AS Pro Kapital Grupp

CONSOLIDATED ANNUAL REPORT 2015

PROKAPITAL

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Beginning of the financial year	1 January 2015
End of the financial year	31 December 2015
Company name	AS Pro Kapital Grupp
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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

Table of Contents

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* 190 000 square meters of total saleable area. The Company has been one of the first players on the Baltic markets and its projects have been milestones in the Baltic real estate market.

Pro Kapital's operating strategy is to develop prime residential and retail real estate in all three Baltic capitals. The Company adds value through the entire life cycle of the development process, taking a long-term approach. Pro Kapital 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. Secured, callable, fixed rate bonds of AS Pro Kapital Grupp were listed on Nasdaq Stockholm Stock Exchange since 8 July 2015.

Vision

Our vision is to be a leading developer of prime quality residential and retail real estate in the capital cities of the Baltic States. Using our top expertise proven through the list of completed projects, we strive to offer our customers the highest quality products with the unique land bank locations in Tallinn, Riga and Vilnius and 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 2015 the Company continued with construction works in two of its residential projects, Tondi Residential Quarter in Tallinn and Šaltinių Namai in Vilnius. In Tondi Quarter the Company completed the second apartment building with 31 apartments and the works are continuing for the third building. During 2016 the Company intends to start with construction of new buildings in Tondi provided the presale process continues in satisfactory level and also with the renovation works of two historical caserms to be developed as residential and office buildings. In Vilnius an additional building to the Šaltinių Namai quarter with 19 apartments and business units was completed and the works are continuing for the second building with 44 apartments.

In 2015 the Company concluded a projecting and construction agreement for T1 Shopping & Entertainment Centre in Tallinn with AS Merko Ehitus Eesti and the construction works were started. The City of Tallinn continued the detail plan process on the neighbouring land plots to enable the development of Tallinn Joint Passenger Terminal as part of the Rail Baltica project. Such development of public infrastructure 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 first stage of Kliversala development project in Riga. In the end of 2015 the Kliversala detail plan was approved by the City of Riga providing the building right for over 50 thousand square meters of sellable area for mainly residential buildings and the Company obtained the building licence for the first building. The Company carried on further steps as well 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 premium development projects with less competition.

In 2015 the Company initiated an offering of secured, callable fixed rate bonds for financing its development projects. During the year the bonds were subscribed in nominal value of 13,4 million euros. The bonds were subsequently listed at Nasdaq Stockholm Stock Exchange.

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

Sales and stock

Estonia

In Estonia, real estate market kept stable moderately upward trend in 2015, with price levels, average transaction amount and transaction volumes increasing at a steady pace. The Company completed first two new apartment buildings in Tondi Quarter, where 46 apartments out of 62 have been handed over to the clients. The presales for the third building were continued with 16 presale agreements signed out of 31 apartments. The Company also continued to sell its last available inventories in Tondi and Ilmarise quarters.

During the year, 41 apartments, 30 storage rooms and 41 parking places were sold, producing total net sales revenue of 5 337 thousand euros. The remaining sellable stock by the end of 2015 consisted of 26 apartments, 2 business premises, 85 parking spaces and several storage rooms.

Hotel segment's performance remained stable keeping revenue at the same level as in 2014. The occupancy rate of PK Ilmarine hotel has been 75% in 2015, which is satisfactory considering general market situation. Tallinn's hotel produced 1 504 thousand euros net sales evenue. Gross operating profit decreased by 7% during 2015 due to higher maintenance costs. In 2016 a 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 1 352 thousand euros net sales revenue in 2015.

In 2016 the Company is focusing on new developments in Tondi Quarter, on subsequent construction stages of T1 Shopping & Entertainment Centre together with signing of the new rental agreements and on processes concerning detail plan of Kalaranna development.

Latvia

In Latvia, the Company obtained the building licence for the first building in Kliversala District. The presale activities were also initiated with 8 presale agreements out of 49 apartments concluded. By the end of the year the Kliversala detail plan was approved by the City of Riga providing the building right for over 50 thousand square meters of sellable area for mainly residential buildings. The projecting works of Tallinas residential quarter were continued for applying the building licence.

Rental revenue of Latvian companies amounted to 79 thousand euros in 2015.

PK Hotel Riga revenues increased by 1% comparing to previous year. The occupancy rate of the hotel was 75%, net sales revenue amounted to 1 484 thousand euros in 2015. Gross operating profit decreased by 3% during 2015. Considering challenging market situation in Riga, the hotel is operating effectively and is expected to maintain the results in 2016 on same level as previous year.

Lithuania

In Lithuania the Company is continuing with the development and sales Šaltinių Namai residential complex. In 2015 the Company has successfully finished the construction works for K7 building with all 19 premises handed over to the clients. The construction works of the building K4-1 are continuing with 32 presale agreements out of 44 concluded.

During the year 19 apartments, 6 business premises, 2 cottages, 2 storage rooms and 14 parking spaces were sold, producing net sales revenue of 4 718 thousand euros. The remaining sellable stock by the end of 2015 consisted in total of 8 apartments, 11 business premises, 4 cottages, 79 parking lots and 14 storage rooms.

Germany

PK Parkhotel Kurhaus in Bad Kreuznach is continuing restructuring of business processes in order to improve operative performance. Changes in sales strategy in 2015 resulted in increase of revenues by 19%. The occupancy rate of the hotel was 63% in 2015. Total net sales revenue of the hotel was 3 501 thousand euros, gross operating profit has increased by 40%.

The year 2016 is expected to bring further improvements to PK Parkhotel Kurhaus results.

