AS Pro Kapital Grupp

CONSOLIDATED ANNUAL REPORT 2014

PROKAPITAL

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Beginning of the financial year	1 January 2014
End of the financial year	31 December 2014
Company name	AS Pro Kapital Grupp
Registration number	10278802
Address	21 Põhja Avenue 10414 Tallinn Estonia
Phone	+372 614 4920
Fax	+372 614 4929
E-mail	prokapital@prokapital.ee
Web site	www.prokapital.com
Fields of business activity	Activities of holding companies Purchase and sales of real estate Rent and operation of real estate Management of real estate Hotel operations
Auditor	AS Deloitte Audit Eesti

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Corporate Profile

AS Pro Kapital Grupp in brief

Established in 1994, AS Pro Kapital Grupp (the Company) 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. The Company has been one of the first players on the Baltic markets and its projects have been milestones in the Baltic real estate market.

Pro Kapital's operating strategy is to develop prime residential and retail real estate in all three Baltic capitals. The Company adds value through the entire life cycle of the development process, taking a long-term approach. Pro Kapital follows a conservative policy in financing the projects – a high proportion of equity and low leverage compared to the industry average enables the Company to develop the most profitable sales and decrease the effect of real estate market fluctuations.

Pro Kapital is managed by an experienced team of real estate professionals with more than 15 years of Baltic real estate development experience.

AS Pro Kapital Grupp is listed on the secondary list of Tallinn Stock Exchange since 23 November 2012 and its shares are traded on Quotation Board of Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) since 13 March 2014.

Vision

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

Mission

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

Statement of the Chairman of the Management Board

In 2014 the Company started construction works in 2 of its residential projects, Tondi Residential Quarter in Tallinn and Šaltinių Namai in Vilnius. In Tallinn the Company signed construction agreements for 2 residential buildings with 62 apartments in total and by the date of compiling the present report the permission of usage has been received for the first building. In Vilnius an additional building to the Šaltinių Namai quarter is under construction with 19 apartments and business units. During 2015 the Company intends to start with construction of new buildings in both projects provided the presale process continues in satisfactory level.

The development of Peterburi road Shopping Centre in Tallinn was continued by completing the excavation works for the building foundation. The tender process for choosing the main constructor for the full shopping centre was started and the negotiations with leading building companies are continuing. Late autumn 2014 the City of Tallinn announced the winning concept of Tallinn Rail Baltica Joint passenger terminal to be constructed to the neighbouring land plot of the shopping centre. Together with the new planned tramline, passing the shopping centre and connecting Tallinn Airport with the city centre, it increases significantly the attractiveness of the whole district that has all potential to become one of the most active business centres of Tallinn in coming years.

The Company continued with projecting works for the Tallinas Residential Complex and 1st stage of Kliversala development project in Riga and carried on further steps for establishing the detail plan of the Kalaranna residential project in Tallinn.

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

In 2014 the Company earned 21,4 million euros profit, which was influenced by reclassification of assets and recording them in fair value. At the end of 2014, the Company decided to review its real estate assets considering short and long-term development strategy. The properties that will not be developed in the nearest upcoming years, were transferred to investment property as long-term assets. The fair value of the properties has been recorded as per valuation performed by an independent real estate appraiser Newsec Valuations in November 2014. The operating loss without such influence was 2,75 million euros due to the intensive preparation of new developmental projects and lack of stock available for sale being in line with Company's expectations.

For the activity of the Company and development of new projects the Company will seek to attain attractive mix of financing through combining acceptable level of borrowings from financial institutions, expanding its investor base and attracting additional private equity. The arranging of the short-term financing to strengthen Company´s working capital remains a top priority of the management.

Sales and stock

Estonia

In Estonia, real estate market kept stable moderately upward trend in 2014, with price levels, average transaction amount and transaction volumes increasing at a steady pace. The Company focused mainly on presale of 2 new apartment buildings in Tondi Quarter, as well selling its last available inventories in Tondi and Ilmarise quarters. In Tondi Quarter, 20 presale agreements out of 31 in the 1st building and 9 out of 31 in the 2nd building have been signed.

In 2015 the Company is focusing on new development in Tondi Quarter, on subsequent construction stages of Peterburi road shopping mall including signing new rental agreements and on processes concerning detail plan of Kalaranna development.

During the year, 4 apartments, 2 business premises, 1 storage rooms and 6 parking places were sold, producing total revenue of 492 thousands of euros. The remaining sellable stock by the end of 2014 consisted in total of 6 apartments, 2 business premises, 52 parking spaces and several storage rooms.

Hotel segment continued its positive performance, revenue increased by 9% as compared to 2013, gross operating profit grew by 12% during 2014. The occupancy rate of the hotel has been 74% in 2014

(2013: 66%), which is well above market average. Tallinn's hotel has produced 1 513 thousands of euros revenue. In 2015, moderate revenue growth is expected with continuing focus on operating margins.

Maintenance segment in Tallinn is focusing on maintenance of residential properties and has earned 1 337 thousand euros revenue in 2014.

Latvia

In Latvia, the Company has no sellable real estate stock and the subsidiary dealing with lease of office properties was sold on 1 January 2014. Currently the Company is focused on development of 1st phase of Kliversala District and projecting works of Tallinas residential quarter.

Rental revenue of Latvian companies amounted to 70 thousand euros in 2014.

PK Hotel Riga performance may be considered as stable: in spite of decrease in revenues by 5% comparing to previous year, the hotel managed to increase gross operating profit by 3% in 2014. The occupancy rate of the hotel was 71% in 2014 (2013: 77%). Revenue from Riga's hotel amounted to 1 440 thousand euros in 2014. Considering complicated market situation, hotel is operating effectively and is expected to maintain the results in 2015 on same level as previous year.

Lithuania

In Lithuania the Company is continuing with the sales of Šaltinių Namai residential complex. The Company has successfully carried on the presales for new residential buildings. At the end of 2013 the construction agreement was signed with UAB Merko Statyba and financing agreement was signed with Swedbank for K7 building. Construction works started in the beginning of 2014. After reporting period, in March 2015, construction works of the following building K4-1 started. 16 presale agreements out of 19 premises in building K7 and 12 presale agreements out of 44 in building K4-1.

During 2014 5 apartments, 1 business premise, 2 cottages and 7 parking spaces were sold, producing revenue of 2 228 thousand euros. The remaining sellable stock by the end of 2014 consisted in total of 11 apartments, 15 business premises, 6 cottages, 89 parking lots and 15 storage rooms.

Germany

Bad Kreuznach based PK Park Hotel Kurhaus is undergoing restructuring of business processes in order to improve its overall operative performance. The occupancy rate of the hotel has been 53% in 2014 (2013: 49%). The revenue from hotel's activities increased by 3% in 2014 and constituted 2 927 thousand euros, gross operating profit has increased by 20%.

The first quarter of 2015 has shown positive trend of increasing bookings and sales revenues and year 2015 is expected to bring further improvements to Bad Kreuznach based PK Park Hotel Kurhaus results.

Projections for 2015

Our current focus is on starting of new development projects provided the positive market sentiment. We expect moderate increase in real estate sales activities in 2015 due to completion of new houses. Rental activities will remain minimal enabling the Company to strengthen its focus on its main activity as a real estate developer. Hotel segment is expected to continue with moderate increase on revenues and to work on effectiveness and profitability. Maintenance segment will focus on increase in service standards and effectiveness in serving its customers.

Paolo Michelozzi
CEO
AS Pro Kapital Grupp

17 April 2015

Management Report

Main Events and Key Figures in 2014

- On 1 January 2014 the sale of Latvian group subsidiary LLC Pasaules Tirdzniecibas centres „Riga"(WTC Riga) was finalized according to the agreement concluded on 12 December 2013. WTC Riga operated as a management company for maintenance and administration of state owned WTC office building in Riga and the sale was motivated by the Group's strategy to focus on development of its own real estate projects.
- On 30 January 2014 subsidiaries of the Company AS Pro Kapital Eesti and AS Täismaja (former business name AS Kristiine Kaubanduskeskus) concluded a merger contract, in according to which AS Pro Kapital Eesti was merged with AS Täismaja. The purpose of the merge is to simplify the group structure.
- On 30 January 2014 the subsidiary company of the Group AS Tondi Kvartal concluded the contract for establishing a new company OÜ Marsi Elu with the aim to develop first phase of the second stage of Tondi residential complex in Tallinn and to create a legal platform for possible participation of co-investor in the project. On 13 March 2014 the minority shareholding equal to 35% of OÜ Marsi Elu was sold to a financial investor Combrimat Limited. The investor has to fulfilled its obligations prior to transfer of the ownership of the shares including to provide OÜ Marsi Elu with an unsecured shareholder loan in amount of 1 000 000 euros, with repayment date of 5 years and interest of 5% per year.
- On 5 February 2014 the construction works of a new residential building were started in Vilnius, Šaltinių Namai residential complex by UAB Merko Statyba.
- On 26 February 2014 the subsidiary of the Company, OÜ Marsi Elu and Nordecon AS concluded a contract for construction of residential apartment building to be located in Tondi Residential Quarter, Tallinn, with the price of the construction works of the first construction phase approximately 3 million euros. The financing agreement for the same project in amount up to 5 million euros was signed with Nordea Bank Finland Plc Eesti on 27 March 2014.
- As of 13 March 2014 the Company's shares are traded on the Quotation Board of Frankfurt Stock Exchange, part of the Open Market segment at Frankfurter Wertpapierbörse (the Frankfurt Stock Exchange). This enables investors around Europe to trade with AS Pro Kapital Grupp shares using the Xetra trading system which is one of the world's fastest and most efficient trading systems.
- On 14 March 2014 the extraordinary meeting of shareholders of the Company approved the main terms and conditions for issuing of new shares of AS Pro Kapital Eesti's subsidiary AS Tallinna Moekombinaat in amount of 18 300 000 shares. As a precondition for the subscription of the new shares, an unsecured shareholder loan in the amount of euros 0,492 per every subscribed share shall be given to the subsidiary. The investor has not taken a binding commitment to make such investment. The purpose for attracting co- investor is the development of Peterburi road 2 property in Tallinn into one of the leading shopping centres in Tallinn.
- On 14 March 2014 the Company decided to offer unsecured non-convertible bonds with nominal value of 10 000 euros each, with duration period of 5 years and with 5 % annual interest. During the subscription period 30 bonds with nominal value of 10 000 Euro were subscribed in total sum of 300 000 Euro.
- On 24 March 2014 the subsidiary of the Company AS Pro Kapital Eesti concluded the contract for establishment of OÜ Vene 19. The purpose of establishment of the subsidiary was to transfer the commercial premises located at Vene Street in Tallinn to the subsidiary. On 25 April 2014 AS Pro Kapital Eesti concluded the contract for sale of full shareholding of its subsidiary OÜ Vene 19 to OÜ Silver Grupp.
- On 24 April 2014 the shareholders meeting of the subsidiary of the Company AS Tallinna Moekombinaat adopted the resolution to increase the share capital of the subsidiary by issuing 18 300 000 new shares. Subsidiary's shareholders decision corresponds to the terms of approval granted by AS Pro Kapital Grupp shareholders on 14 March 2014.

- In April 2014 the Company applied for liquidation of its Latvian subsidiary SIA Prokurs as the Company has sold its stock and is currently carrying no active economic activity. The liquidation process was finalised in March 2015. Due to the same reasons the liquidation of another Latvian subsidiary SIA PK Latvia was carried out in the second quarter of 2014.
- On 30 April 2014 the subsidiary of the Company AS Tallinna Moekombinaat and AS Nordecon concluded the agreement for building excavation works of the shopping and entertainment centre located at Peterburi 2, Tallinn. After handing over construction site on 27 May 2014, excavation works started. Excavation works have been completed during the reporting period.
- On 21 May 2014 the subsidiary of the Company PK Invest UAB concluded the contract for establishment of Pro Kapital Bonum UAB. The business area of the new subsidiary of PK Invest UAB is real-estate development and the planned business activity is the development of new residential building to be located in Šaltinių Namai residential complex in Vilnius. The purpose of establishment of the subsidiary is to start with the residential development of new residential building to be located in Šaltinių Namai residential complex in Vilnius and to create a legal platform for possible participation of co-investor in the project.
- On 27 May 2014 ended the first subscription of the share capital increase of AS Tallinna Moekombinaat. During the subscription period 808 800 euro was raised of which 612 000 euro was paid for the B-shares of the Subsidiary and 196 800 euro was granted as loan by the subscriber Fiduciaria Emiliana S.r.l.
- On 13 June 2014 AS Pro Kapital Grupp informed that the Chief Financial Officer of the group Ruta Juzulenaite leaving the company at the end of August due to personal reasons and on her own initiative. Angelika Annus is the new Chief Financial Officer of the group starting 1 September 2014, having been working as a financial controller of the group. Angelika Annus has worked at different positions in the group since 1998.
- On 20 June 2014 the annual general meeting of AS Pro Kapital Grupp shareholders took place approving of the audited annual report of the Company for the financial year of 2013 and electing AS Deloitte Audit Eesti as the auditor of the Company for the financial year of 2014
- On 8 July 2014 ended the second subscription of the share capital increase of AS Tallinna Moekombinaat. No new shares were issued as the result of the subscription period.
- On 1 August 2014 the subsidiary company of AS Pro Kapital Grupp Pro Kapital Bonum UAB concluded the construction contract with UAB Merko Statyba for construction and design works of new residential apartment building in Vilnius for lump sum 2,9 million Euros. Construction works have started in March 2015.
- On 4 August 2014 ended the third subscription of the share capital increase of AS Tallinna Moekombinaat. No new shares were issued as the result of the subscription period.
- On 5 August 2014 the Company prolonged the redemption date of 840 184 PKG3 convertible bonds by 2 years.
- On 4 September 2014 the Company decided to offer for subscription unsecured and non-convertible bonds with issue price of 10 000 euros per each bond. The maturity of the bonds is 5 years and they bear annual interest of 5%. During the subscription period 30 bonds with total sum of 300 000 Euros were subscribed.
- On 16 September 2014 the Company prolonged the redemption date of 517 029 PKG4 convertible bonds by 2 years.
- On 26 September 2014 the Court of Appeal of Lithuania decided to annul the decision of first instance court and adopted a new decision – rejected the claim of UAB ,,Gatvių statyba" and satisfied the counterclaim of subsidiary of the Company PK INVEST UAB. Further information in Note 31. Lawsuits.
- On 14 October 2014 ended the fourth and final subscription period of the share capital increase of AS Tallinna Moekombinaat. As the result of the subscription period the Subsidiary raised 457 724 euros of which 346 349 euros was the payment for the B-shares of the Subsidiary and 111 375 euros was the loan granted by the subscriber. After the last subscription the participation of Pro Kapital in the share capital of AS Tallinna Moekombinaat remains equal to 93,1%.
- On 18 November 2014 the Company submitted an offer to participate in the first round of the combined offer for the sale of „Kopli liinid“ development. City of Tallinn is selling the „Kopli liinid“ development by the procedure of two-stage combined offer. In the first stage of the offer AS Pro

Kapital Grupp submitted the offer corresponding to the set sales conditions and the offer included the written consent to buy the development for at least the initial price totalling 1 500 000 euros, the obligation to develop the area's infrastructure and the consent to ensure the safety of the area. As per the terms and conditions of the offer AS Pro Kapital Grupp has the right to withdraw from the offer at any time prior to submitting the final offer.

- On 27 November 2014 the Company prolonged the redemption date of 422 067 PKG5 convertible bonds by 2 years and the new redemption date is 29 November 2016.
- On 19 December 2014 the subsidiary of the Company OÜ Marsi Elu notified AS Nordecon to start with the works of the second building of second construction phase of Tondi Residential Quarter, based on an agreement concluded on 25 February 2014. The building consists of 31 apartments, the planned completion of the works is November 2015 and the price of the works is approximately two million Euros, to which VAT is added. Construction works started in first quarter of 2015.
- On 20 February 2015 after the reporting period, Ernesto Achille Preatoni, the Member of the Council of AS Pro Kapital Grupp, resigned from his duty due to his wish to concentrate his time in developing his other projects outside of the Baltic's and to spend more time with the family.
- On 3 March 2015 the Company prolonged the redemption date of 569273 PKG6 convertible bonds by 2 years and the new redemption date is 08 March 2017.
- On 26 March 2015 the Company started construction works of an apartment building in Šaltinių Namai as per construction agreement signed on 01 August 2014 between the Company's subsidiary Pro Kapital Bonum UAB and UAB Merko Statyba, construction volume is 2 900 000 euros without VAT. The new building will include 41 apartments and 3 business spaces with total saleable area 2 679m^2. Construction period is planned to be 15 months after start of works.

Financial Indicators, in thousands of euros

Consolidated Statement of Income

	2014	2013	Change
Revenue	10 335	12 287	-15,9%
Gross profit	2 579	3 088	-16,5%
EBITDA	26 608	465	5622,2%
Operating result	25 859	-1 695	1625,6%
Net result	21 235	-2 578	967,7%
Net result for shareholders	21 381	-2 600	966,0%
EBITDA margin	257,5%	3,8%	
Operating margin	250,2%	-13,8%	
Net margin	205,5%	-21,0%	
Net margin to shareholders	206,9%	-21,2%	
Earnings per share (EPS)	0,39	-0,05	967,7%

Consolidated Statement of Financial Position

	31.12.2014	31.12.2013	Change
Total Assets	125 031	98 294	27,2%
Current Assets	18 879	51 084	-63,0%
Non-Current Assets	106 152	47 210	124,9%
Total Liabilities	**39 243**	**33 599**	**16,8%**
Current Liabilities	22 839	14 600	56,4%
Non-Current Liabilities	16 404	18 999	-13,7%
Equity	**85 788**	**64 695**	**32,6%**

Financial Ratios

Equity ratio	68,6%	65,8%
Debt to equity ratio	34,9%	44,5%
Net debt to capital	24,6%	28,7%
Debt to EBITDA ratio	1,1	61,9
Current Ratio	0,8	3,5
Return to assets	19,0%	-2,6%
Return to equity	28,4%	-4,0%

Formulas used for calculating financial ratios

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

Financial performance

AS Pro Kapital Grupp ended year 2014 with gross profit of 2 579 thousand euros (2013: 3 088 thousand euros). Gross profit margin, remained almost the same 25,0% (2013: 25,1%). Decrease in gross profit was influenced by reduced revenues. Rental revenues decreased by ca 900 thousand euros due to sales of rental revenue generating Latvian subsidiary Pasaules tirdzniecības centrs "Rīga" SIA (sold).

Operating costs in 2014 constituted 5 331 thousand euros excluding extraordinary influence of 28,6 million euros gain from changes of investment property in fair value (2013: 4 783 thousand euros). Marketing costs have increased by 26% as a result of an active phase of development of residential real estate. Administrative expenses have increased due to Frankfurt Stock exchange listing related costs and intense investor relations development. 310 thousand euros costs resulted from recording doubtful accounts.

