 th. EEK) and obtained Eurofiduciaria S.r.l.'s claim to Immobiliare Novate S.p.A. in amount of 169 th. euro (approximately 2 651 th. EEK).

Transactions with management
In 2010, the salaries and bonuses paid to the concern's members of the Management Board and the executive managements amounted to 17.3 million EEK. No other transactions or provisions occurred with the members of the management.

As of 31 December 2010, Giuseppe Prevosti, the member of the Supervisory Council of AS Pro Kapital Grupp, and its related parties held 2.06%; Renato Bullani, member of the Supervisory Council AS Pro Kapital Grupp, held 0.25% of the shares of AS Pro Kapital Grupp; other members of the management did not hold the shares of AS Pro Kapital Grupp in significant quantities.

In 2009

Intra-group transactions
The Group companies provided each other with rent and management, accounting, marketing, and administration services. Such transactions amounted to 49.2 million EEK in 2009. The intra-group loans are

disclosed in Note 8. The interest income and expenses from intra-group loans amounted to 87.8 million EEK.

All intra-group transactions have been eliminated from the consolidated financial statements.

Transactions with shareholders
The subsidiaries of Pro Kapital Latvia group have given short-term loans to Svalbork Invest OÜ, the shareholder of the Parent company. As of 31 December 2009 there were loan receivables in the amount of 82.0 million EEK and interest receivables in the amount of 9.6 million EEK. Interest income from loans was in amount of 3.4 million EEK.

AS Pro Kapital Grupp transactions with Parent Company's convertible bonds and balances as of 31 December 2009:

(th. EEK)

	Convertible bonds (issue price)				
Shareholder of Parent company	31.12.2008	Purchase from Parent Company	Sale back to the Parent company	Purchase/sale (net) from others	31.12.2009
Svalbork Invest OÜ	6 127	0	0	0	6 127
Eurofiduciaria S.r.l.	0	54 794	0	0	54 794

(th. EEK)

	Interests of convertible bonds				
Shareholder of Parent company	31.12.2008	calculated	paid	31.12.2009	Paid after balance sheet date
Svalbork Invest OÜ	368	368	-368	368	-368
Eurofiduciaria S.r.l.	0	1 482	0	1 482	-1 482

Transactions with management
In 2009, the salaries and bonuses paid to the concern's members of the Management Board and the executive managements amounted to 19.0 million EEK. No other transactions or provisions occurred with the members of the management.

As of 31 December 2009, the Supervisory Council, the Management Board and the executive managements of the AS Pro Kapital Grupp did not hold the shares of AS Pro Kapital Grupp in significant quantities.

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NOTE 28 COLLATERALS AND PLEDGED ASSETS

Name of the pledge	Name of the beneficiary	Obligation amount as of 31.12.2010 (Th. EEK)	Collateral description	Owner of collateral	Type of asset	Book value of collateral as of 31.12.2010 (Th. EEK)
Kristiine Kaubanduskeskus AS	Swedbank	981 028	Kalaranna 1, Tallinn	Pro Kapital Eesti AS	Unfinished construction (inventories)	0
			Ülemiste road 5, Tallinn	Pro Kapital Eesti AS	Investment property	0
			Seebi 24a/ Tondi 53b, Tondi tn 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare tee 56/58, Tallinn	Tondi Kvartal AS	Unfinished construction (inventories)	0
			Põhja avenue. 23, Tallinn	Ilmarise Kvartal OÜ	Land and buildings	0
			Peterburi road 2, Tallinn	Tallinna Moekombinaat AS	Investment property	0
			Endla 45,Tulika 35, 33a/37a and Kotkapoja 7, 9, 11, Tallinn	Kristiine Kaubanduskeskus AS	Investment property	0
Tondi Kvartal AS	Swedbank	18 582	Tondi 51, Tallinn	Tondi Kvartal AS	Finished construction (inventories)	0
			Guarantee contract	AS Pro Kapital Grupp	Entity's assets	0
Pro Kapital Eesti AS	Swedbank	64 019	Põhja avenue21a, 21b, 21 (703/6962), Tallinn	AS Pro Kapital Eesti	Land and buildings	0
			Põhja avenue 21 (6259/6962), Tallinn	Ilmarise Kvartal OÜ	Finished construction (inventories)	0
Investhotel SIA	Swedbank	91 414	Pulkveza Brieza Str. 11, Riia	Investhotel SIA	Land and buildings	0
					Other assets	0
			Guarantee contract	AS Pro Kapital Grupp	Entity's assets	0
PK Invest UAB	Swedbank	150 011	Aguonu str.10, Vilnius	PK Invest UAB	Finished construction (inventories)	0
					Unfinished construction (inventories)	0
			Guarantee contract	AS Pro Kapital Grupp	Entity's assets	0
Domina Vacanze S.p.A	Credito Artigiano Bank	24 369	Cianderils, Largo delle Poste 39, Cortina d'Ampezzo (BL)	Domina Vacanze S.p.A.	Land and buildings	0
	Meliorbanca	224 561	Via Priesnig 10, Tarvisio	Domina Vacanze S.p.A.	Unfinished construction (inventories)	0
			Via A. Maffei 1, Milan	Domina Vacanze S.p.A.	Land and buildings	0
Immobiliare Novate S.p.A.	Credito Artigiano Bank	236 964	Via Don Orione 18/20, Milan	Immobiliare Novate S.p.A.	Land and buildings	0
P.K. Sicily S.p.A.	Credito Siciliano S.p.A.	339 531	Resort Domina Home Zagarella, Santa Flavia, Palermo	P.K.Sicily S.p.A.	Unfinished construction (inventories)	0
			P.K.Sicily S.p.A. shares	AS Pro Kapital Grupp	Securities	0
			Guarantee contract	AS Pro Kapital Grupp	Entity's assets	0
Total		**2 130 479**				**0**

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In addition to guarantee letters related to loans of the Group, AS Pro Kapital Grupp has issued guarantee letters as of balance sheet date as follows:

- To Hotel Blijdorp B.V. to assure the rental liabilities to Serval S.r.l. related to the hotel, located in Rotterdam, rental agreement concluded between Serval S.r.l. and Hotel Blijdorp B.V. The guarantee letter is only to assure the rental payments in amount up to 2 300 000 EUR (appr. 36.0 million EEK);
- To Swedbank to assure the potential liability of Klīversala RE SIA, an entity belonging to Pro Kapital Latvia subsidiary group for Swedbank in amount of 5 681 334 LVL (appr. 125.2 million EEK), as Swedbank has issued a guarantee letter in the same amount to VAS „Privatizācijas aģentūra" to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra".

NOTE 29 RISK MANAGEMENT

The business of the Group involves business risk and several financial risks: market risk (interest and currency risk), credit risk and liquidity risk, it is aimed to minimize the negative impact of these risks to the Group's financial results with the risk management. The main purpose of the risk management is to assure the retention of Group's equity and to carry Group activities as a going concern.

Business risk

The business risk of the Group depends on the development of the real estate markets in Baltic States, Italy and Russia, and on the development of the tourism sector in Europe as well as in Egypt.

The global financial crisis and the accompanying economic crisis in the recent years have been affecting negatively development of the real estate as well as tourism sector. Although at the end of 2009 the global economy showed some signs of economic growth, the positive impact of the real estate development sector is usually occurs with a delay.

Significant risk which would occur with the crisis, the decrease of the substantial purchasing capability of the permanent residence, the increase of the interest rates for mortgage loans and other factors which could decrease the demand for real estate and hotel services and have a negative impact to the Group operating activities, decreasing the sales and rent income as well the gain from development activities, property management services and operating hotels. Changes in financial markets could reduce the Group's business opportunities to involve foreign capital to finance business and to refinance existing financial liabilities.

In order to diversity the business risk, the Group has expanded its business activities into new areas with large development potential, it has continued to develop real estate projects in Sicily (Italy) and Russia.

Taking into consideration the capacity of the real estate projects and favorable position, it can be presumed, that the subsidiary groups are able to retain their position in the market.

The Group's Management believes it is not possible to reliably assess the effects of the ongoing economic crisis, however the management believes that all necessary measurement have been adopted to provide a sustainable development.

Interest risk

Main interest risk rises from long-term liabilities of the Group. In general the interest rates of loans raised by the entities belonging to Group are fixed through Euribor plus a risk margin (Notes 15 and 16). Interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. The minimum use of financial instruments is used to diversify the interest risk. According to Group's management estimate the expenses related to interest diversification (fixed interest rate) are exceeding the possible losses from the change of interest rate. The estimate based on the Group's financing strategy in the short-term. As of 31.12.2010 the interest bearing liabilities amounted to 47.0% (31.12.2009: 39.7%) from the total of Group capital structure.

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Currency risk

Entities belonging to the Group perform transactions in currency applicable in the resident country, currency risk arises in case of exchange currency transactions, which are performed with currencies not related to euro. To ground the currency risk, all the relevant contracts in the Group are signed in Euro or in currencies related to euro. Thus the main currency risk is related with devaluation of currencies related to euro, against which the Group is not protected.

Due to the fact that Group's liabilities are predominantly in euro (Notes 15, 16 and 17) and majority of Group's income comes from euro based contracts, the Group's management estimates the currency risk to be unimportant and does not consider the usage of financial instruments for diversification proper.

Credit risk

The Credit risk expresses potential loss that occurs, when customers do not fulfill their contractual obligations to the Group. For mitigating the credit risk the payment discipline of the customers is consistently followed.

In general the sales of real estate are financed with clients' prepayments. In case of sales of the real estate under the installment, the creditworthiness of each client is analyzed separately. The ownership of the sales object belongs to the Group entities until the client has settled all debt. It may sometimes happen that the ownership is transferred to the buyer but a mortgage is set in favor of the Group entity.

During the reporting period the deterioration of payment discipline of the customers has occurred related to rent of real estate, however the Group has not had to bear significant credit losses.

Based on the assumption of Group's management experience and the analysis of the economic environments' development trends, discounts are made to cover possible losses, if necessary.

According to the estimation of the Group's management the need for further grounding of credit risk resulted from above is minimal.

Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group constantly monitors proportion of short-term liabilities and current assets. The Group's working capital has been positive: as of 31.12.2010 the current assets exceeded short-term liabilities by 2.1 times (31.12.2009: 4.3 times).

Group's financial liabilities according to the due date:

(Th. EEK)

			Repayment of liabilities				Repayment of liabilities		
	Note	31.12.2010	within 1 year	2-5 years	over 5 years	Adjusted as of 31.12.2009	within 1 year	2-5 years	over 5 years
Bank loans	15	2 175 949	1 264 116	837 003	74 830	1 943 904	158 743	1 698 982	86 179
Long-term loans	16	149 901	10 041	116 298	23 562	128 083	9 701	118 382	0
Finance lease liabilities	19	38 002	6 555	29 993	1 454	4 927	793	3 331	803
Convertible bonds	18	235 547	0	235 547	0	88 141	6 127	82 014	0
Trade payables		363 568	363 568	0	0	448 594	448 594	0	0
Other debt		534 523	146 805	387 718	0	407 521	78 711	328 810	0
Total		**3 497 490**	**1 791 085**	**1 606 559**	**99 846**	**3 021 170**	**702 669**	**2 231 519**	**86 982**

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Fair value

Based on the estimates of the Group's management, book value of the financial assets and liabilities does not differ significantly from their fair value, due to accounting policies used in Group.

Fair value of interest bearing receivables and liabilities is not considered to be significantly different from their book value, because the interest rates fixed by the contracts underlying the corresponding receivables and liabilities do not significantly differ from the effective market interest rates.

Capital risk management

The purpose of capital risk management is to provide the Group's sustainability and to ensure profit for the shareholders through optimal structure of capital.

The Group uses foreign and equity capital for financing business activities and monitors percentage of equity of total assets in editing financial structure and in assessment of risk. As of 31.12.2010 the equity constitutes 33.3 % (31.12.2009: 40.5 %) of total assets.

For obtaining and improving capital structure the Group has possibility to regulate dividends payable, to return shareholders contributions to share capital, to issue new shares, or to sell assets to decrease liabilities.

NOTE 30 LAW SUITS

Parent company

On 27 May 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter of which AS Pro Kapital Grupp assures the rental liabilities of the Serval S.r.l arising from the rental agreement of the Rotterdam hotel, concluded on 4 August 2006 between Serval S.r.l and Hotel Blijdorp B.V. In 2007 Aprisco B.V acquired the hotel that was managed by subsidiary of Serval and the rental agreement with Serval S.r.l was transferred to Aprisco B.V. Serval S.r.l has not fulfilled the rental obligations to Aprisco B.V, therefore Aprisco B.V claims the payments according to the guarantee letter. Aprisco has filed alternative claims to the court. Firstly, Aprisco B.V claims the payment of caused loss in amount of 2 300 000 EUR (appr. 36.0 million EEK) or in the amount stated by the court. As an alternative claim, Aprisco B.V claims overdue rental payments in amount of 904 106 EUR (appr. 14.1 million EEK) with accumulated interest for default.

The Management Board of AS Pro Kapital Grupp does not recognize the claim and claims that the guarantee was given to Hotel Blijdorp B.V and not to Aprisco B.V and AS Pro Kapital Grupp was not informed for the transfer of the guarantee letter and therefore Aprisco B.V cannot file the claim related to the guarantee letter. The Management Board of AS Pro Kapital Grupp claims alternatively that according to the guarantee letter Aprisco B.V can claim only unpaid rental payments in amount of 524 000 EUR (appr. 8.2 million EEK), not the potential damage.

As of 31 December 2009 AS Pro Kapital Grupp had no ongoing legal proceedings.

Pro Kapital Latvia subsidiary group

As of 31 December 2010, the parent entity of Pro Kapital Latvia subsidiary group has no ongoing legal proceeding. A legal proceeding ended during the reporting period: it was related to the former employees claim against the entity in matter of the commission fees in total amount of 360 641 Latvian lats (appr. 7 952 th. EEK), and the entity added a claim against the annulment of the appendix of the employment agreement.

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On 14 April 2008, the Riga city court called claim against the entity without any legal basis, and the court satisfied the counterclaim of the entity. Afterwards on 12 May 2008 the employee submitted the claim to appeal the decision of the Riga city court. On 29 January 2009, the court annulled the decision of the Riga city court, and dismissed the employee's claim against the entity as well as the entity's claim against the employee.

On 17 April 2009, both parties submitted the decision to cassation. Entity has asked the cancellation of decision made by district court and entity's claim for recognized the agreement appendix as void. Employee has asked the cancellation of decision made by the district court and that the aforementioned commissions to be paid out.

On 15 December 2010 the Supreme Court made a judgment not to proceed the cassation and circuit courts judgment entered in force. The judgment of the Supreme Court is not appealable.

As of 31 December 2010, the entity of Pro Kapital Latvia subsidiary group PK Investments SIA has one ongoing legal arbitration proceeding. On 31 July 2009, the entity submitted an application to Swedish Chamber of Commerce Court of Arbitration with claim against KanAM Grund Kapitalanlagegesellschaft mbH with content to pay 400 000 EUR (appr. 6 259 thousand EEK) and interest amounting to 27 930 EUR (appr. 437 thousand EEK) under the sale contract of Domina Shopping Centre, which KanAM Grund Kapitalanlagegesellschaft mbH held improperly.

In its response to Arbitration KanAM Grund Kapitalanlagegesellschaft mbH announced, that it does not recognize the claim and filed an appeal to Swedish Chamber of Commerce Court of Arbitration for arbitration proceeding against PK Investments SIA for compensation in amount of 8 000 Th. EUR (125 173 Th. EEK) with argument that entity has failed to improve the construction waste in Domina Shopping Centre.

According to the Swedish Chamber of Commerce Court of Arbitration judgment in 31 January 2011, PK Investments SIA has to compensate the caused damages and legal costs to KanAM Grund Kapitalanlagegesellschaft mbH in total amount of 3 800 Th. EUR (appr. 2 671 Th. LVL, i.e 58 878 Th. EEK) and in addition improve the defects of the construction. The possible cost of mentioned construction works is being clarified.

The aforementioned claim of PK Investments SIA against KanAM Grund Kapitalanlagegesellschaft mbH was not satisfied.

The Management Board of PK Investments SIA considers the claim to be unjustified and proceeding for the admission of the judgment of the Swedish Chamber of Commerce Court of Arbitration is in the process in the Riga city court.

PK Investments SIA is the third person included in the legal process in SIA Inexet Latvia claim against KanAM Grund Kapitalanlagegesellschaft mbH for compensation in amount of 150 Th. LVL (appr. 3 306 Th. EEK) because the repairment work made in Domina Shopping center disturbed the business operations and increased the profit of SIA Inexet Latvia. First instance court did not satisfy the claim of SIA Inexet Latvia. In case the proceeding continues and if the claim of SIA Inexet Latvia will be satisfied, there is a potential possibility that KanAM Grund Kapitalanlagegesellschaft mbH will file a claim against PK Investments SIA, who was the operator of the shopping centre and who organized the repairmen works.

The consolidated report of the Group as of 31 December 2010 consist of potential liabilities in amount of 2 671 Th. LVL (appr. 58 878 EEK) for executing the court ruling and for other potential claims in amount of 70 Th. LVL (appr. 1 543 Th. EEK).

As of 31 December 2009 Pro Kapital Latvia subsidiary group entities had two aforementioned ongoing legal proceedings.

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Pro Kapital Vilnius subsidiary group

As of 31 December 2010, the entities of Pro Kapital Vilnius subsidiary group had one ongoing legal proceeding, related to termination of the preliminary contract of sale of real estate and return of the prepayment received from a client.

The Group management estimates that the unfinished law suit has no significant effect on the business operations of the Pro Kapital Vilnius subsidiary group companies.

As of 31 December 2009 Pro Kapital Vilnius subsidiary group had no ongoing legal proceedings.

Domina Vacanze subsidiary group

As of 31 December 2010, the entities of Domina Vacanze subsidiary group have 62 unfinished legal proceedings, 4 of which are related to monetary and non-monetary claims of former employees related to termination of the employment relationship, 25 are related to termination of the real estate preliminary sales contracts and the return of money, 6 of which are related to quality services provided by Domina Vacanze subsidiary group, 11 of which are related to unpaid invoices of Domina Vacanze subsidiary group entities for goods and services of law quality and 16 of which are related to client claims related to income received from the sub-lease of clients' timeshares by the Domina Vacanze subsidiary group.

The legal proceedings connected to the real estate are based on the client's request not to terminate the preliminary contract despite of the violation of the conditions by the client or to receive back the agreed payments that are not refundable based on the agreement conditions.

The consolidated Annual report of the group as of 31 December 2010 includes potential liabilities for satisfying possible claims in the amount of 427 th. EUR (appr. 6 681 th. EEK).

As of 31 December 2009, the entities of Domina Vacanze subsidiary group had 33 unfinished legal proceedings, 28 of which are related to termination of the real estate preliminary sales contracts and the return of money, and 5 are related to quality of the services provided by Domina Vacanze subsidiary group.

Serval subsidiary group

As of 31 December 2010, the entities of Serval subsidiary group had three unfinished legal proceedings, one of which are related to a former employee's monetary and non-monetary claims against the entity in relation to lay off of the employee, and two are related to claims of consultancy companies for services which are contracted, however the services have not been provided.

According to the Group management estimates, the above described unfinished law suits have no significant effect on the business operations of the Serval subsidiary group companies.

As of 31 December 2009, the entities of Serval subsidiary group have seven ongoing legal proceedings.

There was no other Court or Arbitration Court proceedings initiated that could significantly affect the business operations of the Group companies.

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NOTE 31 FINANCIAL STATEMENTS OF THE ULTIMATE PARENT COMPANY

Balance Sheet

ASSETS

(Th. EEK)	31.12.2010	Adjusted 31.12.2009	01.01.2009
Current assets			
Cash and bank accounts	3 528	3 008	2 767
Accounts receivables			
Accounts receivable	1 486	0	0
Miscellaneous receivables			
Short-term receivables from the Group entities	96 738	86 815	49 738
Other short-term receivables	704	714	0
Total	97 442	87 529	49 738
Accrued income			
Interests	45	9	0
Prepaid expenses			
Prepaid taxes and reclaimable taxes	14	0	569
Prepaid expenses	36	33	3 041
Total	50	33	3 610
Total current assets	**102 551**	**90 579**	**56 115**
Non-current assets			
Long-term financial investments			
Shares in subsidiaries	2 137 460	2 104 649	2 030 105
Long-term receivables from the Group entities	1 078 812	938 331	848 179
Total	3 216 272	3 042 980	2 878 284
Tangible assets (net)	5	20	38
Total non-current assets	**3 216 277**	**3 043 000**	**2 878 322**
TOTAL ASSETS	**3 318 828**	**3 133 579**	**2 934 437**

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LIABILITIES AND OWNER'S EQUITY

(Th. EEK)	31.12.2010	Adjusted 31.12.2009	01.01.2009
Current liabilities			
Short-term debt	11 827	6 127	0
Trade payables	125	167	175
Miscellaneous liabilities			
Payables to Group entities	142 980	119 958	822 246
Tax payables	0	122	394
Accrued expenses	7 584	2 841	552
Total current liabilities	**162 516**	**129 215**	**823 367**
Non-current liabilities			
Long-term debt	235 547	82 014	5 851
Other long-term liabilities			
Payables to Group entities	1 008 373	978 944	865 220
Long-term provisions	410	253	101
Total non-current liabilities	**1 244 330**	**1 061 211**	**871 172**
Total liabilities	**1 406 846**	**1 190 426**	**1 694 539**
Share capital in nominal value	531 854	531 854	531 854
Share premium	705 495	705 495	705 495
Reserves	45 966	45 966	46 242
Retained earnings / accumulated deficit	659 838	-43 693	20 971
Profit / loss for the financial year	-31 171	703 531	-64 664
Total owner's equity	**1 911 982**	**1 943 153**	**1 239 898**
TOTAL LIABILITIES AND OWNER'S EQUITY	**3 318 828**	**3 133 579**	**2 934 437**

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Income Statement

(Th. EEK)	2010	2009
Operating income		
Revenue	5 529	5 907
Cost of goods and services sold	-43	-107
Gross profit	**5 486**	**5 800**
Marketing expenses	-9	-128
Administrative expenses	-18 755	-23 054
Other income	0	2
Other expense	-8	-11
Operating loss	**-13 286**	**-17 391**
Financial income and expense	-17 885	720 922
Financial income and expense from subsidiaries shares	0	738 839
Interest expense	-54 032	-57 567
Profit / loss from change in currency exchange rate	-15	6 962
Other financial income and expense	36 162	32 688
Profit / loss before income tax	**-31 171**	**703 531**
Income tax	0	0
Profit / loss for the financial year	**-31 171**	**703 531**

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Statement of cash flows

(Th. EEK)	2010	2009
OPERATING ACTIVITIES		
Profit /loss for the financial year	-31 171	703 531
Adjustments:		
Depreciation of tangible assets	15	18
Interest income and expense (net)	17 870	24 879
Dividend income	0	-745 814
Change in provisions	157	152
Change in receivables and prepayments made	-2 543	4 708
Changes in payables and prepayments collected	-274	-202
Cash flow used in operating activities	**-15 946**	**-12 728**
INVESTING ACTIVITIES		
Increase of share capital or acquisition of subsidiaries	-9 590	-19 558
Loans granted	-143 783	-95 194
Repayments of loans granted	30 120	16 820
Interest received	2 233	2 398
Interest paid	-20 219	-3 627
Cash flows used in investing activities	**-141 239**	**-99 161**
FINANCING ACTIVITIES		
Loans raised	173 105	130 103
Repayments of loans raised	-15 400	-17 973
Cash flows from financing activities	**157 705**	**112 130**
Net change in cash	**520**	**241**
CASH AT THE BEGINNING OF THE FINANCIAL YEAR	**3 008**	**2 767**
CASH AT THE END OF THE FINANCIAL YEAR	**3 528**	**3 008**

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Statement of changes in equity

(Th. EEK)	Share capital	Share premium	Reserves	Retained earnings / accumulated deficit	Profit / loss for the financial year	Total
Balance as of 31 December 2008	**531 854**	**705 495**	**46 242**	**20 971**	**-64 664**	**1 239 898**
Cost of subsidiaries shares	X	X	X	X	X	-2 030 104
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	2 847 497
Adjusted unconsolidated equity 31 December 2008	**X**	**X**	**X**	**X**	**X**	**2 057 291**
Change in the convertible bonds reserve	0	0	7 918	0	0	7 918
Allocation of net loss	0	0	0	-64 664	64 664	0
Result of the financial year	0	0	0	0	703 531	703 531
Balance as of 31 December 2009	**531 854**	**705 495**	**54 160**	**-43 693**	**703 531**	**1 951 347**
Adjustment (change in convertible security reserve)			-8 194			-8 194
Adjusted balance as of 31 December 2009	**531 854**	**705 495**	**45 966**	**-43 693**	**703 531**	**1 943 153**
Cost of subsidiaries shares	X	X	X	X	X	-2 104 649
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	1 817 029
Adjusted unconsolidated equity 31 December 2009	**X**	**X**	**X**	**X**	**X**	**1 655 533**
Allocation of net loss	0	0	0	703 531	-703 531	0
Result of the financial year	0	0	0	0	-31 171	-31 171
Balance as of 31 December 2010	**531 854**	**705 495**	**45 966**	**659 838**	**-31 171**	**1 911 982**
Cost of subsidiaries shares	X	X	X	X	X	-2 137 460
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	1 517 055
Adjusted unconsolidated equity 31 December 2010	**X**	**X**	**X**	**X**	**X**	**1 291 577**

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INDEPENDENT SWORN AUDITOR'S REPORT

To the shareholder of AS Pro Kapital Grupp:

We have audited the accompanying consolidated annual accounts (page 9 to 68) of AS Pro Kapital Grupp (hereinafter referred to as "the Parent") and subsidiaries (hereinafter together referred to as "the Group"), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Annual Accounts

The Management Board of the Parent is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by European Commission, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated annual account that are free from material misstatement, whether due to fraud or error.

Sworn Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the sworn auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the sworn auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion on Consolidated Financial Statements

The Group has consolidated a subsidiary Multiservice S.r.l.. We were unable to obtain sufficient appropriate audit evidence for consolidated other income in amount of 31 052 933 Estonian kroons and consolidated other expenses in amount of 30 601 965 Estonian kroons arising from the aforementioned subsidiary.