Projections for 2016

Our current focus is on carrying on the development of T1 Shopping & Entertainment Centre in Tallinn and to continue the sales and construction processes in our residential projects in Baltic capitals. Provided the continuation of the positive market sentiment we are evaluating also to start the construction works of additional buildings, mainly in Tondi Quarter in Tallinn. We expect moderate increase in real estate sales activities in 2016 due to completion of new houses in Tallinn and Vilnius. 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

19 April 2016

Management Report

Main Events and Key Figures in 2015

- On 20 February 2015 Ernesto Achille Preatoni, the Member of the Council of AS Pro Kapital Grupp, resigned from his duties due to his wish to concentrate his time in developing his other projects outside of the Baltic's and to spend more time with his family.
- On 3 March 2015 the Company prolonged the redemption date of 569 273 PKG6 convertible bonds by 2 years. New redemption date is 8 March 2017.
- On 10 March 2015 the liquidation process of Latvian subsidiary Nekustamo īpašumu sabiedrība Prokurs SIA was finalised.
- On 26 March 2015 the construction works of a new residential building in Vilnius started based on the construction contract concluded on 1 August 2014 between subsidiary of the Company Pro Kapital Bonum UAB and UAB Merko Statyba. The lump sum of the contract is 2 900 000 euros, excluding VAT. The new building will have 41 apartments, 3 commercial premises and net sellable area of 2 679 m^2 in total. The planned construction period is 15 months as of the start of the construction works.
- On 2 April 2015 the Supervisory Council of AS Pro Kapital Grupp decided to approve the issue of secured, callable, fixed rate bonds of the company. The Management Board of the company was authorized to issue the bonds in several tranches maximum up to 50 million euros. On 20 April 2015 the Management Board of the company decided to announce the start of the subscription process of the first tranche of the bonds in amount of 10 – 15 million euros. On 27 May 2015 the Management Board of the company decided on the allocation of the first subscription of the bonds with issue price 7 million euros with redemption date on 1 June 2020. The company applied respectively for the listing of the bonds on Nasdaq Stockholm and starting from 8 July the bonds were listed. The listing prospectus has been made available on Company´s website.
- On 25 May 2015 the Company prolonged the redemption date of 88 887 PKG7 convertible bonds by 2 years. New redemption date is 25 May 2017. 22 224 PKG7 convertible bonds were redeemed with issue price of 62 227,20 euros.
- On 29 May 2015 the subsidiary of the Company AS Tallinna Moekombinaat signed a contract for performing the design and construction works of a shopping and entertainment centre T1, located at Peterburi road 2, Tallinn, Estonia, with AS Merko Ehitus Eesti, 100% owned subsidiary part of AS Merko Ehitus group. The gross area of the centre is ca 130 000 m^2, including over 52 000 m^2 of different rental space (retail, catering, multiscreen cinema and entertainment). There will be over 200 retail premises in the centre. The works started in June 2015 and the centre is planned to open for visitors in autumn 2017. The value of the contract is approximately 70 million euros, plus value added tax.
- On 26 June 2015 the construction works of a new residential building in Tondi Residential Quarter started based on the construction contract concluded on 25 February 2014 between subsidiary of the Company OÜ Marsi Elu and AS Nordecon. The construction of the building with 31 apartments is planned to be completed in May 2016 and the price of the construction works is approximately 2 million euros without VAT.
- On 23 July 2015 the Supervisory Council of Pro Kapital prolonged the term in office of the Chairman of the Management Board of the Company Paolo Michelozzi by 3 years starting from 1 August 2015.
- On 28 July 2015 the Management Board of the AS Pro Kapital Grupp decided on the allocation of the second subscription of secured, callable, fixed rate bonds with total nominal value 6 400 000 euros and issue price 6 483 911 euros with redemption date on 1 June 2020.
- On 6 August 2015 the Management Board of the Company prolonged the redemption date of 1 164 807 PKG1 convertible bonds by 2 years. New redemption date is 13 August 2017.
- On 25 September 2015 the extraordinary shareholders meeting of the Company decided to issue 97 363 new shares with subscription price 2,20 euros/share. The right to subscribe for the new shares was given to the member of the Management Board of the Company Paolo Michelozzi. During the offering period all shares were subscribed with total value of 214 200 euros.

- On 10 December 2015 the Riga Building Board decided on the acceptance of Kliversala area detail plan. The detail plan foresees in total close to 56 000 m^2 of sellable area to be developed for mainly residential purpose.
- On 28 December 2015 subsidiary of the Company AS Tondi Kvartal concluded the contract for purchase of minority shareholding of 35% in its subsidiary OÜ Marsi Elu from Katmandu Stiftung, Liechtenstein company controlled by Mr Ernesto Preatoni. As a result AS Tondi Kvartal is holding 100% of the share capital of OÜ Marsi Elu. In addition AS Tondi Kvartal refinanced the shareholder loan of 1 000 000 euros granted by the minority shareholder and accrued interest.
- On 19 January 2016, after the reporting period, the Company prolonged the redemption date of 378 070 PKG2 convertible bonds by 2 years. New redemption date is 20 January 2018. 4 234 PKG2 convertible bonds were redeemed with issue price of 11 855,20 euros.
- On 21 January 2016, after the reporting period, the Supervisory Council decided to elect Edoardo Axel Preatoni as an additional Management Board member of AS Pro Kapital Grupp starting from 1 March 2016 with the term in office of 3 years.
- In March 2016 the Management Board of AS Pro Kapital Grupp decided on the allocation of the third subscription of secured, callable, fixed rate bonds with nominal value 900 000 euros and total issue price of 919 726 euros with redemption date on 1 June 2020. After the third subscription the total nominal value of the issued bonds is 14,3 million euros.

Financial Indicators, in thousands of euros

Consolidated Statement of Income

in thousands of euros	**2015**	**2014 adjusted**	**Change adjusted**
Revenue	18 322	10 335	77,3%
Gross profit	4 448	2 495*	78,3%*
EBITDA	2 117	26 608	-92,0%
Operating result	1 424	25 859	-94,5%
EBT	-1 169	23 143	-105,1%
Net result	-2 010	21 235	-109,5%
Net result for shareholders	-1 934	21 381	-109,0%
EBITDA margin	11,6%	257,5%	
Operating margin	7,8%	250,2%	
EBT margin	-6,4%	223,9%	
Net margin	-11,0%	205,5%	
Net margin to shareholders	-10,6%	206,9%	
Earnings per share (EPS)	-0,04	0,39	
Share closing price (Nasdaq Baltic)	2,23	2,50	
P/E ratio	-55,75	6,41	

2014 financial results were influenced significantly by profit from revaluation of investment properties, which were recorded as other operating income.