Consolidated statement of cash flows

	2014	2013	Change
Cash flows from operating activities	-1 069	-258	-314,34%
Cash flows from investing activities	-775	-4	-19275,00%
Cash flows from financing activities	966	2 314	58,25%
Net change in cash and cash equivalents	**-878**	**2 052**	**142,79%**

In 2014, the Company's net cash outflow was 878 thousand euros (2013: net inflow of 2 052 thousand euros). Cash flow from operations was negative by 1 069 thousand euros (2013: negative by 258 thousand euros), which resulted from decrease in operating profit and increase of inventories due to development activities.

Investing activities in 2014 have been modest, major investments of 822 thousand euros were made into development of investment property, Peterburi road shopping centre in Tallinn. Acquisitions of property plant and equipment made up 171 thousand euros.

Financing activities in 2014 were in line with the planned schedule. During the year, the Company issued 0,6 mln euros of non- convertible bonds with duration of 5 years and effective annual interest rate of 5%. Convertible bonds were redeemed in amount 53 thousand euros.

The Company refinanced its bank loans in amount of 3,7 mln euros, effectively prolonging the duration of loans so that the repayments match the Company's projected revenue flow in next coming years. The Company obtained additional bank financing in the amount of 1,3 mln euros and as at the end of the year had unused bank loan limit in the amount of 4,8 mln euros.

Due to increase of non-controlling interests in subsidiaries, the Company's cash increased by 2,3 mln euros (1 mln as capital payments and 1,3 as shareholder loans). The Parent company received short-term loan in amount 0,8 mln euros with loan interest 5%.

Main cash outflows were repayment of bank loans in the amount of 2,8 mln euros and interest payments for bonds and bank loans of 1,1 mln euros.

Financing sources and policies

Pro Kapital Group pursues conservative financing policy, targeting for high ratio of equity in its projects, as compared to industry standards. Company's goal is to use external financing in a manner to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. In general 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. Bank loans for specific projects are predominantly of middle-term duration, maturing within one to three years. Bank loans repayment schedule is of mixed nature, consisting of mainly fixed payments and to some extent floating payments in dependence on sales volumes.
The Company pays special attention to monitoring the level of its working capital and liquidity level.

During 2014 the Company has repaid 2,8 million euros of its bank loans, has raised additional 1,3 million euros of bank loans and refinanced 3,7 million euros of bank loans, thus shifting their repayment schedule to better match the projected cash flows of the Company. The Company has 6,9 million euros of bank loans to be repaid in 2015. 0,3 million euros of bank loans are repayable in 2016.

The Company has issued 2,24 million euros of non- convertible non-secured bonds. The duration of 1.0 million euros non-convertible non-secured bonds is 3 years and the annual interest rate is 5%. The duration of 1,24 million euros of non-convertible non-secured bonds is 5 years and the annual interest rate is 5%.

As at 31 December 2014 the Company had 11,2 million euros convertible bonds (current portion: 5,2 million euros; long term portion: 6,0 million euros) and 2,24 million of non-convertible non- secured bonds (all long term maturity).

Strategy and objectives for 2015

In the coming years Pro Kapital Grupp will focus on its target market in the capitals of Baltic States and development of its existing property portfolio. Real estate markets in the Baltic States are now at stable increasing pace and thus the timing of the development of existing land plots becomes crucial together with the creation of product meeting the target market expectations.
The main areas of focus are prime residential and retail property segments in the capital cities of the Baltic States: Tallinn, Riga and Vilnius. Given its long-term view to the development of the target markets, the Company shall monitor and evaluate as well the options to widen and strengthen its property portfolio.

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

Pro Kapital Grupp's main objectives for 2015:

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

Segments

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

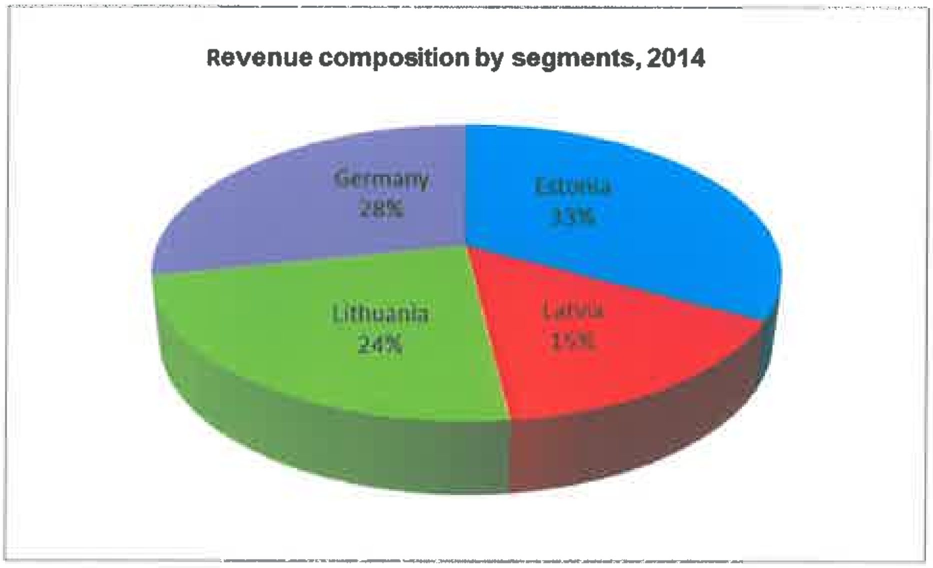
Key financial data of the segments, in thousands of euros

	Revenue			Operating result			Net result*		
	2014	2013	Change	2014	2013	Change	2014	2013	Change
Estonia	3 405	4 200	-18,9%	18 511	-1 454	1373,1%	17 939	-2 169	927,1%
Latvia	1 562	3 100	-49,6%	5 492	-229	2498,3%	2 544	-298	953,7%
Lithuania	2 441	2 140	14,1%	1 959	106	1748,1%	1 117	-13	8692,3%
Germany	2 927	2 847	2,8%	-103	-118	12,7%	-219	-120	-82,5%

	Operating margin		Net margin	
	2014	2013	2014	2013
Estonia	543,6%	-34,6%	526,8%	-51,6%
Latvia	351,6%	-7,4%	162,9%	-9,6%
Lithuania	80,3%	5,0%	45,8%	-0,6%
Germany	-3,5%	-4,1%	-7,5%	-4,2%

* Net result includes non-controlling interests

Revenue- by geographical segments, %



Estonia

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

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted to 33% compared to 34% of the comparable period last year.

Revenue from Estonia, in thousands of euros

	2014	2013	Change
Real Estate	492	1 573	-68,7%
Rent	28	71	-60,6%
Hotels	1 513	1 395	8,5%
Other	1 372	1 161	18,2%

Revenues in real estate segment decreased by 68,7% as most of the inventories have been already sold. During 2014, 4 apartments, 2 business premises, 6 parking spaces and 1 storage room were sold and stock consisting of 7 apartments, 2 business premises, 52 parking spaces and some storage rooms was yet available for sale in Tallinn as at 31 December 2014. In addition to sales of existing properties, presales for new stage of Tondi Residential Quarter started - 20 presale agreements out of 31 in the 1st building and 9 out of 31 in the 2nd building have been signed as at this day.

Revenue in rent segment dropped by 60,6%, as the Company was selling its last outstanding rental properties. Currently Company's rental activities are only occasional, renting out the stock available for sale.

Hotel business showed 8,5% increase in revenues and significantly higher gross profit margin as a result of continuous focus on effectiveness of operations. The occupancy rate in PK Ilmarine Hotel was 74% in 2014.

Other revenues consist mainly of maintenance services provided.

Main events in Estonian segment

On 30 January 2014 subsidiaries of the Company AS Pro Kapital Eesti and AS Täismaja (former business name AS Kristiine Kaubanduskeskus) concluded a merger contract, in according to which AS Pro Kapital Eesti was merged with AS Täismaja. The purpose of the merge is to simplify the group structure.

On 30 January 2014 the subsidiary company of the Group AS Tondi Kvartal concluded the contract for establishing a new company OÜ Marsi Elu with the aim to develop first phase of the second stage of Tondi residential complex in Tallinn and to create a legal platform for possible participation of co-investor in the project. On 13 March 2014 the minority shareholding equal to 35% of OÜ Marsi Elu was sold to a financial investor Combrimat Limited. The investor has to fulfilled its obligations prior to transfer of the ownership of the shares including to provide OÜ Marsi Elu with an unsecured shareholder loan in amount of 1 000 000 euros, with repayment date of 5 years and interest of 5% per year.

On 26 February 2014 the subsidiary of the Company, OÜ Marsi Elu and Nordecon AS concluded a contract for construction of residential apartment building to be located in Tondi Residential Quarter, Tallinn, with the price of the construction works of the first construction phase approximately 3 million euros. The financing agreement for the same project in amount up to 5 million euros was signed with Nordea Bank Finland Plc Eesti on 27 March 2014.

On 14 March 2014 the extraordinary meeting of shareholders of the Company approved the main terms and conditions for issuing of new shares of AS Pro Kapital Eesti's subsidiary AS Tallinna Moekombinaat in amount of 18 300 000 shares. As a precondition for the subscription of the new shares, an unsecured shareholder loan in the amount of euros 0,492 per every subscribed share shall be given to the subsidiary. The investor has not taken a binding commitment to make such investment. The purpose for attracting co- investor is the development of Peterburi road 2 property in Tallinn into one of the leading shopping centres in Tallinn.

On 24 March 2014 the subsidiary of the Company AS Pro Kapital Eesti concluded the contract for establishment of OÜ Vene 19. The purpose of establishment of the subsidiary was to transfer the commercial premises located at Vene Street in Tallinn to the subsidiary. On 25 April 2014 AS Pro Kapital Eesti concluded the contract for sale of full shareholding of its subsidiary OÜ Vene 19 to OÜ Silver Grupp.

On 24 April 2014 the shareholders meeting of the subsidiary of the Company AS Tallinna Moekombinaat adopted the resolution to increase the share capital of the subsidiary by issuing 18 300 000 new shares. Subsidiary's shareholders decision corresponds to the terms of approval granted by AS Pro Kapital Grupp shareholders on 14 March 2014.

On 30 April 2014 the subsidiary of the Company AS Tallinna Moekombinaat and AS Nordecon concluded the agreement for building excavation works of the shopping and entertainment centre located at Peterburi 2, Tallinn. After handing over construction site on 27 May 2014, excavation works started. Excavation works have been completed during the reporting period.

On 27 May 2014 ended the first subscription of the share capital increase of AS Tallinna Moekombinaat. During the subscription period 808 800 euro was raised of which 612 000 euro was paid for the B-shares of the Subsidiary and 196 800 euro was granted as loan by the subscriber Fiduciaria Emiliana S.r.l.

On 8 July 2014 ended the second subscription of the share capital increase of AS Tallinna Moekombinaat. No new shares were issued as the result of the subscription period.

On 4 August 2014 ended the third subscription of the share capital increase of AS Tallinna Moekombinaat. No new shares were issued as the result of the subscription period.

On 14 October 2014 ended the fourth and final subscription period of the share capital increase of AS Tallinna Moekombinaat. As the result of the subscription period the Subsidiary raised 457 724 euros of which 346 349 euros was the payment for the B-shares of the Subsidiary and 111 375 euros was the loan granted by the subscriber. After the last subscription the participation of Pro Kapital in the share capital of AS Tallinna Moekombinaat remains equal to 93,1%.

On 18 November 2014 the Company submitted an offer to participate in the first round of the combined offer for the sale of „Kopli liinid" development. City of Tallinn is selling the „Kopli liinid" development by the procedure of two-stage combined offer. In the first stage of the offer AS Pro Kapital Grupp submitted the offer corresponding to the set sales conditions and the offer included the written consent to buy the development for at least the initial price totalling 1 500 000 euros, the obligation to develop the area´s infrastructure and the consent to ensure the safety of the area. As per the terms and conditions of the offer AS Pro Kapital Grupp has the right to withdraw from the offer at any time prior to submitting the final offer.

On 19 December 2014 the subsidiary of the Company OÜ Marsi Elu notified AS Nordecon to start with the works of the second building of second construction phase of Tondi Residential Quarter, based on an agreement concluded on 25 February 2014. The building consists of 31 apartments, the planned completion of the works is November 2015 and the price of the works is approximately two million Euros, to which VAT is added. Construction works started in first quarter of 2015.

Latvia

The Company's operations in Latvia mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of office properties, and management of cash flow generating hotel property.

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period dropped to 15% compared to 25% of the comparable period last year. The main reason for such revenue decrease is sales of rent generating subsidiary Pasaules tirdzniecības centrs "Rīga" SIA.

Revenue from Latvia, in thousands of euros

	2014	2013	Change
Real Estate	0	500	-100,0%
Rent	70	936	-92,5%
Hotels	1 440	1 555	-7,4%
Other	53	109	-51,4%

Real estate segment in Latvia is out of sellable stock. Last apartments and parking spaces were sold in 2013 and as at 31 December 2014, there are no residential properties left for sale.

In 2014 the Company discontinued renting office premises in Elizabetes street 2 office building. Latvian subsidiary LLC Pasaules Tirdzniecibas centres „Riga" (WTC Riga), which dealt with office rentals, was sold on 1 January 2014. As a result rental revenues decreased by 92,5% in 2014.

Revenues of hotel business decreased by 7,4% in 2014 due to changes in the hotel market in Riga. New hotels have entered the market and are trying to attract the guests at any costs including dumping prices. Considering the situation PK Riga hotel performance has been excellent as the operating profit has increased in 2014. The occupancy rate of the hotel was 70,9% in 2014 comparing to 77,5% in 2013.

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

Main events in Latvian segment

On 1 January 2014 the sale of Latvian group subsidiary LLC Pasaules Tirdzniecibas centres „Riga"(WTC Riga) was finalized according to the agreement concluded on 12 December 2013. WTC Riga operated as a management company for maintenance and administration of state owned WTC office building in Riga and the sale was motivated by the Group´s strategy to focus on development of its own real estate projects.

During 2014 Latvian subsidiary PK Latvia SIA was liquidated as company had sold its stock and did not have any economic activity. The Company had applied for liquidation of its Latvian subsidiary Nekustamo Īpašumu sabiedrība Prokurs SIA due to the same reasons in 2014. The liquidation has been carried out after balance date.

Lithuania

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

Revenue from Lithuania, in thousands of euros

	2014	2013	Change
Real Estate	2 228	1 938	15,0%
Rent	107	104	2,9%
Other	105	98	7,1%

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted to 24% compared to 17% last year.

Real estate sales increased by 15% in 2014 comparing to last year. In 2014, 5 apartments, 1 business premise, 7 parking spaces and 2 cottages were sold. As at 31 December 2014, there were still 26 living and business premises, 6 cottages, 15 storage rooms and 89 parking spaces in stock in Vilnius.

The Company temporarily rents out some of the properties available for sale. In 2014, rental revenues increased by 2,9%.

The Company provides maintenance and other services to its sold and rented out apartments. In 2014, revenue from maintenance activities has grown by 7,1%.

Main events in Lithuanian segment

In February 2014 the Company started construction of the new stage of Vilnius Šaltinių Namai residential quarter. Results of presales activities for the new stage have been very positive - presale agreements for 16 premises out of 19 in K7 building and reservations for 12 apartments out of 44 in K4-1 building have been signed.

On 21 May 2014 the subsidiary of the Company PK Invest UAB concluded the contract for establishment of Pro Kapital Bonum UAB. The business area of the new subsidiary of PK Invest UAB is real-estate development and the planned business activity is the development of new residential building to be located in Šaltinių Namai residential complex in Vilnius. The purpose of establishment of the subsidiary is to start with the residential development of new residential building to be located in Šaltinių Namai residential complex in Vilnius and to create a legal platform for possible participation of co-investor in the project.

On 1 August 2014 the subsidiary company of AS Pro Kapital Grupp Pro Kapital Bonum UAB concluded the construction contract with UAB Merko Statyba for construction and design works of new residential apartment building in Vilnius for lump sum 2,9 million Euros. Construction works have started in March 2015.

On 26 September 2014 the Court of Appeal of Lithuania decided to annul the decision of first instance court and adopted a new decision – rejected the claim of UAB ,,Gatvių statyba" and satisfied the counterclaim of subsidiary of the Company PK INVEST UAB. Further information in Note 31. Lawsuits.

On 26 March 2015 the Company started construction works of an apartment building in Šaltinių Namai as per construction agreement signed on 01 August 2014 between the Company's subsidiary Pro Kapital Bonum UAB and UAB Merko Statyba, construction volume is 2 900 000 euros without VAT. The new building will include 41 apartments and 3 business spaces with total saleable area 2 679m^2. Construction period is planned to be 15 months after start of works.

Germany

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

Revenue from Germany, in thousands of euros

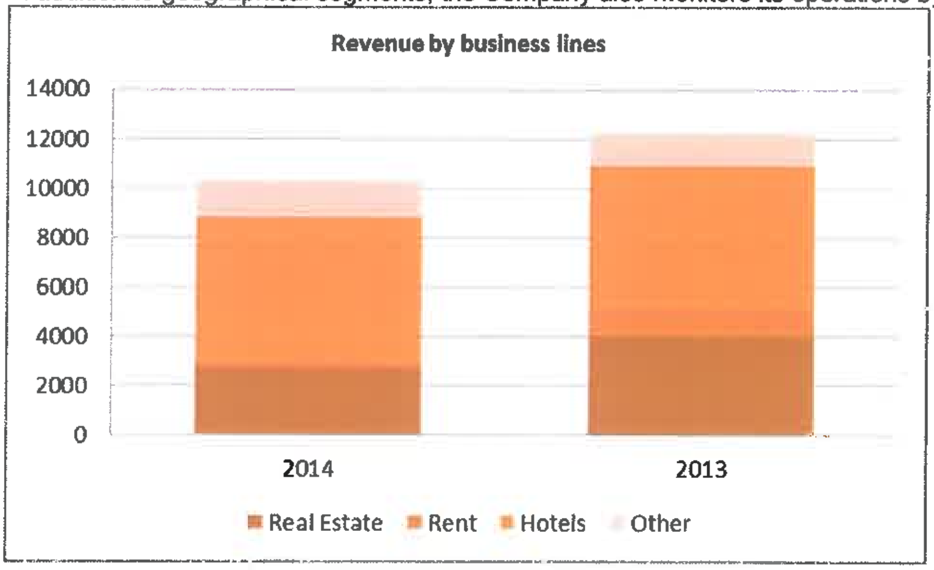
	2014	2013	Change
Hotels	2 927	2 847	2,8%

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 28% compared to 23% of the comparable period last year. The occupancy rate of PK Parkhotel Kurhaus hotel has increased by 4% in 2014 and constituted 53,0% for the year.

In German segment, the Company is focusing on its cost structure and to work out most effective solutions for serving its customers as well as to look for effective measures to increase its sales revenue.

Business lines

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



Revenue by business lines, in thousands of euros

	2014	2013	Change
Real Estate	2 720	4 011	-32,2%
Rent	205	1 111	-81,5%
Hotels	5 880	5 797	1,4%
Other	1 530	1 368	11,8%

Revenue in real estate business line has decreased by 32,2%, which is natural development taking into account decreasing stock for sale. Average price per m^2 sold in 2014 was 2 036 euros/ m^2 (2013: 1 706 euros/ m²). The increase in average price is influenced by sales in Lithuania, where real estate market is on its way upwards. In 2014, 1 353 m² were sold (2013: 2 455 m²).