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Basis for Qualified Opinion on Financial Position of the Parent

Our audit was conducted for the purpose of forming an opinion on the consolidated annual accounts of the Group. The Estonian Accounting Act requires the disclosure of separate financial statements of the ultimate parent company as an integral part of such consolidated annual accounts. As of 31 December 2010 the unconsolidated balance sheet of the Parent, which is disclosed in Note 31 in the consolidated annual accounts, comprises financial investments into subsidiaries at their cost value 2 137 460 thousand Estonian kroons. According to IAS 36 "Impairment of Assets", the management of the entity shall assess at each reporting date whether there is any indication that entity's assets may be impaired; if such an indication exists, the management shall estimate the recoverable amount of the asset. As of 31 December 2010 the parent company has not performed the impairment test on the described financial investments.

Qualified Opinion

In our opinion, except for the potential effects of the matters referred to in the preceding paragraphs, the consolidated annual accounts present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by European Commission.

28 June 2011

Veiko Hintsov
Sworn auditor No 328
Deloitte Audit Eesti AS
License No 27

AS PRO KAPITAL GRUPP

PROPOSAL FOR COVERING LOSS

The Management Board of AS Pro Kapital Grupp proposes to cover the loss for the year 2010 in the amount of 349 719 333 EEK from prior years retained earnings.

31 May 2011

Paolo Vittorio Michelozzi
Member of the Management Board

REVENUE ALLOCATION BY THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES (EMTAK 2008)

The Ultimate Parent Company's revenue for the reporting period is allocated by the fields of activities according to the Estonian Classification of Economic Activities 2008 as follows:

	2010 (Th. EEK)
Activities of head offices (EMTAK 70101)	5 529
Total	**5 529**

AS PRO KAPITAL GRUPP

Consolidated Financial Statements
for the Year Ended 31 December 2009

Parent company of the Group	**AS Pro Kapital Grupp**
Beginning of the financial year End of the financial year	1 January 2009 31 December 2009
Registration code	10278802
Address	21 Põhja avenue 10414 Tallinn
Telephone Facsimile E-mail	+372 6 144 920 +372 6 144 929 prokapital@prokapital.ee
Fields of activity	Activities of holding companies (EMTAK 6420) Buying and selling of own real estate (EMTAK 6810) Renting and operating of own or leased real estate (EMTAK 6820) Management of real estate on a fee or contract basis (EMTAK 6832)
Auditors	AS Deloitte Audit Eesti
Date of preparation of the financial statements	31 May 2010
Documents enclosed with the annual report	Independent sworn auditor's report Proposal fpr covering loss Revenue allocation by Estonian Classification of Economic Activities 2008

AS PRO KAPITAL GRUPP

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AS Pro Kapital Grupp (hereinafter also referred to as "the Ultimate Parent Company") is a holding company, which owns subsidiary groups in Estonia (Pro Kapital Eesti AS), Latvia (Pro Kapital Latvia PJSC), Lithuania (Pro Kapital Vilnius Real Estate UAB), Italy (Domina Vacanze S.p.A., Domina Hotel Group S.p.A.), Russia (Pro Kapital Rus OOO), Ukraine (Pro Kapital Ukraine 3AT), and other subsidiaries not belonging into aforementioned subsidiary groups in Italy (P.K. Sicily S.p.A., Immobiliare Novate S.p.A.) and Germany (Pro Kapital Germany GmbH) (hereinafter also referred to as „the Group"). The Ultimate Parent Company's main fields of activity are to coordinate and control the development and implementation of the subsidiaries' business strategies, to administrate the Group's financial management, business reporting, and to forward information to investors.

The Group's business strategy in the Baltic States, Russia, Ukraine, and Germany is to invest into real estate properties in locations with substantial development potential, to develop them according to market demand and realize the investment. In addition to the main activities, the Group also offers real estate development and maintenance service to third parties. The Group is primarly focused on establishment of shopping centres, hotels and modern, integrated residential areas, through which the development of living environment and infrastructure of corresponding countries is also supported.

The Group's business strategy in Italy is focused on development of hotel real estate, sales of hotel suites and villas, and hotels' management in Italy, Germany, Estonia, and Latvia.

The deterioration in the global economic situation in recent years, has had the most negative impact on the Group's enities involved in hotel management. Consequently, the Group's management has decided to focus primarly in this area on Group-owned hotel management and minimize third-party owned hotel management.

In 2009 on average 659 full-time employees were engaged in the Group (2008: 646). Total salaries and wages amounted to 346.9 million EEK (2008: 318.7 million EEK), including payments to the members of the Group entities' Management Boards and local managements as salaries and bonuses in the amount of 19.0 million EEK (2008: 20.7 million EEK).

The most significant events of the financial year in the Group were as follows:

The Ultimate Parent Company

On 13 April 2009, AS Pro Kapital Grupp shareholders' extraordinary meeting decided to issue up to 10 000 000 convertible bonds of the Ultimate Parent Company in nominal value of 10 EEK for bond, and increase conditionally the Ultimate Parent Company's share capital by up to 10 000 000 shares in nominal value of 10 EEK per share in order to exchange convertible bonds for shares of the Ultimate Parent Company. The bonds shall be offered for subscription until 1 January 2012. Management of the Ultimate Parent Company has the right to offer the above mentioned number of convertible bonds under several subscription periods. The offers of bonds must be carried out so that offers would neither jointly nor separately be deemed as public offering of securities under the terms of the directive 2003/71/EC and applicable laws. The issue price of convertible bond in each separate subscription period is determined by management of the Ultimate Parent Company, but it shall not be less tham 4 EUR (appr. 62.6 EEK) per convertible bond. Convertible bonds can be subscribed for in quantity so that the total sum payable based on the issue price is not less than 50 000 EUR (appr. 782.3 th. EEK). The interest rate of convetible bond is 7% per annum from its issue price.

Convertible bond can be exchanged for share of the Ultimate Parent Company on 31.12.2010, 31.12.2011 and 31.12.2012.

The Ultimate Parent Company's shareholders' pre-emptive right to submit for the convertible bonds and shares issued upon convension of these bonds is excluded with decision.

On 24 April 2009, the conditional increase of the Ultimate Parent Company's share capital was registered in the Commercial Register.

In accordance with the above-mentioned decision of extraordinary meeting of shareholders, the Ultimate Parent Company's management offered for subscription 3 000 000 convertible bonds on 7 May 2009 and 1 000 000 convertible bonds on 24 September 2009, with an issue price of 4.5 EUR (appr. 70.4 EEK) per convertible bond. In the first subscription period 1 164 807 convertible bonds were subscribed, for which the Ultimate Parent Company received 5 242 thousand EUR (appr. 82.0 million EEK) in the reporting period. On 13 August 2009, the issued convertible bonds were registered in the Estonian Central Register of Securities. In the second subscription period 382 304 convertible bonds were subscribed, for which the Ultimate Parent Comapny received 1 720 thousand EUR (appr. 26.9 million EEK) in January 2010. The issued convertible bonds were represented in the Estonian Central Register of Securites on 20 January 2010.

On 6 July 2009, shareholders' meeting of Domina Hotel Group S.p.A., a subsidiary of AS Pro Kapital Grupp, decided to decrease the entity's share capital by cancellation of shares to cover losses from 10 100 000 EUR (appr. 158.0 million EEK) to 864 519 EUR (appr. 13.5 million EEK), by cancelling 9 235 481 shares with nominal value of 1 EUR (appr. 15.6 EEK). At the same time it was decided to increase the entity's share capital by targeted emission up to 10 100 000 EUR (appr. 158.0 million EEK) by issuing 9 235 481 shares with nominal value of 1 EUR (appr. 15.6 EEK) per share.

In total, 4 773 513 shares were subscribed, so the amount of entity share capital after emission is 5 638 032 EUR (appr. 88.2 million EEK). According to the decision, monetary and non-monetary contributions were made by 30 November 2009.

Domina Vacanze subsidiary group

On 29 January 2009, the liquidation process of Domina Vacanze S.p.A. subsidiary Domina Incentive S.r.l. was completed.

On 3 March 2009, the liquidation process of Domina Vacanze S.p.A. subsidiary Domina Swiss Sagl was completed.

On 29 June 2009, Domina Vacanze S.p.A. and its subsidiary Palumbalza Residence S.r.l. concluded a merger agreement under which the acquiring entity is Domina Vacanze S.p.A. and the entity being acquired was Palumbalza Residence S.r.l. As of the balance sheet date the merger process has been finalised.

On 2 December 2009, Domina Vacanze S.p.A. and Credito Artigiano Bank signed a loan agreement with credit limit 1 600 thousand EUR (appr. 25 035 thousand EEK), with interest rate of 3 months Euribor + 2.25% per annum and due date on 30 January 2013. The loan will be used for the renovation of the hotel building situated in Italy, Cortina d'Ampezzo.

During the reporting period, an agreement between Domina Vacanze S.p.A. and Deutsche Bank was signed, according to which customers, who have signed timeshare purchase agreement with Domina Vacanze S.p.A., are able to get a loan from Deutsche Bank to pay for the above-mentioned purchase. The Management of Domina Vacanze believes this possibility will excite widespread interest among the customers and affects positively the process of selling timeshare.

The liquidation proceedings initiateded by Domina Vacanze S.p.A. before the financial period for the subsidiaries Domina Vacanze GmbH, Prima Classe S.r.l. and Domina Health & Beauty S.r.l. were not concluded as of the balance sheet date.

Domina Hotel Group subsidiary group

On 21 July 2009, Domina Management Sp. z.o.o., a subsidiary of Domina Management AS (a subsidiary of Domina Hotel Group S.p.A.) ended business as hotel operation in hotel "Domina Prestige" located in Poznan in Poland as the result did not meet the objectives proposed.

On 24 September 2009, Domina Management AS, a subsidiary of Domina Hotel Group S.p.A., sold the 100% ownership of Domina Management UAB to Pro Kapital Vilnius Real Estate UAB. The intra-group purchase-sale transaction had no effect on the Group's assets, liabilities and equity.

On 31 October 2009, Domina Hotel Hungary KFT, as subsidiary of Domina Hotel Group S.p.A., ended business as hotel operator in hotel "Domina Inn Fiesta" located in Budapest in Hungary as the result did not meet the objectives proposed.

Domina Tunisie S.A., a subsidiary of Domina Hotel Group S.p.A., ended the activity in 2007, but as of the balance sheet date the liquidation process has not been started due to the value-added tax was still not refunded by the goverment.

Pro Kapital Eesti subsidiary group

On 16 January 2009, AS Tondi Kvartal, a subsidiary of AS Pro Kapital Eesti, and AS Swedbank signed a loan agreement with credit limit 2 129 thousand EUR (appr. 33 312 thousand EEK), with interest rate of 6 months Euribor + 2.75% per annum and maturity date on 16 January 2010. The loan will be used to refinance previously taken overdraft.

On 5 February 2009, AS Pro Kapital Eesti sold the 3.99% ownership of AS Tallinna Moekombinaat, with sale price of 10 953 thousand EEK, retaining 96.01% ownership,. Profit from the disposal of investment in subsidiary constituted 9 940 thousand EEK in total.

On 23 April 2009, AS Kristiine Kaubanduskeskus, a subsidiary of AS Pro Kapital Eesti, and AS Swedbank signed a loan agreement with credit limit 59 121 thousand EUR (appr. 925 000 thousand EEK), with interest rate of 6 months Euribor + 3.5% per annum and maturity date on 23 April 2014. All previous loan debt from AS Swedbank in total amount of 45 700 thousand EUR (appr. 715 000 thousand EEK) was refinanced by new credit limit. The free loan limit will be used in financing the expansion of the trade centre owned by AS Kristiine Kaubanduskeskus.

On 28 May 2009, AS Tondi Kvartal and OÜ Neotrust, subsidiaries of AS Pro Kapital Eesti, concluded a merger agreement under which the acquiring entity was AS Tondi Kvartal and the entity being acquired was OÜ Neotrust. As a result of the merger, Neotrust OÜ was liquidated, and AS Tondi Kvartal is its legal successor. The merger was registered in Commercial Register on 12 August 2009.

Pro Kapital Latvia subsidiary group

In 2009, Pro Kapital subsidiary group in Latvia continued the development and management of existing real estate projects.

During the reporting period, Neotrust OÜ was liquidated, which legally belonged to the subsidiary group of Pro Kapital Eesti, but in the consolidated financial statements recorded until the end of 2008 in the subsidiary group of Pro Kapital Latvia. As assets of Neotrust OÜ consisted of financial investments into shares of Pasaules tirdzniecības centrs "Rīga" SIA located in Republic of Latvia and liabilities consisted of debt to Pro Kapital Latvia PJSC, therefore the intra-group purchase transaction was made before liquidation by eliminating the financial investment from balance sheet of Neotrust OÜ from Pro Kapital Eesti AS to Pro Kapital Latvia PJSC. The intra-group purchase-sale transaction had no effect to the Group's assets, liabilities and equity.

On 12 January 2009, Pro Kapital Latvia PJSC decided to end the activity of subsidiary Kugu Real Estate SIA and start with liquidation process. As of the balance sheet date, the liquidation process has not been finalized.

On 20 July 2009, liquidation process of A-Centrs SIA, a subsidiary of Pro Kapital Latvia PJSC, was started. Decision to end the activity and to start with liquidation process was made by shareholders's meeting of A-Centrs SIA on 29 August 2008. As of the balance sheet date, the liquidation process has not been finalized.

SIA PK Investments, an entity belonging to the Pro Kapital Latvia subsidiary group, continued operational activities as a operator of the Domina Shopping Centre, which was sold by the entity in 2007.

Nekustamo īpašumu sabiedrība Prokurs SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued the sale of renovated apartments in situated Riga, Kugu 26. As of the end of 2009, 6 apartments were not sold, 2 apartments of which were rented out.

Klīversala RE SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued to develop the Trijādības region in Riga. In 2009, the entity was working on the detailed plan of the project, due to the low activities level of real estate market, it was decided not to start with construction works. It is planned to build 86 500 m^2 of dwelling areas and 67 200 m^2 of commercial areas at a total amount of 180 million EUR (appr. 2.8 billion EEK) onto the 56 000 m^2 territory.

Zvaigznes Centrs SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued developing the Brīvības region in Riga. In 2009, the entity was working on the detailed plan of the project, due to the low activity level of real estate market, it was decided not to start with construction works. On the entity owned territory it is planned to renovate 4 600 m^2 of dwelling areas and 1 689 m^2 of commercial areas at a total amount of 6 million EUR (appr. 93.9 million EEK).

Tallina Nekustamie Īpašumi SIA, an entity belonging to the Pro Kapital Latvia subsidiary group continued developing the downtown area in Riga, a building permit is scheduled to be received in 2011 after which the construction can begin. On the entity owned territory it is planned to renovate 18 000 m^2 of dwelling and commercial areas.

Pro Kapital Vilnius subsidiary group

In 2009, Pro Kapital subsidiary group in Lithuania continued the development, sale and management of existing real estate projects.

PK Invest UAB, an entity belonging to the Pro Kapital Vilnius subsidiary group continued developing the registered real estate in Aguonu, at the border of the old town of Vilnius. As the first stage of the project, the 16 000 m^2 of commercial and dwelling areas were finished in 2009 with the cost of 25.4 million EUR (appr. 397 million EEK). In the second stage of the project the 13 000 m^2 of commercial and dwelling areas will be finished in 2010.

On 24 September 2009, Pro Kapital Vilnius Real Estate UAB acquired as an intra-group transaction 100% ownership in Domina Management UAB, a subsidiary of Domina Management AS (a subsidiary of Domina Hotel Group S.p.A.). The new activity of the entity, which previously engaged in the operation of the hotel business, is real estate management and administration. The intra-group purchase-sale transaction had no effect to the Group's assets, liabilities, and equity.

On 9 December 2009, a loan agreement appendix between PK Invest UAB, a subsidiary of Pro Kapital Vilnius Real Estate UAB, and AB Swedbankas was signed, according to which the credit limit set with the agreement dated on 7 June 2008 was decreased from 20 953 thousand EUR (appr. 327 843 thousand EEK) to 17 380 thousand EUR (appr. 271 938 thousand EEK), with the interest rate of 6 months Euribor + 4.4% per annum. To secrue the loan, a mortgage has been set to the property in Vilnius, Aguonu 10.

Pro Kapital Rus subsidiary group

In 2009, Pro Kapital subsidiary group in Russia continued the development the hotel project in Saint Petersbourg.

On 13 April 2009, Pro Kapital Rus OOO establisshed a subsidiary Domina Rus OOO with the share capital of 10 thousand RUB (appr. 4 thousand EEK). The entity will be dealling with sale of real estate owned by Domina Vacanze subsidiary group in Russia. In 2009, the real estate purchase-sales agreements were not concluded.

On 3 August 2009, extraordinary shareholders' meeting of Dom na Moike OOO, a subsidiary of Pro Kapital Rus OOO, decided to increase the entity's share capital from 90 000 thousand RUB (appr. 32 259 thousand EEK) to 230 000 thousand RUB (appr. 82 439 thousand EEK). According to the decision, the monetary payment in amount the of 18 200 thousand RUB and non-monetary payment in the amount of 71 800 thousand RUB was made for the shares, with the shareholders' claim against the entity.

Pro Kapital Ukraine subsidiary group

As a consequence of global economic recession, Pro Kapital Ukraine 3AT and its subsidiaries PK-1 TOB, PK-2 TOB and PK-3 TOB which were acquired in 2007, did not start real estate development in Ukraine in 2009.

P.K. Sicily S.p.A.

In 2009, P.K. Sicily S.p.A. continued the renovation of toursim and hotel complex named „Zagarella & Sea Palace" in Italy, Sicily. According to the preliminary project, renovation of the hotel complex located on the territory of 28 000 m^2 and containing of 24 000 m^2 of hotel areas, will be completed in stages. As of the end of the reporting period, appr. 60% of the hotel areas were renovated. Selling the hotel property has also began, precontracts are concluded in the amount of 7 633 thousand EUR (appr. 119 430 thousand EEK). Partially renovated hotel will be open to clients in June 2010.

During the financial year, the credit limit by Credito Siciliano S.p.A. was increased from 5 000 thousand EUR (appr. 78 233 thousand EEK) to 13 000 thousand EUR (appr. 203 406 thousand EEK) to develop the hotel.

Pro Kapital Germany GmbH

In 2009, Pro Kapital Germany GmbH continued to rent the hotel named "Kurhaus & Conference Park" located in Germany, Bad Kreuznach to Domina Tourismus GmbH, a subsidiary of Domina Hotel Group S.p.A.

Immobiliare Novate S.p.A.

Immobiliare Novate S.p.A. finalized the construction of 194-room hotel Domina Inn Milano Fiera near the Milan exhibition centre, and started the hotel operation on 7 April 2009.

On 10 January 2009, Immobiliare Novate S.p.A. and Credito Artigiano Bank signed a loan agreement with credit limit of 5 000 thousand EUR (appr. 78 233 thousand EEK), with interest the rate of 3 months Euribor + 1.5% per annum and due date on 31 March 2019. The loan will be used for the development of entity-owned hotel complex.

.....
Paolo Vittorio Michelozzi

AS Pro Kapital Grupp
Chairman of the Management Board

Signed for identification purposes:
AS Deloitte Audit Eesti

MANAGEMENT BOARD DECLARATION

The Management Board is declaring its responsibility for the fair and complete preparation of the consolidated annual accounts of AS Pro Kapital Grupp, presented on pages 8 to 64.

The Management Board declares that:

1. The principles used for consolidated financial statements are in accordance with the Estonian Accounting Act and International Financial Reporting Standards (IFRS) as adopted by the European Commission;
2. The consolidated financial statements present a true and fair view of the assets, liabilities, financial position, economic performance and cash flows of the Group as a whole;
3. The entities belonging to the Group carry their activities as a going concern, except, for those entities under liquidation.

Name	Position	Signature	Date
Paolo Vittorio Michelozzi	Chairman of the Board		31.05.2010
Allan Remmelkoor	Member of the Board		31.05.2010

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AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2009

ASSETS (Th. EEK)	Notes	31.12.2009	31.12.2008
Current assets			
Cash and bank accounts	2	110 145	129 978
Shares and securities	7	146	11
Receivables			
Trade receivables		311 276	317 619
Miscellaneous receivables		182 200	192 098
Accrued income		12 229	11 269
Prepaid expenses		300 004	302 770
incl. Prepaid taxes and taxes reclaimable		210 597	237 071
Inventories	3		
Property held for sale		2 451 442	2 319 349
Other inventories		196 960	109 693
Total		2 648 402	2 429 042
Total current assets		**3 564 402**	**3 382 787**
Non-current assets			
Long-term financial investments			
Shares and securities	7	37 288	66 394
Miscellaneous long-term receivables	9	69 857	103 703
Total		107 145	170 097
Deferred income tax assets	25	0	1 712
Tangible assets	10	1 099 947	1 061 249
Investment property	12	597 817	568 921
Intangible assets	11	33 555	32 689
Total non-current assets		**1 838 464**	**1 834 668**
TOTAL ASSETS		**5 402 866**	**5 217 455**

The accompanying notes are an integral part of these consolidated financial statements.

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AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2009

LIABILITIES AND EQUITY (Th. EEK)	Notes	31.12.2009	31.12.2008
Current liabilities			
Debt	13	186 747	688 612
Client prepayments		132 996	163 612
Trade payables		448 594	403 740
Taxes payable		24 132	22 008
Accrued expenses		32 621	26 201
Short-term provisions	14	10 575	5 557
Prepaid income		2 153	10 978
Total current liabilities		**837 818**	**1 320 708**
Non-current liabilities			
Long-term debt	14	1 981 497	1 102 280
Other long-term liabilities	14, 17	328 810	141 137
Deferred income tax liability	14, 25	25 275	35 150
Long-term provisions	14	30 736	30 083
Total non-current liabilities		**2 366 318**	**1 308 650**
Total liabilities		**3 204 136**	**2 629 358**
Equity attributable to equity holders of the parent			
Share capital in nominal value	21	531 854	531 854
Share premium		705 495	705 495
Reserves	21	54 160	46 447
Retained earnings		776 326	907 425
Foreign currency differences		-9 075	-2 626
Loss for the financial year		-395 033	-131 304
Total equity attributable to equity holders of the parent		**1 663 727**	**2 057 291**
Minority interest	20	**535 003**	**530 806**
Total equity		**2 198 730**	**2 588 097**
TOTAL LIABILITIES AND EQUITY		**5 402 866**	**5 217 455**

The accompanying notes are an integral part of these consolidated financial statements.

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AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 2009

(Th. EEK)	Notes	2009	2008
Operating income			
Revenue	22	1 014 706	1 341 131
Cost of goods sold	23	940 061	980 899
Gross profit		**74 645**	**360 232**
Marketing expenses	23	103 180	86 049
Administrative expenses	23	276 683	296 299
Other income	22	49 943	147 103
Other expenses		75 546	95 392
Operating profit (loss)		**-330 821**	**29 595**
Financial income	24	17 967	32 706
Financial expense	24	76 452	129 099
Loss before income tax		**-389 306**	**-66 798**
Income tax	25	516	-22 509
Loss for the financial year		**-388 790**	**-89 307**
Net loss attributable to:			
Equity holders of the parent		-395 033	-131 304
Minority interest		6 243	41 997
Other comprehensive profit (loss)			
Profit (loss) for retranslation of foreign currency		-5 702	1 249
Comprehensive loss for the financial year		**-394 492**	**-88 058**
Comprehensive loss attributable to:			
Equity holders of the parent		-401 482	-124 457
Minority interest		6 990	36 399
Share profit (loss) calculated by equity holders of the parent from net loss for the financial year:	26		
Net loss per share (in EEK)		-7,43	-2,47
Diluted net loss per share (in EEK)		-7,43	-2,47

The accompanying notes are an integral part of these consolidated financial statements.

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AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD 2009

(Th. EEK)	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the financial year		-388 790	-89 307
Adjustments:			
Depreciation of tangible assets	10	37 910	36 155
Depreciation of investment property	12	14 447	14 369
Amortization of intangible assets	11	3 772	3 659
Profit / loss from disposal of ownership in subsidiary (net amounts)	5, 24	-9 940	-7 669
Profit / loss from disposal of tangible assets	10, 11	-5 290	361
Profit / loss from disposal / liquidation of short-term financial investments	7	0	3
Impairment loss of short-term investments	7	0	583
Impairment loss of long-term investments	7	0	2 020
Impairment loss of tangible assets	11	3	13 042
Interest income / expenses (net amounts)	24	59 898	49 652
Change in deferred tax assets	25	1 712	1 238
Change in deferred tax liabilities	25	-9 875	3 760
Change in provisions	14	5 671	17 832
Changes in foreign currency rates		300	30 643
Other non-monetary changes (net amounts)	2	203 715	-97 759
Change in trade receivables and prepayments		21 451	283 306
Inventory and tangible assets held for sale		-179 797	-216 842
Change in liabilities and prepayments collected		-8 559	-1 154
Income tax reclaimed	25	0	1 957
Income tax paid	25	-5 400	-236 038
Total cash flows used in operating activities		**-258 772**	**-190 189**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flow from disposal of subsidiaries	5	10 953	14 782
Acquistion of tangible assets	10, 11, 12, 22	-152 601	-344 062
incl. Acquistion of assets held under finance lease	10	1 616	5 872
Disposal of tangible assets	10	10 095	11 817
Long-term loans granted		-1 696	-44 698
Long-term loans returned		16 252	47 752
Acquistion of short-term financial invetments	7	-135	-591
Disposal / liquidation of short-term financial investments	7	0	1
Acquistion of long-term financial investments	7	-726	-26 087
Disposal of long-term financial investments	7	29 832	0
Interest received		4 586	32 390
Total cash flows used in investing activities		**-81 824**	**-302 824**

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AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD 2009

(Th. EEK)	Notes	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Received from issue of convertible bonds	18	82 014	0
Long-term loans raised		464 493	925 760
Repayment of long-term loans		-142 917	-110 978
Financial lease principal paid	19	-773	-2 033
Investments made by minority shareholder into subsidiaries (net amounts)		-3 809	-429 453
Interests paid		-78 245	-84 274
Total cash flows from financing activities		**320 763**	**299 022**
Net change in cash		**-19 833**	**-193 991**
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		**129 978**	**323 969**
CASH AT THE END OF THE FINANCIAL YEAR		**110 145**	**129 978**

The accompanying notes are an integral part of these consolidated financial statements.