** Due to change in principles of accounting direct costs the total effect to 2014 gross profit was negative 84 thousand euros.*

Consolidated Statement of Financial Position

in thousands of euros	**31.12.2015**	**31.12.2014**	**Change**
Total Assets	130 323	125 031	4,2%
Current Assets	20 438	18 879	8,3%
Non-Current Assets	109 885	106 152	3,5%
Total Liabilities	**46 891**	**39 243**	**19,5%**
Current Liabilities	15 150	22 839	-33,7%
Non-Current Liabilities	31 741	16 404	93,5%
Equity	**83 432**	**85 788**	**-2,7%**

Financial Ratios

	31.12.2015	**31.12.2014**
Equity ratio	64,0%	68,6%
Debt to equity ratio	41,9%	34,9%
Net debt to capital	25,5%	24,6%
Debt to EBITDA ratio	16,5	1,1
Current Ratio	1,3	0,8
Return to assets	-1,6%	19,0%
Return to equity	-2,3%	28,4%

Formulas used for calculating financial ratios

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

Financial performance

AS Pro Kapital Grupp ended the year 2015 with gross profit of 4 448 thousand euros (2014 adjusted: 2 495 thousand euros). Gross profit margin remained almost the same 24,3% (2014 adjusted: 24,1%). Increase in gross profit was influenced by significantly higher real estate sales (sales increased by 270% comparing to 2014) and higher hotel revenues (increased 10% comparing to 2014).

Operating costs in 2015 constituted 6 065 thousand euros excluding extraordinary influence of 3 million euros gain from changes of investment property in fair value (2014: 5 331 thousand euros excluding extraordinary influence of 28,6 million euros gain from changes of investment property in fair value). Marketing and administrative expenses have remained at the same level as in 2014. Other operating higher expenses were influenced by the penalty costs to Privatization Agency in Latvia (more details in Note 24).

Consolidated statement of cash flows

in thousands of euros	2015	2014	Change
Cash flows from operating activities	3 498	-1 069	427,22%
Cash flows from investing activities	-1 368	-775	-76,52%
Cash flows from financing activities	2 381	966	146,48%
Net change in cash and cash equivalents	**4 511**	**-878**	**613,78%**

In 2015, the Company's net cash inflow was 4 511 thousand euros (2014: net outflow of 878 thousand euros). Cash flow from operations was positive by 3 498 thousand euros (2014: negative by 1 069 thousand euros), which resulted from increased sales.

Investing activities in 2015 in amount 1 368 thousand euros (2014: 775 thousand euros) included investments made into development of investment property in total amount 1 306 thousand euros (most of it to Peterburi road shopping centre in Tallinn) and acquisitions of property plant and equipment and intangible assets.

Financing activities in 2015 were in line with the planned schedule. During the year, the Company issued 134 secured fixed rate bonds with total nominal value 13,4 million euros with maturity date 1 June 2020 and effective annual interest rate of 8%. Part of the issued bonds were used to refinance existing loans and interests. Convertible bonds were redeemed in amount 62 thousand euros.

The Company refinanced its bank loans in amount of 4,7 million 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 3,0 million euros and as at the end of the year had unused bank loan limit in the amount of 4,4 million euros.

The Parent company collected 0,2 million euros from increase of share capital and due to increase of non-controlling interests in subsidiaries, the Company's cash increased by another 0,2 million euros. The Parent company received a long-term loan in amount 0,6 million euros with loan interest 5%, which has been repaid during 2015.

Main cash outflows were repayment of bank loans in the amount of 5,8 million euros and interest payments for bonds and bank loans of 2,4 million 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 2015 the Company has repaid 5,8 million euros of its bank loans, has raised additional 3,0 million euros of bank loans and refinanced 4,7 million euros of bank loans, thus shifting their repayment schedule to better match the projected cash flows of the Company. The Company has 0,9 million euros of bank loans to be repaid in 2016, 3,2 million euros of bank loans are repayable in 2017.

The Company has issued 13,4 million euros of secured fixed rate bonds with maturity date 1 June 2020 and effective annual interest rate of 8%.

As at 31 December 2015 the Company had 11,1 million euros convertible bonds (current portion: 6,0 million euros; long term portion: 5,1 million euros) and 2,24 million of non-convertible non- secured bonds (all long term maturity).

Strategy and objectives for 2016

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 2016:

- 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

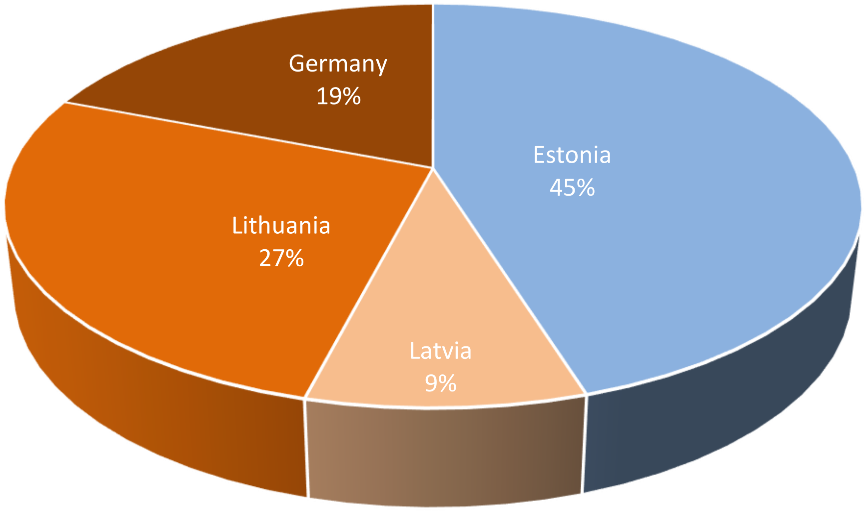
	Revenue			Operating result			Net result*		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Estonia	8 275	3 405	143,0%	1 662	18 511	-91,0%	-6 311	17 939	-135,2%
Latvia	1 621	1 562	3,8%	505	5 492	-90,8%	-3 348	2 544	-231,6%
Lithuania	4 925	2 441	101,8%	1 275	1 959	-34,9%	8 361	1 117	648,5%
Germany	3 501	2 927	19,6%	1 006	-103	1076,7%	129	-219	158,9%