The Company is focusing on development of existing land plots, which, in its turn, will expand its sellable asset base. In 2015 the Company will actively continue with sales of current stock and presales of Tondi Residential Quarter in Tallinn and Šaltinių Namai Residential Complex in Vilnius.

Rental revenues decreased by 81,5% in 2014. The company that operated leasable office property in Latvia was sold on 1 January 2014. In 2014 the Company was occasionally renting apartments from its sellable stock.

In 2014, the Company operated three hotels: PK Ilmarine Hotel I in Tallinn, PK Riga Hotel and PK Parkhotel Kurhaus in Bad Kreuznach, Germany. Revenues from hotel business line have increased by 1,4% in 2014 - though Riga's hotel market have caused some challenges, Tallinn and Bad Kreuznach hotels increased their revenue level comparing to last year.

Occupancy rates, PK hotels, %

	2014	2013	Change
PK Ilmarine, Tallinn	73,6%	66,2%	11,2%
PK Riga hotel, Riga	70,9%	77,5%	-8,5%
PK Parkhotel Kurhaus, Bad Kreuzncah	53,0%	49,0%	8,2%

Due to effective management of hotels the total gross operating profit increased by 10% in 2014. As the German hotel is the only one generating losses, the Company is now focusing on inducing effective profitability and sales enhancement measures in Bad Kreuznach PK Parkhotel Kurhaus.

Maintenance business line is dependent on the rental spaces maintained by the Company. Space under maintenance in 2014 decreased and was 66 718 m² as at 31 December 2014 (31.12.2013: 78 477 m²). Overall profitability of maintenance services remained on the same level as last year.

Development projects

Project name	Type	Location	Owner-ship	Planned Volume	Classification
Peterburi road shopping centre	Retail	Tallinn	93%	GLA 52 000 m²	Investment property
Ülemiste 5	Offices, retail	Tallinn	100%	GLA 13 931 m²	Investment property
Tondi Quarter	Residential	Tallinn	100%	NSA 115 550 m² *80 963 m² resid.* *34 587 m² comm.*	Inventories, investment property
Marsi 3, 3a, 3b	Residential	Tallinn	65%	NSA 6 594 m² *6 594 m² resid.*	Inventories
Kalaranna District	Residential	Tallinn	100%	NSA 33 013 m² *27 600 m² resid.* *5 413 m² comm.*	Investment property
Tallinas Quarter	Residential	Riga	100%	NSA 22 055 m² *21 009 m² resid.* *1 046 m² comm.*	Investment property
Kliversala District	Residential	Riga	100%	NSA 74 777 m² *63 857 m² resid.*	Inventories, investment property

				10 920 m² comm.	
Zvaigznes Quarter	Offices	Riga	100%	NSA 18 378 m² *18 378 m² comm.*	Investment property
Šaltinių Namai	Residential	Vilnius	100%	NSA 21 150 m² *18 583 m² resid.* *2 567 m² comm.*	Inventories, investment property

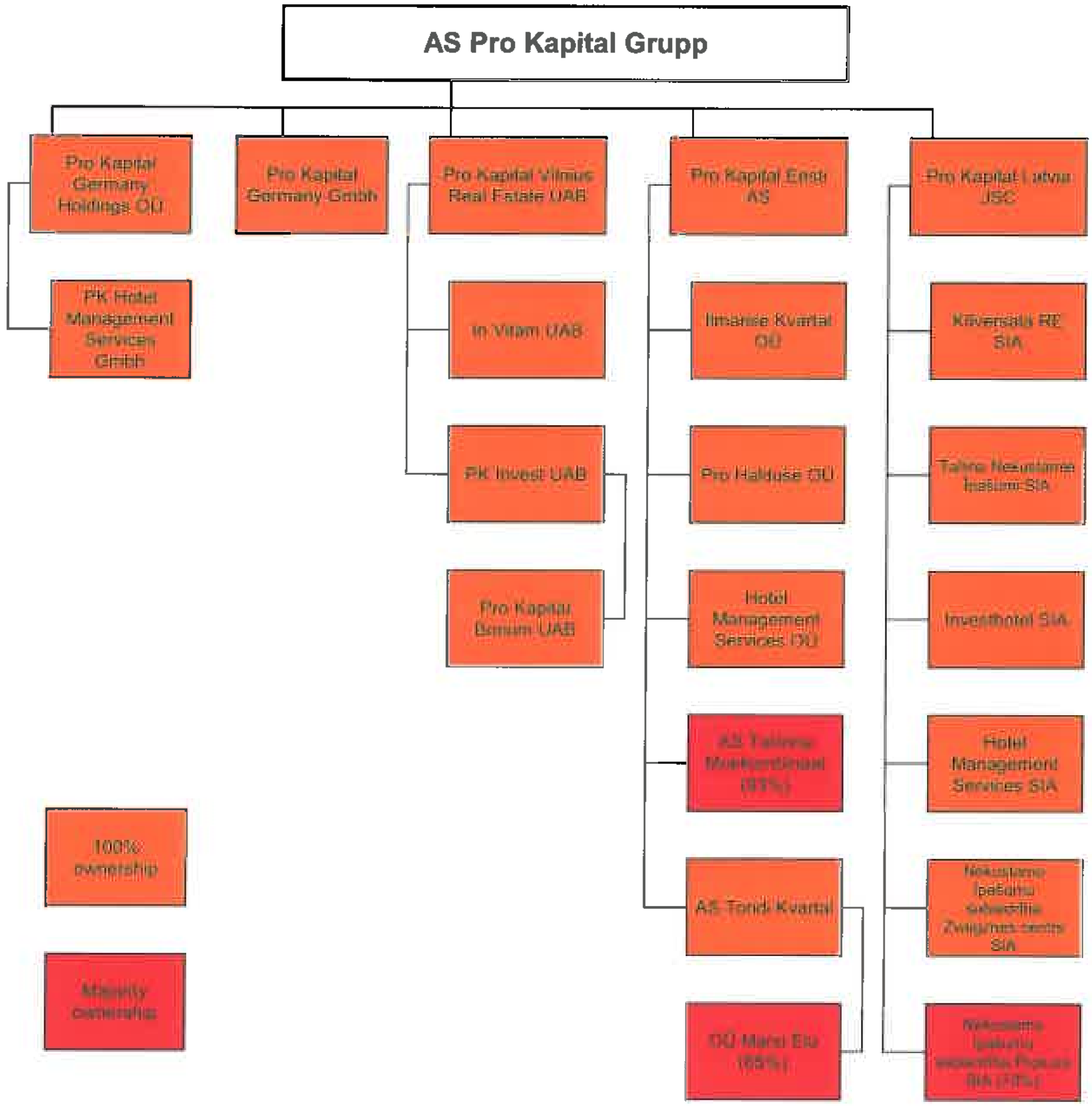
NSA – Net Sellable Area, GLA – Gross Leasable Area, resid.- residential, comm.- commercial

Status of the projects:

Peterburi road shopping centre	Building licence obtained. Excavation works for the foundation of the building completed. Tender process for choosing the building constructor continued.
Ülemiste 5	Detail plan adopted. Project not started. New detail plan under consideration in collaboration with the city in connection with Rail Baltica terminal.
Tondi Quarter	Building license for the 2nd stage obtained.
Marsi 3, 3a, 3b	Presale and construction works of 2 buildings started.
Kalaranna District	Detail plan approval in process
Tallinas Quarter	Projecting works in process in order to apply for the building licence. Sketch design approved by the city.
Kliversala District	New Master plan approved by the city. New Detail plan submitted.
Zvaigznes Quarter	Building licence for reconstruction of the existing building issued.
Šaltinių Namai	1st stage completed and available for sale with an exception of two more buildings that have received the building licence. Presale started in both buildings and construction of one of the buildings has started. 2nd stage is being projected in order to apply for the building licence.

Group Structure

As at 31.12.2014



Shares and shareholders

As at 31 December 2014 Pro Kapital had total of 54 106 575 shares with the nominal value of 0,2 euros. The registered share capital of the Company is 10 821 315 euros.

As at 31 December 2014 there were 63 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

Shareholders holding over 5% of the shares as at 31 December 2014:

	Shareholders	Number of shares	Participation
1	Clearstream Banking Luxembourg S.A. Clients	15 061 669	27,84%
2	Eurofiduciaria S.R.L.	7 171 606	13,25%
3	Svalbork Invest OÜ	6 840 368	12,64%
4	Sueno Latino AG	4 528 531	8,37%
5	A.F.I. American Financial Investments Ltd.	4 168 269	7,70%
6	Anndare Ltd.	3 736 765	6,91%

Participation of Member of the Management Board and the Council Members as at 31 December 2014:

Name	Position	Number of shares	Participation in %	Number of convertible bonds
Paolo Vittorio Michelozzi	CEO	87 500	0,16%	0
Allan Remmelkoor	COO	0	0	0
Emanuele Bozzone	Chairman of the Council	0	0	22 224
Petri Olkinuora	Council Member	0	0	0
Pertti Huuskonen	Council Member	0	0	0
Ernesto Achille Preatoni	Council Member	19 522 402*	36,08%	0

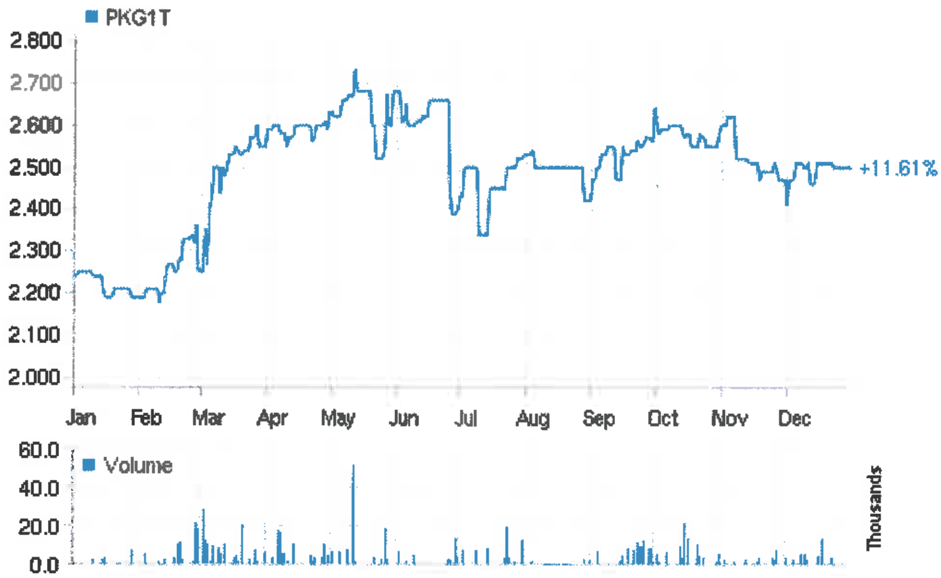
* In the above table the following Shares are considered as being controlled by Mr Preatoni because the Management Board believes that Mr Preatoni is able to control the use of voting rights by such persons: (a) OÜ Svalbork Invest, Estonian company controlled by Ms Evelyn Tihemets which holds 6 840 368 Shares representing 12,64% of the total shares of the Company, (b) Sueno Latino A.G., a Liechtenstein company controlled by Ms Evelyn Tihemets, which controls 4 528 531 Shares representing 8,37% of the total shares of the Company; (c) 2 507 508 Shares representing 4,63% of the total shares 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) 2 696 445 Shares representing 4,98% of the total shares of the Company held through a nominee account opened by Clearstream Banking Luxembourg for the benefit of Mr David Trausti Oddsson; (e) 1 904 703 Shares representing 3,52% of the total shares of the Company held by Katmandu Stiftung, a Liechtenstein company controlled by Mr Ernesto Preatoni; and (f) 1 044 847 Shares representing 1,93% of the total shares of the Company held by A.F.I American Financial Investments Ltd, a Liechtenstein company for the benefit of Mr Ernesto Preatoni.

Earnings per share

Earnings per share for year 2014 were 0,39 euro/share (2013: -0,05 euro/share).

The Company also monitors its net asset per share indicator. As at 31 December 2014 net assets per share using book values were 1,59 euros/share (31.12.2013: 1,20 euros/share). Net assets per share indicator is influenced by reclassification and revaluation of assets at the end of 2014 (more details can be found in Notes 10 and 12).

Trading price range and trading amounts of Pro Kapital Grupp shares, 1 January - 31 December 2014, NASDAQ Baltic Secondary List



On 23 November 2012 the Company's shares started trading on the secondary list of Tallinn's stock exchange. During the period of 1 January – 31 December 2014 the shares were trading at the price range of 2,07- 2,73 euros, with the closing price of 2,50 euros/share on 31 December 2014. During the period 724 th of the Company's shares were traded, with their turnover amounting to 1,81 mln euros.

On 13 March 2014 the Company's shares started trading on Frankfurt's stock exchange trading platform Quotation Board. During the period of 13 March – 31 December 2014 the shares were trading at the price range of 2,06- 2,71 euros, with the closing price of Classic Xetra 2,50 euros/share and Xetra Frankfurt Specialist price 2,425 euros/share on 31 December 2014. During twelve months the trading volume on Classic Xetra was 435 th euros (68 th shares) and on Xetra Frankfurt Specialist 598 th euros (71 th shares).

Other events

Legal overview and developments

As of the end of the reporting period AS Pro Kapital Grupp and its subsidiaries has in total 3 pending court litigation disputes where the group company is either a plaintiff or the defendant. During reporting period (in 2014) 2 litigation disputes were resolved and 1 new dispute was initiated.

You can find more detailed information about the legal disputes in Note 31 of this report.

People

At the end of 2014 the Company employed 106 people compared to 108 at the end of 2013. 81 of them were engaged in hotel and property maintenance services (78 at the end of 2013). The total remuneration cost incurred during 2014 was 2,29 million euros compared to 2,12 million euros 2013.

Risks

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

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

Asset risks are covered by effective insurance contracts.

Corporate Governance Recommendations Report

Overview

Corporate governance constitutes of a system of principles for the management of the Company. Such principles are regulated by law, the Articles of Association, the internal rules of the Company and since 01.01.2006, the companies listed on the NASDAQ OMX Tallinn Stock Exchange are recommended to follow the "Corporate Governance Recommendations" issued by the Financial Supervision Authority.

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

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

I GENERAL MEETING OF SHAREHOLDERS

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

1.1. Exercise of shareholders rights

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

During year 2014 no questions were presented to the Company as to the topics of the agenda of the shareholders' meetings.

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

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

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

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

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

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

As per the recommendation Issuers should provide the reasons for calling the General Meeting and explanations for items included on the agenda, determining changes essential to shareholder (for instance changing the articles of association, issuance of additional shares or other securities associated with shares or extraordinary transactions the content of which is the sale of all or a majority of the assets or the Company or which are concluded with a person related to the Issuer). The Company is following the recommendation and is stating in the notice also a summarized reason for calling the shareholders' meeting. Materials related to the agenda are made available via the webpage of the Company concurrently with the notice of calling the General Meeting.

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

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

Company has indicated in each notice of calling the shareholders' meeting a contact email for the shareholders to contact in case they have any questions related to the meeting. During year 2014 only questions related to clarification of documentation needed to participate at the meeting were presented to the Company. As no questions connected to the agenda topics were presented during 2014, the Company has not published any questions of the shareholders or replies to the shareholders on the website.

Information provided to shareholders is in Estonian and English.

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

Company is following the recommendation and is publishing materials related to the meeting on the web-site of the Company.

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

Company is following the recommendation.

1.3. Procedure of the General Meeting

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

During 2014 the Company held 2 (two) shareholders' meetings. The Extraordinary Shareholders' Meeting took place on 14 March 2014 and was held in Estonian language and was translated into English. The Annual General Meeting of the shareholders took place on 20 June 2014 and was held in Estonian language and was translated into English.

Company is following the recommendation and is holding the shareholders' meetings in the Estonian language, translated into the English language.

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

Company is following the recommendation. In all 2 (two) meetings Head of Legal Department Ervin Nurmela was elected as the Chair of the Meeting.

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

Company held 2 (two) shareholders' meetings in 2014.

Extraordinary Shareholders' Meeting took place on 14 March 2014. Chairman of the Supervisory Council Emanuele Bozzone did not participate at this meeting due to other work related commitments. Company was represented by CEO and Chairman of the Management Board Paolo Vittorio Michelozzi.

The Annual General Meeting of the shareholders took place on 20 June 2014. Members of the Management Board of the Company Paolo Vittorio Michelozzi and Allan Remmelkoor, Chairman of the Council of the Company Emanuele Bozzone, CFO of the Company Ruta Juzulenaite and auditor of the Company Veiko Hintsov from AS Deloitte Audit Eesti participated at this meeting.

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

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

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

II MANAGEMENT BOARD

2.1. Duties

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

2.2. Composition and charge

2.2.1. The Management Board of the Company has 2(two) Management Board members, Paolo Michelozzi and Allan Remmelkoor. Paolo Michelozzi has been elected as the Chairman of the Management Board. Management Board Members are selected by the Supervisory Council of the Company based on their expertise in the sector the Company is operating in, in addition candidates' leadership and management experience is taken into account as well as their integrity and their commitment to the Company.

Name	Citizen-ship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Paolo Vittorio Michelozzi	Italian	1961	22.11.2001	Chairman	31.07.2015	87 500
Allan Remmelkoor	Estonian	1971	30.05.2008	Member	17.05.2017	0

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. He was also a member of the management board of AS Domina Vacanze Holding, a company that was established in the course of the Division of the Company (2011-2012), CEO (2005-2008) and Chairman of the Board of Directors (2008-2012) of Domina Vacanze SpA, a company that was separated from the group in the course of the Division. Mr. Michelozzi has also been the Chairman of the Board of Domina Hotel Group SpA (2008-2010), member of the supervisory council of Hypermarket AS (1997-2008) and the member of management board of SIA PK Investments (2003-2011) Since 2006 Mr. Michelozzi is the member of the management board of SIA PB11 (Latvia), a company owned by him.

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

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

As per the recommendation the Chairman of the Supervisory Council should conclude a contract of service with each member of the board for discharge of their functions. The Company is following the recommendation only partially. Member of the Management Board Allan Remmelkoor does not have a service contract with the Company. The subsidiary holding companies in Estonia and Latvia have concluded the service contracts with Allan Remmelkoor. Allan Remmelkoor is also the Management Board member of Estonian and Latvian subgroup holding companies.

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

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

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

Remuneration of Chairman of the Management Board Paolo Michelozzi is determined by the Supervisory Council and agreed in the service contract concluded for three years with the

Chairman of the Management Board. Remuneration of the Management Board Member Allan Remmelkoor is determined by the Chairman of the Management Board and approved by the Supervisory Councils of the group's subsidiary holding companies in Estonia and Latvia.

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

Both Management Board Members have bonus systems agreed, which are based on explicit and pre-determined factors taking place.

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

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

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

Both Management Board members have severance packages agreed in their service contracts. Severance compensation is not payable in case the Management Board member is recalled due to the breach of its obligations.

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

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

2.3. Conflict of interests

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

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

2.3.2. As per the Commercial Code the Supervisory Council has to approve the transactions between the Company and a member of its Management Board.