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AS PRO KAPITAL GRUPP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 2009

				Attributable to equity holders of the parent							
(Th. EEK)	Notes	No of shares (pcs)	Nominal value of share (EEK)	Share capital	Share premium	Reserves	Retained earnings	Foreign currency differences	Total	Minority interest	Total equity
31 December 2007		**53 185 422**	**10**	**531 854**	**705 495**	**6 532**	**947 589**	**-9 473**	**2 181 997**	**924 161**	**3 106 158**
Increase in statutory legal reserves				0	0	40 164	-40 164	0	0	0	**0**
Change in reserve of convertible bonds	18,21			0	0	-249	0	0	-249	0	**-249**
Increase of share capital in subsidiaries				0	0	0	0	0	0	165	**165**
Decrease of share capital in subsidiaries				0	0	0	0	0	0	-1 365	**-1 365**
Changes in minority interest due to changes in parent company's participation	5			0	0	0	0	0	0	-301	**-301**
Change in minority interest due to the declaration of dividends in subsidiaries				0	0	0	0	0	0	-428 253	**-428 253**
Comprehensive loss for the financial year				0	0	0	-131 304	6 847	-124 457	36 399	**-88 058**
31 December 2008		**53 185 422**	**10**	**531 854**	**705 495**	**46 447**	**776 121**	**-2 626**	**2 057 291**	**530 806**	**2 588 097**
Change in other reserves				0	0	-205	205	0	0	0	**0**
Change in reserve of convertible bonds	18,21			0	0	7 918	0	0	7 918	0	**7 918**
Increase of share capital in subsidiaries				0	0	0	0	0	0	15 951	**15 951**
Decrease of share capital in subsidiaries				0	0	0	0	0	0	-40	**-40**
Changes in minority interest due to changes in parent company's participation	5			0	0	0	0	0	0	1 016	**1 016**
Changes in minority interest due to liquidation of subsidiary				0	0	0	0	0	0	242	**242**
Change in minority interest due to the declaration of dividends in subsidiaries				0	0	0	0	0	0	-19 962	**-19 962**
Comprehensive loss for the financial year				0	0	0	-395 033	-6 449	-401 482	6 990	**-394 492**
31 December 2009		**53 185 422**	**10**	**531 854**	**705 495**	**54 160**	**381 293**	**-9 075**	**1 663 727**	**535 003**	**2 198 730**

The accompanying notes are an integral part of these consolidated financial statements.

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NOTE 1. ACCOUNTING POLICIES

1. GENERAL INFORMATION

AS Pro Kapital Grupp (hereinafter also referred to as "the Ultimate Parent Company") is a holding company incorporated and operating in the Republic of Estonia.
The consolidated financial statements as of 31 December 2009 represent the consolidated assets, liabilities, equity, results of operations and cash flows of the Ultimate Parent Company and its subsidiaries (hereinafter also referred together to as "the Group").
As of 31 December 2009, the Group consisted of 48 entities, ten of which are direct subsidiaries of the Ultimate Parent Company (hereinafter also referred to as "the parent companies of the subsidiary groups") and 37 were entities controlled by those subsidiaries. Participation in subsidiaries of the Group is presented in Note 4.

2. APPLICATION OF NEW AND REVISED IFRS's

The consolidated financial statements have been compiled under principles of consistency and comparability, meaning adherence to the prior principles the accounting policies and representation will be altered only in case of the require of new or revised international financial reporting standards (IFRS) or the interpretations of the standard issued or if a change of the policy provides a more objective overview of the financial position, the economic performance and cash flows of the Group.

All new and revised standards and IFRIC interpretations issued by IASB that affect the Group and which are effective to the reporting periods starting from 1 January 2009 have been implemented by the Group. According to the management board the implementation of the new and revised standards caused no significant changes in the applicable accounting principles neither in the presentation of information in the financial statements, however in relation to amended standard IAS 1 "Presentation of Financial Statements" is changed the financial statements presentation, and introduced new concepts. Consolidated income statement has been replaced by a consolidated statement of comprehensive income. The latter includes an additional non-owner changes, previously recognized in equity. Also the presentation of a statement of changes in equity changed due to the compilation of consolidated statement of comprehensive income. The statement of changes in equity does not reflect the separate movements of elements in comprehensive income. The term "Balance Sheet" has been replaced the by term "Statement of Financial Position".

The new and revised standards or interpretations of a standard which became effective in the financial year are the following:

- IFRS 8 "Operating Segments". These consolidated annual accounts have not been compiled in accordance with IFRS 8 as it is not mandatory and information about segments is disclosed only for the purpose of its users.
- IFRS 1 (amended) and IAS 27 (amended) - IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 „Consolidated and Separate Financial Statements" amendments "Investment cost made into subsidiary, jointly controlled entity, or associate";
- IFRS 2 (amended), "Share-based Payment";
- IFRS 7 (amended), "Financial Instruments: Disclosures" amendment "Improvements to Financial Instruments disclosures";
- IAS 1 (amended), „Presentation of Financial Statements";
- IAS 23 (amended), „Borrowing Costs";
- IAS 32 (amended) ja IAS 1 (amended) - IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" amendments "Puttable Instruments and Obligations Arising on Liquidation";
- IAS 39 (amended), "Financial Instruments: Recognition and Measurement" amendment "Eligible Hedged Items";

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- IFRIC 13 "Customer Loyalty Programmes";
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction";
- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- Amendments in IFRS (issued in May 2008).

IASB is issued an annual omnibus of amendments to its standadards, primarly with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group's management considers that these amendments to standards will have no material effect in the Group's financial statements.

At the date of compilation of these consolidated financial statements, the following standards and interpretations were issued but effective for accounting periods starting after 1 January 2009:

- IFRS 9 "Financial Instruments: Classification and Measurement", is effective for accounting periods starting from 1 January 2013 or later (not adopted by EU at the balance sheet date);
- IFRS 2 (amended), "Share-based Payment", is effective for accounting periods starting on or after 1 January 2010 (not adopted by EU at the balance sheet date);
- IFRS 3 (amended), "Business Combinations", is effective for accounting periods starting on or after 1 July 2009;
- IAS 27 (amended), „Consolidated and Separate Financial Statements", is effective for accounting periods starting on or after 1 July 2009;
- IAS 24 (amended), "Related Party Disclosures", is effective for accounting periods starting on or after 1 January 2011(not adopted by EU at the balance sheet date);
- IAS 32 (amended), "Financial Instruments: Presentation", is effective for accounting periods starting on or after 1 February 2010;
- IAS 39 (amended), "Financial Instruments: Recognition and Measurement" amendment "Eligible Hedged Items", is effective for accounting periods starting on or after 1 July 2009;
- IFRIC 17 "Distribution of Non-cash Assets to Owners", is effective for accounting periods starting on or after 31 October 2009;
- IFRIC 18 "Transfers of Assets from Customers", is effective for accounting periods starting from on or after 31 October 2009r;
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", is effective for accounting periods starting on or after 1 July 2010 (not adopted by EU at the balance sheet date);
- IFRIC 14 (amended), "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", is effective for accounting periods starting on or after 1 January 2011 (not adopted by EU at the balance sheet date);
- IFRIC 12 "Service Concession Arrangements", is effective for accounting periods starting on or after 30 March 2009;
- Amendments in IFRS (issued in April 2009), is effective for accounting periods starting on or after 1 July 2009, partially on or after 1 January 2010 (recent amendments are not adopted by EU at the balance sheet date).

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3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the Group for the financial year 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted by European Union, and in accordance with the Estonian Accounting Act.

The consolidated financial statements are prepared on the accrual basis.

The functional and presentation currency of the Group's Financial Statements is Estonian kroon (EEK). These consolidated financial statements of the Group are compiled in thousands of Estonian kroons (Th. EEK), if not specifically referred to another unit of measurement.

The principal accounting policies and estimates used in the preparation of the consolidated financial statements, and which are consitent with these applied in prior year, are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the ultimate parent company and its subsidiaries. Control is achieved, when the parent company has the power to govern the financial and operational policies of an entity, so as to obtain benefits from its activities.

Minority interests of the entities under the control of the ultimate parent company are recorded on a separate line in the consolidated financial statements equity.

Minority interest consists of the equity attributable to minority shareholders as of the business combination date and a proportion of subsidiaries earnings after that date.

In case the parent company has obtained control over a subsidiary during the accounting period, the financial results of that subsidiary are recorded from the date the control was acquired. If the parent company has sold a subsidiary during the accounting period, the financial results of that subsidiary are included in the consolidated financial statements of the Group up to the date of disposal.

The balances and transactions between Group entities and unrealized profits/losses from intra-group transactions are eliminated in the consolidated financial statements.

Business combinations

Business combinations, except for those conducted between the entities under common control, are recorded using the purchase method. Acquistion cost of acquired business combination is measured at the fair value of net assets (purchase price) plus any costs directly attributable to business combination.

In accordance with purchase method, the acquisition cost is allocated to the fair value of acquired identifiable assets, liabilities and contingent liabilities. Negative difference between cost of acquistion and the fair value of net assets acquired is recognized immediately in the income statement as revenue. Positive difference (goodwill) between cost of acquistion and the fair value of net assets acquired is recognized as and asset in the balance sheet.

Adjusted purchase method is used when increasing the ownerhip in the subsidiary by acquiring shares from minority shareholders. Based on adjusted purchase method, the acquistion cost of acquired business combination is measured at net assets book value (i.e. as the acquired assets and liabilities were reflected in the acquired company's balance sheet). The difference between the acquistion cost and the acquired net assets book value are recorded as equity increase or decrease in the acquiring company.

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Foreign currency transactions

The subsidiaries of the Group prepare their financial statements for consolidation purposes in local currencies. Foreign currency transactions are recorded on the basis of the foreign currency exchange rates, prevailing on the date of the transaction, of the Central Banks of subsidiary group's country of incorporation. At each balance sheet date the monetary balances are recalculated based on the currency rate prevailing at the balance sheet date, of the Central Banks of subsidiary group's country of incorporation. Non-monetary items recorded at fair value are recalculated based on the currency rate prevailing on the date of the revaluation. Non-monetary items recorded at acquisition price are not recalculated concerning the changes in the foreign currency rate. Gains and losses arising from exchange rate differences are recognised in the income statement for the accounting period.

In consolidation process, assets and liabilities, including the goodwill formed from the acquisition of foreign subsidiaries and revaluations to fair values, are recalculated to the reporting currency based on the currency exchange rates prevailing at the balance sheet date of Bank of Estonia of the country of incorporation of the consolidating company. Income statement lines are recalculated based on the average annual exchange rates. Gains and losses arising from exchange rate differences appeared during the consolidation process are recorded on a separate line in the consolidated company equity.

Differences of currency translation are recognized as income or expense of the period when the transaction occurred, i.e. in case of disposal or liquidation of a subsidiary.

The main foreign currencies and relevant exchange rates according to (the nomination of) Bank of Estonia as applied in the consolidated financial statements are as follows:

(in EEK)	31.12.2009	2009 average	31.12.2008	2008 average
Latvian lats (LVL)	22.0504	22.16819	22.0977	22.27148
Lithuanian litas (LTL)	4.53157	4.53157	4.53157	4.53157
Euro (EUR)	15.6466	15.6466	15.6466	15.6466
Russian ruble (RUB)	0.35843	0.35478	0.37803	0.43011
Ukrainan grivna (UAH)	1.34978	1.39812	1.40595	2.06243

Cash and cash flows

Cash on the balance sheet and cash flow statement comprises cash on hand, bank accounts, and short-term bank deposits (with time term less than three months).

Cash flows from operating activities are presented using the indirect method, according to which the net profit for the financial year is adjusted by the effect of non-monetary transactions, changes in assets and liabilities related to business operations, and income and expenses from financing and investing activities. Cash flows from investing and financing activities are reported based on direct method, presenting gross receipts and disbursements of the accounting period.

Inventories

Inventories are recorded at cost, which comprises purchase price, non-refundable taxes and other direct acquisition expenditures, which are necessary to transfer inventories to their current location and condition. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, then weighted average cost method is used.

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Inventories are stated on the balance sheet at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less all estimated costs of making the sale. Revaluation of inventories to net realizable value is recognized as expense for the accounting period.

Property held for sale

Real estates (land and buildings) that have been acquired and developed to be sold, are presented on the balance sheet as inventories on the line "Property held for sale" and recognized at cost that comprises of acquisition cost of the real estate and direct expenses (design, construction and technical supervision) necessary to bring the property to the current condition. Borrowing costs from third party loans accrued during the construction period until the issuance of the certificate of occupancy are included in the cost value. Depending on the estimate of the stage of completion, finished and unfinished property for sale is distinguished.

In case the net realizable value of the real estate object is less than its cost value, the real estate object is written down to its net realizable value and the impairment is charged as expense for the accounting period.

In case the usage purpose of a real estate object changes, the asset is reclassified and the accounting principles attributable to this asset group are implemented from the date of change.

Tangible assets

Assets used for rendering services or for administrative purposes and with useful life of over one year are considered to be tangible assets. Tangible assets are recognized at cost, which comprises purchase price, non-refundable taxes and other expenditures directly related to taking the asset into use.

Tangible assets on the balance sheet are measured at cost less accumulated depreciation and impairment losses.

For buildings recorded as tangible assets, loan interest accrued from third party loans during the construction period are capitalized.

Depreciation of tangible assets commences when the assets are taken into use. Depreciation is calculated on the straight-line method. Depreciation rate to each tangible asset item is determined according to its estimated useful life.

The annual depreciation rates for tangible asset group are as follows:

- Buildings in use 2-5% per annum;
- Machinery and equipment 8-20% per annum;
- Other equipment 20-50% per annum.

Investment property

Land and buildings that are held to generate rental revenue or with the purpose to increase its market value and which are not used in operations of the Group, are reported on the balance sheet as investment property.

Land and buildings, which are planned to be held for a longer period than a year and which have different possibilities to be used are reported also as investment property.

Investment property is recognized at cost, which comprises of purchase price, non-refundable taxes and other expenditures directly related to taking the investment property into use.

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For buildings recorded as investment property, loan interest accrued from third party loans during the construction period are capitalized.

Investment properties on balance sheet are recorded at cost less accumulated depreciation and impairment losses.

Depreciation of buildings is calculated on the straight-line method. The annual depreciation rate for buildings is 2 - 5%, land is not depreciated.

In case the usage purpose of the investment property changes, the asset is reclassified on the balance sheet and the accounting principles attributable to this asset group are implemented from the date of change.

Intangible assets

Intangible assets include purchased franchises, patents, licenses, trademarks, usage rights and goodwill.

Franchises, patents, licenses, trademarks and usage rights are recorded at cost less accumulated amortization and impairment losses. Amortizations is calculated on the straight-line method using an annual rate of 20%. Usage rights are amortized using the straight-line method and the maximum length of the amortization period is the period where the asset is being used.

Goodwill presents the positive difference between the acquisition cost paid by the Ultimate Parent Company and the fair value of the acquired identifiable assets, liabilities and contingent liabilities of the subsidiary on the date of the acquisition. Goodwill is recorded on the balance sheet as intangible asset at cost less impairment losses. Goodwill is not amortized; instead impairment test is carried out annually or more often if necessary. Impairment losses are recognized on the income statement as „Administrative expenses".

Impairment of assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its limited lifetime tangible (including investment property) and intangible assets to determine whether there are any indication that the assets have suffered an impairment loss. For this purpose, the recoverable value of an asset is estimated.

For assets with undefined useful life, irrespective of whether indications of possible impairment loss exist, the impairment test is carried out on every balance sheet date, comparing book value and recoverable value of the asset.

The recoverable value of the asset is the higher of the present value of the future cash flows from the asset (i.e. value in use) or the fair value of the asset less costs of disposal. In estimating value of use, the estimated cash flows are discounted with a rate which expresses the trends of current market value and specific risks related to assets. If necessary, help of independent experts is used in determining the fair value of the asset.

In case the recoverable value is lower than the book value, the asset is recorded on the balance sheet at its recoverable value.

Impairment losses are recorded as expenses of the accounting period.

If the recoverable value of assets previously impaired is increased, the previous impairment loss is cancelled by reversing the impairment loss expense in the reporting period.

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Impairment of goodwill

In order to perform impairment test, goodwill is allocated at the time of recognizing business combination to one or more cash generating units, which will presumably benefit from the given goodwill. Impairment test for the cash generating unit, to which goodwill belongs, is carried out in

every reporting period, comparing the book value of the unit and relevant goodwill with their recoverable value.

If the cash generating unit's recoverable value is lower than the total of the carrying amounts of its combining assets and goodwill, the assets belonging to this group should be written down. The goodwill belonging to the cash generating unit is written down first; further all assets belonging to the unit are written down proportionally. Write-down of goodwill is irreversible.

Investments into subsidiaries (in the Ultimate Parent Company's unconsolidated financial statements)

Investments into subsidiaries that are not held for the purpose of sale are recorded at cost in Parent Company's unconsolidated financial statements.

Financial instruments

Financial instruments held to maturity

Investments are recognized on a trade date basis and are initially measured at fair value. At subsequent reporting dates, financial instruments that the entity has expressed intention and ability to hold to maturity are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or exepnse over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial instruments held for sale

Financial investments other than held-to-maturity securities are classified as either investments held for trading or as available-for-sale, and are measured at fair value. Investments in equity instruments that are not traded on the stock exchange and for which the fair value cannot be reliably measured are recorded at cost, less any discounts.

Loans granted and receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Trade receivables recorded in balance sheet are evaluated in light of collectible amounts. Doubtful receivables are recorded as expense for accounting period. Difference between the present and nominal value of collectible amounts is recognized as interest income in the income statements under "Other financial income and expenses" using the corresponding internal interest rate.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Financial expenses, including the transaction costs and the settlement costs, are recorded on an accrual basis. Interest expenses are charged to the income statement as a current period expense, unless the interest expense related

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to loans obtained to finance development of property or similar assets, in which case the interests are capitalized together with the asset.

Convertible bonds

Convertible bonds that are convertible into shares at bondholder's request are regarded as compound financial instruments, consisting of a liability component and an equity component at the date of issue.

The equity component of convertible bonds is the amount by which the funds received over the course of the issue of the bond will exceed the present value of future interests and principal payments. An interest rate applicable for a similar type non-convertible bond in the market is used as the discount rate in calculating the liability component.

Interest expense from convertible bonds is recorded in the income statement for the reporting period on the basis of actual interest rates. The equity component of the convertible bonds is included in equity under the caption "Reserves".

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, less direct issuing costs.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value when the effect is material.

Pension benefit plans

Pension benefit plans and other provisions in favour of employees are recorded on the balance sheets in accordance with the laws and regulations of the resident country of the subsidiary of the Group.

Other provisions

Potential liabilities and guarantees related to sales of goods and services to clients are recorded at the date of the transaction based on the prior business experience and the probability of the guarantees being realized.

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.

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Reserves

Statutory legal reserve is recorded based on the requirements of the Commercial Code of Estonia and is comprised of the provisions made from the net profit. The annual provision must be at least 1/20 of the approved net profit of the financial year until the statutory legal reserve equals at least 1/10 of share capital amount.

Other reserves consist of equity component of convertible bonds.

Revenue recognition

Net sales

Net sales of the Group consists of revenues from the sale of real estate on the basis of sales agreements confirmed by the notary, rental income as well as revenues earned from management, administration services and hotel management services.

In addition to the above, net sales includes revenue at the sales prices of real estate recognized on the basis of related pre-contracts, if the all following conditions apply:

- the real estate object of the related agreement is completed and accepted;
- the client has made contractual down payments according to the payment schedule. The difference between down payment and total contract value is equal to penalties that are applicable in case the contract is declined;
- the agreement stipulates a penalty for declining the agreement, which is large enough to assert that it would be unreasonable for the buyer to decline the agreement.

Revenue from sales is recorded on the accrual basis of accounting in accordance with the revenue principle, when significant risks have been transferred to the buyer, and the sales income and costs incurred in respect of the transaction can be measured reliably.

Other income

Income, which is not related to the main operations of the entities belonging to the Group, is reported as other income.

Financial income

Interest income is recorded on the accrual basis of accounting and dividend income is recorded when the right for a dividend has occurred.

Expenses

Cost of sales

Cost of sales includes the costs of bringing real estate objects realized during the reporting period and recorded in the net sales to a marketable condition. Real estate rental, development and management expenses, and costs related to hotel management services (including the cost of depreciation of investment properties) are also recorded in income statement under "Cost of sales".

Marketing expenses

Marketing expenses include selling expenses, i.e. advertising, other marketing and agency fees during the reporting period.

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Administrative expenses

Administrative expenses include personnel and office management expenses, research and development expenses, and depreciation and amortization charges.

Other expenses

Expenses, which are not related to the main operations of the entities belonging to the Group, are recorded as other expenses.

Financial expense

Direct interest costs of acquiring properties constructed over long periods of time are capitalized until the property is taken into use. Other interest and financing costs are recorded on the accrual basis of accounting as financial expenses for the reporting period.

Leases

A lease is classified as finance lease when all the risks and rewards incident to ownership are substantially transferred to the lessee. The criteria of contracts, which lead to a lease being classified as finance lease, are the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price, which is expected to be sufficiently lower than the expected fair value at the date the option becomes exercisable, and that at the inception of the lease it is reasonably certain that the option will be exercised;
- the lease term covers the majority (over 75%) of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to approximately the fair value (over 90%) of the leased asset;
- the leased assets are of a specialized nature such that only the lessee is able to use them without major modifications being made.

If the above-mentioned conditions are not met, either individually or in combination, the transaction is recorded as operating lease.

The Group as a lessee

An asset held under finance lease is recognized as an asset and a liability of the Group at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. If ownership is to be transferred to the lessee, depreciation is calculated on the regular basis taking into account useful lifetime of the asset. If the leased asset is to be returned to the lessor, then the maximum depreciation period is the leasing period, whereas depreciation is not calculated for the guaranteed residual value.

Lease payments are apportioned between finance charges and reduction of the lease obligation. Financial costs are apportioned for the lease period so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income statement on the accrual basis of accounting.

Assets held under operating lease are not reported on the balance sheet. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease, irrespectively from disbursements.

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The Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Payments due from lessees are allocated to financial income and principal repayments (to decrease the finance lease receivable). Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases. Financial income is recorded in income statement on accrual basis.

Assets leased under the terms of operating lease are reported similarly to other assets reported on the balance sheet. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease despite timing and amounts of actual collection of rentals.

Taxation

Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends. Income tax should be calculated also on other payments made from equity that are exceeding the monetary or non-monetary contributions made to the equity. As of 1 January 2008, the tax rate applicable is 21/79 from the taxable amount.

As a result of such taxation principles, the notion of " tax base of assets and liabilities" has lost its economic meaning and deferred income tax and assets cannot be calculated in accordance with IAS 12 "Income Taxes". Potential income tax liability from the retained earnings, which could otherwise be distributed as dividends, is not recorded in the Statement of Financial Position. Income tax expense to be incurred at the payment of dividends is recognized in the statement of comprehensive income as expense at announcement of dividends or any other distribution of equity.

Other subsidiaries

Profit earned by subsidiaries of the Group is imposed to income tax according to the tax rate stipulated by the resident countries legislation. Deferred income tax liability is accounted from all relevant temporary differences between the tax bases of assets and liabilities and the accountancy value. Deferred income tax assets, that 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.

Segment reporting

A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

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Subsequent events

Circumstances that reflect the evaluation of relevant assets and liabilities in the consolidated financial statements are considered, which occurred between the balance sheet date and the date the report was prepared by the management of the Ultimate Parent Company, but are related to the transactions in the reporting period or prior periods. Subsequent events, which do not affect valuation of assets and liabilities, but which will substantially influence the results of the next financial year, are disclosed in the notes to the consolidated financial statements.

Use of judgements, estimates and assumptions

The preparation of the consolidated financial statements assumes judgements, estimates and assumptions by the management board of the Ultimate Parent Company to the Group's assets and liabilities which are not readily apparent from other sources as at the balance sheet date and income earned and expenses covered during the reporting period. These estimates are based on historical experience and the up-to-date information about the state of the Group and considering the plans and risks as at the date of the preparation of the consolidated financial statements. The final results of these economic transactions may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods.

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NOTE 2. CASH AND NON-MONETARY TRANSACTIONS IN THE CASH FLOW STATEMENT

Cash and bank accounts recorded in the consolidated statement of financial position and statement of cash flows, with balances as of 31 December 2009 and 2008, were 110 145 Th. EEK and 129 978 Th. EEK, respectively, comprising cash on hand and bank deposits as of the end of the reporting period. Foreign currency accounts have been retranslated into EEK at the Bank of Estonia foreign currency exchange rates prevailing on the balance sheet date.

Line "Other Non-monetary Items (net)" of the consolidated statement of cash flows comprises the following components:

(Th. EEK)	2009	2008
Non-monetary increase in short-term liability	201 085	82 102
Non-monetary decrease in short-term liability	-15 807	-155 064
Non-monetary increase in short-term receivables	-10 357	-27 474
Non-monetary decrease in short-term receivables	28 794	2 677
Total	**203 715**	**-97 759**

NOTE 3. INVENTORIES

Inventory consists of the following components

(Th. EEK)	2009	2008
Property held for sale		
Finished property	1 243 313	849 110
Unfinished property	1 208 129	1 470 239
Other inventories		
Goods bought for resale	6 284	11 872
Prepayments to suppliers	190 676	97 821
Total	**2 648 402**	**2 429 042**

Prepayments by Group companies in relation to the property held for sale are recorded as prepayments to suppliers.

During the accounting period, inventories are revalued in the amount of 25 649 Th. EEK due to the net realization value falling below the acquisition cost (in 2008: 5 792 Th. EEK) (see Note 23).

During the accounting period, interests are capitalized into cost of inventories in the amount of 12 898 Th. EEK (in 2008: 2 489 Th. EEK) (see Note 24).