	Operating margin		Net margin*	
	2015	**2014**	**2015**	**2014**
Estonia	20,1%	543,6%	-76,3%	526,8%
Latvia	31,2%	351,6%	-206,5%	162,9%
Lithuania	25,9%	80,3%	169,8%	45,8%
Germany	28,7%	-3,5%	3,7%	-7,5%

Operating results and net results of 2014 were significantly influenced by profit from revaluation of investment property recorded as other operating income.

** Financial data here does not include internal transactions. Estonian segment includes the financial data of the Parent. Net results include non-controlling interests.*

2015 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 45% compared to 33% of the comparable period last year.

Revenue from Estonia, in thousands of euros

	2015	2014	Change
Real Estate	5 337	492	984,8%
Rent	26	28	-7,1%
Hotel revenue	1 504	1 513	-0,6%
Other	1 408	1 372	2,6%

Revenues in real estate segment increased by 985% as Marsi Street apartments in Tondi Quarter are being completed and the sales revenues have been recorded. During 2015 the total of 41 apartments, 41 parking spaces and 30 storage room were sold and stock consisting of 26 apartments, 2 business premises, 85 parking spaces and some storage rooms was yet available for sale in Tallinn as at 31 December 2015. Construction works of the third building in Tondi Residential Quarter should be completed before summer 2016 and 16 presale agreements out of 31 have been signed as at this day.

Revenue in rent segment dropped by 7%, as the Company's rental activities are only occasional, renting out the stock available for sale.

Hotel business revenues decreased by 1%. The occupancy rate in PK Ilmarine Hotel was 75% in 2015.

Other revenues consist mainly of maintenance services provided.

Main events in Estonian segment

- On 29 May 2015 the subsidiary of the Company AS Tallinna Moekombinaat signed a contract for performing the design and construction works of a shopping and entertainment centre T1, located at Peterburi road 2, Tallinn, Estonia, with AS Merko Ehitus Eesti, 100% owned subsidiary part of AS Merko Ehitus group. The gross area of the centre is ca 130 000 m^2, including over 52 000 m^2 of different rental space (retail, catering, multiscreen cinema and entertainment). There will be over 200 retail premises in the centre. The works started in June 2015 and the centre is planned to open for visitors in autumn 2017. The value of the contract is approximately 70 million euros, plus value added tax.

- On 26 June 2015 the construction works of the third residential building in Tondi Residential Quarter started based on the construction contract concluded on 25 February 2014 between subsidiary of the Company OÜ Marsi Elu and AS Nordecon. The construction of the building with 31 apartments is planned to be completed in May 2016 and the price of the construction works is approximately 2 million euros without VAT.
- On 28 December 2015 subsidiary of the Company AS Tondi Kvartal concluded the contract for purchase of minority shareholding of 35% in its subsidiary OÜ Marsi Elu from Katmandu Stiftung, Liechtenstein company controlled by Mr Ernesto Preatoni. As a result AS Tondi Kvartal is holding 100% of the share capital of OÜ Marsi Elu. In addition AS Tondi Kvartal refinanced the shareholder loan of 1 million euros granted by the minority shareholder and accrued interest.

Latvia

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

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period was 9% compared to 15% in the comparable period last year.

Revenue from Latvia, in thousands of euros

	2015	2014	Change
Rent	79	70	12,9%
Hotel revenue	1 484	1 440	3,1%
Other	59	53	11,3%

Real estate segment in Latvia is currently out of sellable stock.

The rental revenue in Latvia increased by 13% in 2015.

Revenues of hotel business increased by 3% in 2015 in spite of the 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 although the gross operating profit has decreased by 3% in 2015. The occupancy rate of the hotel was 75% in 2015.

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 10 March 2015 the liquidation process of Latvian subsidiary Nekustamo īpašumu sabiedrība Prokurs SIA was finalised.
- On 10 December 2015 the Riga Building Board decided on acceptance of Kliversala area detail plan. The detail plan foresees in total more than 50 thousand m^2 of sellable area to be developed for mainly residential purpose.

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

	2015	2014	Change
Real Estate	4 718	2 228	111,8%
Rent	100	107	-6,5%
Other	106	105	1,0%

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted to 27% compared to 24% last year.

Real estate sales increased by 112% in 2015 comparing to last year. In 2015 the total of 19 apartments, 6 business premises, 2 cottages, 14 parking spaces and 2 storage rooms were sold. As at 31 December 2015, there were still 8 apartments, 11 business premises, 4 cottages, 14 storage rooms and 79 parking spaces in stock in Vilnius.

The Company temporarily rents out some of the properties available for sale. In 2015 rental revenues decreased by 7%.

The Company provides maintenance and other services to its sold and rented out apartments. In 2015 the revenue from maintenance activities has grown by 1%.