In 2014 the Supervisory Council approved the transaction with the Chairman of the Management Board Paolo Vittorio Michelozzi to approve the sale of flat to him or person connected to him on market conditions. The transaction was approved, but has not yet taken place.

2.3.3. A member of the Management Board are obliged strictly adhere to the prohibitions of competition prescribed by the Commercial Code (*Commercial Code § 312)* and are obliged to promptly inform the Supervisory Council of their intention to engage directly or indirectly in an enterprise in the same field of activity as the Issuer.

Members of the Management Board of the Company do not engage in other active duties alongside their duties as members of the Management Board.

2.3.4. As per the recommendation a member of the Management Board or employee of the Issuer should not demand or take money or other benefits from third parties in connection with their work and should not provide unlawful or ungrounded advantages to third parties in name of the Issuer.

According to the knowledge of members of the Management Board, which is based on the internal control procedures of the Company, the Company is following the recommendation.

III SUPERVISORY COUNCIL

3.1. Duties

3.1.1. The duty of the Supervisory Council is to manage internal control of the Management Board activities. The Supervisory Council participates in making important decisions relating to the activities of the Company. The Supervisory Council acts independently and in the best interests of the Company and all shareholders. The Supervisory Council determines and regularly reviews the Company's strategy, general plan of action, principles of risk management and annual budget. The Supervisory Council together with the Management Board ensures the long-term planning of the Company's activity. The Supervisory Council has approved the risk management policy of the Company, which is implemented in the Company and all of its subsidiaries. The Supervisory Council also approves the annual budget of the Company. The Supervisory Council has actively discussed the progress of the development projects of the Company and the necessary financing to start with the development projects. The Chairman of the Supervisory Council is in regular contact with the Chairman of Management Board and discusses the issues related to the Company's strategy, business activity and risk management. The Chairman of the Management Board has the obligation to inform the Chairman of the Supervisory Council of any significant events, which may affect the Company's development and management. The Chairman of the Supervisory Council has to inform the Supervisory Council of it and call a meeting of the Supervisory Council if necessary.

3.1.2. The Supervisory Council regularly assesses the activities of the Management Board and its implementation of the Company's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Company has been communicated to the Supervisory Council and the public as required. Supervisory Council meets at least once per quarter, before publication of the Company's quarterly reports and reviews the report and the Management Board review of the activities performed during the quarter prior to the publication of quarterly reports.

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

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

An audit committee is required to make recommendations or proposals to the Supervisory Council regarding the following issues:
1) appointment or removal of an audit firm;
2) appointment or removal of an internal auditor;
3) prevention or elimination of problems and inefficiencies in an organization;
4) compliance with legislation and the good practice of professional activities.

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

3.2. Composition and charge

3.2.1. The members of the Supervisory Council are elected from persons having sufficient knowledge and experience for participation in the work of the Supervisory Council.

Information about the members of the Supervisory Council:

Name	Citizen ship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Emanuele Bozzone	Swiss	1964	05.07.2010	Chairman	05.07.2016	0
Pertti Huuskonen	Finnish	1956	13.04.2012	Member	05.07.2016	0
Petri Olkinuora	Finnish	1957	13.04.2012	Member	05.07.2016	0

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.

Mr. Pertti Huuskonen holds M.Sc. (Eng.) and eMBA degrees. Mr Huuskonen has a vast experience in planning and preparation of mergers and acquisitions. Mr Huuskonen has *inter alia* considerable experience in developing modern service concepts in the field of real estate and executing business, in planning and leasing of commercial premises, land consolidation, property transaction and property development. Mr Huuskonen has been a member of the Board of Directors of Technopolis Plc. since 2008 (whereas he was the full-time Chairman of the Board of Directors of Technopolis Plc. during 2008–2011). Since 2011 he is holding several positions (including the Chief Executive Officer) in the investment and consulting Company Lunacon Oy (investments and consulting), which is a Company owned by Mr Huuskonen. He is also a member of the Board of Kaleva Oy, the largest media Company in North Finland, and the Chairman of the Board of Suomen Hoivatilat Oy (day care & senior living facilities) and Chairman of the board of Päätoimija Oyj (mid-size construction company operational in Finland and Sweden). Mr. Huuskonen is also a Chairman of the Board of Partnera Oy (180 million euros investment company operational in Finland) 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 and Lecturer 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) (in 2002-2011) and a profound experience in international real estate, acquisition, finance and development. His current positions of trust include among others: Mr Olkinuora is the Deputy Chairman of BPT Nordic Horizon Capital A/S (Danish asset manager) (since 2011) and Deputy Chairman of Restamax Oyj (listed restaurant company), a member of the Board of A-Insinöörit Oy (engineering company) (since 2011), Tapiolan jalkapallostadion Oy (arena developer) (since 2012), Koja-Yhtiot Oy (ventilation systems maker for buildings and ships) (since 2004), Rapal Oy (software company) (since 2002) and Tampereen Keskusareena Oy (arena developer) (since 2012) and Chairman of East Finland Real Estate Oy (outlet centre developer). He is also a Supervisory Council member of Hartela-Yhtiöt Oy (Finnish construction company and developer) (since 2013). Mr Olkinuora is also running his own investment business within Forbia Oy, which is providing advisory services in property and construction related companies (since 2011). Mr Olkinuora has also, *inter alia*, served as the Deputy Chairman (2002-2003) and a Board Member (2007-2009) of the Board of Finnish Association for Building Owners RAKLI ry, member of the Board of European Public Real Estate Association EPRA (2006-2009) and a founding member of the Board of Finnish Green Building Association ry (2010-2012).

Upon the election of a member of the Supervisory Council, the nature of the Supervisory Council's and the Company's activities, the risks of conflict of interests and if necessary the age of the potential member are taken into account.

3.2.2. At least half of the members of the Supervisory Council of the Issuer should be independent. If the Supervisory Council has an odd number of members, then there may be one independent member less than the number of dependent members.

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

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

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

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

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

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

3.2.4. As per the recommendation upon determination of the remuneration of members of the Supervisory Council, the General Meeting should take into consideration the duties of the Supervisory Council and their scope and the economic situation of the Company. Based on the nature of the Chairman of the Supervisory Council's work, the related requirements of that work may be taken into consideration upon determination of remuneration amount.

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

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

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

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

During 2014 in total 7 meetings of the Supervisory Council were held. Supervisory Council Member Ernesto Achille Preatoni attended 3 meeting out of 7 meetings. All other Supervisory Council Members attended all of the meetings of the Supervisory Council

3.3. Conflict of interests

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

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

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

According to the belief of the Management Board of the Company the recommendation is followed. No conflict of interest had occurred during the financial year of 2014.

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

No resignations due to conflict of interest occurred in the financial year 2014. Supervisory Council Member Mr. Ernesto Achille Preatoni informed the Company of his resignation on 20th of February 2015. Resignation was not due to conflict of interest. Ernesto Achille Preatoni explained his resignation as follows:

„Pro Kapital is very well managed and capitalized company, with excellent development portfolio. Revaluation of the assets to the market value done in the quarter which ended 31 December 2014 and the profit recorded prove that the portfolio acquired over the years has provided very good return to Pro Kapital's long term investors. As I feel Pro Kapital is in good hands I have decided to resign from the Council of Pro Kapital to concentrate my time in developing my other projects outside of the Baltic's and spend more time with my family."

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

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

IV CO-OPERATION OF MANAGEMENT BOARD AND SUPERVISORY COUNCIL

4.1. Management Board and Supervisory Council co-operate closely for the purpose of better protection of Company's interests. The Management Board and Supervisory Council jointly develop plans and principles of activities and strategy of the Company. The Management Board operates under strategic guidelines provided by the Supervisory Council and discusses its strategic management questions with the Supervisory Council regularly. The Management Board and Supervisory Council division of tasks are regulated in the Articles of Association of the Company. The Supervisory Council is a directing body of the Company which plans the activities of the Company, organizes the management of the Company and supervises the activities of the Management Board. The Supervisory Council should notify the general meeting of shareholders of the results of supervision. The Supervisory Council should approve the budget of the Company.

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

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

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

Such right was granted by the shareholders meeting held on 06.02.2013, according to which the Supervisory Board may, within three years as of the approval of the wording of the Articles of Association (which was approved by the shareholders meeting held on 06.02.2013), increase the share capital of the company by 5,318,542.20 euros (five million three hundred and eighteen thousand five hundred and forty-two euros and twenty eurocents). Payment for the shares issued by the Supervisory Board may be made by monetary or non-monetary contributions pursuant to the resolution of the Supervisory Board. Valuation of the non-monetary contributions shall be performed pursuant to law and the Articles of Association. Such right is valid until 05.02.2016.

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

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

4.3. The Members of the Management Board and Supervisory Council observe the rules of confidentiality upon organization of the mutual exchange of data ensuring above all the control over the transfer of price sensitive information. The Management Board has ensured the observance of the rules of confidentiality by employees of the Company, who access such information. Management Board has established rules on handling the insider information, established the circle of permanent insiders and rules for submitting insiders declarations to the Company and appointed the person to handle the insiders register.

V PUBLICATION OF INFORMATION

5.1. The Company treats all shareholders equally and notifies all shareholders equally of material circumstances.

As of listing of the Company shares on NASDAQ OMX Tallinn Stock Exchange the Company uses NASDAQ OMX Tallinn Stock Exchange to communicate with the shareholders and uploads the information to the Company's website upon notification of shareholders and investors through the stock exchange. The web-site of the Company has the investors section and information is published both in Estonian and English. The Company is following the recommendation and is publishing the investor's calendar through the stock exchange and its website.

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

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

The Company is following the recommendation and is publishing on its website the required information. As to the knowledge of the Company there are no agreements between shareholders concerning concerted exercise of shareholders rights.

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

Company is following the recommendation and is including in the annual report the overview of compliance with the Corporate Governance Recommendations.

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

The Company has not notified financial analysts of any estimates which have not been made public during the listing of the Company's shares or thereafter.

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

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

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

VI FINANCIAL REPORTING AND AUDIT

6.1. Reporting

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

The Company is following this recommendation.

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

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

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

The Company is following the recommendation.

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

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

The Company is following the recommendation.

AS Deloitte Audit Eesti was elected as the auditor of the Company for the financial year of 2014. The fee payable to the auditor for the audit of the Company and its subsidiaries for the financial year of 2014 is in amount of 52 000 Euros (net of VAT).

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

The Company is following the recommendation.

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

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

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

The Company is following the recommendation.

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

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

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

- an overview of the progress of the audit, co-operation with employees subject to the internal audit and the Management Board as well as important issues discussed with the Management Board and proposals which were not accepted by the Management Board on drawing up the annual report;
- an overview of the independence of the auditor and the absence of conflict of interests during the audit;

- an analysis of changes in shareholders' equity and circumstances not entered in the report subject to disclosure, yet having significant importance upon the understanding of the financial condition and performance of the Issuer;
- their own opinion regarding one-off items, accounting policy used in book-keeping concerning them and the effect of it;
- his or her opinion regarding financial forecasts made and the quality of the budget.

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

The Company is following the recommendation.

VII HUMAN RESOURCE POLICY

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

VIII DIVIDEND POLICY

8.1. The Company has historically been financing its operations mainly from retained earnings. Hence there have been limited dividend payments in the past. For the year 1998 dividends in amount of euros 345,123 were paid and for 2004 dividends in amount of euros 2,039,501 were paid. 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 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 to be relevant at the time. Moreover, the Management merely makes a proposal for the amount of dividends to be distributed. The Supervisory Board has the right to amend such proposal and the proposal is ultimately to be approved by the General Meeting of Shareholders.

Management Declaration

The Management Board declares and confirms that according to their best knowledge, the year 2014 consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by European Union, present a true and fair view of consolidated assets, liabilities, financial situation and loss or profit of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Paolo Michelozzi	Chief Executive Officer Chairman of the Management Board	______________	17 April 2015
Allan Remmelkoor	Chief Operating Officer Member of the Management Board	______________	17 April 2015

Consolidated Financial Statements

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2014	31.12.2013
ASSETS			
Current Assets			
Cash and bank balances	8	1 881	2 759
Current receivables	9	2 463	2 738
Inventories	10	14 535	45 587
Total Current Assets		18 879	51 084
Non-Current Assets			
Non-current receivables		150	168
Deferred tax assets	26	0	540
Property, plant and equipment	11	17 619	20 221
Investment property	12	88 110	26 001
Intangible assets		273	280
Total Non-Current Assets		106 152	47 210
TOTAL ASSETS	6	**125 031**	**98 294**
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	13	16 348	11 730
Customer advances		1 548	501
Current payables	14	4 761	2 133
Taxes liabilities		177	189
Short-term provisions		5	47
Total Current Liabilities		22 839	14 600
Non-Current Liabilities			
Non-current debt	15	13 430	17 040
Non-current payables		79	54
Deferred tax liabilities	26	2 744	1 758
Long-term provisions		151	147
Total Non-Current Liabilities		16 404	18 999
Total Liabilities	6	**39 243**	**33 599**
Equity attributable to owners of the Company			
Share capital in nominal value	19	10 821	10 821
Share premium	19	1 474	1 474
Statutory reserve	19	1 064	1 064
Revaluation surplus	19	9 389	11 330
Foreign currency differences		-143	-1 277
Retained earnings		39 778	42 378
Profit (loss) for the financial year		21 381	-2 600
Total equity attributable to owners of the Company		83 764	63 190
Non-controlling interests	20	2 024	1 505
Total equity		85 788	64 695
TOTAL LIABILITIES AND EQUITY		**125 031**	**98 294**

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

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Consolidated Statement of Comprehensive Income

in thousands of euros	Note	2014	2013
Continuing operations			
Operating income			
Revenue	6, 21	10 335	12 287
Cost of sales	22	-7 756	-9 199
Gross profit		**2 579**	**3 088**
Marketing expenses	23	-530	-420
Administration expenses	23	-5 160	-4 606
Other operating income	24	29 050	410
Including net result from fair value adjustments	*24*	*28 611*	*0*
Other operating expenses	24	-80	-167
Operating profit (loss)	6	**25 859**	**-1 695**
Finance income	25	45	447
Finance cost	25	-2 761	-1 414
Profit (loss) before tax		**23 143**	**-2 662**
Income tax	26	-1 908	84
Profit (loss) for the year from continuing operations		**21 235**	**-2 578**
Profit (loss) for the year		**21 235**	**- 2 578**
Attributable to:			
Owners of the Company		21 381	-2 600
Non-controlling interests		-146	22
Other comprehensive income, net of income tax			
Items that may be classified subsequently to profit or loss			
Exchange differences on translating foreign operations		1 134	-64
Items that will not be reclassified subsequently to profit or loss			
Net change in properties revaluation reserve		-1 941	0
Total comprehensive income for the year		**20 428**	**-2 642**
Attributable to:			
Owners of the Company		20 574	-2 664
Non-controlling interests		-146	22
Earnings per share			
From continuing and discontinued operations			
Basic (euros per share)	27	0,39	-0,05
Diluted (euros per share)	27	0,39	-0,05
From continuing operations			
Basic (euros per share)	27	0,39	-0,05
Diluted (euros per share)	27	0,39	-0,05

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

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Consolidated Statement of Cash Flows

in thousands of euros	Note	2014	2013
Cash flows from operating activities			
Profit (loss) for the year		21 235	-2 578
Adjustments for:			
Depreciation and amortisation of non-current assets	11	749	794
Change in fair value of investment property	12	-31 696	85
Net gain/loss from disposal/write-off of non-current assets		-7	-4
Loss from impairment of non-current assets	11	1 946	0
Gain from disposal of subsidiaries	7	-19	0
Finance income and costs		1 518	1 329
Change in deferred tax assets and liabilities	26	1 526	-176
Net foreign exchange loss		1 134	64
Other non-monetary changes (net amounts)		-32 408	-738
Movements in working capital:			
Change in trade receivables and prepayments	9	275	460
Change in inventories	10	31 052	2 604
Change in liabilities and prepayments		3 664	-126
Change in provisions		-38	-1 972
Net cash used in operating activities		**-1 069**	**-258**
Cash flows from investing activities			
Payments for property, plant and equipment		-171	-47
Proceeds from disposal of property, plant and equipment		11	10
Payments for investment property	12	-822	-302
Proceeds from disposal of investment property	12	0	318
Proceeds from disposal of subsidiaries	7	146	0
Interest received		61	17
Net cash used in investing activities		**-775**	**-4**
Cash flows from financing activities			
Proceeds from increase of share capital	19	0	1 658
Proceeds from changes in non-controlling interests		958	0
Proceeds from issue on non-convertible bonds	18	600	1 640
Redemption of convertible bonds	18	-53	0
Proceeds from borrowings		3 448	2 930
Repayment of borrowings		-2 840	-2 757
Interest paid		-1 147	-1 157
Net cash generated by financing activities		**966**	**2 314**
Net change in cash and cash equivalents		**-878**	**2 052**
Cash and cash equivalents at the beginning of the year	8	2 759	707
Cash and cash equivalents at the end of the year	8	1 881	2 759

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

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Consolidated Statement of Changes in Equity

in thousands of euros	Share capital	Share premium	Statutory reserve	Properties revaluation reserve	Foreign currency differences	Retained earnings	Attributable to equity owners of the parent	Non-controlling interests	Total equity
1 January 2013	**10 637**	**0**	**0**	**11 330**	**-1 213**	**43 442**	**64 196**	**1 552**	**65 748**
Increase of share capital, 15.05.2013	184	1 474	0	0	0	0	1 658	0	1 658
Allocation to statutory reserve	0	0	1 064	0	0	-1 064	0	0	0
Changes in non-controlling interests	0	0	0	0	0	0	0	-69	-69
Comprehensive loss for the year	0	0	0	0	-64	-2 600	-2 664	22	-2 642
31 December 2013	**10 821**	**1 474**	**1 064**	**11 330**	**-1 277**	**39 778**	**63 190**	**1 505**	**64 695**
Changes in non-controlling interests	0	0	0	0	0	0	0	665	665
Comprehensive income for the year	0	0	0	-1 941	1 134	21 381	20 574	-146	20 428
31 December 2014	**10 821**	**1 474**	**1 064**	**9 389**	**-143**	**61 159**	**83 764**	**2 024**	**85 788**

Properties revaluation reserve decreased due to impairment loss of German hotel property. More details can be found in Note 11.

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

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Notes to the Consolidated Financial Statements

Note 1. General Information

The consolidated financial statements of AS Pro Kapital Grupp (hereinafter the Parent) and its subsidiaries (hereinafter the Group or Company) for the financial year ended 31 December 2014 were signed by the Management Board at 17 April 2015.

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

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

Since 23. November 2012, the shares of AS Pro Kapital Grupp are listed on NASDAQ OMX Tallinn Stock Exchange secondary list. Starting from 13. March 2014, the shares of AS Pro Kapital Grupp have been traded on the Quotation Board of Frankfurt Stock Exchange, part of the Open Market segment at Frankfurt Stock Exchange (Frankfurter Wertpapierbörse).