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NOTE 4. ENTITIES BELONGING TO THE CONSOLIDATION GROUP

Name of the entity	Shareholder	Country of incorporation	Share of ownerhsip % 31.12.2008	Share of ownerhip % 31.12.2009	Field of activity
AS Pro Kapital Grupp	Anndare Ltd.	Ireland	57,86%	57,79%	Holding company
	Svalbork Invest OÜ	Estonia	12,86%	12,86%	
	A.F.I. American Financial Investments Ltd.	Liechtenstein	9,57%	9,57%	
Pro Kapital Eesti AS	AS Pro Kapital Grupp	Estonia	100,00%	100,00%	Real estate development
Ilmarise Kvartal OÜ	Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate development
Kristiine Kaubanduskeskus AS	Pro Kapital Eesti AS	Estonia	52,00%	52,00%	Real estate development
Tondi Kvartal AS	Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate development
Pro Halduse AS	Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate management
Tallinna Moekombinaat AS	Pro Kapital Eesti AS	Estonia	100,00%	96,00%	Real estate development
Pro Kapital Vilnius Real Estate UAB	AS Pro Kapital Grupp	Lithuania	100,00%	100,00%	Real estate development
PK Invest UAB	Pro Kapital Vilnius Real Estate UAB	Lithuania	100,00%	100,00%	Real estate development
Domina Management UAB	Pro Kapital Vilnius Real Estate UAB	Lithuania	0,00%	100,00%	Real estate management (acquired from Domina Management AS)
Pro Kapital Latvia PJSC	AS Pro Kapital Grupp	Latvia	100,00%	100,00%	Real estate development
PK Latvia SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība A Centrs SIA	Pro Kapital Latvia AS	Latvia	51,00%	51,00%	Real estate development
Klīversala RE SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
Investhotel SIA	Pro Kapital Latvia AS	Latvia	100,00%	100,00%	Real estate development
PK Investments SIA	Pro Kapital Latvia AS	Latvia	67,00%	67,00%	Real estate development
Kugu Real Estate SIA	Pro Kapital Latvia AS	Latvia	70,00%	70,00%	Real estate development
Neotrust OÜ	Pro Kapital Eesti AS	Estonia	100,00%	0,00%	Holding company (merged with Tondi Kvartal AS)

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Name of the entity	Shareholder	Country of incorporation	Share of ownerhsip % 31.12.2008	Share of ownerhip % 31.12.2009	Field of activity
Pasaules tirdzniecības centrs "Rīga" SIA	Neotrust OÜ	Latvia	100,00%	0,00%	Real estate development
	Pro Kapital Latvia AS		0,00%	100,00%	
Nekustamo īpašumu sabiedrība Prokurs SIA	Pasaules tirdzniecības centrs "Rīga" SIA	Latvia	70,00%	70,00%	Real estate development
Domina Vacanze S.p.A.	AS Pro Kapital Grupp	Italy	88,75%	88,75%	Real estate development, hotel mangement
Domina Case Vacanze S.r.l.	Domina Vacanze S.p.A	Italy	100,00%	100,00%	Real estate development
Palumbalza Residence S.r.l.	Domina Vacanze S.p.A	Italy	100,00%	0,00%	Real estate development (merged with Domina Vacanze S.p.A.)
Domina Hellas E.p.e.	Domina Vacanze S.p.A	Greece	100,00%	100,00%	Hotel management
Computer Service S.r.l.	Domina Vacanze S.p.A	Italy	100,00%	100,00%	Other (IT services)
Domina Health & Beauty S.r.l.	Domina Vacanze S.p.A	Italy	70,00%	70,00%	Real estate development (under liquidation)
Domina Incentive S.r.l.	Domina Vacanze S.p.A	Italy	70,00%	0,00%	Travel services (liquidated)
Prima Classe S.r.l.	Domina Vacanze S.p.A	Italy	100,00%	100,00%	Travel services (under liquidation)
Domina Vacanze GmbH	Domina Vacanze S.p.A a	Austria	100,00%	100,00%	Hotel management (under liquidation)
Domina Swiss Sagl	Domina Vacanze S.p.A	Switzerland	95,00%	0,00%	Hotel management (liquidated)
Immobiliare Novate S.p.A.	AS Pro Kapital Grupp	Italy	90,58%	90,58%	Real estate development, hotel management
Domina Hotel Group S.p.A.	AS Pro Kapital Grupp	Italy	99,90%	99,90%	Hotel management
Domina Management AS	Domina Hotel Group S.p.A.	Estonia	100,00%	100,00%	Hotel management
Domina Management UAB	Domina Management AS	Lithuania	100,00%	0,00%	Hotel management (sold to Pro Kapital Vilnius Real Estate UAB)
Domina Management SIA	Domina Management AS	Latvia	100,00%	100,00%	Hotel management
Domina Management Sp. z.o.o.	Domina Management AS	Poland	100,00%	100,00%	Hotel management

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Name of the entity	Shareholder	Country of incorporation	Share of ownerhsip % 31.12.2008	Share of ownerhip % 31.12.2009	Field of activity
Domina Hotel Italy S.r.l.	Domina Hotel Group S.p.A.	Italy	100,00%	100,00%	Hotel management
Domina Tourismus GmbH	Domina Hotel Group S.p.A.	Germany	100,00%	100,00%	Hotel management
Domina Hotels Hungary KFT	Domina Hotel Group S.p.A.	Hungary	100,00%	100,00%	Hotel management
Domina Tunisine S.A.	Domina Hotel Group S.p.A.	Tunisia	99,30%	99,30%	Hotel management
Domina Hotel Holland B.V.	Domina Hotel Group S.p.A.	The Netherlands	100,00%	100,00%	Hotel management
Domina Hospitality School S.r.l.	Domina Hotel Group S.p.A.	Italy	100,00%	100,00%	Other (trainings)
Pro Kapital Rus OOO	AS Pro Kapital Grupp	Russia	100,00%	100,00%	Real estate development
Domina Rus OOO	Pro Kapital Rus OOO	Russia	0,00%	100,00%	Real estate management
Dom na Moike OOO	Pro Kapital Rus OOO	Russia	51,00%	51,00%	Real estate development
Pro Kapital Ukraine 3AT	AS Pro Kapital Grupp	Ukraine	100,00%	100,00%	Real estate development
PK-1 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	100,00%	Real estate development
PK-2 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	100,00%	Real estate development
PK-3 TOB	Pro Kapital Ukraine 3AT	Ukraine	100,00%	100,00%	Real estate development
Pro Kapital Germany GmbH	AS Pro Kapital Grupp	Germany	100,00%	100,00%	Real estate development
P.K. Sicily S.p.A.	AS Pro Kapital Grupp	Italy	100,00%	100,00%	Real estate development

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Neotrust OÜ

In 2001, the share of Neotrust OÜ was transferred within the Group, as a result of which Pro Kapital Eesti AS acquired from Pro Kapital Latvia PJSC 100% of ownership in the company. The purpose of the transaction was to simplify the planned liquidation of Neotrust OÜ, which, due to legal consideration, was not able to start until the end of 2008.

Due to the intergroup purchase-sale transaction there were no substantive modifications in the Group structure, in the consolidated financial statements the Neotrust OÜ and its subsidiaries assets, liabilities and equity is recorded 100% of ownership of Pro Kapital Latvia as at the end of 2008.

During the reporting period Neotrust OÜ was liquidated. As the assets of Neotrust OÜ consist of financial investment in the shares of a subsidiary located in the Republic of Latvia, and liabilities consist of a debt to Pro Kapital Latvia PJSC, therfore prior to the liquidation of Neotrust OÜ the intra-group purchase transaction of financial investment was made from Pro Kapital Eesti AS to Pro Kapital Latvia PJSC. After that Neotrust OÜ merged with Tondi Kvartal AS, an entity belonging to Pro Kapital Eesti subsidiary group. The intra-group purchase-sale transaction had no effect to the Group's assets, liabilities and equity.

The (consolidated) financial data of the subsidiaries are following (all data presented in the currency of the parent of subsidiary group's country of incorporation, full units):

Subsidiary	Currency	Cost as of 31.12.2008	Cost as of 31.12.2009	Net assets as of 31.12.2009	Revenue 2009	Net profit (loss) 2009
AS Pro Kapital Grupp	EEK	X	X	1 663 727 405	1 014 705 864	-395 033 083
Pro Kapital Eesti AS	EEK	281 340 000	281 340 000	852 195 022	198 008 702	6 968 665
Ilmarise Kvartal OÜ	EEK	4 478 348	4 478 348	49 148 272	38 591 068	-12 813 910
Kristiine Kaubanduskeskus AS	EEK	187 862 164	187 862 164	807 410 972	132 242 945	72 173 123
Tondi Kvartal AS	EEK	68 243 610	68 243 610	113 981 930	12 825 114	-22 236 399
Pro Halduse AS	EEK	418 910	418 910	6 506 291	20 318 408	64 696
Tallinna Moekombinaat AS	EEK	201 200 000	193 154 012	148 171 075	0	-51 949 448
Pro Kapital Vilnius Real Estate UAB	EEK	37 156 121	37 156 121	20 840 901	35 503 636	-19 183 092
PK Invest UAB	LTL	3 252 633	3 252 633	-1 781 546	7 743 003	-4 375 707
Domina Management UAB	EUR	2 857	0	0	0	10 299
	LTL	0	147 525	140 255	1 864	-7 268
Pro Kapital Latvia PJSC	EEK	159 402 340	159 402 340	236 406 909	76 384 762	-6 892 824
PK Latvia SIA	LVL	133 580	133 580	56 837	2 640	-22 081
Nekustamo īpašumu sabiedrība A Centrs SIA	LVL	37 710	37 710	527	0	-533
Klīversala RE SIA	LVL	6 688 379	6 688 379	9 489 415	248	-84 954
Tallina Nekustamie Īpašumi SIA	LVL	2 369 899	3 019 899	541 746	0	-187 173
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	LVL	600 000	1 100 000	540 047	6 218	-137 527
Investhotel SIA	LVL	700 000	700 000	1 007 798	618 606	274 082
PK Investments SIA	LVL	6 698 517	6 698 517	6 360 456	2 178 419	-392 034
Kugu Real Estate SIA	LVL	7 000	2 800	422	0	-919
Neotrust OÜ	LVL	1 504	0	0	0	0
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	2 161 870	7 052 883	7 037 378	735 827	203 712
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	999 320	999 320	1 694 965	522 643	267 365
Domina Vacanze S.p.A.	EEK	1 174 446 259	1 174 446 259	810 400 821	305 456 571	-166 714 290
Domina Case Vacanze srl	EUR	1 355 866	1 355 866	92 042	796 879	-2 608
Palumbalza Residence S.r.l.	EUR	139 348	0	0	0	0

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Subsidiary	Currency	Cost as of 31.12.2008	C ost as of 31.12.2009	Net assets 31.12.2009	Revenue 2009	Net profit (loss) 2009
Domina Hellas E.p.e.	EUR	1 197 827	1 197 827	-437 072	0	-69 000
Computer Service S.r.l.	EUR	28 934	28 934	84 299	419 679	6 109
Domina Health & Beauty S.r.l.	EUR	61 571	61 571	0	0	0
Domina Incentive S.r.l.	EUR	35 000	0	0	0	0
Prima Classe S.r.l.	EUR	260 837	260 837	0	0	0
Domina Vacanze GmbH	EUR	1 475 557	1 475 557	0	0	0
Domina Swiss Sagl	EUR	714 758	0	0	0	0
Immobiliare Novate S.p.A.	EEK	135 366 093	135 366 093	64 822 645	23 464 361	-13 375 561
Domina Hotel Group S.p.A.	EEK	162 568 174	162 568 174	-21 876 343	375 767 831	-112 953 170
Domina Management AS	EUR	108 650	108 650	-854 766	3 609 619	-1 608 654
Domina Management SIA	EUR	3 189	3 189	228 375	1 400 756	-705 323
Domina Management Sp. z.o.o.	EUR	10 998	740 754	-330 280	355 313	-344 909
Domina Hotel Italy S.r.l.	EUR	2 370 000	5 027 216	-117 205	12 620 735	-2 712 266
Domina Tourismus GmbH	EUR	280 126	280 126	-227 931	2 894 767	-344 181
Domina Hotels Hungary KFT	EUR	1 246 783	1 246 783	-512 340	1 509 245	-453 110
Domina Tunisine S.A.	EUR	1 542 657	1 542 657	40 404	0	-21 497
Domina Hotel Holland B.V.	EUR	18 000	18 000	-1 019 760	3 664 963	-930 564
Domina Hospitality School S.r.l.	EUR	100 131	150 154	17 356	54 942	-47 784
Pro Kapital Rus OOO	EEK	4 571	4 571	-90 982 424	0	-22 457 457
Domina Rus OOO	RUB	0	10 000	-2 517 487	0	-2 527 487
Dom na Moike OOO	RUB	71 400 000	117 300 000	-34 514 970	0	-25 949 843
Pro Kapital Ukraine 3AT	EEK	1 196 779	1 196 779	441 378	0	-277 107
PK-1 TOB	UAH	37 500	100 000	12 900	0	-50 800
PK-2 TOB	UAH	37 500	100 000	13 100	0	-50 800
PK-3 TOB	UAH	37 500	100 000	13 000	0	-50 900
Pro Kapital Germany GmbH	EEK	391 165	391 165	-817 050	0	350 140
P.K. Sicily S.p.A.	EEK	78 233 000	78 233 000	14 227 435	0	-25 186 942

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NOTE 5. ACQUISTIONS, DISPOSALS, INCREASES AND DECREASES OF OWNERSHIP IN SUBSIDIARIES

During the reporting period AS Pro Kapital Grupp decreased the current 99.90% ownership by 0.08% in Domina Hotel Group S.p.A. which belongs to Domina Hotel Group subsidiary group's through non-proportional increase of share capital.

During the reporting period Pro Kapital Eesti AS disposed 3.99% ownership in Tallinna Moekombinaat AS (maintaining 96.01% of the ownership), which develops real estate in Estonia, Tallinn.

The effect of acquisition and disposal and increase and decrease in ownership of subsidiaries' shares to the Group consolidated financial statements is presented below:

	Acquistion (including change in ownerhip)			Disposal (including change in ownerhip)		
(Th. EEK)	Domina Hotel Group S.p.A.	Total 2009	Total 2008	Tallinna Moekombinaat AS	Total 2009	Total 2008
Cash	0	0	0	0	0	850
Receivables	0	0	0	0	0	101
Tangible assets	0	0	0	0	0	15 486
Short-term liabilities	0	0	0	0	0	-33
Long-term liabilities	0	0	0	0	0	-7 212
incl. intra-group	0	0	0	0	0	-7 212
Minority interest	-3	-3	0	1 013	1 013	-301
Goodwill on acquistion	3	3	0	x	x	x
Negative goodwill on acquistion	0	0	0	x	x	x
Loss from disposal of ownership	x	x	x	0	0	0
Profit from disposal of ownership	x	x	x	9 940	9 940	7 669
Acquistion cost / sales price	0	0	0	10 953	10 953	16 560
Paid in cash (-) / cash received (+)	0	0	0	10 953	10 953	15 632
Cash at the moment of acquistion (+) / disposal (-)	x	x	0	x	x	-850
Net cash flow on acquistion / disposal	0	0	0	10 953	10 953	14 782

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NOTE 6. SHARES IN SUBSIDIARIES

	Pro Kapital Eesti AS	Pro Kapital Ukraine 3AT	Pro Kapital Rus OOO	Pro Kapital Latvia PJSC	Pro Kapital Vilnius Real Estate UAB	Domina Vacanze S.p.A.	Domina Hotel Group S.p.A.	P.K. Sicily S.p.A.	Pro Kapital Germany GmbH	Immobiliare Novate S.p.A	Total
Number of shares 31 December 2008	**28 134 000**	**505 000**	**1**	**7 000 000**	**4 610**	**60 398 937**	**10 089 900**	**5 000 000**	**1**	**19 021 598**	x
Acquired (extra-group)	0	0	0	0	0	0	4 764 278	0	0	0	x
Disposed / cancelled	0	0	0	0	0	0	-9 226 246	0	0	0	
Number of shares 31 December 2009	**28 134 000**	**505 000**	**1**	**7 000 000**	**4 610**	**60 398 937**	**5 627 932**	**5 000 000**	**1**	**19 021 598**	x
Ownership % at the end of the year	100	100	100	100	100	88,75	99,82	100	100	90,58	x
Ownership % at the beginning of the year	100	100	100	100	100	88,75	99,90	100	100	90,58	x
(Th. EEK)											
Cost as of 31 December 2008	**281 340**	**1 197**	**5**	**159 402**	**37 156**	**1 174 446**	**162 568**	**78 233**	**391**	**135 366**	**2 030 104**
Parent company's share of subsidiary's net assets as of 31 December 2008	**735 822**	**738**	**-70 625**	**1 099 759**	**38 873**	**868 636**	**24 271**	**39 414**	**-1 167**	**111 776**	**2 847 497**
Acquired cost (extra-group)	0	0	0	0	0	0	74 545	0	0	0	74 545
Impairment of goodwill	0	0	0	0	0	0	-3	0	0	0	-3
Foreign currency differences	0	-20	2 100	-8 215	0	79	-393	0	0	0	-6 449
Dividends paid	0	0	0	-738 839	0	0	0	0	0	0	-738 839
Profit under equity method	6 968	0	0	0	0	0	0	0	350	0	7 318
Loss under equity method	0	-277	-22 458	-6 893	-19 183	-166 714	-112 953	-25 187	0	-13 375	-367 040
Parent company's share of subsidiary's net assets as of 31 December 2009	**742 790**	**441**	**-90 983**	**345 812**	**19 690**	**702 001**	**-14 533**	**14 227**	**-817**	**98 401**	**1 817 029**
Cost as of 31 December 2009	**281 340**	**1 197**	**5**	**159 402**	**37 156**	**1 174 446**	**237 113**	**78 233**	**391**	**135 366**	**2 104 649**

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According to the decision of shareholders of Domina Hotel Group S.p.A., a subsidiary of Pro Kapital Grupp, the share capital was decreased during the reporting period by cancellation of shares to cover losses by cancelling 9 235 481 shares with nominal value of 1 EUR (appr. 15.6 EEK) per share. At the same time the entity's share capital was increased per share by targeted emission by issuing 4 773 513 new shares with nominal value of 1 EUR (appr. 15.6 EEK). According to the decision monetary and non-monetary payments were made by 30 November 2009. As of 31 December 2009, the entity's share capital amounted to 5 638 032 EUR (appr. 88.2 million EEK), consisting of 5 638 032 shares. 5 627 932 shares belong to AS Pro Kapital Grupp.

NOTE 7. SHARES AND SECURITIES

(Th. EEK)	Short-term shares	Long-term shares
31.12.2007	**8**	**42 327**
Acquistion	591	26 087
Sale in selling price / liquidation provision	1	0
Profit (loss) from sale / liquidation	-3	0
Impairment	-583	-2 020
Reclassification to short-term	-3	0
31.12.2008	**11**	**66 394**
Acquistion	135	726
Sale in selling price	0	-29 832
Profit (loss) from sale / liquidation	0	0
31.12.2009	**146**	**37 288**

Long-term financial statements held for resale are recorded at cost, because their fair value cannot be estimated reliably.

NOTE 8. LONG-TERM LOANS BETWEEN THE ULTIMATE PARENT AND PARENT COMPANIES OF THE SUBSIDIARY GROUP

(Th. EEK)	31.12.2009	31.12.2008
Loan granted by the ultimate parent:		
Pro Kapital Latvia	96 356	48 795
Pro Kapital Vilnius	139 462	106 077
Pro Kapital Rus	188 654	157 813
P.K. Sicily	504 113	481 491
Domina Hotel Group	3 851	6 281
Total	**932 436**	**800 457**
Loans raised by the ultimate parent:		
Pro Kapital Eesti	920 331	841 750
Domina Vacanze	58 613	23 470
Total	**978 944**	**865 220**

The annual interest rate of intra-group loans is up to 6%. The intra-group interest income and expenses in the amount of 87 839 Th. EEK (in 2008: 115 494 Th. EEK) are eliminated from the consolidated financial statements.

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NOTE 9. MISCELLANEOUS LONG-TERM RECEIVABLES

Creditor	Debtor	Contract currency	Receivable as of 31.12.2008 (Th. EEK)	Receivable as of 31.12.2009 (Th. EEK)	Due (Th. EEK) within 1 year	Due (Th. EEK) 2-5 years	Due (Th. EEK) over 5 years	Interest rate	Comments
Pro Kapital Rus:									
Pro Kapital Rus OOO	WTC Tjumen OOO	EUR	13 123	1 137	0	1 137	0	5%	Loan
Pro Kapital Rus OOO	Pro Kapital Siberia OOO	EUR	3 322	0	0	0	0	x	x
			16 445	**1 137**	**0**	**1 137**	**0**		
Pro Kapital Eesti:									
Ilmarise Kvartal OÜ	Different debtors	EEK	0	860	0	195	665	6%	Long-term trade receivables
Tondi Kvartal OÜ	Different debtors	EEK	0	4 381	0	4 381	0	5%	Long-term trade receivables
			0	**5 241**	**0**	**4 576**	**665**		
Pro Kapital Vilnius:									
PK Invest UAB	Swedbank AB	EUR	0	1 565	0	1 565	0	0%	Deposit with maturity date on 07.12.2011
			0	**1 565**	**0**	**1 565**	**0**		
Domina Vacanze:									
Domina Vacanze S.p.A.	CA Immo GmbH	EUR	15 647	0	0	0	0	x	x
Domina Vacanze S.p.A.	Different debtors	EUR	26 491	27 883	0	27 883	0	0%	Long-term trade receivables
Domina Case Vacanze S.r.l.	Different debtors	EUR	1 570	0	0	0	0	x	x
Domina Vacanze S.p.A subsidiaries	Different debtors	EUR	15 839	16 910	0	16 910	0	0%	Long-term trade receivables
			59 547	**44 793**	**0**	**44 793**	**0**		
Domina Hotel Group:									
Domina Hotel Group S.p.A.	Different debtors	EUR	144	118	0	118	0	0%	Long-term trade receivables
			144	**118**	**0**	**118**	**0**		
P.K. Sicily:									
P.K. Sicily S.p.A.	Different debtors	EUR	27 567	17 003	0	17 003	0	0%	Long-term trade receivables
			27 567	**17 003**	**0**	**17 003**	**0**		
		Total	**103 703**	**69 857**	**0**	**69 192**	**665**		

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NOTE 10. TANGIBLE ASSETS

(Th. EEK)	Land and buildings	Land and buildings (improvements of rental assets)	Machinery and equipment	Other tangible assets	Other tangible assets (finance lease)	Unfinished construction	Prepayments for tangible assets	TOTAL
Cost as of 31.12.2008	**500 414**	**14 068**	**45 012**	**149 083**	**6 484**	**582 235**	**25 901**	**1 323 197**
Additions:								
Acquisition	48 674	5	4 441	15 039	1 616	55 415	5 147	130 337
Capitalized interests	0	0	0	0	0	13 411	0	13 411
Disposals:								
Sold	0	0	-2 537	-22	0	0	0	-2 559
Written off	-1 049	0	-1 069	-6 220	-37	-166	-79	-8 620
Other changes:								
Reclassification	303 706	0	5 267	22 213	0	-330 332	-854	0
Reclassified to/from inventories	-46 609	0	0	-918	0	0	0	-47 527
Reclassified to/from investment property	0	0	0	0	0	-21 481	0	-21 481
Foreign currency differences	-456	-30	-232	-21	0	-9 696	-1 339	-11 774
Cost as of 31.12.2009	**804 680**	**14 043**	**50 882**	**179 154**	**8 063**	**289 386**	**28 776**	**1 374 984**
Accumulated depreciation as of 31.12.2008	**95 726**	**10 392**	**21 725**	**106 124**	**1 098**	**26 883**	**0**	**261 948**
Additions:								
Depreciation charge	18 987	1 009	3 204	13 984	726	0	0	37 910
Disposals:								
Sold	0	0	0	-7	0	0	0	-7
Written off	-195	0	-885	-5 773	-37	0	0	-6 890
Other changes:								
Reclassification	0	0	-102	102	0	0	0	0
Reclassified to/from inventories	-14 899	0	0	-1 200	0	0	0	-16 099
Foreign currency differences	-370	-28	-13	-20	0	-1 394	0	-1 825
Accumulated depreciation as of 31.12.2009	**99 249**	**11 373**	**23 929**	**113 210**	**1 787**	**25 489**	**0**	**275 037**
Carrying value as of 31.12.2008	**404 688**	**3 676**	**23 287**	**42 959**	**5 386**	**555 352**	**25 901**	**1 061 249**
Carrying value as of 31.12.2009	**705 431**	**2 670**	**26 953**	**65 944**	**6 276**	**263 897**	**28 776**	**1 099 947**

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(Th. EEK)	Land and buildings	Land and buildings (improvements of rental assets)	Machinery and equipment	Other tangible assets	Other tangible assets (finance lease)	Unfinished construction	Prepayments for tangible assets	TOTAL
Sale and write-off								
Sold assets at cost	0	0	2 537	22	0	0	0	2 559
Accumulated depreciation of sold assets	0	0	0	-7	0	0	0	-7
Carrying value of sold assets	0	0	2 537	15	0	0	0	2 552
Sale price of assets	0	0	10 085	10	0	0	0	10 095
Cost of assets written off	1 049	0	1 069	6 220	37	166	79	8 620
Accumulated depreciation of assets written off	-195	0	-885	-5 773	-37	0	0	-6 890
Profit (loss) from sales and write-offs	**-854**	**0**	**7 364**	**-452**	**0**	**-166**	**-79**	**5 813**

For additional information concerning finance lease obligations is presented in Note 19.

For additional information concerning mortgages set to Group's tangible assets is presented in Note 29.