Main events in Lithuanian segment

- On 26 March 2015 the construction works of a new residential building in Vilnius started based on the construction contract concluded on 1 August 2014 between subsidiary of the Company Pro Kapital Bonum UAB and UAB Merko Statyba. The lump sum of the contract is 2 900 000 euros, excluding VAT. The new building will have 41 apartments, 3 commercial premises and net sellable area of 2 679 m^2 in total. The planned construction period is 15 months as of the start of the construction 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

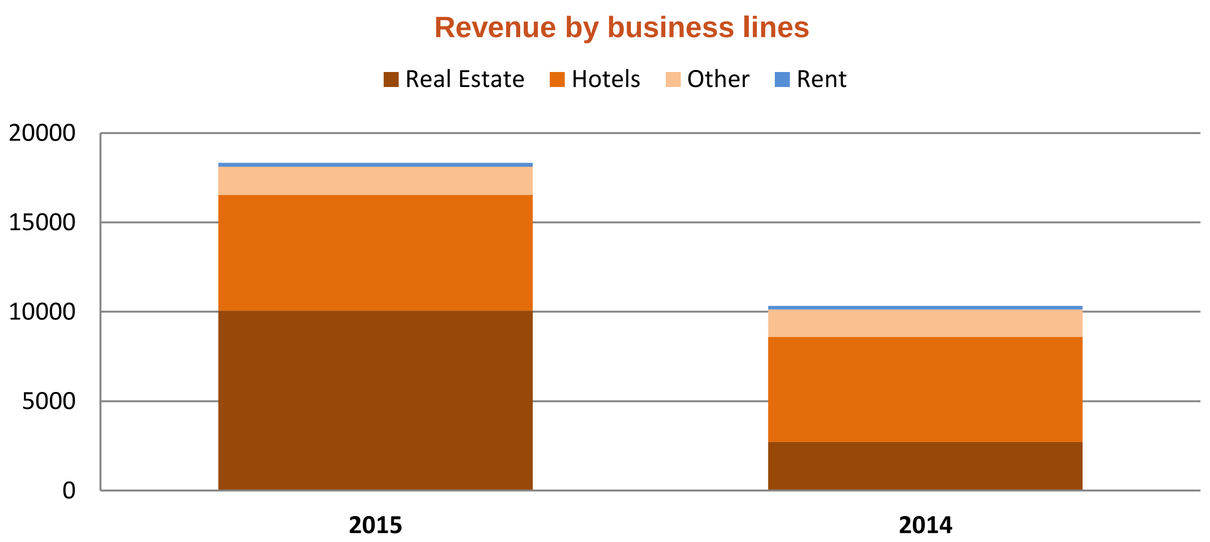
	2015	2014	Change
Hotel revenue	3 501	2 927	19,6%

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 19% compared to 28% of the comparable period last year in spite of increase in revenues by 20%. The occupancy rate of PK Parkhotel Kurhaus hotel has increased by 19% in 2015 and constituted 63% for the year comparing to 53% in 2014.

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

	2015	2014	Change
Real Estate	10 055	2 720	269,7%
Rent	205	205	0,0%
Hotels	6 489	5 880	10,4%
Other	1 573	1 530	2,8%

Revenue in real estate business line has increased by 270%, which is natural development taking into account increasing stock for sale. Average price per m2 sold in 2015 was 1 837 euros/ m2 (2014: 2 036 euros/ m2) – prices are given without VAT. The decrease in average price is influenced by sales in Estonia due to sales of different product comparing to Vilnius. In 2015, 5 188 m2 were sold (2014: 1 353 m2).

The Company is focusing on development of existing land plots, which, in its turn, will expand its sellable asset base. In 2016 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 and Kliversala 1st building in Riga.

Rental revenues remained at the same level as last year.

In 2015, the Company operated three hotels: PK Ilmarine Hotel in Tallinn, PK Riga Hotel and PK Parkhotel Kurhaus in Bad Kreuznach, Germany. Revenues from hotel business line have increased by 10% in 2015 due to successful changes in sales strategy in Germany.

Occupancy rates, PK hotels, %

	2015	2014	Change
PK Ilmarine, Tallinn	74,8%	73,6%	1,6%
PK Riga hotel, Riga	74,6%	70,9%	5,3%
PK Parkhotel Kurhaus, Bad Kreuzncah	63,1%	53,0%	19,0%

Due to effective management of hotels the total gross operating profit increased by 7% in 2015.

Maintenance business line is dependent on the rental spaces maintained by the Company. Space under maintenance in 2015 has increased and was 87 418 m2 as at 31 December 2015 (31 December 2014: 66 718 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
T1 shopping centre	Retail	Tallinn	93%	GLA 52 000 m²	Investment property
Ülemiste 5	Offices	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	100%	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 55 666 m² *44 746 m² resid.* *10 920 m² comm.*	Inventories, investment property
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