As at 31 December 2014, the main shareholders of the Company are the following:

Shareholder	Country of incorporation	Share of ownership 31.12.2014	31.12.2013
Clearstream Banking Luxembourg S.A	Luxembourg	27,84%	22,37%
Eurofiduciaria S.r.l.	Italy	13,25%	13,50%
Svalbork Invest OÜ	Estonia	12,64%	12,64%
Sueno Latino AG	Liechtenstein	8,37%	8,37%
A.F.I. American Financial Investments Ltd.	Liechtenstein	7,70%	8,09%
Anndare Ltd.	Ireland	6,91%	6,08%

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

Note 2. Application of New and Revised International Financial Reporting Standards (IFRSs)

2.1 Amendments to IFRSs affecting amounts reported in the financial statements

Accounting policies applied in the year 2014 are consistent with those followed in the preparation of the Group`s annual financial statements for the year ended 31 December 2013.

Standards and Interpretations effective in the current period.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

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- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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

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 various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **IFRIC 21 "Levies"** adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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 in EU (the effective dates stated below is for IFRS in full):

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),

- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),

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- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and 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 2016).

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

Note 3. Significant Accounting Policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

The principal accounting policies are set out below.

3.3 Basis of consolidation

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3.4 Business combinations

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

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

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

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the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss.

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

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

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

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

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

3.5 Goodwill

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

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

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

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3.6 Foreign currencies

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

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

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

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

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

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

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

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

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

(in euros)	31.12.2014	2014 average	31.12.2013	2013 average
Latvian lats (LVL)*	0	0	1.42287	1.42552
Lithuanian litas (LTL)	0.28962	0.28962	0.28962	0.28962

** Latvia adopted euro on 1 January 2014.*

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3.7 Cash and cash flows

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

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

3.8 Inventories

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

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

3.9 Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

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

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

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

- Buildings in use 2 to 5% per annum;
- Machinery and equipment 8 to 20% per annum;

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- Other fixtures 20 to 50% per annum.

3.10 Investment property

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

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property. In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied.

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

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

3.11 Intangible assets (excluding goodwill)

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

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

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

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

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

3.12 Impairment of tangible and intangible assets other than goodwill

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

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are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

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

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

3.14 Financial instruments

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

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

3.15 Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

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

Held-to-maturity investments

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

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

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

AFS financial assets that are traded in an active market are stated at fair value at the end of each reporting period. Also AFS equity instruments that are not traded in an active market are stated at fair value at the end of each reporting period, only if, the management considers that fair value can be reliably measured. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.
The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such

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unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

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

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

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is

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recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to and event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers not retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

3.16 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Compound instruments

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

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. Transaction costs that relate to the issue of the convertible bonds are

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included in the carrying amount of the liability, and amortised over the lives of the convertible bonds using the effective interest method. Interest expense from convertible bonds is recorded in the income statement for the reporting period based on actual interest rates.

Financial liabilities

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

Other financial liabilities

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

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

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

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

3.17 Provisions

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

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

3.18 Contingent liabilities

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

3.19 Statutory reserve

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

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3.20 Revenue recognition

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

Net sales

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

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

Rental income

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

Other income

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

Dividend and interest income

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

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

3.21 Expenses

Cost of sales

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

Marketing expenses

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

Administration expenses

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

Other expenses

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

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Finance cost

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

3.22 Leasing

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

The Group as lessee

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

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

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

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

The Group as lessor

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

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

3.23 Taxation

Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends. Income tax should be calculated also on other payments made from equity that are exceeding the monetary or non-monetary contributions made to the equity. The tax rate applicable in 2014 was 21/79 from the taxable amount, starting from 01. January 2015 20/80 from 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.

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Other subsidiaries

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

3.24 Segment reporting

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

3.25 Subsequent events

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

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

Note 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

4.1 Critical judgements in applying accounting policies

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

Classification of real estate

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

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At the end of 2014, the Company decided to review its real estate assets considering short and long-term development strategy. Until then many properties had been recorded as inventories at cost price After reviewing the strategy, the properties that will not be developed in the nearest upcoming years, were transferred to investment property as long-term assets.

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

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

The transferred properties are: 2nd to 4th phase of Tondi Kvartal development in Tallinn, Kalaranna development in Tallinn, 2nd phase of Kliversala development in Riga, Tallina Street development in Riga, Zvaigznes Centre development in Riga and 2nd phase of Šaltinių Namai property in Vilnius.

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

Collection risk of receivables

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

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

4.2 Key sources of estimation uncertainty

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation of net realisation value of inventories

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

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

Fair value of investment property

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

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Recoverable value of property, plant and equipment

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

Useful life of property, plant and equipment

In determining useful life of property, plant and equipment, taken into account the Group business conditions and volumes, previous experience in relevant field and future plans. According to management estimation useful life for buildings is 20-50 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 are evaluated on case- by- case basis in respect to their collectability.

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

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Note 5. Entities Belonging to the Consolidation Group

Name of the Entity	Shareholders	Country of incorporation and operation	Proportion of ownership interest and voting power held by the Group 31.12.2014	31.12.2013	Principal activity
AS Pro Kapital Grupp	See Note 1	Estonia	See Note 1		Holding activities, parent
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 (merged with AS Pro Kapital Eesti)	AS Pro Kapital Eesti	Estonia	0,00%	100.00%	Real estate development
AS Tondi Kvartal	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
OÜ Marsi Elu	AS Tondi Kvartal	Estonia	65.00%	0,00%	Real estate development
OÜ Pro Halduse (former AS Pro Halduse)	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate management
AS Tallinna Moekombinaat	AS Pro Kapital Eesti	Estonia	93.10%	96.12%	Real estate development
Hotel Management Services OÜ (former 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
Pro Kapital Bonum UAB	PK Invest UAB	Lithuania	100,00%	0,00%	Real estate development
In Vitam UAB (former 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 (liquidated)	Pro Kapital Latvia PJSC	Latvia	0.00%	100.00%	Real estate development
Klīversala RE SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Investhotel SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Pasaules tirdzniecības centrs "Rīga" SIA (sold)	Pro Kapital Latvia PJSC	Latvia	0.00%	100.00%	Real estate development
Nekustamo īpašumu sabiedrība Prokurs SIA (liquidation)	Pro Kapital Latvia PJSC	Latvia	70.00%	70.00%	Real estate development
Hotel Management Services SIA (former Domina Management SIA)	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Hotel management
OÜ Pro Kapital Germany Holdings	AS Pro Kapital Grupp	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Germany GmbH	AS Pro Kapital Grupp	Germany	100.00%	100.00%	Real estate development
PK Hotel Management Services GmbH (former Domina Tourismus GmbH)	OÜ Pro Kapital Germany Holdings	Germany	100.00%	100.00%	Hotel management

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

in thousands of euros

Subsidiary	Currency	Cost at 31.12.2014	Cost at 31.12.2013	Revenue for 2014	Profit/loss for 2014	Net Assets at 31.12.2014	Net Assets at 31.12.2013
AS Pro Kapital Eesti	EUR	17 981	17 981	739	15272	107 853	110 044
OÜ Ilmarise Kvartal	EUR	286	286	54	-3	2 784	2 787
AS Täismaja (merged with AS Pro Kapital Eesti)	EUR	0	65 853	0	0	0	126 640
AS Tondi Kvartal	EUR	4 364	4 364	476	13999	20 200	6 201
OÜ Marsi Elu	EUR	6	0	2	-470	-460	0
OÜ Pro Halduse	EUR	27	27	1 450	31	557	526
AS Tallinna Moekombinaat	EUR	12 345	12 345	0	146	22 717	21 673
Hotel Management Services OÜ	EUR	420	520	1 519	100	183	183
Pro Kapital Vilnius Real Estate UAB	LTL	2375	688	6	-207	2 302	2 509
PK Invest UAB	LTL	6 679	6 679	3 403	-1 081	1 715	634
Pro Kapital Bonum UAB	LTL	800	0	0	-19	781	0
In Vitam UAB	LTL	43	43	99	-4	63	58
Pro Kapital Latvia PJSC	EUR	10 188	10 188	275	1218	9 225	8 007
PK Latvia SIA (liquidated)	EUR	0	188	0	0	0	113
Klīversala RE SIA	EUR	9 819	9 725	88	8108	20 789	12 681
Tallina Nekustamie Īpašumi SIA	EUR	5 689	4 889	0	-442	817	436
Nekustamo Īpašumu sabiedrība Zvaigznes centrs SIA	EUR	2500	1716	15	-255	997	460
Investhotel SIA	EUR	996	987	595	292	1 288	2 402
Pasaules tirdzniecības centrs "Rīga" SIA (sold)	EUR	0	9 641	0	0	0	2 007
Nekustamo Īpašumu sabiedrība Prokurs SIA (under liquidation)	EUR	1 422	1 408	0	27	2 059	2 128
Hotel Management Services SIA	EUR	797	801	1 463	93	409	316
OÜ Pro Kapital Germany Holding	EUR	202	2	0	0	200	141
Pro Kapital Germany GmbH	EUR	25	25	436	-77	3 034	4 856
PK Hotel Management Services GmbH	EUR	201	1	2 927	-142	1	-57

Nekustamo Īpašumu sabiedrība Prokurs SIA, subsidiary company of Latvian subgroup has been liquidated as of 10. March 2015. Company has been inactive due to sales of all developed properties and therefor the influence of liquidation is irrelevant to consolidated financial statements of the group.

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Note 6. Segment Reporting

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

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

The business activity of the Company is exercised in Estonia (sale of real estate, rent, hotel operating, maintenance), Latvia (sale of real estate, rent, hotel operating, maintenance), Lithuania (sale of real estate, rent, maintenance) and Germany (hotel operating).

in thousands of euros	Estonia	Latvia	Lithuania	Germany	Total
2014					
Revenue	3 405	1 562	2 441	2 927	10 335
Other operating income	21 128	5 972	1 679	271	29 050
Including net gain from fair value adjustments	*21 044*	*5 895*	*1 672*	*0*	*28 611*
Segment operating profit (loss)	18 511	5 492	1 959	-103	25 859
Financial income and expense (net)	-1 417	-1 228	-69	-2	-2 716
Profit (loss) before income tax	**17 785**	**4 157**	**1 420**	**-219**	**23 143**
Income tax	0	-1 605	-303	0	-1 908
Non-controlling interest	-154	8	0	0	-146
Net profit (loss) for the financial year attributable to equity holders of the parent	**17 939**	**2 544**	**1 117**	**-219**	**21 381**
Assets	73 559	30 694	14 812	5 967	125 031
Liabilities	28 134	5 719	4 448	942	39 243
Acquisition of non-current assets	40	40	2	89	171
Depreciation and amortisation	-143	-214	-25	-361	-743
2013					
Revenue	4 200	3 100	2 140	2 847	12 287
Other operating income	172	41	2	195	410
Segment operating profit (loss)	-1 454	-229	106	-118	-1 695
Financial income and expense (net)	-721	-119	-125	-2	-967
Profit (loss) before income tax	**-2 176**	**-348**	**-18**	**-120**	**-2 662**
Income tax	0	79	5	0	84
Non-controlling interest	-7	29	0	0	22
Net profit (loss) for the financial year attributable to equity holders of the parent	**-2 169**	**-298**	**-13**	**-120**	**-2 600**
Assets	50 674	25 590	13 805	8 225	98 294
Liabilities	22 904	5 184	4 376	1 135	33 599
Acquisition of non-current assets	11	25	2	9	47
Depreciation and amortisation	-175	-202	-25	-384	-786

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Note 7. Acquisitions of / Change in Ownership in Subsidiary

Establishment of subsidiaries *in thousands of euros*	**OÜ Marsi Elu**	**OÜ Vene 19**	**Pro Kapital Bonum UAB**
Share (%) as at 31 December 2013	**0%**	**0%**	**0%**
Acquired	100%	100%	100%
Share (%) as at 31 December 2014	**65%**	**0%**	**100%**
Acquisition cost	10 000	2 500	800
Paid in cash	10 000	2 500	3
Net cash flow in acquisition	10 000	2 500	3

Disposal of subsidiaries *in thousands of euros*	**OÜ Marsi Elu**	**OÜ Vene 19**	**LLC Pasaules Tirdzniecibas centres**
Net assets at the date of disposal	N/A	101	2 007
Share (%) as at 31 December 2013	**0%**	**100%**	**100%**
Sold	35%	100%	100%
Share (%) as at 31 December 2014	**65%**	**0%**	**0%**
Sales price	3 500	103	2 024
Cash received	3 500	103	39
Net cash flow on disposal	3 500	103	39
Profit/loss from disposal	N/A	2	17
Disposal result recognized in equity	0	N/A	N/A

On 30 January 2014 the subsidiary company of the Group AS Tondi Kvartal concluded the contract for establishing a new company OÜ Marsi Elu with the aim to develop first phase of the second stage of Tondi residential complex in Tallinn and to create a legal platform for possible participation of co-investor in the project. On 13 March 2014 the minority shareholding equal to 35% of OÜ Marsi Elu was sold to a financial investor Combrimat Limited (Note 20).

On 24 March 2014 a subsidiary company of the group AS Pro Kapital Eesti concluded the contract for establishment of OÜ Vene 19. The purpose of establishment of the subsidiary was to transfer the commercial premises located at Vene Street in Tallinn to the subsidiary. On 25 April AS Pro Kapital Eesti concluded the contract for sale of full shareholding of its subsidiary OÜ Vene 19 to OÜ Silver Grupp.

On 21 May 2014 the subsidiary company of the group PK Invest UAB concluded the contract for establishment of Pro Kapital Bonum UAB. The business area of the new subsidiary of PK Invest UAB is real-estate development. The purpose of establishment of the subsidiary is to start with the residential development of new residential building to be located in Šaltinių Namai residential complex in Vilnius and to create a legal platform for possible participation of co-investor in the project.

On 1 January 2014 the sale of Latvian group subsidiary LLC Pasaules Tirdzniecibas centres „Riga"(WTC Riga) was finalized according to the agreement concluded on 12. December 2013. WTC Riga operated as a management company for maintenance and administration of state owned WTC office building in Riga and the sale was motivated by the Group´s strategy to focus on development of its own real estate projects.

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Note 8. Cash and Bank

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

in thousands of euros	31.12.2014	31.12.2013
Cash at hand	36	40
Bank accounts	1 845	2 719
Total	**1 881**	**2 759**

Note 9. Current Receivables

in thousands of euros	31.12.2014	31.12.2013
Trade receivables	551	586
Receivables from related parties (Note 28)	503	501
Other receivables	1 090	1 378
Accrued income	11	9
Prepaid expenses	308	264
Total	**2 463**	**2 738**

In 2014, 13 thousand euros trade receivables were written off (2013: 18 thousand euros) and 312 thousand euros allowance of credit losses was booked in 2014 (3 thousand euros for credit losses were made in 2013).

As at 31 December 2014, there were 217 thousand euros of current receivables overdue (31.12.2013: 98 thousand euros), of which 37 thousand euros were overdue by more than 360 days (31.12.2013: 7 thousand euros).

The balances of other receivables include 1 million euros still unpaid for Kristiine shopping centre, which was sold in March 2011. The due date for the payment is May 2015.

Note 10. Inventories

in thousands of euros	31.12.2014	31.12.2013
Property held for resale	8 105	10 222
WIP (works in progress)	6 359	35 293
Goods bought for resale	71	72
Total	**14 535**	**45 587**

The cost of inventories recognised as an expense during the year was 2 625 thousand euros (2013: 3 047 thousand euros).The cost of inventories include 166 thousands euros (2013: 4 thousands euros) write-downs of inventory. The balances of inventories are net amounts including write-downs.

At the end of 2014, the Group decided to review its real estate assets considering short and long-term development strategy. Until then many properties have been recorded as inventories at cost price. As a result of reviewing the strategy, the properties that will not be developed in the nearest upcoming years, were transferred to investment property as long-term assets. Reclassification of inventories resulted in reduction of WIP by 29 591 thousand euros. Upon reclassification the mentioned properties have been recorded at their fair values as per valuation performed by an independent real estate appraiser Newsec Valuation in November 2014 (see also Note 12).

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Note 11. Property, Plant and Equipment

As at 31 December 2011 Group's land and buildings were valued into their fair value based on the valuation of independent expert. The valuation, which conforms to International Valuation Standards, was performed by independent real estate appraiser Newsec Valuation and was determined by using market transactions method and partially with reference to discounted cash flow method.

In 2012 and 2013 no significant changes in fair value of the properties were determined.

In November 2014 a new valuation was performed by Newsec Valuations. Due to decreased results in hotel operations in Germany for the last several years, the recoverable value of hotel premises in Bad Kreuznach has decreased and impairment of 1 941 thousand euros was recorded in 2014. The fair value of Tallinn and Riga properties appeared to be in line with the last valuation and no value adjustments were considered necessary. The Management Board decided to follow revaluation frequency once in 5 years unless suspicion of material changes in fair value in which case the revaluation is performed without delay. Next revaluation is expected to be performed in 2016.

Hotel properties and office premises	**Cost value**		**Revaluation value**	
in thousands of euros	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Pulkvieza Brieza 11, Riga	1 673	1 747	5 600	5 788
Põhja Avenue 21, 21a, 21b-1, Tallinn	3 353	3 336	5 725	5 850
Kurhausstrasse 28, Bad Kreuznach	2 130	1 931	5 470	7 827
Office premises	157	186	265	218
Total	**7 313**	**7 200**	**17 060**	**19 683**

Revaluation reserve (accounted for under equity) in the amount of 11 330 thousand euros was formed as at 31. December 2011 to account for revaluation differences (see Note 19). Impairment loss of German hotel property was accounted through decrease of revaluation reserve. Revaluation reserve totals to 9 389 thousand euros **as** at 31 December 2014. There are no restrictions on distribution of revaluation reserve.

in thousands of euros	**Land and buildings**	**Machinery and equipment**	**Other property, plant and equipment**	**Pre-payments**	**Total**
Revaluation value at 1. January 2013	**21 897**	**1 218**	**2 477**	**0**	**25 592**
Additions:					
Acquired	0	10	24	13	47
Disposals:					
Sold	-259	-8	-4	0	-271
Written off	0	-9	-56	-13	-78
Revaluation value at 31 December 2013	**21 638**	**1 211**	**2 441**	**0**	**25 290**
Additions:					
Acquired	6	89	82	0	177
Change in fair value	-1 941	0	-5	0	-1 946
Disposals:					
Sold through subsidiary	-912	-12	-19	0	-943
Written off	0	-13	-10	0	-23
Revaluation value at 31 December 2014	**18 791**	**1 275**	**2 489**	**0**	**22 555**

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in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Total
Accumulated depreciation at 1. January 2013	**1 448**	**815**	**2 168**	**4 431**
Additions:				
Depreciation charge for the period	608	102	76	786
Disposals:				
Sold	-71	-8	-4	-83
Written off	0	-9	-56	-65
Accumulated depreciation at 31 December 2013	**1 985**	**900**	**2 184**	**5 069**
Additions:				
Depreciation charge for the period	572	134	36	742
Disposals:				
Sold	-826	-9	-18	-853
Written off	0	-13	-9	-22
Accumulated depreciation at 31 December 2014	**1 731**	**1 012**	**2 193**	**4 936**

in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Total
Residual value at 31 December 2013	**19 653**	**311**	**257**	**20 221**
Residual value at 31 December 2014	**17 060**	**263**	**296**	**17 619**

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

Valuation of properties

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

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

Sensitivity of measurement to variance of significant unobservable inputs:

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

- an increase in discount and exit yield rates will decrease the fair value.