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NOTE 11. INTANGIBLE ASSETS

(Th. EEK)	Goodwill	Patents and trademarks	Licenses	Usage rights	Prepayments for intangible assets	TOTAL
Cost as of 31.12.2008	**4 107**	**10 131**	**23 209**	**26 404**	**2 449**	**66 300**
Additions:						
Acquistions related to subsidiaries	3	0	0	0	0	3
Acquistion	0	1 120	1 632	2 411	0	5 163
Disposals:						
Written off	0	0	-18 439	0	0	-18 439
Other changes:						
Reclassification	0	0	-593	705	-112	0
Impairment	-3	0	0	0	0	-3
Foreign currency differences	0	1	1	0	-1	1
Costs as of 31.12.2009	**4 107**	**11 252**	**5 810**	**29 520**	**2 336**	**53 025**
Accumulated amortization as of 31.12.2008	**0**	**6 752**	**20 708**	**6 151**	**0**	**33 611**
Additions:						
Depreciation charge	0	2 130	1 002	640	0	3 772
Disposals:						
Written off	0	0	-17 916	0	0	-17 916
Other changes:						
Foreign currency differences	0	0	3	0	0	3
Accumulated amortization as of 31.12.2009	**0**	**8 882**	**3 797**	**6 791**	**0**	**19 470**
Carrying amount as of 31.12.2008	**4 107**	**3 379**	**2 501**	**20 253**	**2 449**	**32 689**
Carrying amount as of 31.12.2009	**4 107**	**2 370**	**2 013**	**22 729**	**2 336**	**33 555**
Sales and write-offs						
Write-offs at cost	0	0	18 439	0	0	18 439
Accumulated amortization of assets written off	0	0	-17 916	0	0	-17 916
Loss from sales and write-offs	**0**	**0**	**-523**	**0**	**0**	**-523**

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NOTE 12. INVESTMENT PROPERTY

(Th. EEK)	Held on purpose of raise of value	Rented out in term of operating lease	Total
Cost as of 31.12.2008	**33 823**	**638 135**	**671 958**
Additions:			
Acquistion	456	16 645	17 101
Other changes:			
Reclassified to/from inventories	0	4 764	4 764
Reclassified to/from tangible assets	0	21 481	21 481
Foreign currency differences	-6	0	-6
Cost as of 31.12.2009	**34 273**	**681 025**	**715 298**
Accumulated depreciation as of 31.12.2008	**984**	**102 053**	**103 037**
Additions:			
Depreciation charge	133	14 314	14 447
Other changes:			
Foreign currency differences	-3	0	-3
Accumulated depreciation as of 31.12.2009	**1 114**	**116 367**	**117 481**
Carrying value as of 31.12.2008	**32 839**	**536 082**	**568 921**
Carrying value as of 31.12.2009	**33 159**	**564 658**	**597 817**
Fair value	**183 673**	**950 936**	**1 134 609**

On determining the fair value of investment property, the Group management relied on estimates of independent experts and also intra-group analysts.

Additional information about mortgages set on the Group's investment property is presented in Note 29.

A shopping centre owned by the entity Kristiine Kaubanduskeskuse AS belonging into Pro Kapital Eesti subsidiary group, is the most significant investment property leased out under the terms of an operating lease of the Group.

The rental income and the corresponding direct expenses from investment property, leased out under the terms of operating lease:

(Th. EEK)	2009	2008
Rental income	96 059	108 911
Direct operating costs		
Maintenance and depreciaton	14 326	16 736
Other direct costs	11 153	10 548

Rental income of future periods from investment property leased out under the terms of an operating lease:

(Th. EEK)	31.12.2009	31.12.2008
Within 1 year	100 626	98 474
1-5 years	287 002	272 241
Over 5 years	125 574	179 303
Total	**513 202**	**550 018**

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The estimated income from operating lease covered with contracts during following periods does not include the future periods and rent areas, which are not covered with contracts, since the mentioned amounts cannot be estimated with sufficient reliability.

NOTE 13. DEBT

(Th. EEK)	Note	31.12.2009	31.12.2008
Unsecured debt		18 303	23 943
Short-term finance lease liability	19	793	596
Redemption of convertible bonds issued in the next period	18	6 127	0
Other short-term debt		11 383	23 347
Current portions of long-term bank loans and overdrafts	15	158 743	660 414
Current portion of long-term loans	16	9 701	4 255
Total		**186 747**	**688 612**

NOTE 14. LONG-TERM LIABILITIES

(Th. EEK)	Note	31.12.2009	31.12.2008
Long-term debt		1 981 497	1 102 280
Non-convertible debts		122 516	103 540
Finance lease obligations	19	4 134	3 488
Long-term loans	16	118 382	100 052
Convertible debt	18	73 820	5 851
Bank loans	15	1 785 161	992 889
Other long-term liabilities	17	328 810	141 137
Deferred income tax liability	25	25 275	35 150
Long-term provisions		30 736	30 083
Total		**2 366 318**	**1 308 650**

Provisions

(Th. EEK)	Pension benefit plans	Other provisions	Total
31.12.2008	**22 803**	**12 837**	**35 640**
Provision added	8 898	6 169	15 067
Provision used	-9 171	-225	-9 396
31.12.2009	**22 530**	**18 781**	**41 311**
incl. short-term provision	0	10 575	10 575
long-term provision	22 530	8 206	30 736

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NOTE 15. BANK LOANS

(Th. EEK)

Borrower	Creditor	Contract currency	Loan balance as of 31.12.2008	Loan balance as of 31.12.2009	Loan repayments within 1 year	Loan repayments 2-5 years	Loan repayments over 5 years	Interest rate	Maturity date	Collateral
Pro Kapital Eesti:										
Pro Kapital Eesti AS	Swedbank	EUR	72 750	68 496	4 478	64 018	0	2.0%+ 6 months EURIBOR	01.11.2013	Note 29
Kristiine Kaubanduskeskus AS	Swedbank	EUR	697 730	722 385	16 228	706 157	0	3.75%+ 6 months EURIBOR	23.04.2014	Note 29
Tondi Kvartal AS	Swedbank	EEK	33 307	26 795	26 795	0	0	2.75%+ 6 monthsEURIBOR	16.03.2010	Note 29
			803 787	**817 676**	**47 501**	**770 175**	**0**			
Pro Kapital Latvia:										
Pro Kapital Latvia PJSC	Swedbank overdraft	LVL	6	20	20	0	0	x	x	x
Investhotel SIA	Swedbank	EUR	99 779	95 837	4 413	91 424	0	3.0%+ 3 months EURIBOR	01.03.2012	Note 29
			99 785	**95 857**	**4 433**	**91 424**	**0**			
Pro Kapital Vilnius:										
PK Invest UAB	Swedbank	EUR	208 008	231 892	81 660	150 232	0	4.4%+ 6 months EURIBOR	07.12.2011	Note 29
			208 008	**231 892**	**81 660**	**150 232**	**0**			
Domina Vacanze:										
Domina Vacanze S.p.A	Meliorbanca	EUR	11 972	0	0	0	0	x	x	x
Domina Vacanze S.p.A	Meliorbanca	EUR	120 581	184 620	0	184 620	0	2.0% + 3 months EURIBOR	01.01.2012	Note 29
Domina Vacanze S.p.A	Meliorbanca	EUR	54 763	47 714	7 771	39 943	0	2.0% + 3 months EURIBOR	01.07.2015	Note 29
Domina Vacanze S.p.A	Cariparma & Piacenza	EUR	10 320	5 019	5 019	0	0	2.0% + 3 months EURIBOR	22.11.2010	Not collaterised
Domina Vacanze S.p.A	Credito Artigiano Bank	EUR	0	25 035	665	24 370	0	2.25% + 3 months EURIBOR	30.01.2013	Note 29
Domina Vacanze S.p.A. subsidiaries	Overdrafts from different credit institutions	EUR	2	11 008	11 008	0	0	x	x	x
			197 638	**273 396**	**24 463**	**248 933**	**0**			

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			(Th. EEK)							
Borrower	**Creditor**	**Contract currency**	**Loan balance as of 31.12.2008**	**Loan balance as of 31.12.2009**	**Loans repayments**			**Interest rate**	**Maturity date**	**Borrower**
					within 1 year	**2-5 years**	**over 5 years**			
Pro Kapital Rus:										
Dom na Moike OOO	Swedbank	EUR	80 446	78 591	0	78 591	0	5.8%+3 months EURIBOR	06.02.2014	Note 29
			80 446	**78 591**	**0**	**78 591**	**0**			
Immobiliare Novate:										
Immobiliare Novate S.p.A.	Credito Artigiano Bank	EUR	185 406	164 167	0	117 349	46 818	1.25% +3 months EURIBOR	31.12.2017	Note 29
Immobiliare Novate S.p.A.	Credito Artigiano Bank	EUR	0	78 233	0	38 872	39 361	1.5% +3 months EURIBOR	31.03.2019	Note 29
Immobiliare Novate S.p.A.	Credito Artigiano Bank overdraft	EUR	0	686	686	0	0	x	x	x
			185 406	**243 086**	**686**	**156 221**	**86 179**			
P.K. Sicily:										
P.K. Sicily S.p.A.	Credito Siciliano S.p.A.	EUR	78 233	203 406	0	203 406	0	1.35% +3 months EURIBOR	30.01.2013	Note 29
			78 233	**203 406**	**0**	**203 406**	**0**			
		Total	**1 653 303**	**1 943 904**	**158 743**	**1 698 982**	**86 179**			

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NOTE 16. LONG-TERM LOANS

Borrower	Creditor	Contract currency	Loan balance as of 31.12.2008 (Th. EEK)	Loan balance as of 31.12.2009 (Th. EEK)	Loan repayments within 1 year (Th. EEK)	Loan repayments 2-5 years (Th. EEK)	Loan repayments Over 5 years (Th. EEK)	Interest rate	Maturity date	Collateral
Pro Kapital Rus:										
Dom na Moike OOO	Odega Anshtalt	RUB	90 205	108 534	0	108 534	0	3%+LIBOR	31.12.2013	Entity's assets
			90 205	**108 534**	**0**	**108 534**	**0**			
Domina Hotel Group:										
Domina Hotel Group S.p.A.	Sinai Company for Touristic Development	EUR	4 255	4 344	4 344	0	0	0%	31.12.2010	Entity's assets
Domina Hotel Group S.p.A.	Domina Vip Travel S.r.l.	EUR	0	5 357	5 357	0	0	0%	31.12.2010	Entity's assets
			4 255	**9 701**	**9 701**	**0**	**0**			
Immobiliare Novate:										
Immobiliare Novate S.p.A.	Minority shareholders	EUR	9 847	9 848	0	9 848	0	0%	x	Entity's assets
			9 847	**9 848**	**0**	**9 848**	**0**			
		Total	**104 307**	**128 083**	**9 701**	**118 382**	**0**			

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NOTE 17. OTHER LONG-TERM DEBT

Borrower	Creditor	Contract currency	Loan balance as of 31.12.2008 (Th. EEK)	Loan balance as of 31.12.2009 (Th. EEK)	Liability repayments (Th. EEK) within 1 year	2-5 years	over 5 years	Interest rate	Comments
Domina Vacanze:									
Domina Vacanze S.p.A.	Customers	EUR	66 583	204 085	0	204 085	0	0%	The volume of timeshare sales agreements concluded with customers, 66.4 milion EEK of which has been received from customers (prepayments)
Domina Vacanze S.p.A. subsidiaries	Different creditors	EUR	5 300	5 300	0	5 300	0	0%	Other long-term debt
			71 883	**209 385**	**0**	**209 385**	**0**		
P.K. Sicily:									
P.K. Sicily S.p.A.	Customers	EUR	69 254	119 425	0	119 425	0	0%	The volume of timeshare sales agreements concluded with customers, 74.3 milion EEK of which has been received from customers (prepayments)
			69 254	**119 425**	**0**	**119 425**	**0**		
		Total	**141 137**	**328 810**	**0**	**328 810**	**0**		

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NOTE 18. CONVERTIBLE BONDS

Registration date of bonds issued	13.05.1999		13.08.2009	
Issue price of bond (EUR)	x		4,50	
Issue price of bond (EEK)	50,00		70,41	
Bond return per annum (% from issue price)	6%		7%	
Bond interest payment frequency	Once a year		Twice a year	
Lates date for the repurchase of bonds	20.01.2010		13.08.2013	
Discount rate (%)	11%		11%	
	2009	2008	2009	2008
Number of convertible bonds at the beginning of period	**122 537**	**122 537**	**0**	**0**
Number of convertible bonds issued	0	0	1 164 807	0
Number of convertible bonds at the end of period	**122 537**	**122 537**	**1 164 807**	**0**
incl. repurchase of convertible bonds in the following period	122 537	0	0	0

(Th. EEK)	2009	Discounted 2009	2008	Discounted 2008	2009	Discounted 2009	2008	Discounted 2008
Principal of the bonds issued at the beginning of the period	6 127		6 127		0		0	
Principal of convertible bonds issued	0		0		82 014		0	
Principal of the bonds issued at the end of the period	6 127	6 127	6 127	5 520	82 014	59 480	0	0
incl. repurchase of convertible bonds in teh following period	6 127		0		0		0	
Interest payable at the end of the period	0	0	368	331	17 223	14 340	0	0
Short-term portion of liabilities on the balance sheet	**6 127**		**0**		**0**		**0**	
Long-term portion of liabilities on the balance sheet		**0**		**5 851**		**73 820**		**0**
Equity portion on the balance sheet		**0**		**276**		**8 194**		**0**

The issuance of convertible bonds of AS Pro Kapital Grupp in 1999 are redeemed in accordance with the terms of issue, for the issue price, on 20 January 2010. Redemption fees are paid to the owners of convertible bonds, who have not exercised the right to exchange the convertible bonds for the Ultimate Parent Company share 1:1 until 10 January 2010. As of 31 December 2009 and 31 December 2008 the owners of convertible bonds had not used the right.

According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the reporting period can be converted to shares of the Ultimate Parent Company on 31 December 2010, 31 December 2011 and 31 December 2012 with the rate one convertible bond per share.

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NOTE 19. LEASE OBLIGATIONS

Finance lease – Group as the lessee

The equipment is acquired under the terms of finance lease. During the accounting period principals of finance lease were repaid in the amount of 773 Th. EEK (2008: 2 033 Th. EEK) and interest of finance lease in the amount of 24 Th. EEK (2008: 22 Th. EEK) were paid.

Principals of finance lease for the following periods:

(Th. EEK)	Minimum amount of finance lease payments	Interest expense	Net present value of minimum amount of finance lease payments
Finance lease obligations as of 31.12.2008			
Within 1 year	813	217	596
1 – 5 years	2 970	534	2 436
Over 5 years	1 100	48	1 052
Total	**4 883**	**799**	**4 084**
Finance lease obligations as of 31.12.2009			
Within 1 year	899	106	793
1 – 5 years	3 582	251	3 331
Over 5 years	844	41	803
Total	**5 325**	**398**	**4 927**

Average interest rate of long-term finance lease differs by contracts remaining between is 3-9% per annum. Contract currency is EUR.

Additional information about non-current assets acquired in terms of finance lease is presented in Note 10.

Operating lease – Group as the lessee

An administrative building located in Riga, Latvia is rented under the terms of an operating lease and is the most significant leased property. During the accounting period, principals of operating lease in the amount of 13 010 Th. EEK (2008: 11 939 Th. EEK) were repaid.

Operating lease payments for the following periods:

(Th. EEK)	31.12.2009	31.12.2008
Within 1 year	8 428	11 582
1 – 5 years	25 593	46 120
Over 5 years	0	3 811
Total	**34 021**	**61 513**

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Operating lease – Group as the lessor

The group is a lessor in operating lease of investment property, a leashold administrative building and other assets belonging to the Group.

During the accounting period, rental income in the amount of 111 148 Th. EEK (2008: 125 940 Th. EEK) was earned from the assets rented out under the terms of operating lease. Direct costs corresponding to the rental income constituted 42 992 Th. EEK (2008: 55 071 Th. EEK).

Rental income from operating lease for the next periods:

(Th. EEK)	31.12.2009	31.12.2008
Within 1 year	100 626	98 473
1 – 5 years	287 002	272 242
Over 5 years	125 574	179 303
Total	**513 202**	**550 018**

Additional information about investment property leased out in terms of operating lease is presented in Note 12.

NOTE 20. MINORITY INTEREST

The minority interest of the Group as of 31 December 2009 amounts to 535.0 million EEK (31.12.2008: 530.8 million EEK) and consists of the minority shareholders' portions in the equity of the subsidiary groups' and the minority shareholder's portion in the equity of the subsidiary groups' parent companies. Minority interests in the amount of 388.5 million EEK (31.12.2008: 352.9 million EEK) arises from the Estonian subsidiary group; 57.5 million EEK (31.12.2008: 78.8 million EEK) arises from the Latvian subsidiary group; -6.1 million EEK (31.12.2008: -18.3 million EEK) arises from the Russian subsidiary group; 0 million EEK (31.12.2008: -0.2 million EEK) arises from the Domina Vacanze subsidiary group; 89.0 million EEK (31.12.2008: 110.1 million EEK) arises from the Domina Vacanze S.p.A.; 6.1 million EEK (31.12.2008: 7.5 million EEK) arises from the minority interest in Immobiliare Novate S.p.A.

NOTE 21. EQUITY

Share capital

The share capital in the amount of 531 854 Th. EEK consists of 53 185 422 ordinary shares at a nominal value of 10 EEK per share. According to the articles of association, the maximum number of shares allowed to be issued is 90 000 000.

There were no changes in share capital during the financial year and the previous period.

Owners of AS Pro Kapital Grupp shares has the right to receive dividends, in case these are announced, and to participate in voting at general shareholders' meetings of the entity with one vote per share. The Entity has not issued any preference shares.

On 13 April 2009, AS Pro Kapital Grupp shareholders' extraordinary meeting decided to issue up to 10 000 000 the Ultimate Parent Company's convertible bonds in nominal value of 10 EEK per bond, and increase conditionally the Ultimate Parent Company share capital up to 10 000 000 shares in nominal value of 10 EEK per share due to exchange convertible bonds for shares of the Ultimate Parent Company. The bonds shall be offered for subscription until 1 January 2012. The convertible bond can be exchanged for share of the ultimate parent company on 31.12.2010, 31.12.2011, and 31.12.2012.

The Ultimate Parent Company's shareholders pre-emptive right to note the convertible bonds and the exchange of bonds to issued shared is excluded with decision.

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On 24 April 2009 the conditional increase of the Ultimate Parent Company's share capital was registered in Commercial Register.

Reserves

Reserves in the amount of 54 160 Th. EEK (31.12.2008: 46 447 Th. EEK) consist of the statutory legal reserve in the amount of 45 966 Th. EEK (31.12.2008: 45 966 Th. EEK), required according to the Estonian Commercial Code § 336, and other reserves in the amount of 8 194 Th. EEK (31.12.2008: 481 Th. EEK).

As other reserves are recorded capital reserves in the amount of 8 194 Th. EEK (31.12.2008: 276 Th. EEK), which comprise of convertible bonds equity portion in accordance with the IAS 32 "Financial Instruments: Disclosure and Presentation". The convertible bonds equity reserve increased by 7 918 Th. EEK (in 2008: decreased by 249 Th. EEK) during the financial year. The equity share of the convertible bonds represents the option value of converting bonds into ordinary shares (see Note 18).

Treasury shares

On 30 October 2008, the shareholders' meeting of AS Pro Kapital Grupp decided to allow the entity to acquire 1 000 000 own shares with repurchase price of 60 EEK per share during the period of five years. The Management Board has the right to repurchase own shares in several offer rounds. Acquiring own shares will not cause the decrease of net assets below the total amount of share capital and reserves of which the payments to shareholders are not permitted by the law and articles of association. According to the shareholders' decision the Management Board is obligated to dispose the shares or make an proposal on the shareholders' meeting to decrease the share capital, during the three years time after the acquiring own shares. As of 31 December 2009 and 2008, the Ultimate Parent Company has not exercised the right to repurchase the shares.

NOTE 22. SEGMENT REPORTING

Segment information is presented by business and geographical segments.

Geographical segments are considered the primary segments, which is also the basis for intra-group reporting. Net profit, assets and liabilities of a segment include records, which are directly related to the particular segment and allocation of which among the segments is sufficiently justified.

Geographical segments

The Group sells real estate and provides services, such as real estate rental, development, and administration services in Estonia, Latvia, Lithuania, Italy, Germany, Russia and Ukraine.

The Italian subsidiaries belonging to Domina Hotel Group subsidiary group provide hotel management also in Germany, Hungary, Tunisia, the Netherlands, Poland, Estonia and Latvia, but considering that the sales of the described services is less than 10% from Group's turnover the current geographical segments are presented among the figures for the whole Italian geographical segment.

Net sales by geographical segments reflect real estate transactions performed within the respective geographical region. Segment assets are classified according to the same principle.

Business segments

Business segments of the Group are the following:

- Sale of property
  Sales of residential, commercial and trade areas, hotels, hotel suites, villas, and time-shares purchased and/or developed by the Group entities.

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- Real estate rent
  Rental services provided by the Group entities.

- Real estate development and administration services
  Management services related to the management and development of real estate and also hotel operating services provided by the Group entities to third parties.

Geographical segments – primary segment reporting

(Th. EEK)	Estonia	Latvia	Lithuania	Russia	Ukraine	Germany	Italy	Total
2009								
Revenue	198 128	76 385	35 504	0	0	0	704 689	1 014 706
Other income	6 013	13 933	596	1 543	0	0	27 858	49 943
Segment operating profit (loss)	-3 340	-27 673	-17 892	-13 655	-285	-4 600	-263 376	-330 821
Net financial income (expenses)	-28 711	1 412	-1 351	-9 698	8	0	-20 145	-58 485
Loss from continuing operations								**-389 306**
Income tax	0	2 294	-2 699	0	0	0	-111	-516
Minority interest								-6 243
Net loss								**-395 033**
Assets	1 034 040	512 296	437 991	279 448	576	44 983	3 093 532	5 402 866
Liabilities	931 163	127 327	278 839	187 837	135	442	1 678 393	3 204 136
Acquistion of non-current assets	18 104	17	410	45 804	0	61	88 205	152 601
Depreciation/amortization	-16 822	-5 720	-666	-36	0	-1 873	-31 012	-56 129
2008								
Revenue	321 042	93 292	807	0	0	0	925 990	1 341 131
Other income	4 032	65 223	9	0	0	0	77 839	147 103
Segment operating profit (loss)	86 038	31 661	-5 432	-7 741	-125	2 438	-77 244	29 595
Net financial income (expenses)	-46 365	4 016	-8 247	-37 189	366	0	-8 974	-96 393
Loss from continuing operations								**-66 798**
Income tax	0	11 972	2 064	0	91	0	8 382	22 509
Minority interest								-41 997
Net loss								**-131 304**
Assets	1 078 973	549 897	418 473	244 290	756	46 590	2 878 476	5 217 455
Liabilities	853 183	142 313	273 520	175 361	18	361	1 184 602	2 629 358
Acquistion of non-current assets	43 997	1 626	79	68 405	0	-307	230 262	344 062
Depreciation/amortization	-18 739	-6 339	-671	-30	0	-1 870	-26 534	-54 183

Business segments – secondary segment reporting

(Th. EEK)

Business segment	Field of activity according to the Estonian Classification of Economic Activities	Revenue 2009	%	2008	%
Real estate sale	Buying and selling of own real estate (EMTAK 68100)	260 654	26%	561 512	42%
Real estate rent	Renting and operating of own or leased real estate (EMTAK 68200)	111 148	11%	125 940	9%
Real estate development and administration service (incl. hotel management service)	Management of real estate on a fee or contract basis (EMTAK 68320)	642 904	63%	653 679	49%
Total		**1 014 706**	**100%**	**1 341 131**	**100%**

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NOTE 23. COST OF GOODS SOLD, MARKETING EXPENSES, AND ADMINISTRATIVE EXPENSES

Cost of goods sold:

(Th. EEK)	2009	2008
Personnel expenses	198 366	215 929
Depreciation of tangible assets (Note 10)	22 089	20 380
Depreciation of investment property (Note 12)	14 447	14 369
Impairment of non-current assets	0	9 118
Write down of inventories (Note 3)	25 649	0
Other	679 510	721 103
Total	**940 061**	**980 899**

Marketing expenses:

(Th. EEK)	2009	2008
Personnel expenses	25 833	13 692
Depreciation of tangible assets (Note 10)	9	0
Other	77 338	72 357
Total	**103 180**	**86 049**

Administrative expenses:

(Th. EEK)	2009	2008
Personnel expenses	122 734	89 114
Depreciation of tangible assets (Note 10)	15 812	15 775
Amortization of intangible assets (Note 11)	3 772	3 659
Impairment of non-current assets	3	3 924
Write down of inventories (Note 3)	0	5 792
Other	134 362	178 035
Total	**276 683**	**296 299**

NOTE 24. FINANCIAL INCOME AND EXPENSE

Financial income:

(Th. EEK)	2009	2008
Interest income	7 990	24 398
Gain from disposal of subsidiary	9 940	7 669
Other financial income	37	639
Total	**17 967**	**32 706**

Financial expense:

(Th. EEK)	2009	2008
Interest expense	67 888	74 050
Interest expense of convertible bonds	2 585	368
Interest expense of loans and overdrafts	91 612	90 684
Interest expense of capitalized acquistion cost of tangible assets	-13 411	-14 513
Interest expense of capitalized acquistion cost of inventories	-12 898	-2 489
Loss from currency exchange	1 923	50 527
Other financial expense	6 641	4 522
Total	**76 452**	**129 099**

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NOTE 25. INCOME TAX

According to the income tax law of Estonia, earned profits of entities are not taxed with income tax, however, dividend payments and other ways of distributing profits are taxed. Due to the difference in the income tax concept, the term "taxation base of assets and liabilities" has no economic meaning, and therefore deferred income tax liabilities and assets cannot be accounted for in accordance with IAS 12 "Income Taxes".

In accordance with income tax laws in Latvia, Lithuania, Italy, Germany, Russia and Ukraine, the applicable tax rates in these countries in year 2009 were 15%, 20%, 27.5%, 15%, 20% and 25% (2008: 15%, 15%, 27.5%, 15%, 24% and 25%) on taxable earnings respectively.

(Th. EEK)	31.12.2009	31.12.2008
Loss before income tax (consolidated)	-389 306	-66 798
Estimated income tax respective to the tax rates	-47 790	100 305
Corrections of estimated income tax:		
Non-deductible expenses (+)	90 218	28 858
Non-taxable income and tax incentive	-82 183	-138 711
Deductions (-)	-1 340	-2 593
Reversal loss carry forward (+)	48 735	29 691
Income tax expenses	7 640	17 550
Deferred income tax expense (details as follows)	1 335	5 064
Deferred income tax returns (details as follows)	-9 491	-105
Effect on income statement	**-516**	**22 509**
Income tax paid (-)	**-5 400**	**-236 038**
Income tax reclaimed (+)	**0**	**1 957**

Deferred income tax asset and liability (net) movements:

(Th. EEK)	Accelerated tax depreciation	Revaluation of investment property	Deferred tax losses	Total
31 December 2008	**27 103**	**8 258**	**-1 923**	**33 438**
Effect on income statement:	-6 546	-2 698	1 088	-8 156
Income tax expense during the reporting period	247	0	1 088	1 335
Income tax reclaims during the reporting period	-6 793	-634	0	-7 427
Income tax changes during the reporting period	0	-2 064	0	-2 064
Exchange rate differences	-5	0	-2	-7
31 December 2009	**20 552**	**5 560**	**-837**	**25 275**

Deferred income tax balances

(Th. EEK)	31.12.2009	31.12.2008
Deferred income tax liability (+)	25 275	35 150
Deferred income tax assets (-)	0	-1 712
Total	**25 275**	**33 438**

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Contingent income tax

The Group's retained earnings as of 31 December 2009 constituted 381 293 Th. EEK (31.12.2008: 776 121 Th. EEK). The maximum possible amount of income tax liability, which could be handled as contingent liability and which could realize as a net dividend on the payout of all retained earnings, is 80 072 Th. EEK (31.12.2008: 162 985 Th. EEK). The calculation of maximum possible income tax liability is based on the assumption that the sum of distributable net dividends and the income tax expense which occurs on the payout cannot exceed the retained earnings as of 31 December 2009.