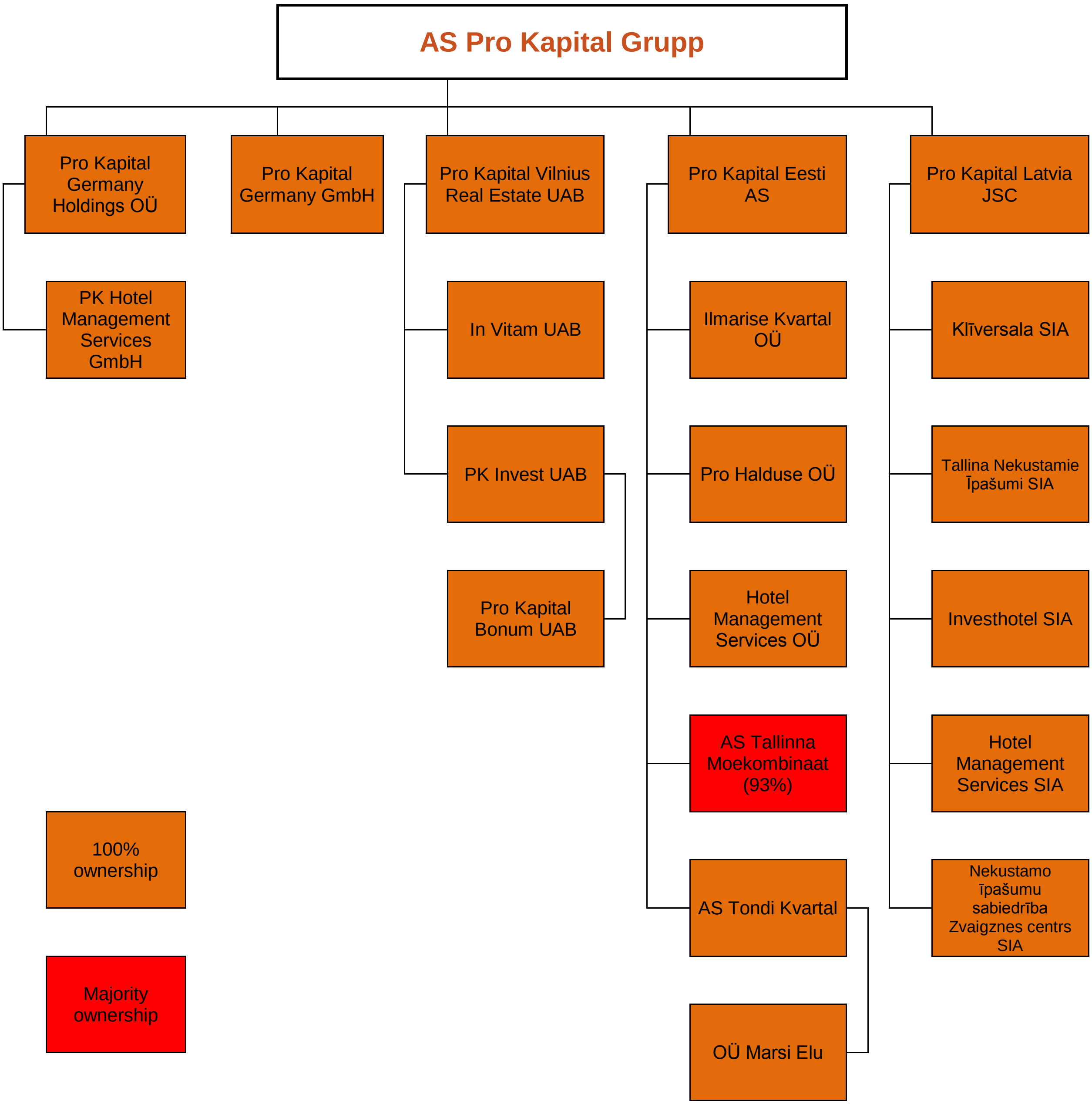
**NSA – Net Sellable Area, GLA – Gross Leasable Area, resid.- residential, comm.- commercial*

Status of the projects*:*

T1 shopping centre	Building licence obtained. Excavation works for the foundation of the building completed. Construction agreement concluded and construction works started.
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 (7 residential buildings) obtained. Also the building licence has been obtained for small historical building on Tondi 53 land plot.
Marsi 3, 3a, 3b	First two buildings completed, sales in process. Construction works and presales of the 3rd building continuing.
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 detail plan approved, building licence received for the 1st building.
Zvaigznes Quarter	Building licence for reconstruction of the existing building issued.
Šaltinių Namai	1st stage completed, available for sale. Construction of 1st additional building completed, the 2nd one is under construction and presales continued. 2nd stage is being projected in order to apply for the building permit.

Group Structure

As at 31 December 2015



Shares and shareholders

AS Pro Kapital Grupp had 54 106 575 shares on 31 December 2014. During the reporting period the company issued additionally 97 363 shares. As at 31 December 2015 the total of 54 203 938 shares with the nominal value 0,2 euros have been issued. The registered share capital of the Company is 10 840 787,60 euros**.**

Composition of share capital

	31.12.2015	**31.12.2014**	**31.12.2013**
Number of shares (pcs)	54 203 938	54 106 575	54 106 575
Nominal value (euros)	0,20	0,20	0,20
Share capital (euros)	10 840 787,60	10 821 315,00	10 821 315,00

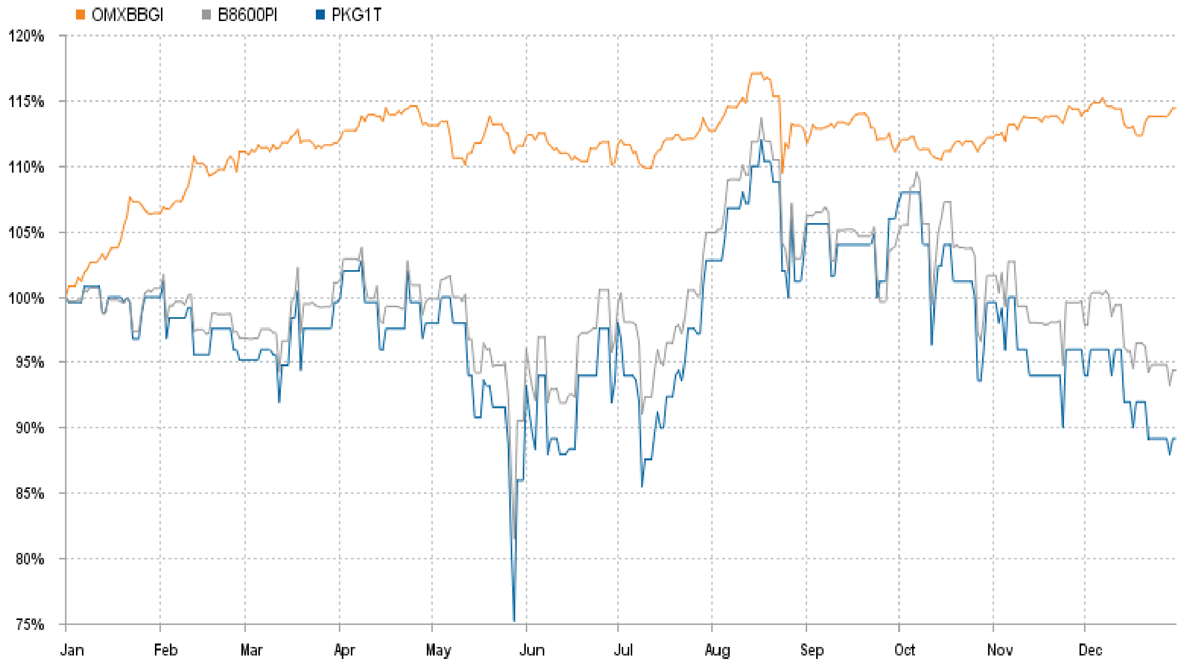
On 23 November 2012 the company's shares started trading in the secondary list of Tallinn's stock exchange. During the reporting period 1 January – 31 December 2015 the shares were trading at the price range of 1,79 - 2,80 euros, with the closing price of 2,23 EUR/share on 31 December 2015. During the period 334 thousand of the Company's shares were traded, with their turnover amounting to 780 thousand euros.