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

PK Ilmarine Hotel in Tallinn

The main factor influencing cash generation ability of the hotel is market situation. Current situation is considered as stable. Hotel has not suffered significantly from political changes in Russia, as the Russian clients have not been a target market for the hotel. 5 year discounted cash flow method has been used by the valuator with a discount rate of 9,93% and exit yield of 8%. The sensitivity analysis shows that:

- 5% increase in discount rate reduces the fair value by 130 thousand euros;
- 5% decrease in discount rate increases the fair value by 130 thousand euros;
- 5% increase in exit yield reduces the fair value by 220 thousand euros;
- 5% decrease in exit yield increases the fair value by 240 thousand euros.

PK Riga Hotel in Riga

Current market situation in Riga is very competitive. Nevertheless hotel has managed to keep revenues almost in line with projections and together with cost cutting the hotel operates more effectively generating profit. 5 year discounted cash flow method has been used by the valuator with a discount rate of 11,2% and exit yield of 8%. The sensitivity analysis shows that:

- 5% increase in discount rate reduces the fair value by 160 thousand euros;
- 5% decrease in discount rate increases the fair value by 150 thousand euros;
- 5% increase in exit yield reduces the fair value by 140 thousand euros;
- 5% decrease in exit yield increases the fair value by 140 thousand euros.

PK Parkhotel Kurhaus in Bad Kreuznach

Market situation in Bad Kreuznach is to be considered stable. Although hotel's revenues are on expected levels, high operating costs are influencing cash generating ability of the hotel. The valuators have considered in valuation report necessity for capital expenditures, which lead to essential decrease in value of the property. 10 year discounted cash flow method has been used by the valuator with a discount rate of 9,66% and exit yield of 8,16%. The valuators did not present sensitivity report. The main critical issues to be considered are more effective hotel operating and investments into the property.

Note 12. Investment Property

At the end of 2014, the Group decided to review its real estate assets considering short and long-term development strategy. Until then many properties have been recorded as inventories at cost price despite the fact that since acquisition long time has passed and financial reports have not been reflecting the fair value of the properties in Company's portfolio. As a result of reviewing the strategy, the properties that will not be developed in the nearest upcoming years, were transferred from inventories to investment property as long-term assets. Reclassification of inventories resulted in increase of investment property by 29 591 thousand euros. Revaluation of assets to fair value resulted in an increase of investment property by 31 696 thousand euros.

The fair value of the Group's investment property at 31 December 2014 and 31 December 2013 has been derived on the basis of valuation carried out on the respective dates by Newsec Valuations, independent valuators not related to the Group. Newsec Valuations are members of the Institute of Valuators of a Land, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuations were performed by reference to recent market information. Usually discounted cash flow method is used due to low number of comparable market transactions.

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	Investment properties held for increase in value	Investment properties held for earning rentals	Total
Balance at 1 January 2013	**26 001**	**88**	**26 089**
Additions:			
Acquired	85	0	85
Disposals:			
Sold	0	-88	-88
Changes in fair value:			
Gain/ loss from change in fair value	-85	0	-85
Balance at 31 December 2013	**26 001**	**0**	**26 001**
Additions:			
Acquired	822	0	822
Reclassification from inventories (see Note 10)	29 591	0	29 591
Disposals:			
Sold	0	0	0
Changes in fair value:			
Gain from existing properties	2 077	0	2 077
Gain from reclassified properties	29 619	0	29 619
Balance at 31 December 2014	**88 110**	**0**	**88 110**

Valuation of properties

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

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

The Company applies threshold, according to which the value of the properties remains unchanged if the value determined by independent real estate valuator is not higher than 3% of the recorded book value and not lower than 1,5% of the recorded book value of the properties.

Peterburi road 2, Tallinn

Development of Peterburi road shopping centre with its 52 thousand square meters leasable area is one of the priorities of the Company. The mall represents a modern view to a shopping centre concept where retail areas are combined with numerous options of leisure and entertainment activities. The valuator has considered the following inputs in valuation: construction period of 2 years, construction cost 507 €/m², average rent price 17,5 €/m², exit yield 7%. 7 year discounted cash flow method has been used by the valuator with a discount rate of 14,85%. The total net effect of revaluation was 578 thousand euros increase in fair value.

Ülemiste 5, Tallinn

Ülemiste property is situated next to above mentioned Peterburi road 2 plot and is expected to be used partly as an extension for the shopping centre under construction. It is planned to develop office and retail spaces with total leasable area of 14 thousand square meters. The valuator has considered the following inputs in valuation: construction period of 2 years, starting after one year of waiting period, construction cost 554 €/m², average rent price 11 €/m² for offices and 16 €/m² for retail spaces, exit yield 7,5%. 7 year discounted cash flow method has been used by the valuator with a discount rate of 16%. The total effect of revaluation was 1 500 thousand euros increase in fair value.

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Kalaranna district, Tallinn

The plot of Kalaranna district was recorded as inventories before 31 December 2014. According to management decision it has been reclassified as investment property on the balance date. Kalaranna is an attractive residential area: it is located directly by the sea, close to the Old Town and the city center. Company plans to develop mainly residential buildings with net sellable area of 28 thousand square meters, but also a yacht club, social and commercial purpose buildings with combined net area of 5 thousand square meters. As most apartments are expected to have the sea view, estimated price level is higher comparing to similar apartments without the sea view in the neighbourhood. The valuator has considered the following inputs in valuation: construction period of 3 years, starting after one year of waiting period, construction cost 836 €/m², average apartment sale price 2 750 €/m² and commercial premises 1 800 €/m². 6 year discounted cash flow method has been used by the valuator with a discount rate of 16%. The total effect of revaluation was 9 569 thousand euros increase from cost to fair value.

Tondi residential quarter, Tallinn

Tondi Quarter is one of the largest residential blocks in the Baltics, located close to the city centre. It has been planned to develop the property in 5 phases. The first phase – renovation of a red brick barrack - has been completed and most of the apartments have been sold. The second phase includes a set of new buildings being built on Marsi, Sõjakooli and Sammu Streets. After the balance date construction works were completed in Marsi 3 and works for next building Marsi 3b have started. The properties included in the first and second stage of development are recorded as inventories in the Company's balance sheet with an exception for Sammu Street, which will not be developed in the nearest future. According to management decision the properties to be developed in the next three phases and Sammu Street plot have been reclassified from inventories to investment property on the balance date. The valuator has considered the following inputs in valuation of investment property: net sellable residential area of 46 thousand square meters and rentable commercial area of 26 thousand square meters, construction period for each separate phase 3-4 years starting after 3 years and lasting altogether 9 years, construction cost 637-683 €/m², average apartment sale price 1 750 €/m², average rent 10 €/m² for commercial spaces (phase 3). For sales 5-12 year discounted cash flow method has been used by the valuator with a discount rate of 15-16%. The total effect of revaluation was 8 945 thousand euros increase from cost to fair value.

Kliversala residential complex, Riga

Kliversala is a residential and commercial development project located on the left bank of river Daugava. The land is located between two main bridges, next to one of the biggest parks in Riga and has a long coastline. The property is situated on the waterfront and provides views of the Old Town on the opposite bank. The project for the residential area foresees a series of exclusive apartment buildings coupled with commercial premises. It has been planned to develop the property in 4 phases. The first phase is planned to start in the nearest future, the rest of development will take place years later. Therefore the management of the Company has decided to reclassify properties to be developed in phases 2-4 into investment property at the balance date. Before the management decision Kliversala properties had been recorded as inventories. The valuator has considered the following inputs in valuation: net sellable residential area of 56 thousand square meters and rentable commercial area of 11 thousand square meters, construction period of 3-4 years for each phase, construction cost 785 €/m², average apartment sale price 2 500 €/m², average rent 13 €/m² for commercial spaces. 12 year discounted cash flow method has been used by the valuator with a discount rate of 14,75% and starting time after 3 years. The total effect of revaluation was 8 474 thousand euros increase from cost to fair value.

Tallinas Street residential complex, Riga

Tallinas is a residential development project located in Riga at the right bank of river Daugava, right next to the border of Riga's historical City Centre. The project for the residential area foresees a series of apartment buildings with commercial functions on the first floor with net sellable area of 21 thousand square meters and 1 thousand square meter respectively. It has been planned to develop the property in several phases. Tallinas development project was recorded as inventories before 31 December 2014. According to management decision it has been reclassified as investment property at the balance date. The valuator has considered the following inputs in valuation: construction period of 5 years, construction cost 778 €/m², average apartment sale price 2 100 €/m², average rent 11,7 €/m² for commercial spaces. 7 year discounted cash flow method has been used by the valuator with a discount rate of 14,75% and

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with the assumption of immediate start. The total effect of revaluation was 2 609 thousand euros decrease from cost to fair value.

Zvaigznes Centrs, Riga

Zvaigznes is a mixed development project located at one of the main transport arteries heading through the City, next to the railways within a former industrial area. The project foresees renovation of the existing industrial building into mostly office buildings with total net rentable area of 18 thousand square meters. The project is expected to be developed in two phases as the initial phase includes the renovation works of the existing building and the second phase a construction of new buildings and parking area. Zvaigznes development project was recorded as inventories before 31 December 2014. According to management decision it has been reclassified as investment property at the balance date. The valuator has considered the following inputs in valuation: construction period of 2 years of each phase, 3 years in total with the assumption of immediate start, construction cost 673-740 €/m², average rent 11 €/m² for commercial spaces. For sales 4 year discounted cash flow method has been used by the valuator with a discount rate of 14,75%. The total effect of revaluation was 30 thousand euros increase from cost to fair value.

Šaltinių Namai, Vilnius

Šaltinių Namai is a residential development project located in Vilnius next to the Old Town. The business plan for the Šaltinių Namai residential quarter foresees a series apartment buildings built in two major stages. The first stage of Šaltinių Namai project has been almost finished except for two apartment houses under construction. Šaltinių Namai development project was recorded as inventories before 31 December 2014. According to management decision the second stage of the project, with net sellable area of 13 thousand square meters and net rentable area of 1 thousand square meter, has been reclassified as investment property at the balance date. The valuator has considered the following inputs in valuation: construction period of 4 years of the second stage starting after 1 year of waiting period, construction cost 818 €/m², average apartment sale price 2 118 €/m² and commercial premises 1 426 €/m². For sales 7 year discounted cash flow method has been used by the valuator with a discount rate of 16%. The total effect of revaluation was 1 672 thousand euros increase from cost to fair value.

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

	Fair value	Construction costs/m^2		Sale price/m^2		Rent price/m^2		Exit yield	
	th euros	5%	-5%	5%	-5%	5%	-5%	5%	-5%
Peterburi	25 700	-2 900	2 800	N/A	N/A	4 200	-4 300	-2 900	3 100
Ülemiste	3 200	-600	700	N/A	N/A	300	-200	-500	700
Kalaranna	14 500	-1 100	1 100	1 300	-1 300	N/A	N/A	N/A	N/A
Tondi	17 000	-2 040	2 040	2 790	-2 800	N/A	N/A	N/A	N/A
Kliversala	16 200	0	0	2 100	-2 200	N/A	N/A	N/A	N/A
Tallinas	4 100	0	0	1 200	-1 300	N/A	N/A	N/A	N/A
Zvaigznes	2 500	-800	800	N/A	N/A	0	0	-200	200
Šaltinių	4 910	-500	490	760	-760	N/A	N/A	0	0

All construction costs and estimated sales and rental prices in this note are presented without VAT.

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

Investment property held for earning rentals was sold in 2013. Thereafter there has been no rental income from investment property held by the Group. 70 thousand euros direct costs were booked in 2013 concerning rental property.

Information about investment property pledged as collaterals is disclosed in Note 17 to these consolidated financial statements.

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Note 13. Current Debt

in thousands of euros	**31.12.2014**	**31.12.2013**
Bank loans and overdrafts (Note 16)	6 877	1 872
Convertible bonds (Note 18)	5 167	6 105
Payables to related parties (Note 28)	4 284	3 753
Current portion of finance lease	20	0
Total	**16 348**	**11 730**

Note 14. Current Payables

in thousands of euros	**31.12.2014**	**31.12.2013**
Trade payables	2 688	804
Payables to related parties (Note 28)	0	1
Accrued expenses	1 261	1 328
Other (Note 28)	812	0
Total	**4 761**	**2 133**

Note 15. Non-Current Debt

in thousands of euros	**31.12.2014**	**31.12.2013**
Bank loans and overdrafts (Note 16)	3 728	10 233
Convertible bonds (Note 18)	6 052	5 167
Non- convertible bonds (Note 18)	2 240	1 640
Loan payables to non-controlling interest	1 365	0
Non-current portion of finance lease	45	0
Total	**13 430**	**17 040**

Note 16. Bank Loans and Overdrafts

in thousands of euros

Borrower	Creditor	Contract currency	Loan balance at 31.12.2013	Loan balance at 31.12.2014	Loan repayments Within 1 year	2-5 years	Over 5 years	Interest rate	Maturity date	Collateral
Pro Kapital Eesti:										
AS Pro Kapital Eesti	AS Swedbank	EUR	1 647	1 507	1 507	0	0	2.65% + 6 month EURIBOR	01.11.2015	Note 17
AS Tondi Kvartal	AS Swedbank	EUR	446	18	18	0	0	2.65% + 6 month EURIBOR	16.07.2015	Note 17
AS Pro Kapital Eesti	AS Swedbank	EUR	2 436	2 271	2 271	0	0	2.5%+ 6 month EURIBOR	09.08.2015	Note 17
OÜ Marsi Elu	Nordea Bank	EUR	0	659	659	0	0	3,1%+ 1 month EURIBOR	27.09.2016	Note 17
			4 529	**4 455**	**4 455**	**0**	**0**			
Pro Kapital Latvia:										
Investhotel SIA	AS Swedbank	EUR	3 952	3 605	345	3 260	0	3.0% + 3 month EURIBOR	01.05.2017	Note 17
			3 952	**3 605**	**345**	**3 260**	**0**			
Pro Kapital Vilnius:										
PK Invest UAB	AB Swedbank	EUR	3 624	1 871	1 871	0	0	3,0% + 6 month EURIBOR	07.12.2015	Note 17
PK Invest UAB	AB Swedbank	EUR	0	674	206	468	0	3,85% + 6 month EURIBOR	28.11.2017	Note 17
			3 624	**2 545**	**2 077**	**468**	**0**			

On 27 March 2014, loan agreement with Nordea Bank Finland Plc Estonian branch was signed, according to which Estonian subsidiary Marsi Elu OÜ is entitled to borrow up to 5,0 mln euros for the annual interest of 1m Euribor+ 3,1%, to be repaid by 27 September 2016. During reporting period Marsi Elu OÜ has used the credit limit in amount of 659 thousand euros.

As at 31 December 2014, PK Invest UAB had 426 thousand EUR of unused long- term loan limit, with interest rate of 3,85% + 6 month EURIBOR and repayment deadline of 28 November 2017.

After reporting date AS Tondi Kvartal has repaid loan to AS Swedbank in full.

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Note 17. Collaterals and Pledged Assets

Debt disclosed in Note 16 to these consolidated financial statements is pledged with the following properties:
in thousands of euros

Name of the pledge	Name of the beneficiary	Obligation at 31.12.2014	Collateral description	Owner of collateral	Type of assets	Book value of collateral at 31.12.2014
AS Tondi Kvartal	AS Swedbank	18	Tondi street 51, Tallinn	AS Tondi Kvartal	Finished construction (inventories)	874
			Guarantee letter	AS Pro Kapital Grupp	Entity's assets	X
AS Pro Kapital Eesti	AS Swedbank	1 507	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 725
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	427
AS Pro Kapital Eesti	AS Swedbank	2 271	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 725
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	427
			Tondi street 51, Tallinn	AS Tondi Kvartal	Finished construction (inventories)	874
OÜ Marsi Elu	Nordea Bank Finland	659	Marsi 3, 3a, 3b, Tallinn	OÜ Marsi Elu	Unfinished construction (inventories)	4 808
			Sõjakooli 12, 12a,12b, 12c, Tallinn	AS Tondi Kvartal	Unfinished construction (inventories)	181
			Sammu 6, 6a, 6b; Tallinn	AS Tondi Kvartal	Investment property	2 300
			Guarantee letter	AS Pro Kapital Eesti	Entity´s assets	X
Investhotel SIA	AS Swedbank	3 605	Pulkveza Brieza Str. 11, Riga	Investhotel SIA	Land and buildings	5 647
				Investhotel SIA	Other assets	3 400
			Trijadibas street 5, Rīga	Kliversala RE SIA	Unfinished construction (inventories)	17 426
PK Invest UAB	AB Swedbank	1 871	Aguonu str.10, Vilnius	PK Invest UAB	Finished construction (inventories)	6 805
				PK Invest UAB	Unfinished construction (inventories)	6 554
				PK Invest UAB	Entity´s assets	365
			Guarantee letter	AS Pro Kapital Grupp	Entity´s assets	X

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PK Invest UAB	AB Swedbank	674	Aguonu str.10, Vilnius	PK Invest UAB	Finished construction (inventories)	6 805
				PK Invest UAB	Unfinished construction (inventories)	6 554
				PK Invest UAB	Entity´s assets	365
			Guarantee letter	AS Pro Kapital Grupp	Entity´s assets	X
Total		**10 605**				

After reporting period AS Tondi Kvartal has fulfilled its obligations towards Swedbank and repaid loan in full.

The guarantee letter from AS Pro Kapital Group to Swedbank AS to assure the bank loan of Latvian subsidiary Investhotel SIA has been cancelled on 4 November 2014.

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

- 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 7 382 thousand euros, as Swedbank (Latvia) has issued a guarantee letter in the amount of 8 869 thousand euros to VAS „Privatizācijas aģentūra" to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra" (31 December 2014).
- Guarantee letter to Kristiine Keskus OÜ to secure (jointly with Pro Kapital Eesti AS) possible claims against Täismaja AS arising from a loan contract concluded between AS Pro Kapital Eesti and Täismaja AS on 9 March 2004. The guarantee letter is limited to the maximum amount of potential claim. The guarantee is effective for 72 months from concluding the sales-purchase agreement, i.e. until 2 May 2017.

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Note 18. Convertible and non-convertible bonds

in thousands of euros	31.12.2014	31.12.2013
Current convertible debt (Note 13)	5 167	5 167
Non-current convertible debt (Note 15)	6 052	6 105
Non-current non-convertible debt (Note 15)	2 240	1 640
Total	**13 459**	**12 912**

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

In accordance with the decision of extraordinary meeting of shareholders of AS Pro Kapital Grupp on 13 April 2009, the total of 4 025 758 convertible bonds were subscribed with an issue price of 4,5 euros per bond. All convertible bonds have been registered in the Estonian Central Register of Securities.

In 2011 the Group was split and as a result the issue price of the convertible bonds remains 2,8 euros per bond.

According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the period 2009-2011 could be converted to shares of the Parent until 31 December 2012 with the exchange rate one convertible note per share. On 6 February 2013 AS Pro Kapital Grupp shareholders' general meeting decided to offer the possibility to the holders of convertible bonds to prolong their convertible note redemption/conversion deadline by two more years and bondholders accepted the offer. The duration of first five convertible note issues have been prolonged respectively. In September 2014, 18 983 convertible bonds were repurchased in the amount of 53 152,40 euros. No bonds have been converted into shares until 31 December 2014.