NOTE 26. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit (loss) for the period with the weighted average number of shares in the period:

Average number of shares:

In period 01.01.2009 - 31.12.2009	(53 185 422 x 12/12) = 53 185 422
In period 01.01.2008 - 31.12.2008	(53 185 422 x 12/12) = 53 185 422

Net profit/loss per share (in EEK):

2009	-395 033 083 / 53 185 422 = -7,43
2008	-131 304 191 / 53 185 422 = -2,47

The convertible bonds (see Note 18) did not have a dilutive effect on earnings in 2009 and 2008, and therefore they have not been included in the calculation of the diluted net profit (loss) per share. As a result, the diluted profit (loss) per share equals the net profit (loss) per share indicator.

NOTE 27. SUBSEQUENT EVENTS

With regard to the termination of operator contract on January 2010 SIA PK Investments, an entity belonging to the Pro Kapital Latvia subsidiary group ended operational activities as operator of the Domina Shopping Centre, which was sold by the entity in 2007.

On 28 February 2010, Domina Hotel Italy S.r.l., a subsidiary of Domina Hotel Group S.p.A. ended business as hotel operator in hotel "Domina Hotel Palace" located in Bar, Italy as the result did not meet the objectives proposed.

On 3 March 2010, Domina Hotel Group S.p.A. sold the 100% ownership of Domina Hospitality School S.r.l., which trained employees involved to Domina Hotel Group subsidiary group at the cost of 30 thousand EUR (appr. 469 thousand EEK). Profit from disposal of subsidiary constituted a total amount of 12 thousand EUR (appr. 188 thousand EEK).

On 11 March 2010, a loan agreement (concluded on 16 January 2009) appendix between AS Tondi Kvartal, a subsidiary of AS Pro Kapital Eesti, and AS Swedbank was signed to set new maturity date on 16 January 2012, other conditions of the loan are not amended.

On 13 April 2010, the liquidation process of A-Centrs SIA, a subsidiary of Pro Kapital Latvia PJSC was completed.

According to the decision of shareholders' extraordinary meeting held on 13 April 2009 the Ultimate Parent Company's management offered for subscription 1 500 000 convertible bonds on 27 April 2010 with an issue price of 4.5 EUR (appr. 70.4 EEK) per each convertible bond issued. Subscription period lasts until 30 June 2010.

On 30 April 2010, Domina Hotel Italy S.r.l., a subsidiary of Domina Hotel Group S.p.A. ended business as hotel operator in hotel "Domina Inn Malpensa" located near the Malpensa airport, in Italy as the result did not meet the objectives proposed.
On 6 May 2010, the liquidation process of Domina Vacanze GmbH, a subsidiary of Domina Vacanze was completed.

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On 25 May 2010, the liquidation process of Kugu Real Estate SIA, a subsidiary of Pro Kapital Latvia PJSC was completed.

NOTE 28. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are considered to be transactions with the higher level Ultimate Parent Company within the Group, shareholders, the members of the Supervisory Council and the Management Board, their families and the companies in which they hold majority interest or have significant influence.

In 2009

Intra-group transactions
The Group companies provided each other with rent and management, accounting, marketing, and administration services. Such transactions amounted to 49.2 million EEK in 2009.

The intra-group loans are disclosed in Note 8. The interest income and expenses from intra-group loans amounted to 87.8 million EEK.

All intra-group transactions have been eliminated from the consolidated financial statements.

Transactions with shareholders
The subsidiaries of Pro Kapital Latvia group has given short-term loans to Svalbork Invest OÜ, the shareholder of AS Pro Kapital Grupp. As of 31 December 2009 there were loan receivables in the amount of 82.0 million EEK and interest receivables in the amount of 9.6 million EEK. Interest income from loans was in amount of 3.4 million EEK.

Transactions with management
In 2009, the salaries and bonuses paid to the members of the Management Board and the executive managements amounted to 19.0 million EEK. No other transactions or provisions occurred with the members of the management.

As of 31 December 2009, the Supervisory Council, the Management Board and the executive managements of the AS Pro Kapital Grupp did not hold the shares of AS Pro Kapital Grupp in significant quantities.

In 2008

Intra-group transactions
The Group companies provided each other with rent and management, accounting, marketing, and administration services. Such transactions amounted to 49.4 million EEK in 2008.

The intra-group loans are disclosed in Note 8. The interest income and expenses from intra-group loans amounted to 115.5 million EEK.

All intra-group transactions have been eliminated from the consolidated financial statements.

Transactions with shareholders
The subsidiaries of Pro Kapital Latvia group has given short-term loans to Svalbork Invest OÜ, the shareholder of AS Pro Kapital Grupp. As of 31 December 2008 there were loan receivables in amount of 99.5 million EEK and interest receivables in amount of 6.9 million EEK. Interest income from loans was in the amount of 11.4 million EEK.

Transactions with management
In 2008, the salaries and bonuses paid to the members of the Management Board and the executive managements amounted to 20.7 million EEK. No other transactions or provisions occurred with the members of the management.

As of 31 December 2008 the Supervisory Council, the Management Board and the executive managements of the AS Pro Kapital Grupp held no shares in AS Pro Kapital Grupp.

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NOTE 29. COLLATERALS AND PLEDGED ASSETS

Name of the pledgor	Name of the beneficiary	(in Th. EEK) Obligation amount as of 31.12.2009	Collateral description	Owner of collateral	Type of asset	(Th. EEK) Book value of collateral as of 31.12.2009
Kristiine Kaubanduskeskus AS	Swedbank	722 385	Kalaranna 1, Tallinn	Pro Kapital Eesti AS	Unfinished construction (inventories)	76 000
			Seebi 24a/ Tondi 53b, Tondi 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare road 56/58, Tallinn	Tondi Kvartal AS	Unfinished construction (inventories)	129 182
			Põhja avenue. 23, Tallinn	Ilmarise Kvartal OÜ	Land and buildings	5 072
					Finished construction (inventories)	38 809
			Endla 45,Tulika 33a/37a and Kotkapoja 7, 9, 11, Tallinn	Kristiine Kaubanduskeskus AS	Investment property	518 812
Tondi Kvartal AS	Swedbank	26 795	Tondi 51, Tallinn	Tondi Kvartal AS	Finished construction (inventories)	50 514
Pro Kapital Eesti AS	Swedbank	68 496	Põhja avenue. 21a, 21b, 21 (703/6962), Tallinn	AS Pro Kapital Eesti	Land and buildings	59 008
			Põhja avenue 21 (6259/6962), Tallinn	Ilmarise Kvartal OÜ	Finished construction (inventories)	45 795
Investhotel SIA	Swedbank	95 837	Pulkveza Brieza Str. 11, Riga	Investhotel SIA	Land and buildings	31 882
					Machinery and equipment	7 305
					Other tangible assets	309
					Current assets	81 005
PK Invest UAB	Swedbank	231 892	Aguonu str.10, Vilnius	PK Invest UAB	Finished construction (inventories)	353 006
					Unfinished construction (inventories)	59 247
Domina Vacanze S.p.A	Credito Artigiano Bank	25 035	Cianderils, Largo delle Poste 39, Cortina d'Ampezzo (BL)	Domina Vacanze S.p.A.	Land and buildings	15 174
	Meliorbanca	232 334	Via Priesnig 10, Tarvisio	Domina Vacanze S.p.A.	Finished construction (inventories)	253 372
			Via A. Maffei 1, Milan	Domina Vacanze S.p.A.	Land and buildings	58 904
Immobiliare Novate S.p.A.	Credito Artigiano Bank	242 400	Via Don Orione 18/20, Milan	Immobiliare Novate S.p.A.	Land and buildings	365 509
P.K. Sicily S.p.A.	Credito Siciliano S.p.A.	203 406	Resort Zagarella & Sea Palace, Santa Flavia, Palermo	P.K.Sicily S.p.A.	Unfinished construction (inventories)	626 725
			P.K.Sicily S.p.A. shares	AS Pro Kapital Grupp	Securities	14 228
Dom na Moike OOO	Swedbank	78 591	Bolsaja Morskaja 54, Petersbourg	Dom na Moike OOO	Unfinished construction	206 833
			Dom na Moike OOO share	Pro Kapital Rus OOO	Securities	-6 309
Total		**1 927 171**				**2 990 382**

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NOTE 30. RISK MANAGEMENT

The business of the Group involves business risk and several financial risks: market risk (interest and currency risk), credit risk and liquidity risk, it is aimed to minimize the negative impact of these risks to the Group's financial results with the risk management. The main purpose of the risk management is to assure the retention of Group's equity and to carry Group activities as a going concern.

Business risk

The business risk of the Group depends on the development of the real estate markets in Baltic States, Italy and Russia, and on the development of the tourism sector in Europe as well as in Egypt.

The global financial crisis and the accompanying economic crisis have been affected negatively development of the real estate as well as tourism sector. Although at the end of 2009 the global economy showed some signs about economic growth, the positive impact of the real estate development sector is usually occurs with a delay.

Significant risk which would occur with the crisis, the decrease of the substantial purchasing capability of the permanent residence, the increase of the interest rates for mortgage loans and other factors which could decrease the demand for real estate and hotel services and have a negative impact to the Group operating activities, decreasing the sales and rent income as well the gain from development activities, property management services and operating hotels. Changes in financial markets could reduce the Group's business opportunities to involve foreign capital to finance business and to refinance existing financial liabilities.

The Group has diversified the risk deriving from the fluctuation of purchasing-power on the Baltic real estate market by the co-operation with the real estate brokers in Italy, who are looking for clients interested in long-term real estate investments in the Baltic States. The Group has expanded its business activities into new areas with large development potential, it has continued to develop real estate projects in Sicily (Italy) and Russia.

Taking into consideration the capacity of the real estate projects and favourable position, it can be presumed, that the subsidiary groups are able to retain their position in the market.

The Group's Management believes it is not possible to reliably assess the effects of the ongoing economic crisis, however the management believes that all necessary measurement have been adopted to provide a sustainable development.

Interest risk

Main interest risk rises from long-term liabilities of the Group. In general the interest rates of loans raised by the entities belonging to Group are fixed through Euribor plus a risk margin (Notes 15 and 16). An interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. The minimum use of financial instruments are used to diversify the interest risk. According to Group's management estimate the expenses related to interest diversification (fixed interest rate) are exceeding the possible losses from the change of interest rate. The estimate based on the Group's financing strategy in the short-term. As of 31.12.2009 the interest bearing liabilities amounted to 39.7% (31.12.2008: 33.5%) from the total of Group capital structure.

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.

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Due to the fact that Group's liabilities are predominantly in euro (Notes 15, 16 and 17) and majority of Group's income comes from euro based contracts, the Group's management estimates the currency risk to be unimportant and does not consider the usage of financial instruments for diversification proper.

Credit risk

The Credit risk expresses potential loss that occurs, when customers do not fulfill their contractual obligations. For mitigating the credit risk the payment discipline of the customers is consistently followed.

In general the sales of real estate are financed with clients prepayments. In case of sales of the real estate under the instalment, the creditworthiness of each client is analyzed separately. The ownership of the sales object belongs to the Group entities until the client has settled all debt. It may sometimes happen that the ownership is transferred to the buyer but a mortgage is set in favour of the Group entity.

During the reporting period the deterioration of payment discipline of the customers has occurred related to rent of real estate, however the Group has not had to bear significant credit losses.

Based on the assumption of Group's management experience and the analysis of the economic environments' development trends, discounts are made to cover possible losses, if necessary.

According to the estimation of the Group's management the need for further grounding of credit risk resulted from above is minimal.

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.

Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group constantly monitors proportion of short-term liabilities and current assets. The Group's working capital has been positive: as of 31.12.2009 the current assets exceeded short-term liabilities by 4.3 times (31.12.2008: 2.6 times).

Group's financial liabilities according to the due date:

(Th. EEK)

			Repayment of liabilities				Repayment of liabilities		
	Note	31.12.2009	within 1 year	2-5 years	over 5 years	31.12.2008	within 1 year	2-5 years	over 5 years
Bank loans	15	1 943 904	158 743	1 698 982	86 179	1 653 303	660 414	674 299	318 590
Long-term loans	16	128 083	9 701	118 382	0	104 307	4 255	100 052	0
Finance lease liabilities	19	4 927	793	3 331	803	4 084	596	2 436	1 052
Convertible bonds	18	79 947	6 127	73 820	0	5 851	0	5 851	0
Trade payables		448 594	448 594	0	0	403 740	403 740	0	0
Other debt		407 521	78 711	328 810	0	218 250	77 113	141 137	0
Total		**3 012 976**	**702 669**	**2 223 325**	**86 982**	**2 389 535**	**1 146 118**	**923 775**	**319 642**

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Capital risk management

The purpose of capital risk management is to provide the Group's sustainability and to ensure profit for the shareholders through optimal structure of capital.

The Group uses foreign and equity capital for financing business activities and monitors percentage of equity capital from balance sheet volume in editing financial structure and in assessment of risk. As of 31.12.2009 the equity capital constitutes 40.7 % (31.12.2008: 49.6 %) from balance sheet volume.

For obtaining and improving capital structure the Group has possibility to regulate dividends payable, to return shareholders contributions to share capital, to issue new shares, or to sell assets to decrease liabilities.

NOTE 31. LAW SUITS

Pro Kapital Eesti subsidiary group

As of 31 December 2009, the entities of Pro Kapital Eesti subsidiary group have no ongoing legal proceedings.

As of 31 December 2008, the entities of Pro Kapital Eesti subsidiary group had an ongoing legal proceeding related to the non-compliance of a client's liabilities arising from the termination of the real estate finance lease. Litigation which ended with agreement of the parties, was not accompanied by any costs to the entity.

Pro Kapital Latvia subsidiary group

As of 31 December 2009, the parent entity of Pro Kapital Latvia subsidiary group has an ongoing legal proceeding related to the former employees claim against the entity in matter of the commission fees in total amount of 360 641 Latvian lats (appr. 7 952 Th. EEK), and the entity added a claim against the annulment of the appendix of the employment agreement.

On 14 April 2008, the Riga city court called claim against the entity without any legal basis, and the court upheld a claim against the entity. Afterwards on 12 May 2008 the employee submitted the claim to appeal the decsion of the Riga city court. On 29 January 2009, the court annulled the decision of the Riga city court, and dismissed the employee's claim the against entity as well as the entity's claim against the employee.

On 17 April 2009, both parties submitted the decision to cassation. Entity has asked the cancellation of decision made by district court and entity's claim for recognize the agreement appendix as trivial. Employee has asked the cancellation of decision made by the district court and that the aforementioned commissions to be paid out. Cassations by both parties is expected to come up for discussion on summer-autumn 2010.

The Group management estimates above described unfinished law suits to be unsubstantiated, therefore any potential liabilities are not included to the annual accounts related to the law suits.

As of 31 December 2009, the entity of Pro Kapital Latvia subsidiary group PK Investments SIA has one ongoing legal arbitration proceeding. On 31 July 2009, the entity submitted an application to Swedish Chamber of Commerce Court of Arbitration with claim against KanAM Grund Kapitalanlagegesellschaft GmbH with content to pay 400 000 EUR (appr. 6 259 thousand EEK) and interest amounting to 27 930 EUR (appr. 437 thousand EEK) under the sale contract of Domina Shopping Centre, which KanAM Grund Kapitalanlagegesellschaft GmbH held improperly.

KanAM Grund Kapitalanlagegesellschaft GmbH announced its response to Arbitration, that it does not recognize the claim and intends to claim compensations from PK Investments SIA in the amount of 1 011 600 EUR (appr. 15 828 thousand EEK) with argument that entity has failed to improving the construction waste in Domina Shopping Centre. KanAM Grund Kapitalanlagegesellschaft GmbH has further argued that it would require a return of overpayment of purchase price in the amount of 271 236 EUR (appr. 4 244 thousand EEK). Entity notes that KanAM Grund Kapitalanlagegesellschaft GmbH does not request Arbitration by an arbital

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tribunal or the conduct of their claims. Entity does not know whether KanAM Grund Kapitalanlagegesellschaft GmbH present the claim to Arbitration of the presentation of which it has noticed..

The management of the Group estimates the above described possible claim to be unsubstantiated, however the Group's consolidated financial statements contain contingent liabilities to repair the possible construction errors amounting to 200 000 Latvian lats (appr. 4 410 thousand EEK).

As of 31 December 2008, the entities of Pro Kapital Latvia subsidiary group had one legal proceeding ongoing, the aforementioned law suit.

Domina Vacanze subsidiary group

As of 31 December 2009, the entities of Domina Vacanze subsidiary group have 33 unfinished legal proceedings, 28 of which are subject about termination of the real estate preliminary sales contracts and the return of money, and 5 are on the subject of quality services provided by Domina Vacanze subsidiary group

The legal proceedings connected to the real estate are based on the client's request not to terminate the preliminary contract despite of the violation of the conditions by the client or to receive back the agreed payments that are not refundable based on the agreement conditions.

The Group management estimates on the described unfinished law suits described above have no significant effect on the business operations of the Domina Vacanze subsidiary group companies.

As of 31 December 2008, the entities of Domina Vacanze subsidiary group had 21 unfinished legal proceedings, which involved the termination of the real estate preliminary sales contracts and the return of money.

Domina Hotel Group subsidiary group

As of 31 December 2009, the entities of Domina Hotel Group subsidiary group had 7 unfinished legal proceedings, 5 of which are on the subject of former employees of monetary and non-monetary claims against entities in relation to lay off of employees, and 2 are on the subject of consultancy claims for services which are contracted, however the services had not taken place.

According to the Group management estimates, the above described unfinished law suits have no significant effect on the business operations of the Domina Hotel Group subsidiary group companies.

As of 31 December 2009, the entities of Domina Hotel Group subsidiary group have no ongoing legal proceedings.

There were no other Court or Arbitration Court proceedings initiated that could significantly affect the business operations of the Group companies.

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NOTE 32. FINANCIAL STATEMENTS OF THE ULTIMATE PARENT COMPANY

Balance Sheet

ASSETS (Th. EEK)	31.12.2009	31.12.2008
Current assets		
Cash and bank accounts	3 008	2 767
Miscellaneous receivables		
Short-term receivables from the Group entities	86 815	49 738
Other short-term receivables	714	0
Total	87 529	49 738
Accrued income		
Interests	9	0
Prepaid expenses		
Prepaid taxes and reclaimable taxes	0	569
Prepaid expenses	33	3 041
Total	33	3 610
Total current assets	**90 579**	**56 115**
Non-current assets		
Long-term financial investments		
Shares in subsidiaries	2 104 649	2 030 105
Long-term receivables from the Group entities	938 331	848 179
Total	3 042 980	2 878 284
Tangible assets (net)	20	38
Total non-current assets	**3 043 000**	**2 878 322**
TOTAL ASSETS	**3 133 579**	**2 934 437**

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LIABILITIES AND OWNER'S EQUITY

(Th. EEK)	31.12.2009	31.12.2008
Current liabilities		
Short-term debt	6 127	0
Trade payables	167	175
Miscellaneous liabilities		
Payables to Group entities	119 958	822 246
Tax payables	122	394
Accrued expenses	2 841	552
Total current liabilities	**129 215**	**823 367**
Non-current liabilities		
Long-term debt	73 820	5 851
Other long-term liabilities		
Payables to Group entities	978 944	865 220
Long-term provisions	253	101
Total non-current liabilities	**1 053 017**	**871 172**
Total liabilities	**1 182 232**	**1 694 539**
Share capital in nominal value	531 854	531 854
Share premium	705 495	705 495
Reserves	54 160	46 242
Retained earnings / accumulated deficit	-43 693	20 971
Profit / loss for the financial year	703 531	-64 664
Total owner's equity	**1 951 347**	**1 239 898**
TOTAL LIABILITIES AND OWNER'S EQUITY	**3 133 579**	**2 934 437**

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Income Statement

(Th. EEK)	2009	2008
Operating income		
Revenue	5 907	6 108
Cost of goods and services sold	-107	-265
Gross profit	**5 800**	**5 843**
Marketing expenses	-128	-757
Administrative expenses	-23 054	-16 126
Other income	2	345
Other expense	-11	-62
Operating loss	**-17 391**	**-10 757**
Financial income and expense	720 922	-53 907
Financial income and expense from subsidiaries shares	738 839	0
Interest expense	-57 567	-84 972
Profit / loss from change in currency exchange rate	6 962	-42
Other financial income and expense	32 688	31 107
Profit / loss before income tax	**703 531**	**-64 664**
Income tax	0	0
Profit / loss for the financial year	**703 531**	**-64 664**

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Statement of cash flows

(Th. EEK)	2009	2008
OPERATING ACTIVITIES		
Profit /loss for the financial year	703 531	-64 664
Adjustments:		
Depreciation of tangible assets	18	16
Interest income and expense (net)	24 879	54 038
Dividend income	-745 814	0
Gain / loss from liquidation of short-term investments	0	-173
Change in provisions	152	0
Change in receivables and prepayments made	4 708	2 048
Changes in payables and prepayments collected	-202	474
Cash flow used in operating activities	**-12 728**	**-8 261**
INVESTING ACTIVITIES		
Increas of share capital or acquistion of subsidiaries	-19 558	0
Short-term investment liquidation portion	0	2
Acquistion of tangible assets	0	-21
Loans granted	-95 194	-74 675
Repayments of loans granted	16 820	30 502
Interest received	2 398	4 056
Interest paid	-3 627	-60 941
Cash flows used in investing activities	**-99 161**	**-101 077**
FINANCING ACTIVITIES		
Loans raised	130 103	375 497
Repayments of loans raised	-17 973	-268 674
Cash flows from financin activities	**112 130**	**106 823**
Net change in cash	**241**	**-2 515**
CASH AT THE BEGINNING OF THE FINANCIAL YEAR	**2 767**	**5 282**
CASH AT THE END OF THE FINANCIAL YEAR	**3 008**	**2 767**

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Statement of changes in equity

(Th. EEK)	Share capital	Share premium	Reserves	Retained earnings / accumulated deficit	Profit / loss for the financial year	Total
Balance as of 31 December 2007	**531 854**	**705 495**	**6 327**	**94 475**	**-33 340**	**1 304 811**
Cost of subsidiaries shares	X	X	X	X	X	-1 953 749
Book value of the shares in subsidiaries calculated based on equity method	X	X	X	X	X	2 830 935
Adjusted unconsolidated equity 31 December 2007	**X**	**X**	**X**	**X**	**X**	**2 181 997**
Increase of statutory legal reserve	0	0	40 164	-40 164	0	0
Change in the convertible bonds reserve	0	0	-249	0	0	-249
Allocation of net loss	0	0	0	-33 340	33 340	0
Result of the financial year	0	0	0	0	-64 664	-64 664
Balance as of 31 December 2008	**531 854**	**705 495**	**46 242**	**20 971**	**-64 664**	**1 239 898**
Cost of subsidiaries shares (Note 6)	X	X	X	X	X	-2 030 104
Book value of the shares in subsidiaries calculated based on equity method (Note 6)	X	X	X	X	X	2 847 497
Adjusted unconsolidated equity 31 December 2008	**X**	**X**	**X**	**X**	**X**	**2 057 291**
Change in the convertible bonds reserve	0	0	7 918	0	0	7 918
Allocation of net loss	0	0	0	-64 664	64 664	0
Result of the financial year	0	0	0	0	703 531	703 531
Balance as of 31 December 2009	**531 854**	**705 495**	**54 160**	**-43 693**	**703 531**	**1 951 347**
Cost of subsidiaries shares (Note 6)	X	X	X	X	X	-2 104 649
Book value of the shares in subsidiaries calculated based on equity method (Note 6)	X	X	X	X	X	1 817 029
Adjusted unconsolidated equity 31 December 2009	**X**	**X**	**X**	**X**	**X**	**1 663 727**

Deloitte.

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INDEPENDENT SWORN AUDITOR'S REPORT

To the Shareholders of AS Pro Kapital Grupp:

Report on the Financial Statements

We have audited the accompanying consolidated annual accounts (page 8 to 64) of AS Pro Kapital Grupp and subsidiaries (hereinafter also referred together to as "the Group"), which comprise the statement of financial position as of 31 December 2009, and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibilities for the Consolidated Annual Accounts

Management Board is responsible for the preparation, true and fair presentation of the consolidated annual accounts in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by European Commission. The responsibility includes: designing and maintaining an internal control environment relevant to assure the true preparation and fair presentation of consolidated annual accounts which are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Sworn Auditor's Responsibilities

Our responsibility is to express an opinion on the consolidated annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. The standards require us to comply with ethical requirements, plan and perform the audit to obtain reasonable assurance on whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence regarding the numbers and disclosures presented in the consolidated annual accounts. The volume and content of the procedures selected depends on the judgment made by the sworn auditor, including the assessment on risks of material misstatement in the consolidated annual accounts, whether due to fraud or error. While making the risk assessment the sworn auditor considers if the internal control environment is relevant to provide true preparation and fair presentation of the consolidated annual accounts in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control environment. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated annual accounts.

We believe that the audit evidence, which is obtained by us, is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated annual accounts of the Group, present fairly, in material respects, the financial position of the Group as of 31 December 2009, and its financial performance and cash flows for the financial year then ended in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted by European Commission.

Emphasis of Matter

Without qualifying our opinion we draw attention to the matter that the real estate markets where the Group operates, has been influenced by the global financial crisis and economic downturn, which has caused insufficient liquidity and very passive purchase demand. The impact of the deterioration of the real estate market on the Group is currently difficult to predict, and creates an uncertainty as to the fairness of valuation of the Group's assets (investment properties, inventories and long-term loan receivables). The value of respective assets presented in the consolidated annual accounts is based on the management's estimates as of the consolidated annual accounts' preparation date. The final net realizable value of the recorded assets may differ from the estimates used.

Reporting on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated annual accounts taken as a whole. The financial information of the parent company AS Pro Kapital Grupp disclosed in Note 32 to the consolidated annual accounts is presented due to the requirements of the Estonian Accounting Act, and this is not a required part of the consolidated annual accounts prepared in accordance with International Financial Reporting Standards as adopted by European Commission.