Trading price range and trading amounts of Pro Kapital Grupp shares, 1 January 2013 - 31 December 2015, NASDAQ Baltic Secondary List*

Trade statistics in euros	**31.12.2015**	**31.12.2014**	**31.12.2013**
High price	2,80	2,73	2,58
Low price	1,79	2,07	1,60
Last price	2,23	2,50	2,24
Average price	2,34	2,50	2,27
Traded volume (pcs)	333 897	723 901	536 551
Turnover (million)	0,78	1,81	1,22
Capitalisation (million)	120,87	135,27	121,20

**Source: www.nasdaqbaltic.com*

*Baltic market indexes 1 January - 31 December 2015**



Index/ Equity	31.12.2015	31.12.2014	Change
OMX Baltic Benchmark GI	648,32	566,56	14,43%
B8600PI Real Estate	445,25	471,63	-5,59%
PKG1T (euros)	2,23	2,50	-10,80%

**Source: www.nasdaqbaltic.com*

On 13 March 2014 the Company's shares started trading on Frankfurt's stock exchange trading platform Quotation Board. During the period of 1 January – 31 December 2015 the shares were trading at the price range of 1,50- 2,65 euros, with the closing price of Classic Xetra 2,28 EUR/share and Xetra Frankfurt Specialist price 2,231 EUR/share on 31 December 2015. During twelve months in 2015 the trading volume on Classic Xetra was 392 thousand shares and on Xetra Frankfurt Specialist 378 thousand shares.

Shareholders

As at 31 December 2015 there were 72 shareholders registered in the shareholders register. Several 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 2015:

	Shareholders	Number of shares	Participation
1	Nordea Bank Finland Plc Clients	19 767 757	36,47%
2	Eurofiduciaria S.R.L.	6 888 533	12,71%
3	Svalbork Invest OÜ	6 840 368	12,62%
4	Sueno Latino AG	4 528 531	8,35%
5	Anndare Ltd.	3 893 740	7,18%

Participation of Member of the Management Board and the Council Members as at 31 December 2015:

Name	Position	Number of shares	Participation in %
Paolo Vittorio Michelozzi	CEO	184 863	0,34%
Allan Remmelkoor	COO	0	0%
Emanuele Bozzone	Chairman of the Council	0	0%
Petri Olkinuora	Council Member	0	0%
Pertti Huuskonen	Council Member	12 553	0,02%

Earnings per share (EPS), P/E ratio

Earnings per share for year 2015 were -0,04 euro/share (2014: 0,39 euro/share).

P/E ratio for year 2015 was -55,75 (2014: 6,41).

The Company also monitors its net asset per share indicator. As at 31 December 2015 net assets per share using book values were 1,54 euros/share (31.12.2014: 1,59 euros/share).

Other events

Legal overview and developments

To bring out to the investors better the events which might have material financial effect on the Company and its share price and not to burden the reporting with smaller litigation issues, the Company has changed the reporting policy concerning its legal disputes.

The Company has set the policy to disclose in its reporting pending court litigation disputes which might have material financial effect on the Company and its share price. As per the policy all disputes which might have financial effect of at least 100 000 euros (at once or during the period of one financial year) are disclosed in the reporting.

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

People

At the end of 2015 the Company employed 108 people compared to 106 at the end of 2014. 78 of them were engaged in hotel and property maintenance services (81 at the end of 2014). The total remuneration cost incurred during 2015 was 2,29 million euros compared to 2,29 million euros 2014.

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 2015 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 2015 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 2015, 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 2015 the Company held 3 (three) shareholders' meetings. The Extraordinary Shareholders' Meetings took place on 14 April 2015 and 25 September 2015 and were held in Estonian and English. The Annual General Meeting of the shareholders took place on 16 June 2015 and was held in English with the approval of all shareholders present at the meeting.

Company is following the recommendation and is holding the shareholders' meetings in the Estonian language, with exception of the 16 June 2015 Annual General Meeting of the Shareholders, which was held in English with the approval of all shareholders present at the meeting

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 3 (three) 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 3 (three) shareholders' meetings in 2015.

Extraordinary Shareholders' Meeting took place on 14 April 2015. 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 16 June 2015. CEO and Chairman of the Management Board Paolo Vittorio Michelozzi and Supervisory Council member Pertti Huuskonen participated at the meeting. Chairman of the Supervisory Council Emanuele Bozzone and auditor of the company did not participate at this meeting due to other work related commitments.

Extraordinary Shareholders' Meeting took place on 25 September 2015. 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.

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. As of 31.12.2015 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	31.07.2018	184 863
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 and AS Tallinna Moekombinaat 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 and by Supervisory Council of AS Tallinna Moekombinaat.

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.

The Company is following this rule. During 2015 there were no new transactions with members of the Management Board.

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.