On 1 August 2013 the Group issued 64 new unsecured non-convertible bonds with face value of 10 000 euros each. Total amount of the bonds issued was 640 000 euros, their duration is 5 years and they carry 5% annual interest.

On 7 November 2013 the Company issued 100 new unsecured non-convertible bonds with face value of 10 000 euros. Total amount of the bonds issued is 1 000 000 euros, the bonds are unsecured, have duration of 3 years and annual interest of 5%.

On 15 April 2014 the Company issued 30 new unsecured non-convertible bonds with face value of 10 000 euros. Total amount of the bonds issued is 300 000 euros, the bonds are unsecured, have duration of 5 years and annual interest of 5%.

On 16 September 2014 the Company issued 30 new unsecured non-convertible bonds with face value of 10 000 euros. Total amount of the bonds issued is 300 000 euros, the bonds are unsecured, have duration of 5 years and annual interest of 5%.

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Registration date of bonds issued	13.08.2009	20.01.2010	10.08.2010	16.09.2010	29.11.2010	08.03.2011	25.05.2011	01.08.2013	07.11.2013	15.04.2014	16.09.2014
Amount, th euro	3 261	1 070	2 353	1 448	1 182	1 594	1 905	640	1 000	300	300
Issuance currency	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Issue price	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	10 000 EUR	10 000 EUR	10 000 EUR	10 000 EUR
Return per annum (%) from issue price	7%	7%	7%	7%	7%	7%	7%	5%	5%	5%	5%
Bond interest payment frequency	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Once a year	Once a year	Once a year	Once a year
Re-purchase date	13.08.2015	20.01.2016	10.08.2016	16.09.2016	29.11.2016	08.03.2015	25.05.2015	01.08.2018	07.11.2016	23.04.2019	24.09.2019
Due date to exchange bonds into shares	13.08.2015	20.01.2016	10.08.2016	16.09.2016	29.11.2016	08.03.2015	25.05.2015	X	X	X	X

On 3 March 2015 the Company prolonged the redemption date of 569 273 convertible bonds PKG6 by 2 years and the new redemption date is 08 March 2017.

(Pcs.)	**31.12.2014**	**31.12.2013**
Number of **convertible bonds** at the beginning of period	4 025 758	4 025 758
Number of convertible bonds issued	0	0
Number of repurchased bonds	-18 983	0
Number of convertible bonds at the end of period	4 006 775	4 025 758

in thousands of euros	**2014**	**2013**
Value of convertible bonds at the beginning of period	11 272	11 272
Principal of convertible bonds issued	0	0
Repurchased bonds in repurchase price	-53	0
Principal of the bonds issued at the end of the period	11 219	11 272
Current portion of liabilities at the end of the reporting period	**5 167**	**6 105**
Non-current portion of liabilities at the end of the reporting period	**6 052**	**5 167**

(Pcs.)	**31.12.2014**	**31.12.2013**
Number of **non-convertible bonds** at the beginning of period	164	0
Number of non-convertible bonds issued	60	164
Number of repurchased bonds	0	0
Number of non-convertible bonds at the end of period	224	164

in thousands of euros	**2014**	**2013**
Value of non-convertible bonds at the beginning of period	1 640	0
Principal of non-convertible bonds issued	600	1 640
Repurchased bonds in repurchase price	0	0
Principal of the bonds issued at the end of the period	2 240	1 640
Current portion of liabilities at the end of the reporting period	**0**	**0**
Non-current portion of liabilities at the end of the reporting period	**2 240**	**1 640**

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Note 19. Share Capital and Reserves

Share capital

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

As of 31 December 2014 and 2013, the share capital in the amount of 10 821 thousand euros consists of 54 106 575 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 31 December 2014, the minimum share capital amounts to 6 000 thousand euros, whereas maximum share capital amounts to 24 000 thousand euros.

As described in Note 18 to these consolidated financial statements, AS Pro Kapital Grupp has issued convertible and non- convertible bonds. The owners of the convertible bonds have not exercised their option to convert the bonds into shares of the Group.

Reserves

Statutory legal reserve of the Parent is recorded based on the requirements of the Estonian Commercial Code § 336 and is comprised of the provisions made from the net profit. The statutory legal reserve as at 31 December 2014 amounted to 1 063 708 euros (2013: 1 063 708 euros).

Revaluation surplus in the amount of 11 330 thousand euros results from first time 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. Revaluation surplus as at 31 December 2014 is 9 389 thousand euros, decrease resulted from impairment of German hotel property.

Note 20. Non-Controlling Interest

in thousands of euros	**31.12.2014**	**31.12.2013**
Arising from Pro Kapital Eesti sub-group	1 406	867
Arising from Pro Kapital Latvia sub -group	618	638
Total	**2 024**	**1 505**

The Group has three subsidiaries with non-controlling interests: two in Estonia and one in Latvia.

Portion of non-controlling interest has increased by 2,98% in Estonian group subsidiary AS Tallinna Moekombinaat during 2014. In June 2014 Fiduciaria Emiliana subscribed to 400 000 shares of AS Tallinna Moekombinaat with nominal value 0,60 euros and with share premium 0,93 euros per share and paid in 612 thousand euros. At the end of the year Nikasi Overseas SA subscribed to 226 372 shares of AS Tallinna Moekombinaat with nominal value 0,60 euros and with share premium 0,93 euros per share and paid in 346 thousand euros. The first increase of share capital has been registered in the Register of Commerce and registration of the second increase of share capital is under process of registration.

In January 2014 the subsidiary of the Group AS Tondi Kvartal concluded the contract for establishing a new company OÜ Marsi Elu with aim to develop first phase of the second stage of Tondi residential complex in Tallinn and to create a legal platform for possible participation of co-investor in the project. In March 2014 35% of OÜ Marsi Elu shares were sold to a financial investor Combrimat Limited at nominal value (Note 7).

Latvian subsidiary is under liquidation process as all stock has been sold and company has no more operating activities.

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	AS Tallinna Moekombinaat	OÜ Marsi Elu	Nekustamo Īpašumu sabiedrība Prokurs SIA (under liquidation)
Principal place of business	Estonia	Estonia	Latvia
Non-controlling interest as at 31.12.2013	3,92%	0%	30%
Non-controlling interest as at 31.12.2014	6,90%	35%	30%

Summarised financial information	**AS Tallinna Moekombinaat**		**OÜ Marsi Elu**		**Nekustamo Īpašumu sabiedrība Prokurs SIA (under liquidation)**	
in thousands of euros	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Current Assets	88	12	5 232	0	2 059	2 145
Non-Current Assets	25 700	24 300	0	0	0	0
Current Liabilities	183	397	2 725	0	0	17
Non-Current Liabilities	2 888	2 302	2 967	0	0	0
Equity attributable to owners of the Company	22 717	21 613	-460	0	2 059	2 128
including non-controlling interests	***1 567***	***847***	***-161***	***0***	***618***	***638***
in thousands of euros	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Revenue	0	0	2	0	0	333
Gross profit (loss)	0	0	2	0	0	90
Operating profit (loss)	289	-98	-274	0	2	56
Profit (loss) before tax	146	-189	-470	0	31	114
Income tax	0	0	0	0	-4	-17
Profit (loss) for the year	146	-189	-470	0	27	97
Attributable to:						
Owners of the Company	*136*	*-182*	*-306*	*0*	*19*	*68*
Non-controlling interests	*10*	*-7*	*-165*	*0*	*8*	*29*
Other comprehensive income						
Total comprehensive income for the year	146	-189	-470	0	27	97
Attributable to:						
Owners of the Company	*136*	*-182*	*-306*	*0*	*19*	*68*
Non-controlling interests	*10*	*-7*	*-165*	*0*	*8*	*29*
Net cash flows from operating activities	-221	-538	-1 263	0	-7	267
Net cash flows from investing activities	-1 015	-302	1	0	0	-87
Net cash flows from financing activities	1 278	839	1 591	0	-97	0
Net change in cash and cash equivalents	42	-1	329	0	-104	180

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Note 21. Revenue

in thousands of euros	2014	2013
Revenue from sale of real estate	2 720	4 011
Rental revenue	205	1 111
Hotel operating revenue	5 880	5 797
Revenue from maintenance and other services	1 530	1 368
Total	**10 335**	**12 287**

Rental revenues decreased due to sale of subsidiary company LLC Pasaules Tirdzniecibas centres „Riga"(WTC Riga). WTC Riga operated as a management company for maintenance and administration of state owned WTC office building in Riga and the sale was motivated by the Group´s strategy to focus on development of its own real estate projects. The subsidiary was sold on 1 January 2014.

Note 22. Cost of Sales

in thousands of euros	2014	2013
Cost of real estate sold	2 222	2 942
Cost of providing rental services	563	861
Cost of hotel operations	3 609	3 580
Cost of other services	1 362	1 816
Total	**7 756**	**9 199**

Direct costs of rental services are higher than rental revenue due to the fact that most of rental services are provided internally and revenues are eliminated as intragroup transactions whereas costs remain consisting mainly of depreciation of properties.

in thousands of euros	2014	2013
Personnel expenses	1 132	1 145
Depreciation charge	664	699
Inventory write-offs (Note 10)	0	4
Other	5 960	7 351
Total	**7 756**	**9 199**

Note 23. Marketing and Administration Expenses

Marketing expenses

in thousands of euros	2014	2013
Personnel expenses	122	112
Other	408	308
Total	**530**	**420**

Administration expenses

in thousands of euros	2014	2013
Personnel expenses	2 286	2 176
Depreciation charge	79	87
Amortisation charge	7	8
Land/real estate taxes	462	446
Other	2 326	1 889
Total	**5 160**	**4 606**

In 2014, average number of employees in the Group was 107 (2013: 118) and total remuneration cost incurred during 2014 was 3,54 million euros compared to 3,43 million euros in 2013.

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Note 24. Other Income and Other Expenses

Other income

in thousands of euros	**2014**	**2013**
Fines collected	7	5
Gain from sales of property, plant and equipment	11	144
Gain from fair value adjustments	28 611	0
Release of allowance for bad debt	3	80
Other	418	181
Total	**29 050**	**410**

Other expenses

in thousands of euros	**2014**	**2013**
Fines paid	3	5
Loss from sales of property, plant and equipment	3	6
Fair value adjustment of investment property	0	85
Allowance for bad debt	0	21
Other	74	50
Total	**80**	**167**

Other income was significantly influenced by reclassification of inventories and revaluation into fair value (Note 10, Note 12).

Note 25. Finance Income and Cost

Finance income

in thousands of euros	**2014**	**2013**
Interest income	19	37
Gain from foreign currency translation	1	1
Income from disposal of subsidiary	19	0
Other	6	409
Total	**45**	**447**

Finance cost

in thousands of euros	**2014**	**2013**
Interest expenses:	1 537	1 366
Interest expense of convertible and non-convertible bonds	*884*	*790*
Interest expense of loans and overdrafts	*653*	*576*
Loss from foreign currency translation	1	6
Other	89	42
Total	**1 627**	**1 414**

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Note 26. Income Tax

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

Statutory corporate income tax (on earnings) rates	**2014**	**2013**
Estonia*	21%	21%
Latvia	15%	15%
Lithuania	15%	15%
Germany	15%	15%

**In case of distribution of profits, 20% starting 01.01.2015.*

Income tax expense in unconsolidated reports

In thousands of euros	**Estonia**	**Latvia**	**Lithuania**	**Germany**	**Total**
Profit before taxation (unconsolidated)	20 871	9 629	926	-219	31 207
Income tax, statutory rate	0	1 444	139	0	1 583
Non-deductible expenses	0	261	50	0	311
Non-taxable income and tax incentive	0	-1 779	-1	0	-1780
Tax loss utilized	0	-15	-154	0	-169
Reversals	0	144	33	0	177
Total income tax expense	**0**	**55**	**66**	**0**	**122**

Income tax expense in consolidated report

in thousands of euros	**2014**	**2013**
Profit (loss) before income tax	23 143	-2 662
Estimated income tax respective to the tax rates	3 546	-73
Adjustments to estimated income tax:		
Non-deductible expenses (+)	311	85
Non-taxable income and tax incentive	-1 780	0
Tax loss utilised	-169	-96
Reversal loss carry forward (+)	0	0
Income tax expense	**1 908**	**-84**
Effective tax rate	8,2%	N/A
Income tax expense	122	-84
Deferred income tax expense	1 786	0
Total effect on income statement	**1 908**	**-84**
Income tax paid	**24**	**0**

Deferred income tax asset and liability (net) movements:

in thousands of euros	**Accelerated tax depreciation**	**Revaluation of fixed assets**	**Deferred tax losses**	**Total**
31 December 2013	**146**	**1 712**	**-640**	**1 218**
Effect on income statement:				
Income tax expense of the reporting period	0	1 508	293	1 801
Income tax reclaims of the reporting period	0	-15	0	-15
Effect on equity:	0	-260	0	-260
31 December 2014	**146**	**2 945**	**-347**	**2 744**

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Deferred income tax balances

in thousands of euros	31.12.2014	31.12.2013
Deferred income tax liability (+)	2 744	1 758
Deferred income tax assets (-)	0	-540
Total, net	**2 744**	**1 218**

Contingent corporate income tax

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

in thousands of euros	31.12.2014	31.12.2013
Group's retained earnings	39 778	42 668
Estonian tax rate applicable	20%*	21%
Contingent CIT obligation	9 945	8 960

**Tax rate has changed 01.01.2015 and is applicable upon the payment.*

The calculation of maximum possible income tax liability is based on the assumption that the sum of distributable net dividends and the income tax expense which occurs on distribution of dividends cannot exceed total retained earnings as at 31 December 2014 and 31 December 2013.

The Parent has potential opportunity (in case of retained earnings) to pay dividends that are not taxable with income tax in amount of 44 647 thousand euros because the Parent has received dividends from its subsidiary Pro Kapital Latvia PJSC, which is the resident and taxable person in the Republic of Latvia. The maximum related possible income tax free amount that could be considered as contingent asset and could be paid as net dividends is 11 868 thousand euros (31 December 2013: 11 868 thousand euros).

Note 27. Earnings per Share

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

In period 01.01.2014 - 31.12.2014 (54 106 575 x 365/365) = 54 106 575
In period 01.01.2013 - 31.12.2013 (53 185 422 x 134/365)+ (54 106 575 x 231/365) = 53 768 398

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

2014 21 234 778/54 106 575=0,39
2013 -2 578 203/53 768 398 = -0,05

The convertible bonds issued did not have a dilutive effect on earnings in 2014 and 2013, and therefore they have not been included in the calculation of the diluted net profit (loss) per share and the diluted profit (loss) per share equals the net profit (loss) per share indicator.

Note 28. Transactions and Balances with Related Parties

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

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

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Transactions with Related Parties

in thousands of euros	2014	2013
Owners holding significant influence		
Interest income	0	19
Loans issued	0	475
Loans received	812	0
Granted claims	0	16 106
Interest expense	190	199
Members of the Management Board and Council		
Salaries	942	879
Other related parties		
Goods and services sold	0	27
Loans received (incl interests)	1 365	0
Disposal of real estate	0	330

On 4 September 2014, loan agreement with Estrella Ltd, a company related to significant owner and Member of Council, was concluded for the credit limit of 1 000 000 euros. The loan is considered as short-term being payable within 12 months and is carrying annual interest of 5%. During reporting period the credit limit in amount 800 th euros has been used.

On 24 March 2014, loan agreement with Combrimat Ltd., the minor shareholder of Estonian subsidiary Marsi Elu OÜ (non-binding intention agreement signed) was signed, according to which Combrimat Ltd. should lend 1,0 mln euros for 5 years with annual interest of 5%. As at 31 December 2014, the full amount of 1,0 mln euros was borrowed.

The Company also received long-term loans from minority shareholders of Estonian subsidiary AS Tallinna Moekombinaat. On 22 May 2014, AS Tallinna Moekombinaat received a long-term loan from Fiducaria Emiliana s.r.l. in amount 197 th euros. On 13 October 2014, AS Tallinna Moekombinaat received a long-term loan from Nikasi Overseas SA in amount 111 th euros. Both loans are unsecured and carry annual interest of 12%.

Receivables from related parties

in thousands of euros	31.12.2014	31.12.2013
Other related parties		
Current receivables from related parties	503	501
Total	**503**	**501**

Amount receivable consist of loans issued to minority shareholders of Latvian subsidiary Nekustamo Īpašumu sabiedrība Prokurs SIA including 27 thousand euros interests receivable (26 thousand euros as at 31 December 2013). After reporting period receivables have been collected and Nekustamo Īpašumu sabiedrība Prokurs SIA liquidated.

Payables to related parties

in thousands of euros	31.12.2014	31.12.2013
Significant owners and owner related companies		
Payables to related parties	4 280	4 105
Total	**4 280**	**4 105**

Payables to related parties consist of loan balance 3 738 thousand euros and 542 thousand euros interest payable (352 thousand euros as at 31 December 2013) on loan received from Svalbork Invest OÜ.

Holdings in the Parent

in thousands of euros	31.12.2014	31.12.2013
Significant owners and owner related companies	36,24%	34,09%

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22 224 convertible bonds are held by the Member 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 provided loans to related parties at rates comparable to the average commercial rate of interest. The loans to related parties are not collaterised.

Note 29. Subsequent Events

On 20 February 2015 the Company announced calling for extraordinary shareholders meeting to take place 9 April 2015.

On 20 February 2015 the Member of the Council of AS Pro Kapital Grupp, Ernesto Achille Preatoni, submitted his resignation.

On 3 March 2015 the Parent prolonged the redemption date of 569273 PKG6 convertible bonds with total issue price 1 593 964,40 euros. New redemption date is 8 March 2017.

On 6 March 2015 the Company informed about intention to issue debt securities.

On 27 March 2015 the Company announced start of the construction works of a new residential building in Vilnius, based on the construction contract concluded between its subsidiary Pro Kapital Bonum UAB and UAB Merko Statyba on 01 August 2014.