As further disclosed in Note 32 to the consolidated annual accounts, the unconsolidated balance sheet of the ultimate parent company AS Pro Kapital Grupp includes investments into subsidiaries as of 31 December 2009, which are reported at cost in the amount of 2 104 649 thousand EEK. According to IAS 36 "Impairment of Assets", an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, the entity shall estimate the recoverable amount of the asset. As of 31 December 2009 the parent company has not made an estimate of the recoverable amount of the above mentioned assets. In Note 6 to the consolidated annual accounts is included detailed information regarding the financial investments of the ultimate parent company.

In our opinion, except for the possible impact of the matter described in the paragraph above, the unconsolidated financial information of the parent company AS Pro Kapital Grupp, as disclosed in Note 32 to the consolidated annual accounts, is prepared, in all material respects, in accordance with the requirements of the Estonian Accounting Act.

09 June 2010

Veiko Hintsov
Sworn auditor No 328
Deloitte Audit Eesti AS
License No 27

AS PRO KAPITAL GRUPP

PROPOSAL FOR COVERING LOSS

The Management Board of AS Pro Kapital Grupp proposes to cover the loss for the year 2009 in the amount of 395 033 083 EEK from prior years retained earnings.

31 May 2010

Paolo Vittorio Michelozzi
Chairman of the Management Board

REVENUE ALLOCATION BY THE ESTONIAN CLASSIFICATION OF ECONOMIC ACTIVITIES (EMTAK 2008)

The Ultimate Parent Company's revenue for the reporting period is allocated by the fields of activities according to the Estonian Classification of Economic Activities 2008 as follows:

	2009 (Th. EEK)
Activities of head offices (EMTAK 70101)	5 907
Total	**5 907**

NEWSEC

INVESTMENT VALUE SUMMARY

PRO KAPITAL PROPERTY PORTFOLIO

Estonia, Germany, Latvia and Lithuania

Prepared for

AS PRO KAPITAL GRUPP

6th July, 2012

NEWSEC

General

THE FOLLOWING SUMMARY IS GIVEN AS A GENERAL GUIDE TO THE APPRAISAL OF THE INVESTMENT VALUE OF THE PROPERTIES INDICATED IN THE FULL INVESTMENT VALUE REPORTS OF EACH PROPERTY AND SHOULD BE READ AND ANALYSED IN CONJUNCTION WITH THE SAID FULL INVESTMENT VALUE REPORTS. THIS SUMMARY IS NOT THE FULL INVESTMENT VALUE REPORTS AND SHOULD BE READ MERELY AS AN INTRODUCTION TO THE SAME.

THE SUMMARY AND RESPECTIVE FULL INVESTMENT VALUE REPORTS REFLECT THE INVESTMENT VALUE OF THE PROPERTIES. THE INVESTMENT VALUE OF THE PROPERTIES IS BASED ON THE WEIGHTED AVERAGE COST OF CAPITAL, DEVELOPMENT PARAMETERS OF THE PROPERTIES, OTHER DATA, ASSUMPTIONS AND DOCUMENTATION PROVIDED BY AS PRO KAPITAL GRUPP AS SPECIFIED IN THE FULL INVESTMENT VALUE REPORTS. NEITHER THIS SUMMARY NOR THE FULL INVESTMENT VALUE REPORTS PRESENT THE MARKET VALUE AND/OR FAIR VALUE OF THE PROPERTIES, OR THE BOOK VALUE OF THE PROPERTIES REFLECTED IN THE FINANCIAL ACCOUNTS OF AS PRO KAPITAL GRUPP. NEITHER THE VALUERS NOR ANY OF THEIR OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR ADVISERS TAKE ANY RESPONSIBILITY IN THIS REGARD.

1 The assignment

1.1 Objective / Client

In accordance with the instructions received from **AS PRO KAPITAL GRUPP** (the **Client**), **NEWSEC** (the **Valuer**) have been instructed to appraise the **Investment Value** of the properties indicated in section "1.5 Properties under valuation" below (the **Properties**), located in Estonia, Germany, Latvia and Lithuania.

Project is led by Ugnius Meidus MRICS, Head of Valuations, NEWSEC Baltics.

The valuation is required for the purpose of the Initial Public Offering of the shares of **AS PRO KAPITAL GRUPP** (the **Client**) and the consecutive listing of all the shares of AS Pro Kapital Grupp on the **NASDAQ OMX Tallinn Stock Exchange** (the **IPO**).

We are assessing the Investment Value of the Properties in accordance with RICS Valuation – Professional Standards (Incorporating the International Valuation Standards), 2012 (the Red Book), as follows:

> *"Investment value is the value of an asset to the owner or a prospective owner for individual investment or operational objectives".*

The Valuer hereby consents that this Investment Value Summary is included (either by reference or as an annex) to the prospectus prepared by the Client in relation to the IPO.

1.2 Terms and conditions

We have prepared the summary of the Investment Values of the Properties (the **Investment Value Summary**). Respective Full Investment Value Reports are presented separately to this Investment Value Summary.

Valuation is made in accordance with RICS Valuation – Professional Standards (Incorporating the International Valuation Standards), 2012. RICS Valuation – Professional Standards are globally recognized and acceptable.

According to the Red Book RICS Valuation – Professional Standards are fully compliant with the International Valuation Standards (IVS). The purpose of the RICS standards is to provide users of valuation services with confidence that a valuation provided by an RICS qualified valuer has been undertaken in compliance with the highest professional standards. It also assures users that the valuation is independent, objective and consistent with internationally recognized standards set by the International Valuation Standards Council (IVSC).

The IVSC publishes and periodically reviews the International Valuation Standards (IVS) that set out internationally accepted, high level valuation principles and definitions. These have been adopted, supplemented (where appropriate) by RICS and reflected in successive Red Book editions as part of RICS' overall framework of standards, which is backed by a comprehensive scheme of regulation to ensure effective implementation and delivery.

While some RICS standards are occasionally presented in a different way than the IVS, the principles, objectives and defined terms are the same. RICS has adopted the IVS, therefore, even though there are some differences in the detailed requirements of IVS and the RICS standards, these differences exceed the requirements of IVS. Thus RICS considers that a valuation, which is undertaken in accordance with the Red Book, is also compliant with the IVS.

We hereby confirm that NEWSEC and its valuers (listed in section "1.4 Project team") comply with the requirements of RICS Valuation – Professional Standards (Incorporating the International Valuation Standards), 2012.

Our valuation is based on the information, assumptions and documentation, which we have obtained from the Client and which are specified in the respective Full Investment Value Reports. We have relied on this being correct and complete and on there being no undisclosed matters, which would affect our valuation.

For estimation of the Investment Value the WACC (weighted average cost of capital) was provided to us by the Client in cooperation with its advisers PORTA FINANCE, UAB. WACC forms the discount rate used in our valuation.

Income Approach (Discounted Cash Flow Method and / or Residual Method) was used for estimation of the Investment Value of the Properties, detailed calculations of the Investment Value by these methods are set in the respective Full Investment Value Reports.

For hotel valuations all equipment and intangible assets necessary for operation of a hotel are assumed to be undetachable part of the building and are included in the valuation or as a fully-equipped operational entity having regard to trading potential.

To the best of knowledge and belief of the Valuer, having taken all reasonable care to ensure that such is the case, the information contained in this Investment Value Summary, for which it is responsible, is in accordance with the facts and contains no omissions likely to affect its import.

We do not have any conflict of interest in providing the requested valuation services. The Valuer will not benefit from this valuation instruction rather than through the receipt of the valuation fee.

1.3 Conflict of interest

Hereby, the Valuers declare that neither they nor NEWSEC as legal entities have any conflict of interest while performing valuation of the Properties, and benefit from the valuation process only through receiving a fixed pre-agreed fee from the Client. Fee received by the Valuer for valuation procedure is not related to the valuation results.

We hereby confirm that NEWSEC and its valuers (listed in section "1.4 Project team") are independent from the Client.

1.4 Project team

Full Investment Value Reports were prepared by NEWSEC, except of property at Kurhaus str. 28, Bad Kreuznach, Germany (prepared by CUSHMAN & WAKEFIELD HOSPITALITY acting as subcontractor for NEWSEC).

NO.	PROJECT	VALUER (qualification, no. of certificate)	OFFICE ADDRESS
1	Tondi Quarter (Estonia)	**Aleksander Sibul** (Certified Valuer, VH 171211; MRICS, 1301782), **Ugnius Meidus** (MRICS, 1274638).	Roseni 7, Tallinn, EE - 10111, Estonia
2	Kalaranna Residential Complex (Estonia)	**Aleksander Sibul** (Certified Valuer, VH 171211; MRICS, 1301782), **Ugnius Meidus** (MRICS, 1274638).	Roseni 7, Tallinn, EE - 10111, Estonia
3	Peterburi Rd. Shopping Centre (Estonia)	**Aleksander Sibul** (Certified Valuer, VH 171211; MRICS, 1301782), **Ugnius Meidus** (MRICS, 1274638).	Roseni 7, Tallinn, EE - 10111, Estonia
4	Šaltinių Namai Residential Complex (Lithuania)	**Ugnius Meidus** (MRICS, 1274638).	Saltoniskiu str. 2, Vilnius, LT-08126 Lithuania
5	Tallinas St. Residential Complex (Latvia)	**Ilze Krieviņa** (Certified Valuer, 123), **Ugnius Meidus** (MRICS, 1274638).	Zala str. 1, Riga, LV-1010, Latvia
6	Zvaigznes Centre (Latvia)	**Ilze Krieviņa** (Certified Valuer, 123), **Ugnius Meidus** (MRICS, 1274638).	Zala str. 1, Riga, LV-1010, Latvia
7	Klīversala Residential Complex (Latvia)	**Ilze Krieviņa** (Certified Valuer, 123), **Ugnius Meidus** (MRICS, 1274638).	Zala str. 1, Riga, LV-1010, Latvia
8	Domina Inn Riga Hotel (Latvia)	**Ilze Krieviņa** (Certified Valuer, 123), **Ugnius Meidus** (MRICS, 1274638).	Zala str. 1, Riga, LV-1010, Latvia
9	Ilmarine Quarter (Estonia)	**Aleksander Sibul** (Certified Valuer, VH 171211; MRICS, 1301782), **Ugnius Meidus** (MRICS, 1274638).	Roseni 7, Tallinn, EE - 10111, Estonia
10	Domina Inn Ilmarine Hotel (Estonia)	**Aleksander Sibul** (Certified Valuer, VH 171211; MRICS, 1301782), **Ugnius Meidus** (MRICS, 1274638).	Roseni 7, Tallinn, EE - 10111, Estonia
11	Domina Hotel and Kurhaus (Germany)	**Frederic Le Fichoux** (MRICS, 1291555), **Jonathan Hallett** (MRICS, 0095571).	Na Prikope 1, 110 00 Praha 1, Czech Republic

1.5 Properties under valuation

All the Properties under valuation are owned freehold, except of Šaltinių Namai Residential Complex (Lithuania; land for further development is state leasehold, already built premises – freehold).

List of the Properties under valuation is set in table below.

NO.	PROJECT	TYPE	COUNTRY, CITY	Gross Area / Gross Buildable Area, sq.m
1	Tondi Quarter	Development land	Estonia, Tallinn	116,040[1]
2	Kalaranna Residential Complex	Development land	Estonia, Tallinn	40,780[1]
3	Peterburi Rd. Shopping Centre	Development land	Estonia, Tallinn	174,400[2]
4	Šaltinių Namai Residential Complex	Apartments, commercial premises; Development land	Lithuania, Vilnius	6,064[3] / 22,143[1,4]
5	Tallinas St. Residential Complex	Development land	Latvia, Riga	25,307[1]
6	Zvaigznes Centre	Development land	Latvia, Riga	23,131[1]
7	Klīversala Residential Complex	Development land	Latvia, Riga	62,760[1]
8	Domina Inn Riga Hotel	Hotel	Latvia, Riga	2,705
9	Ilmarine Quarter	Apartments	Estonia, Tallinn	1,027
10	Domina Inn Ilmarine Hotel	Hotel	Estonia, Tallinn	3,985
11	Domina Hotel and Kurhaus	Hotel	Germany, Bad Kreuznach	3,383[5]

[1]Onground, approx.
[2]Incl. underground and multifloor parking.
[3]Net saleable.
[4]Brutto area (area of inside perimeter (incl. partitions etc.).
[5]Total bedroom area.

1.6 Assumptions

We are assessing the Investment Value of the Properties in accordance with RICS Valuation – Professional Standards (Incorporating the International Valuation Standards), 2012, as follows:

> *"Investment value is the value of an asset to the owner or a prospective owner for individual investment or operational objectives".*

Estimation of the Investment Value of the Properties is based on the following assumptions provided to us by the Client:

1. Tondi Quarter
    a. Financing. Weighted average cost of capital (WACC) – 10.33% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
    b. Developer is the Client.
    c. Development parameters of the property: Detail planning, construction volumes, construction, times schedule, constructional permits etc., areas, finish, etc. provided by

the Client (the detail planning or developing plans or the legal issues related to the subject has not been checked by the Valuer)
   d. Development and sales periods / timing of the project.
2. Kalaranna Residential Complex
   a. Financing. WACC – 10.33% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Construction volumes, construction/selling times schedule
   c. Development parameters of the property: Detail planning, constructional permits etc., areas, finish, etc. provided by the Client (the detail planning or developing plans or the legal issues related to the subject has not been checked by the Valuer).
   d. Developer is the Client.
3. Peterburi Rd. Shopping Centre
   a. Financing. Weighted average cost of capital WACC – 10.33% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Developer is the Client.
   c. Development parameters of the property: Detail planning, constructional permits etc., areas, finish, etc. provided by the Client (the detail planning or developing plans or the legal issues related to the subject has not been checked by the Valuer).
   d. Development and sales periods / timing of the project.
4. Šaltinių Namai Residential Complex
   a. Financing. Weighted average cost of capital (WACC) – 12.29% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Developer is the Client.
   c. Construction volumes (preliminary architectural drawings and summary of saleable, brutto (GBA) areas), development periods / timing, construction/selling times schedule.
   d. Detail planning, constructional permits, areas, finish provided by the Client (the detail planning or developing plans or the legal issues related to the subject has not been checked by the Valuer).
   e. List of remaining unsold apartments, premises, parking places and garages (Stage 1A, 1B) (property units, areas etc. or the legal issues related to the subject has not been checked by the Valuer).
   f. Remaining VAT to be paid for Stage 1A (figure provided by the Client).
5. Tallinas St. Residential Complex
   a. Financing. Weighted average cost of capital (WACC) – 13.52% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Construction volumes, development periods / timing, construction/selling times schedule.
   c. Detail planning, constructional permits etc., areas, finish, etc. provided by the Client (the detail planning or developing plans or the legal issues related to the subject has not been checked by the Valuer).
   d. Developer is the Client.
6. Zvaigznes Centre
   a. Financing. Weighted average cost of capital (WACC) – 13.52% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Construction volumes, development periods / timing, construction/selling times schedule.
   c. Detail planning, constructional permits etc., areas, finish, etc. provided by the Client (the detail planning or development plans or the legal issues related to the subject has not been checked by the Valuer).
   d. Developer is the Client.
7. Klīversala Residential Complex
   a. Financing. Weighted average cost of capital (WACC) – 13.52% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Construction volumes, development periods / timing, construction/selling times schedule.

   c. Detail planning, constructional permits etc., areas, finish, etc. provided by the Client (the detail planning or developing plans or the legal issues related to the subject has not been checked by the Valuer).
   d. Developer is the Client.
8. Domina Inn Riga Hotel
   a. Financing. Weighted average cost of capital (WACC) – 11.72% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Hotel revenue during the years 2008 – 2011 and revenue forecast until 2015.
   c. Hotel operator and property owner are related companies.
9. Ilmarine Quarter
   a. Financing. Weighted average cost of capital (WACC) – 10.33% (based on figure provided by the Client in April, 2012).
   b. Developer is the Client.
   c. Current and future redevelopment parameters of the property provided by the Client (the detail planning or developing plans or the legal issues related to the subject has not been checked by the Valuer).
10. Domina Inn Ilmarine Hotel
   a. Financing. Weighted average cost of capital (WACC) – 8.88% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April 2012).
   b. Hotel revenue during the years 2008 – 2011 and revenue forecast until 2015.
   c. Hotel operator and property owner are related parties.
11. Domina Hotel and Kurhaus
   a. Financing. Weighted average cost of capital (WACC) – 7.33% (based on figure provided by the Client in cooperation with its advisers PORTA FINANCE, UAB in April, 2012).
   b. Valuation of the Property considering the existing operating structure (i.e. operated by the usufruct company with compensation paid for the use of the Domina name).
   c. Valuation of the Property considering it is operated by the usufruct company with the right to use the Domina hotel brand upon payment of 1% of room revenue as a license fee.

2 Background material

2.1 Inspections

We have inspected the Properties in Estonia and Lithuania in April, 2012, the Properties in Latvia were inspected in June, 2012 (as date of the valuation is April, 2012, the valuation has been done based on the assumption that physical condition of the Properties have not changed since the date of estimations). The Properties were inspected by NEWSEC local representatives in Estonia, Latvia and Lithuania. The Property at Bad Kreuznach, Germany was inspected by representative of CUSHMAN & WAKEFIELD HOSPITALITY in April, 2012. Inspection and valuation dates listed in section “3.2 Valuation summary”.

2.2 Provided information

For estimation of the Investment Value of the Properties the WACC (weighted average cost of capital) was provided by the Client in cooperation with its advisers PORTA FINANCE, UAB. WACC forms the discount rate used in our valuation. Remaining assumptions for estimation of the Investment Value of the Properties provided to us by the Client are listed in section “1.6 Assumptions”.

List of documentation / information provided to us by the Client in relation to the valuation are listed in respective Full Investment Value Reports.

3 Valuation

3.1 Valuation methodology

Discounted cash flow method is normally applied to establish the value of income-generating properties to be acquired by an investor. This method also relies on market data that are used to determine the current economic volumes of rent rates and expenses that form the basis of the estimated net income. Applying discounted cash flow method the value of the property is calculated by summing up the present values of future cash flows, discounted at a discount rate. Using the discounted cash flow method to value, first of all, one must consider the overall income, from which the respective amounts are subtracted considering the losses for vacancies and levies, expenses and provisions. The resulting net income is discounted at a specific rate, which is proportional to the risks related to the title to the subject property.

Residual method For the purpose of evaluation of projects under development, the residual value method is used. This method is applied to establish the value of a vacant land site or of a land site and buildings that are prepared for redevelopment. Market Value according to Residual method generally is used to evaluate properties with possible future development. According to this method construction costs and other expenses for development of property together with assumed allowance for developer's profit, sale incomes after development are being calculated.

For estimation of the Investment Value of the Properties the WACC (weighted average cost of capital) was provided by the Client in cooperation with its advisers PORTA FINANCE, UAB. WACC forms the discount rate used in our valuation. Project timing schedule (development and sales periods / timing etc.) and other assumptions, documentation / information were provided to us by the Client.

3.2 Valuation summary

PROJECT	DATE OF INSPECTION	DATE OF VALUATION	OWNERSHIP	INVESTMENT VALUE, EUR	VALUTION REPORT NO.
Tondi Quarter (Estonia)	10th April, 2012	10th April, 2012	Freehold	31,100,000	EE-12-06-25-202
Kalaranna Residential (Estonia) Complex	10th April, 2012	10th April, 2012	Freehold	26,100,000	EE-12-06-25-201
Peterburi Rd. Shopping Centre (Estonia)	11th April, 2012	11th April, 2012	Freehold	43,890,000	EE-12-06-25-203
Šaltinių Namai Residential Complex (Lithuania)	6th April, 2012	6th April, 2012	Freehold / leasehold	17,310,000*	LT-12-06-23-5264
Tallinas St. Residential Complex (Latvia)	20th June, 2012	4th April, 2012	Freehold	5,400,000	LV-12-07-02-0163
Zvaigznes Centre (Latvia)	21st June, 2012	4th April, 2012	Freehold	3,400,000	LV-12-07-02-0164
Klīversala Residential Complex (Latvia)	20th June, 2012	4th April, 2012	Freehold	29,900,000	LV-12-07-02-0165

Domina Inn Riga Hotel (Latvia)	21st June, 2012	11th April, 2012	Freehold	7,180,000	LV-12-07-02-0160
Ilmarine Quarter (Estonia)	10th April, 2012	10th April, 2012	Freehold	1,070,000	EE-12-06-25-199
Domina Inn Ilmarine Hotel (Estonia)	10th April, 2012	10th April, 2012	Freehold	7,190,000	EE-12-06-25-200
Domina Hotel and Kurhaus (Germany)	4th – 5th April, 2012	25th June, 2012	Freehold	7,490,000	dated 25th June, 2012
TOTAL:				**180,030,000**	

All the Properties under valuation are owned freehold, except of Šaltinių Namai Residential Complex (Lithuania; land for further development is state leasehold, already built premises – freehold).

Note on Domina Hotel and Kurhaus (Germany):

- PRO KAPITAL Germany GmbH (a 100% subsidiary of the Client) is the owner of a hereditary building right (building title) entitling it to own Domina Hotel and Kurhaus buildings on four land plots. PRO KAPITAL Germany GmbH leases Domina Hotel and Kurhaus from Domina Tourismus GmbH (another 100% subsidiary of the Client). The former also operates the Domina Hotel and Kurhaus hotel.

Distribution of the Total Investment Value of the Properties according to ownership basis:

1. 1 **leasehold** property (part of project Šaltinių Namai Residential Complex, Lithuania), whereas its value amounts to **EUR 8,040,000**.
2. 11 **freehold** properties (remaining projects), whereas the aggregate of their values amounts to **EUR 171,990,000**.

3.3 Book Value vs. Investment Value

In particular, all the Properties in the Full Investment Value Reports and this Investment Value Summary are valued at the Investment Value using the DCF model while in the Client's financial accounts significant part of the Properties are classified (booked) as inventories and are valued at acquisition cost, which might differ significantly from the value implied by the DCF model due to the timing of acquisition of the Properties, prevailing market circumstances, assumptions applied in the DCF model and other reasons. The Properties classified (booked) as tangible assets and investment property in the Client's financial accounts are valued at fair value, which also might differ from the Investment Value indicated in the Full Investment Value Reports and this Investment Value Summary due to application of different assumptions in the DCF model and other reasons.

The presented Investment Value of the Properties is not a Book Value of the Properties. The Book Value of the Properties, as indicated in the reviewed by certified auditor Client's semi-annual accounts of 30th June, 2012, is equal to EUR 95,497,000. The Book Value has been determined and calculated by the Client at its sole responsibility and reported to the Valuer. The Valuer has neither calculated nor verified the Book Value of the Properties and thus is not liable for the correctness or truthfulness thereof.

Assumptions, techniques and methodologies used for the purpose of the valuation of the Investment Value of the Properties differ from the ones used by the Client when preparing the accounts (financial statements) of the Client. Therefore, the Investment Value of the Properties indicated in this Investment Value Summary differs from the Book Value for the same Properties indicated in the Client's accounts.

Summary table of the Book Values and the Investment Values of the Properties is presented below.

PROJECT	Type of asset as of 31st March, 2012, EUR	Project BOOK VALUE as of 30th June, 2012, EUR	INVESTMENT VALUE, EUR
	AS PRO KAPITAL GRUPP		NEWSEC
Tondi Quarter	Inventories	10,206,000	31,100,000
Kalaranna Residential Complex	Inventories	4,927,000	26,100,000
Peterburi Rd. Shopping Centre	Investment property	26,000,000	43,890,000
Šaltinių Namai Residential Complex	Inventories	14,412,000	17,310,000
Tallinas St. Residential Complex	Inventories	6,501,000	5,400,000
Zvaigznes Centre	Inventories	2,469,000	3,400,000
Klīversala Residential Complex	Inventories	8,869,000	29,900,000
Domina Inn Riga Hotel	Land and buildings	5,837,000	7,180,000
Ilmarine Quarter	Inventories	1,611,000	1,070,000
Domina Inn Ilmarine Hotel	Land and buildings	6,037,000	7,190,000
Domina Hotel and Kurhaus	Land and buildings	8,628,000	7,490,000
TOTAL:		**95,497,000**	**180,030,000**

3.4 Key parameters

Parameter / Project	Tondi Quarter (Estonia)	Kalaranna Residential Complex (Estonia)
Property / Stage	128,390 sq.m development land / Projecting works started	60,958 sq.m development land / Not started
Purpose	Residential / commercial	Residential / commercial
Gross Buildable Area onground excl. parking	116,040 sq.m	40,780 sq.m
Net Sellable Area	71,280 sq.m residential 12,182 sq.m commercial	27,600 sq.m residential 5,413 sq.m commercial
Parking	1,450 units	708 units
Construction start / end	2013 / 2022	2014 / 2017
Development costs	EUR 118,084,748	EUR 58,685,043
WACC	10.33%	10.33%
Investment Value	**EUR 31,100,000**	**EUR 26,100,000**

Parameter / Project	Peterburi Rd. Shopping Centre (Estonia)	Šaltinių Namai Residential Complex (Lithuania)
Property / Stage	53,291 sq.m development land / Projecting works started	6,064 sq.m apartments, commercial premises / Completed 9,518 sq.m development land / Projecting works started
Purpose	Commercial	Residential / commercial
Gross Buildable Area onground excl. parking	174,400 sq.m[1]	22,143 sq.m[2]
Net Sellable / Gross Leaseable Area	55,000 sq.m commercial 22,880 sq.m office	20,343 sq.m residential 2,713 sq.m commercial
Parking	1,549 units	337 units
Construction start / end	2013 / 2017	2012/2020
Development costs	EUR 121,698,996	EUR 22,572,617
WACC	10.33%	12.29%
Investment Value	**EUR 43,890,000**	**EUR 17,310,000**

[1]Incl. underground and multifloor parking.
[2]Brutto area (area of inside perimeter (incl. partitions etc.).