On 2 April 2015 the Company informed that it started pre-sounding with qualified investors with the purpose to understand the demand and the investor's conditions in participating in the intended issue of secured bonds. The Supervisory Council of the Company on 02 April 2015 has decided to approve the issue of secured, callable, fixed rate bonds by the Company (hereinafter the "**Bonds**"). The Management Board of Pro Kapital is authorized to issue the Bonds on the following main conditions:

1. *Pro Kapital will raise up to EUR 50,000,000 from the issuance of the Bonds (maximum amount);*
2. *the nominal value of the Bonds will be EUR 100,000;*
3. *the Bonds will carry interest at a fixed rate, which shall not be higher than 8%, p.a.;*
4. *the Bonds are expected to be issued in several tranches;*
5. *the issue date of the first tranche of the Bonds is expected to take place in April or May of 2015;*
6. *the final redemption date of the Bonds will occur in 5 years after the issue date of the first tranche of the Bonds (i.e. it is expected to occur in April or May of 2020 on the condition that the first tranche of the Bonds will take place in April or May of 2015);*
7. *the obligations and liabilities of Pro Kapital arising from the Bonds and related documents will be secured by the first ranking security over the following assets:*
8. *all shares (including rights attached thereto) in the following companies owned by Pro Kapital and its subsidiaries (including all shares issued and acquired at any time in the future): AS Pro Kapital Eesti, Pro Kapital Latvia JSC, Pro Kapital Vilnius Real Estate UAB, PRO KAPITAL Germany GmbH, Pro Kapital Germany Holdings OÜ, OÜ Ilmarise Kvartal, Pro Halduse OÜ, OÜ Hotel Management Services, AS Tondi Kvartal, OÜ Marsi Elu, PK Hotel Management Services GmbH, "Klīversala RE" SIA, "Tallina nekustamie īpašumi" SIA, "NEKUSTAMO ĪPAŠUMU SABIEDRĪBA "ZVAIGZNES CENTRS"" SIA, "Hotel Management Services" SIA; In Vitam UAB; PK Invest UAB and Pro Kapital Bonum UAB;*
9. *three bank accounts are opened in connection with the issuance of the Bonds (escrow account, debt service account and deposit account);*
10. *if the aggregate outstanding amount of the Bonds will exceed EUR 25,000,000, the shares in AS Tallinna Moekombinaat will have to additionally be pledged;*
11. *the Bonds will be listed at the corporate bond list on Nasdaq Stockholm;*

No decision has been made to launch the subscription of the first tranche of the Bonds.

On 9. April 2015 an extraordinary meeting of shareholders was held. It was decided:

- to amend Articles of Association concerning election terms of Members of Council;
- to prolong the term of current Members of Council until 05.07.2016;
- to approve the terms of remuneration of council;

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- to amend the article 4.3 of the terms and conditions of convertible bonds, which was approved by the 13.04.2009 and amended by the 06.02.2013 shareholders meeting by adopting the wording as follows:

*4.3. A Bond shall expire on a maturity date (hereinafter the "**Maturity Date**"), which shall be:*
4.3.1. one of the following dates:
4.3.1.1. the day which shall occur 4 (four) years as of the registering such Bond in the Register, shall be the Maturity Date for all bonds whose bondholder (the person owning the bond at 10.00 on the Maturity Date) has not given the Company its acceptance to prolong the Maturity Date.
4.3.1.2. the Company may make a proposal, for the bondholder who has not exchanged its bond to the company share, to extend the Maturity Date of the bond by up to 4 (four) years as of the Maturity Date registered in the Register (at the moment of making the proposal). The Maturity Date of the bond, whose bondholder has submitted to the Company its written acceptance to prolong the maturity of the bond, shall be the new Maturity Date stated by the Company in the notice sent to the bondholder (the new Maturity Date shall be entered into the Register).
4.3.2. the Exchange Date referred to in Clause 7, hereof, if the Bond is exchanged to a share of the Company.

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.

The Group does not have any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The Group does not have any derivatives either. All financial liabilities of the Group belong to category 'other financial liabilities at amortised cost'.

Business risk

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

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

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

Following instruments are exposed to market risk (in thousands euros) as at 31 December 2014:

		Allocation by due dates		
	Carrying amount	Within 1 year	2-5 years	More than 5 years
Investment property	88 110	0	0	88 110
Property, plant and equipment	17 619	0	0	17 619
Inventories (assets held for sale)	14 535	8 176	6 359	0
Financial debt	29 910	16 582	13 328	0

In 2014, investment properties were upraised by 31 696 thousand euros (recorded through income statement), property plant and equipment value decreased by 1 941 thousand euros (recorded through equity).
Interest expense on financial debt was 1 537 thousands euros.

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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.

As at 31 December 2014, the breakdown of interest- bearing financial debt was as follows:

	31.12.2014	**31.12.2013**
Fixed rate liabilities	19 305	16 665
Variable rate liabilities (1-12 months)	6 877	1 872
Variable rate liabilities(12+ months)	3 728	10 233

The management does not expect significant changes in base interest rates as those have shown stability and interest rates remain low. Assuming 100 bp rise in Euribor, there would be no change in position of liabilities and interest expense would increase by 106 thousand euros.

Currency risk

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

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

Credit risk

The Credit risk expresses potential loss that occurs, when customers do not 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 analysed separately. The ownership of the sales object belongs to the Group entities until the client has settled all debt. It may sometimes happen that the ownership is transferred to the buyer but a mortgage is set in favour of the Group entity.

Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group constantly monitors proportion of short-term liabilities and current assets. As at 31 December 2014 the working capital of the Group's is negative and the current assets portion of short-term liabilities is 0,9 (as at 31 December 2013 by 3,9 times).

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

	31.12.2014	Repayment of liabilities Within 1 year	Repayment of liabilities Within 2-5 years	31.12.2013	Repayment of liabilities Within 1 year	Repayment of liabilities Within 2-5 years
Bank loans	10 605	6 877	3 728	12 105	1 872	10 233
Other loans	5 846	4 538	1308	3 753	3 753	0
Convertible bonds	11 219	5 167	6 052	11 272	6 105	5 167
Non- convertible bonds	2 240	0	2 240	1 640	0	1 640
Trade payables	3 961	3 961	0	2 133	2 133	0
Other debt	898	531	367	201	0	201
Total	**34 769**	**21 074**	**13 695**	**31 104**	**13 863**	**17 241**

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.

	31.12.2014	31.12.2013
Equity to total assets	68,61%	65,80%
Debt to total assets	31,39%	34,20%
Long term debt level	13,12%	19,30%

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

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

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

Estonian Commercial Code §301 establish a restriction to the level of mandatory equity level: total equity shall not be less than ½ of registered share capital. Under the Estonian Accounting Act such a compliance assessment is made based on the *adjusted unconsolidated* equity of the Parent. The adjusted unconsolidated equity equals unconsolidated equity of the parent less book values of investments into subsidiaries measured at cost less impairment plus the amount of investments into subsidiaries measured under the equity method of accounting. As disclosed in Note 32 to these consolidated financial statements, the Company has been in compliance with such an equity restriction as at 31 December 2014 and 31 December 2013.

Note 31. Lawsuits

Ultimate parent company

	As at 31.12.2014	As at 31.12.2013
Pending disputes:	0	0
Resolved disputes:	0	2
New disputes:	0	0

As at 31 December 2013 and 2014 AS Pro Kapital Grupp as the ultimate parent company did not have any pending court cases.

Pro Kapital Estonia sub-group

	As at 31.12.2014	As at 31.12.2013
Pending disputes:	0	0
Resolved disputes:	0	0
New disputes:	0	0

As at 31 December 2013 the parent company of Pro Kapital Estonia sub-group and its subsidiaries did not have any pending court cases. Sub-group parent company AS Pro Kapital Eesti was involved in one court case as a third party (AS Täismaja which was involved in one court case as a third party was merged with AS Pro Kapital Eesti).

As at 31 December 2014 the parent company of Pro Kapital Estonia sub-group and its subsidiaries did not have any pending court cases. Sub-group parent company AS Pro Kapital Eesti was involved in one court case as a third party.

Pro Kapital Latvia sub-group

	As of 31.12.2014	As of 31.12.2013
Pending disputes:	2	0
Resolved disputes:	0	1
New disputes:	0	2

As at 31 December 2013 Pro Kapital Latvia sub-group entities had two pending court cases.

As at 31 December 2014 Pro Kapital Latvia sub-group entities had same two pending court cases.

Pending disputes:

1. On 30 July 2012 the Property department of Riga's City Council issued a decision according to which buildings belonging to SIA "Nekustamo Īpašumu sabiedrība "Zvaigznes centrs"" at 193 Brīvības Street, in Riga are classified as degrading the environment and endangering the security of people. On the basis of this decision the company would have to pay an increased real estate tax. The company appealed against the mentioned decision to the chairman of the Riga City Council, however the chairman decided to reject the claim. The company has on 14 February 2013 appealed against the decision to the Administrative District Court asking for revocation of the decision. Administrative District Court decided to reject the application of the company. On 29 May 2014 the

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company submitted the appellation to the Administrative Regional Court. The proceedings are currently pending.
Potential monetary impact for the Group is immaterial.

2. On 2 August 2013 the Property department of Riga's City Council issued a decision according to which buildings belonging to LLC „TALLINA NEKUSTAMIE ĪPAŠUMI" at 5/7 Tallinas Street, in Riga are classified as degrading the environment and endangering the security of people. On the basis of this decision the company would have to pay an increased real estate tax. The Company appealed against the mentioned decision to the chairman of the Riga City Council, however the chairman decided (4 November 2013) to reject the claim. The Company has on 18 December 2013 appealed against the decision of the chairman of Riga City Council to the Administrative District Court asking for revocation of the decision. Administrative District Court decided to reject the application of the company. On 14 July 2014 the company submitted the appellation to the Administrative Regional Court. The proceedings are currently pending.
Potential monetary impact for the Group is immaterial.

Pro Kapital Vilnius sub-group

	As at 31.12.2014	As at 31.12.2013
Pending disputes:	**1**	**2**
Resolved disputes:	**2**	**0**
New disputes:	**1**	**0**

As at 31 December 2013 Pro Kapital Vilnius sub-group entities had two pending court cases. During the reporting period entity of Pro Kapital Vilnius sub-group won one of the cases.

One case was initiated and the same case was resolved during the reporting period.

As of at December 2014 Pro Kapital Vilnius sub-group entities had one pending court case.

Resolved disputes:

1. UAB "Natalex" has filed a claim in the amount of 166 thousand Lithuanian litas (approx. 48 thousand Euros), plus interest 6% for return of the prepayment under an apartment sale contract. Group company PK Invest UAB found that UAB "Natalex" had breached the contract and the prepayment has been set-off with the penalty against UAB "Natalex".

   In April 2012 the court rejected UAB "Natalex" claim. UAB "Natalex" appealed the court decision.

   Court of Appeal of Lithuania dismissed the appeal of UAB "Natalex" on 09 October 2013 and did not amend the judgment of the Court of First Instance. Claim of UAB "Natalex" filed against PK Invest UAB was left unsatisfied.

   UAB "Natalex" submitted a cassation to the Supreme Court. On 22 July 2014 the Supreme Court rejected UAB "Natalex" cassation, the decision is final and binding. UAB "Natalex" claim against PK Invest UAB for return of the prepayment under an apartment sale contract was left unsatisfied.

2. UAB "ALFA N GROUP" filed a claim to Vilnius district court against PK Invest UAB requesting the court to terminate the lease agreement before its expiration and also award the repayment of security deposit of LTL 15 929,56 and 6% of annual interest. PK Invest UAB did not agree with the claim and filed a counterclaim requesting the court to terminate the lease agreement due to the breach of the agreement by UAB "ALFA N GROUP", award LTL 6 759,74 of debt, a fine in amount of LTL 449 744,62, penalties and 6% annual interest.

   Parties reached a settlement and agreed that the lease agreement shall be terminated as of 10 June 2014 by the mutual agreement of the parties, the rental fees owned to PK Invest UAB shall be

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covered until the termination date and the remaining deposit consisting of 7 965 LTL shall be returned to UAB "ALFA N GROUP". The settlement was favourable to PK Invest UAB.

Pending disputes:

In February 2012, UAB "Gatvių statyba" submitted the claim to the Vilnius district court requesting for LTL 197 thousand Lithuanian litas (approx. 57 thousand Euros), plus 8,06 % interest, for the performed works in Šaltinių Namai . Group company PK INVEST UAB did not agree with the claim because the works were performed unduly and the deficiencies were recorded by the parties in writing.

The case was heard at Vilnius district court. The claim of the contractor and the counter-claim of PK INVEST UAB had been upheld partially.

PK INVEST UAB filed an appeal on the basis that the court refused to lower the price of the works that were performed partially and with deficiencies.

The Court of Appeal of Lithuania decided on 26 September 2014 to annul the decision of first instance court and adopted a new decision – court rejected the claim of UAB ,,Gatvių statyba" and satisfied the counterclaim of PK INVEST UAB.

The Court of Appeal of Lithuania decided to reduce the amount of the Construction agreement from LTL 2 247 085 to LTL 2 019 581,19 and also awarded PK Invest UAB LTL 39 740,18 of overpayment from UAB "Gatvių statyba" and 6% of annual interest from the awarded amount from 29 March 2012 until full implementation of court's decision.

The plaintiff UAB "Gatvių statyba" was also obliged to submit the surety bond guarantee of LTL 93 881 to PK INVEST UAB within 40 days from the date of the appellate court decision. If UAB ,,Gatvių statyba" fails to submit the guarantee it should pay LTL 93 881 fine to PK INVEST UAB. The Court of Appeal of Lithuania also awarded to PK INVEST UAB litigation costs.

UAB ,,Gatvių statyba" lodged a cassation to the Supreme Court of Lithuania and the proceedings are currently pending.

Pro Kapital Germany sub-group

	As at 31.12.2014	As at 31.12.2013
Pending disputes:	0	0
Resolved disputes:	0	0
New disputes:	0	0

As at 31 December 2013 and 2014 Pro Kapital Germany sub-group entities did not have any pending court cases.

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Note 32. Supplementary Disclosures on the Parent

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

Statement of Financial Position

in thousands of euros	31.12.2014	31.12.2013
ASSETS		
Current Assets		
Cash and bank balances	297	506
Current receivables	2 871	7 584
Total Current Assets	**3 168**	**8 090**
Non-Current Assets		
Investments in subsidiaries	28 196	28 196
Non-current receivables from the Group entities	18 907	63 717
Property, plant and equipment	0	0
Intangible assets	4	5
Total Non-Current Assets	**47 107**	**91 918**
TOTAL ASSETS	**50 275**	**100 008**
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	5 967	5 035
Current payables	23 740	18 392
Taxes payable	71	40
Short-term provisions	0	0
Total Current Liabilities	**29 778**	**23 467**
Non-Current Liabilities		
Long-term debt	8 293	7 877
Non-current payables to the Group entities	54 026	105 394
Other long term payables	4	9
Total Non-Current Liabilities	**62 323**	**113 280**
Total Liabilities	**92 101**	**136 747**
Equity		
Share capital in nominal value	10 821	10 821
Share premium	1 474	1 474
Statutory reserve	1 064	1 064
Retained earnings (accumulated losses)	-55 185	-50 098
Total equity	**-41 826**	**-36 739**
TOTAL LIABILITIES AND EQUITY	**50 275**	**100 008**

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Statement of Income

in thousands of euros	2014	2013
Operating income		
Revenue	371	552
Cost of sales	0	-207
Gross profit	**371**	**345**
Marketing expenses	-45	-52
Administration expenses	-1 906	-1 411
Other income	0	9
Other expenses	-38	-34
Operating loss	**-1 618**	**-1 143**
Finance income and cost		
Interest income	2 402	3 371
Interest expense	-5 808	-6 332
Other finance income and cost	-63	-30
Loss for the financial year	**-5 087**	**-4 134**

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Statement of Cash Flows

(thousand euros)	2014	2013
OPERATING ACTIVITIES		
Loss for the financial year	- 5 087	-4 134
Adjustments:		
Depreciation of tangible assets	0	2
Gain/loss on disposal of PPE	-1	1
Interest income and expense (net)	3 406	2 961
Non- monetary transactions	78	-2 172
Change in receivables and prepayments	-125	-2 220
Change in other receivables	314	-1 775
Changes in liabilities and prepayments	298	5 276
Cash flow used in operating activities	**-1 117**	**-2 061**
INVESTING ACTIVITIES		
Proceeds from sales of fixed assets	1	0
Loans granted	-1 138	0
Repayments of loans granted	1 589	0
Interest received	165	0
Cash flows used in investing activities	**617**	**0**
FINANCING ACTIVITIES		
Share capital raised	0	184
Share premium raised	0	1 474
Bonds issued	600	1 640
Bonds redeemed	-53	0
Loans raised	800	0
Repayments of loans raised	-249	0
Interest paid	-807	-789
Cash flows from financing activities	**291**	**2 509**
Net change in cash	**-209**	**448**
Cash at the beginning of the year	**506**	**58**
Cash at the end of the year	**297**	**506**

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Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Reserves	Retained earnings	Profit (loss) for the year	Total
Balance as at 31 December 2012	**10 637**	**0**	**0**	**-38 423**	**-6 477**	**-34 263**
Increase in share capital, 15.05.2013	184	1 474	0	0	0	1 658
Allocation to reserves	0	0	1 064	-1 064	0	0
Allocation of net loss	0	0	0	-6 477	6 477	0
Result of the financial year	0	0	0	0	-4 134	-4 134
Balance as at 31 December 2013	**10 821**	**1 474**	**1 064**	**-45 964**	**-4 134**	**-36 739**
Cost of subsidiaries shares	X	X	X	X	X	-28 196
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	128 192
Adjusted unconsolidated equity 31 December 2013	**X**	**X**	**X**	**X**	**X**	**63 257**
Allocation of net loss	0	0	0	-4 134	4 134	0
Result of the financial year	0	0	0	0	- 5 087	-5 087
Balance as at 31 December 2014	**10 821**	**1 474**	**1 064**	**-50 098**	**-5 087**	**-41 826**
Cost of subsidiaries shares	X	X	X	X	X	-28 196
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	155 810
Adjusted unconsolidated equity 31 December 2014	**X**	**X**	**X**	**X**	**X**	**85 788**

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Signatures of the Management Board and Supervisory Council to the Consolidated Annual Report 2014

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2014.

Paolo Michelozzi	Chairman of the Management Board	______________	17 April 2015
Allan Remmelkoor	Member of the Management Board	______________	17 April 2015

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

Emanuele Bozzone	Chairman of the Supervisory Council	______________	17 April 2015
Pertti Huuskonen	Member of the Supervisory Council	______________	17 April 2015
Petri Olkinuora	Member of the Supervisory Council	______________	17 April 2015

AS Deloitte Audit Eesti
Roosikrantsi 2
10119 Tallinn
Estonia

Tel: +372 640 6500
Fax: +372 640 6503
www.deloitte.ee

Reg.no. 10687819

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

We have audited the consolidated financial statements (pages 37 to 93) of AS Pro Kapital Grupp (hereafter also "the Group"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board of the parent company of the Group is responsible for the preparation and fair presentation of these financial statements in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted in the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Pro Kapital Grupp as at 31 December 2014, 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.

Emphasis of Matter

We draw attention to Notes 10 and 12 of the Financial Statements where the change in real estate development strategy of the Group is disclosed. According to the Group's revised long-term real estate development strategy certain investments in real estate with the cost value of EUR 29 591 thousand were reclassified from inventories to investment property, accounted at fair value. Subsequent to reclassification, these investment properties were revalued to fair value and revaluation surplus of EUR 29 619 thousand was recognized as income of reporting period. As disclosed in Note 12 of the Financial Statements, the fair value of the Group's investment property significantly depends on the assumptions used in valuation with respect to timing and costs of the potential developments, future rental and sales prices, timing of the revenue as well as Management Board's ability to realize those assumptions in Group's operations. Our opinion is not qualified in respect of this matter.

17 April 2015

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

Profit Allocation Proposal

The Management Board of AS Pro Kapital Grupp proposes to allocate the net profit for the year ended at 31 December 2014 in the amount of 21 381 thousand euros to retained earnings.