Parameter / Project	Tallinas St. Residential Complex (Latvia)	Zvaigznes Centre (Latvia)
Property / Stage	17,071 sq.m development land / Projecting works started	16,970 sq.m development land / Not started
Purpose	Residential / commercial	Residential / commercial
Gross Buildable Area onground excl. parking	25,307 sq.m	23,131 sq.m
Net Sellable Area	17,650 sq.m residential 1,195 sq.m commercial	11,277 sq.m residential 6,672 sq.m commercial
Parking	355 units	321 units
Construction start / end	2013 / 2017	2013 / 2016
Development costs	EUR 29,092,114	EUR 23,952,142
WACC	13.52%	13.52%
Investment Value	**EUR 5,400,000**	**EUR 3,400,000**

Parameter / Project	Klīversala Residential Complex (Latvia)
Property / Stage	51,674 sq.m development land / Not started
Purpose	Residential / commercial
Gross Buildable Area onground excl. parking	62,760 sq.m
Net Sellable Area	31,600 sq.m residential 18,320 sq.m commercial
Parking	830 units
Construction start / end	2015 / 2019
Development costs	EUR 91,407,657
WACC	13.52%
Investment Value	**EUR 29,900,000**

Parameter / Project	Domina Inn Riga Hotel (Latvia)	Ilmarine Quarter (Estonia)
Property / Stage	2,705 sq.m hotel / Completed	1,026 sq.m apartments, commercial premises / Completed
Purpose	Hotel	Residential
Gross Area	2,705 sq.m	1,027 sq.m
Number of rooms	88	22
Occupancy rate	75%	n/a
ADR	EUR 45.4	n/a
WACC	11.72%	10.70%
Investment Value	**EUR 7,180,000**	**EUR 1,070,000**

Parameter / Project	Domina Inn Ilmarine Hotel (Estonia)	Domina Hotel and Kurhaus (Germany)
Property / Stage	3,985 sq.m Hotel / Completed	3,717 sq.m hotel / Completed
Purpose	Hotel	Hotel
Gross Area	3,985 sq.m	3,383 sq.m[1]
Number of apartments / rooms	105	120
Occupancy rate	65%	55%
ADR	EUR 42.5	EUR 74.5
WACC	8.88%	7.33%
Investment Value	**EUR 7,190,000**	**EUR 7,490,000**

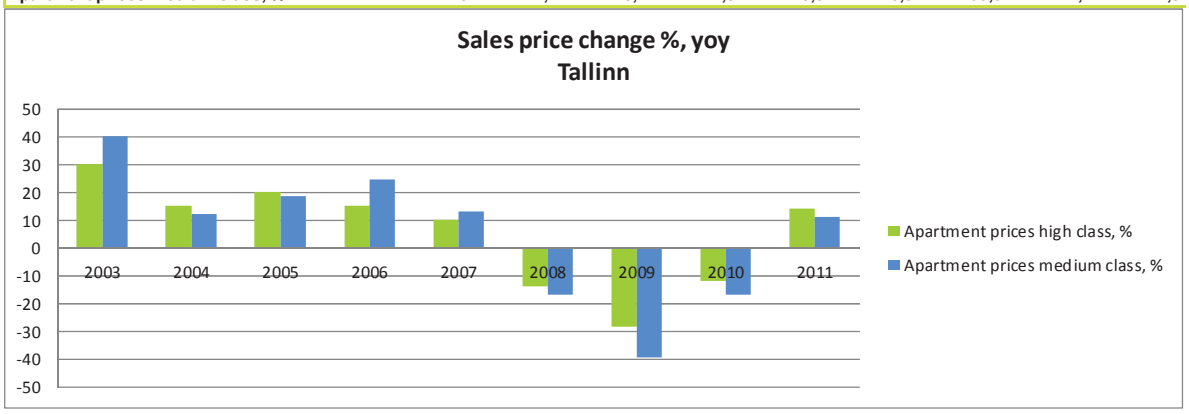
[1]Total bedroom area.

Detailed calculations of the Investment Value of the Properties by Discounted Cash Flow Method / Residual Method are set in respective Full Investment Value Reports.

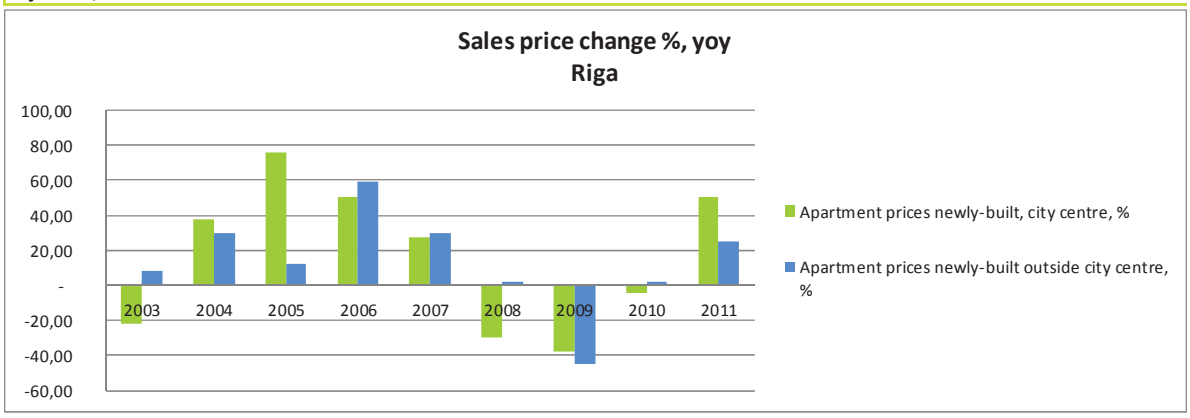
3.5 Historical price development

Historical residential price development presented below (source – NEWSEC).

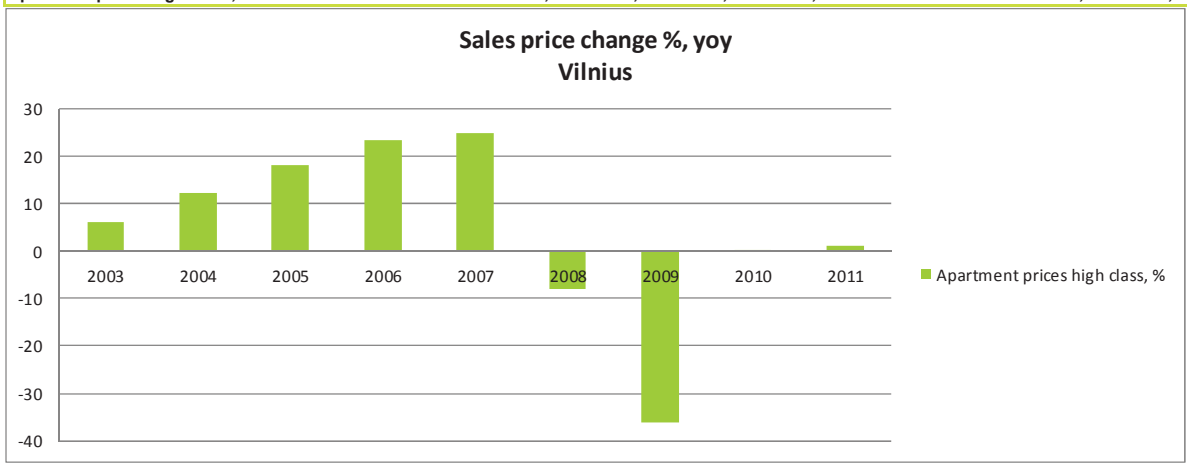
Tallinn	2003	2004	2005	2006	2007	2008	2009	2010	2011
Apartment prices high class, %	30	15	20,2	15,3	10,2	-13,9	-28,5	-12	14,2
Apartment prices medium class, %	40	12,2	18,7	24,5	13,3	-16,8	-39,5	-17,1	11,3



Riga	2003	2004	2005	2006	2007	2008	2009	2010	2011
Apartment prices newly-built, city centre, %	- 22,00	37,50	76,00	50,00	27,20	- 30,00	- 37,30	- 4,10	50,00
Apartment prices newly-built outside city centre, %	8,50	30,00	12,50	59,00	29,50	2,00	- 44,50	2,00	25,20



Vilnius	2003	2004	2005	2006	2007	2008	2009	2010	2011
Apartment prices high class, %	6	12,3	18,2	23,5	24,8	-8	-36	0,2	1,2



3.6 Investment Value Scenarios

According to the Client's request, the valuation includes three different scenarios of the Investment Value of the Properties – Base scenario, Pessimistic scenario and Optimistic scenario (except of Domina Inn Riga Hotel (Latvia) and Domina Hotel and Kurhaus (Germany)). Base scenario was chosen as a basis of the final Investment Value estimation.

Residential market development scenarios are modeling based on Baltic's macro situation and future forecast and historical data and economy and upper class residential development.

The Baltic countries have shown a strong recovery from the deep recession of recent years. These problems have gradually been solved through internal devaluation and increased competitiveness:

- Exports have been the single most important engine but domestic demand is now starting to increase in importance;
- Estonia is showing the fastest recovery due to improving competitiveness, its ability to reform and good government finances. Confidence in the country's economic recovery was also strengthened by the adoption of the euro in 2011;
- Latvia and Lithuania have experienced export-led recoveries partially driven by entries to new foreign markets and are expected to keep on growing in 2012-2014.

Results:

- Competitiveness is improving in the Baltic region (but the recovery will be weakened by the global downturn and the region's weak demographic development);
- As the internal imbalances are solved, the region is expected to continue its progress up the economic ladder.

Additionally we used calculations with sustainable level of apartment prices, up to which the market price level is controllable and "normal", according many factors, like:

- Income;
- Unemployment;
- Bank financing and requirements for equity;
- Size of apartments;
- Location, orientation;
- LTV ratio.

Total Portfolio value estimated according to Pessimistic scenario – **EUR 167,130,000**.
Total Portfolio Value estimated according to Optimistic scenario – **EUR 203,930,000**.

Main scenarios' inputs and estimated values according to the Pessimistic scenario and Optimistic scenario inputs are presented in summary table as appendix to this Investment Value Summary.

Detail value estimations according to the Base scenario, Pessimistic scenario and Optimistic scenario are set in respective Full Investment Value Reports.

3.7 Signature(s)

The contents of this Investment Value Summary are intended to the Client and for the specific purpose stated. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of its contents. Before the Investment Value Summary or any part of its contents are reproduced or referred to in any document, circular or statement or disclosed orally to a third party (except for the permitted disclosure referred to in section "1.1 Objective/Client"), our written approval as to the form and content of such publication or disclosure must first be obtained. For avoidance of doubt, such approval is required whether or not this firm is referred to by name and whether or not our Investment Value Summary is combined with others.

Our opinion of the Investment Value is based upon the scope of work and valuation assumptions as detailed in this Investment Value Summary and respective Full Investment Value Reports. We point out that this is our opinion on the Investment Value, on the basis of market evidence as at the date of valuation, and assumption provided by the Client. This valuation should not be used for loan security or other purposes. This valuation of the Investment Value is prepared for the purposes of the IPO of the Client. This valuation of the Investment Value is not Market Value or Fair Value or Book Value and should not be regarded as such.

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Appendix. Main Base scenario, Pessimistic scenario and Optimistic scenario inputs

BASE SCENARIO - INVESTMENT VALUE			Starting price	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Tondi Quarter	Yearly sales index (nominal)			5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Value - EUR 31.100.000	Net sales price/m2		**1846**	1938	2035	2117	2201	2267	2335	2405	2478	2552	2628	2707
	Construction index (nominal)			2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	Construction cost/m2		**750**	769	788	808	828	849	870	892	914	937		
	Yearly inflation			3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Kalaranna Residential Complex	Yearly sales index (nominal)			5.0%	4.5%	3.0%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Value - EUR 26.100.000	Net sales price/m2		**2888**	3032	3169	3264	3378	3480	3584	3691				
	Construction index (nominal)			2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	Construction cost/m2		**1050**	1076	1103	1131	1159	1188						
	Yearly inflation			3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Tallinas St. Residential Complex	Yearly sales index (nominal)			5.0%	5.0%	4.5%	4.0%	4.0%	4.0%					
Value - EUR 5.400.000	Net sales price/m2		**1800**	1890	1985	2074	2157	2243	2333					
	Construction index (nominal)			2.4%	2.5%	3.0%	2.5%	2.5%						
	Construction cost/m2, incl. indirect costs		**762**	780	800	824	844	865						
	Construction cost/m2, above ground (direct)		**830**	850	871	897	920	943						
	Yearly inflation			2.4%	3.8%	4.0%	5.0%	5.0%	4.5%					
Kliversala Residential Complex	Yearly sales index (nominal)			7.0%	6.0%	5%	5.0%	4%	4%	3%	3%			
Value - EUR 29.900.000	Net sales price/m2		**2650**	2836	3006	3156	3314	3446	3584	3692	3802			
	Construction index (nominal)			2.4%	2.5%	3.0%	2.5%	2.5%	2.5%	2.5%				
	Construction cost/m2, incl. indirect costs		**830**	850	871	897	920	943	966	990				
	Construction cost/m2, above ground (direct)		**940**	963	987	1016	1042	1068	1094	1122				
	Yearly inflation			2.4%	3.8%	4.0%	5.0%	5.0%	4.5%	3.0%	3.0%			
Zvaigznes Centre	Yearly sales index (nominal)			5.0%	5.0%	4.5%	4.0%	4.0%						
Value - EUR 3.400.000	Net sales price/m2		**1400**	1470	1544	1613	1677	1745						
	Construction index (nominal)			2.4%	2.5%	3.0%	2.5%							
	Construction cost/m2, incl. indirect costs		**697**	714	732	754	772							
	Construction cost/m2, above ground (direct)		**740**	758	777	800	820							
	Yearly inflation			2.4%	3.8%	4.0%	5.0%							
Saltiniu Namai Residential Complex	Yearly sales index (nominal)			4.1%	4.2%	4.5%	5.0%	4.0%	4.0%	2.5%	2.5%	2.5%		
Value - EUR 17.310.000	Net sales price/m2	Stage 1A (full finish)	**2,038**	2,038	2,121	2,210	2,310	2,425	2,522	2,623	2,689	2,756		
		Stage 1B (full finish)	**1,936**	1,936	2,015	2,100	2,194	2,304	2,396	2,492	2,554	2,618		
		Stage 2 (full finish)	**2,205**	2,205	2,296	2,392	2,500	2,625	2,730	2,839	2,910	2,983		
	Construction index (nominal)			2.00%	2.80%	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		
	Construction cost/m2	Stage 1A (full finish)	**219**	224	226	226	225	225	225	225	225	225		
		Stage 1B (full finish)	**626**	638	643	644	641	641	641	641	641	641		
		Stage 2 (full finish)	**753**	768	774	776	772	772	772	772	772	772		
	Yearly inflation			2.00%	2.80%	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		

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BASE SCENARIO - INVESTMENT VALUE			Starting price	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Peterburi Rd. Shopping Centre	Yearly rental index (nominal)			3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%			
Value - EUR 43.890.000	Av. monthly rent - retail EUR /m2		**15.7**	16.2	16.7	17.2	17.7	18.2	18.7	19.3	19.9			
	Av. monthly rent - Office EUR /m2		**10.0**	10.3	10.6	10.9	11.3	11.6	11.9	12.3	12.7			
	Av. monthly rent - parking EUR /m2		**20.0**	20.6	21.2	21.9	22.5	23.2	23.9	24.6	25.3			
	Construction index (nominal)			2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%			
	Construction cost/m2 - Phase 1	Retail Building	**700**	718	740									
		Parkings	**400**	410	423									
	Construction cost/m2 - Phase 2	Office Building	**750**	769	793	813	834							
		Parkings	**400**	412	424	437	450							
	Yearly inflation			3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%			
	Exit yield - Retail									7.0%				
	Exit yield - Office									7.5%				
Ilmarine Residence														
Value - EUR 1.070.000	Net sales price/m2		**1509**											
Domina Inn Riga Hotel	Room rate growth (nominal)			10%	10%	7.5%	5%	5%	5%					
Value - EUR 7.180.000	Room rate (Eur)		**45.4**	49.9	54.9	59.1	62.0	65.1	68.4					
	Exit yield 2018								8.0					
Domina Inn Ilmarine Hotel	Room rate growth (nominal)			10%	8%	7%	5%	3%						
Value - EUR 7.190.000	Room rate (Eur)		**42.5**	46.8	50.5	54.0	56.7	58.4						
	Exit yield 2017							8.0						

PESSIMISTIC SCENARIO		Starting price	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Tondi Quarter	Yearly sales index (nominal)		5.0%	3.6%	2.4%	3.4%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Value - EUR 28.170.000	Net sales price/m2	**1846**	1938	2008	2056	2126	2188	2253	2321	2391	2462	2536	2612
	Construction index (nominal)		2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	Construction cost/m2	**750**	769	788	808	828	849	870	892	914	937		
	Yearly inflation		3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Kalaranna Residential Complex	Yearly sales index (nominal)		4.6%	3.2%	2.1%	3.3%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Value - EUR 24.400.000	Net sales price/m2	**2888**	3021	3118	3183	3288	3377	3468	3562				
	Construction index (nominal)		2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	Construction cost/m2	**1050**	1076	1103	1131	1159	1188						
	Yearly inflation		3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Tallinas St. Residential Complex	Yearly sales index (nominal)		4.6%	4.7%	4.2%	3.9%	4.0%	4.0%					
Value - EUR 5.100.000	Net sales price/m2	**1800**	1883	1971	2054	2134	2220	2308					
	Construction index (nominal)		2.4%	2.5%	3.0%	2.5%	2.5%						
	Construction cost/m2, incl. indirect costs	**762**	780	800	824	844	865						
	Construction cost/m2, above ground (direct)	**830**	850	871	897	920	943						
	Yearly inflation		2.4%	3.8%	4.0%	5.0%	5.0%	4.5%					
Kliversala Residential Complex	Yearly sales index (nominal)		4.2%	4.5%	4.0%	3.5%	4.0%	4.0%	3.0%	3.0%			
Value - EUR 26.600.000	Net sales price/m2	**2650**	2761	2886	3001	3106	3230	3359	3460	3564			
	Construction index (nominal)		2.4%	2.5%	3.0%	2.5%	2.5%	2.5%	2.5%				
	Construction cost/m2, incl. indirect costs	**830**	850	871	897	920	943	966	990				
	Construction cost/m2, above ground (direct)	**940**	963	987	1016	1042	1068	1094	1122				
	Yearly inflation		2.4%	3.8%	4.0%	5.0%	5.0%	4.5%	3.0%	3.0%			

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PESSIMISTIC SCENARIO			Starting price	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Zvaigznes Centre	Yearly sales index (nominal)			4.6%	4.7%	4.2%	3.9%	4.0%						
Value - EUR 3.300.000	Net sales price/m2		**1400**	1464	1533	1598	1660	1726						
	Construction index (nominal)			2.4%	2.5%	3.0%	2.5%							
	Construction cost/m2, incl. indirect costs		**697**	714	732	754	772							
	Construction cost/m2, above ground (direct)		**740**	758	777	800	820							
	Yearly inflation			2.4%	3.8%	4.0%	5.0%							
Saltiniu Namai Residential														
Complex	Yearly sales index (nominal)			4.1%	3.8%	3.5%	3.8%	3.6%	4.1%	2.5%	2.5%	2.5%		
Value - EUR 16.770.000	Net sales price/m2	Stage 1A (full finish)	**2,038**	2,038	2,121	2,202	2,279	2,365	2,450	2,548	2,612	2,678		
		Stage 1B (full finish)	**1,936**	1,936	2,015	2,092	2,165	2,247	2,328	2,421	2,482	2,544		
		Stage 2 (full finish)	**2,205**	2,205	2,296	2,383	2,466	2,560	2,652	2,758	2,827	2,898		
	Construction index (nominal)			2.00%	2.80%	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		
	Construction cost/m2	Stage 1A (full finish)	**219**	224	226	226	225	225	225	225	225	225		
		Stage 1B (full finish)	**626**	638	643	644	641	641	641	641	641	641		
		Stage 2 (full finish)	**753**	768	774	776	772	772	772	772	772	772		
	Yearly inflation			2.00%	2.80%	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		
Peterburi Rd. Shopping Centre	Yearly rental index (nominal)			3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%			
Value - EUR 40.500.000	Av. monthly rent - retail EUR /m2		**15.7**	16.2	16.7	17.2	17.7	18.2	18.7	19.3	19.9			
	Av. monthly rent - Office EUR /m2		**10.0**	10.3	10.6	10.9	11.3	11.6	11.9	12.3	12.7			
	Av. monthly rent - parking EUR /m2		**20.0**	20.6	21.2	21.9	22.5	23.2	23.9	24.6	25.3			
	Construction index (nominal)			2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%			
	Construction cost/m2 - Phase 1	Retail Building	**700**	718	740									
		Parkings	**400**	410	423									
	Construction cost/m2 - Phase 2	Office Building	**750**	769	793	813	834							
		Parkings	**400**	412	424	437	450							
	Yearly inflation			3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%			
	Exit yield - Retail									7.25%				
	Exit yield - Office									7.75%				
Ilmarine Residence														
Value - n/a	Net sales price/m2		**1509**											
Domina Inn Riga Hotel	Room rate growth (nominal)													
Value - n/a	Room rate (Eur)		**45.4**											
	Exit yield 2018													
Domina Inn Ilmarine Hotel	Room rate growth (nominal)			8.0%	7.0%	6.0%	5.0%	3.0%						
Value - EUR 6.550.000	Room rate (Eur)		**42.5**	45.9	49.1	52.1	54.7	56.3						
	Exit yield 2017							8.0						

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OPTIMISTIC SCENARIO			Starting price	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Tondi Quarter	Yearly sales index (nominal)			8.0%	7.0%	5.0%	5.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Value - EUR 37.860.000	Net sales price/m2		**1846**	1994	2133	2240	2352	2446	2519	2595	2673	2753	2836	2921
	Construction index (nominal)			2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	Construction cost/m2		**750**	769	788	808	828	849	870	892	914	937		
	Yearly inflation			3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Kalaranna Residential Complex	Yearly sales index (nominal)			7.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Value - EUR 28.800.000	Net sales price/m2		**2888**	3090	3245	3374	3509	3650	3796	3948				
	Construction index (nominal)			2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	Construction cost/m2		**1050**	1076	1103	1131	1159	1188						
	Yearly inflation			3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Tallinas St. Residential Complex	Yearly sales index (nominal)			5.0%	10.0%	7.0%	5.0%	4.0%	4.0%					
Value - EUR 7.300.000	Net sales price/m2		**1800**	1890	2079	2225	2336	2429	2526					
	Construction index (nominal)			2.4%	2.5%	3.0%	2.5%	2.5%						
	Construction cost/m2, incl. indirect costs		**762**	780	800	824	844	865						
	Construction cost/m2, above ground (direct)		**830**	850	871	897	920	943						
	Yearly inflation			2.4%	3.8%	4.0%	5.0%	5.0%	4.5%					
Kliversala Residential Complex	Yearly sales index (nominal)			7.0%	10.0%	8.0%	6.0%	4.0%	4.0%	3.0%	3.0%			
Value - EUR 34.000.000	Net sales price/m2		**2650**	2836	3119	3369	3571	3714	3862	3978	4097			
	Construction index (nominal)			2.4%	2.5%	3.0%	2.5%	2.5%	2.5%	2.5%				
	Construction cost/m2, incl. indirect costs		**830**	850	871	897	920	943	966	990				
	Construction cost/m2, above ground (direct)		**940**	963	987	1016	1042	1068	1094	1122				
	Yearly inflation			2.4%	3.8%	4.0%	5.0%	5.0%	4.5%	3.0%	3.0%			
Zvaigznes Centre	Yearly sales index (nominal)			5.0%	10.0%	7.0%	5.0%	4.0%						
Value - EUR 4.400.000	Net sales price/m2		**1400**	1470	1617	1730	1817	1889						
	Construction index (nominal)			2.4%	2.5%	3.0%	2.5%							
	Construction cost/m2, incl. indirect costs		**697**	714	732	754	772							
	Construction cost/m2, above ground (direct)		**740**	758	777	800	820							
	Yearly inflation			2.4%	3.8%	4.0%	5.0%							
Saltiniu Namai Residential														
Complex	Yearly sales index (nominal)			5.0%	10.0%	7.0%	5.5%	5.0%	4.0%	2.5%	2.5%	2.5%		
Value - EUR 19.690.000	Net sales price/m2	Stage 1A (full finish)	**2,038**	2,038	2,139	2,353	2,518	2,657	2,789	2,901	2,974	3,048		
		Stage 1B (full finish)	**1,936**	1,936	2,032	2,236	2,392	2,524	2,650	2,756	2,825	2,895		
		Stage 2 (full finish)	**2,205**	2,205	2,315	2,547	2,725	2,875	3,019	3,140	3,218	3,299		
	Construction index (nominal)			2.00%	2.80%	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		
	Construction cost/m2	Stage 1A (full finish)	**219**	224	226	226	225	225	225	225	225	225		
		Stage 1B (full finish)	**626**	638	643	644	641	641	641	641	641	641		
		Stage 2 (full finish)	**753**	768	774	776	772	772	772	772	772	772		
	Yearly inflation			2.00%	2.80%	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		

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OPTIMISTIC SCENARIO			Starting price	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Peterburi Rd. Shopping Centre	Yearly rental index (nominal)			3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%			
Value - EUR 48.200.000	Av. monthly rent - retail EUR /m2		**15.7**	16.2	16.7	17.2	17.7	18.2	18.7	19.3	19.9			
	Av. monthly rent - Office EUR /m2		**10.0**	10.3	10.6	10.9	11.3	11.6	11.9	12.3	12.7			
	Av. monthly rent - parking EUR /m2		**20.0**	20.6	21.2	21.9	22.5	23.2	23.9	24.6	25.3			
	Construction index (nominal)			2.5%	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%			
	Construction cost/m2 - Phase 1	Retail Building	**700**	718	740									
		Parkings	**400**	410	423									
	Construction cost/m2 - Phase 2	Office Building	**750**	769	793	813	834							
		Parkings	**400**	412	424	437	450							
	Yearly inflation			3.5%	3.5%	4.0%	4.0%	3.5%	2.7%	2.7%	2.7%			
	Exit yield - Retail									6.70%				
	Exit yield - Office									7.25%				
Ilmarine Residence														
Value - n/a	Net sales price/m2		**1509**											
Domina Inn Riga Hotel	Room rate growth (nominal)													
Value - n/a	Room rate (Eur)		**45.4**											
	Exit yield 2018													
Domina Inn Ilmarine Hotel	Room rate growth (nominal)			10.0%	10.0%	8.0%	5.0%	5.0%						
Value - EUR 7.940.000	Room rate (Eur)		**42.5**	46.8	51.4	55.5	58.3	61.2						
	Exit yield 2017							8.0						