2.3.5. Interest of members of the Management Board in other companies who are Company's business partners, suppliers, clients and other related companies:

Mr. Paolo Vittorio Michelozzi is the sole owner of Latvian company PB11 SIA, which is renting an apartment located in Tallinn to the Company. Mr. Paolo Vittorio Michelozzi as the Chairman of the Management Board is in addition to his remuneration compensated accommodation costs of living in Tallinn.

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

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	12 553
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. 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 Oyj (day care & senior living facilities, listed in Nasdaq Helsinki) and Chairman of the board of Lehto Group Oyj (mid-size construction company operational in Finland, listing application submitted to Nasdaq Helsinki). Previously Mr Huuskonen has *inter alia* been the President and CEO of Technopolis Plc. (1985-2008), the chairman of the supervisory council of Technopolis Ülemiste AS (2010-2011), a member of the Board of Detection Technology Oy (2002-2007) and Mr. Huuskonen has been also a Chairman of the Board of Partnera Oy (180 million euros investment company operational in Finland). 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 Northern 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 2015 in total 8 meetings of the Supervisory Council were held. All 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 2015.

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 2015. 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.

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

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

Mr Pertti Huuskonen is the sole owner of company Lunacon OY which as of 31.12.2015 holds 12 553 shares of the Company.

Mr. Petri Olkinoura does not have any interest in companies who are Company's business partners, suppliers, clients and other related companies.

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 2015. The fee payable to the auditor for the audit of the Company and its subsidiaries for the financial year of 2015 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 345 123 euros were paid and for 2004 dividends in amount of 2 039 501 euros 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 2015 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	19 April 2016
Allan Remmelkoor	Chief Operating Officer Member of the Management Board	19 April 2016
Edoardo Preatoni	Member of the Management Board	19 April 2016

Consolidated Financial Statements

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2015	31.12.2014
ASSETS			
Current Assets			
Cash and bank balances	8	6 392	1 881
Current receivables	9	1 608	2 463
Inventories	10	12 438	14 535
Total Current Assets		20 438	18 879
Non-Current Assets			
Non-current receivables		48	150
Property, plant and equipment	11	17 103	17 619
Investment property	12	92 457	88 110
Intangible assets		277	273
Total Non-Current Assets		109 885	106 152
TOTAL ASSETS	6	**130 323**	**125 031**
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	13	8 004	16 348
Customer advances		1 692	1 548
Current payables	14	5 103	4 761
Taxes liabilities		264	177
Short-term provisions		87	5
Total Current Liabilities		15 150	22 839
Non-Current Liabilities			
Non-current debt	15	27 054	13 430
Non-current payables		837	79
Deferred tax liabilities	26	3 503	2 744
Long-term provisions		347	151
Total Non-Current Liabilities		31 741	16 404
Total Liabilities	6	**46 891**	**39 243**
Equity attributable to owners of the Company			
Share capital in nominal value	19	10 841	10 821
Share premium	19	1 669	1 474
Statutory reserve	19	1 082	1 064
Revaluation surplus	19	9 462	9 389
Foreign currency differences		0	-143
Retained earnings		60 677	39 778
Profit (loss) for the financial year		-1 934	21 381
Total equity attributable to owners of the Company		81 797	83 764
Non-controlling interests	20	1 635	2 024
Total equity		83 432	85 788
TOTAL LIABILITIES AND EQUITY		**130 323**	**125 031**

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

Consolidated Statement of Comprehensive Income

in thousands of euros	Note	2015	2014 adjusted
Continuing operations			
Operating income			
Revenue	6, 21	18 322	10 335
Cost of sales	22	-13 874	-7 840
Gross profit		**4 448**	**2 495**
Marketing expenses	23	-466	-446
Administration expenses	23	-5 250	-5 160
Other operating income	24	3 353	29 050
Including net result from fair value adjustments	*24*	*3 041*	*28 611*
Other operating expenses	24	-661	-80
Operating profit	6	**1 424**	**25 859**
Finance income	25	13	45
Finance cost	25	-2 606	-2 761
Profit (loss) before tax		**-1 169**	**23 143**
Income tax	26	-841	-1 908
Profit (loss) for the year from continuing operations		**-2 010**	**21 235**
Profit (loss) for the year		**-2 010**	**21 235**
Attributable to:			
Owners of the Company		-1 934	21 381
Non-controlling interests		-76	-146
Other comprehensive income, net of income tax			
Items that may be classified subsequently to profit or loss			
Exchange differences on translating foreign operations		143	1 134
Items that will not be reclassified subsequently to profit or loss			
Net change in properties revaluation reserve		73	-1 941
Total comprehensive income for the year		**-1 794**	**20 428**
Attributable to:			
Owners of the Company		-1 718	20 574
Non-controlling interests		-76	-146
Earnings per share			
From continuing and discontinued operations			
Basic (euros per share)	27	-0,04	0,39
Diluted (euros per share)	27	-0,04	0,39
From continuing operations			
Basic (euros per share)	27	-0,04	0,39
Diluted (euros per share)	27	-0,04	0,39

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

Consolidated Statement of Cash Flows

in thousands of euros	Note	2015	2014
Cash flows from operating activities			
Profit (loss) for the year		-2 010	21 235
Adjustments for:			
Depreciation and amortisation of non-current assets	11	693	749
Change in fair value of investment property	12	-3 041	-31 696
Net gain/loss from disposal/write-off of non-current assets		0	-7
Loss from impairment of non-current assets	11	-44	1 946
Gain from disposal of subsidiaries	7	0	-19
Finance income and costs		2 450	1 518
Change in deferred tax assets and liabilities	26	764	1 526
Net foreign exchange loss		143	1 134
Other non-monetary changes (net amounts)		-119	-32 408
Movements in working capital:			
Change in trade receivables and prepayments	9	957	275
Change in inventories	10	2 097	31 052
Change in liabilities and prepayments		1 330	3 664
Change in provisions		278	-38
Net cash from operating activities		**3 498**	**-1 069**
Cash flows from investing activities			
Payments for property, plant and equipment		-55	-171
Proceeds from disposal of property, plant and equipment		0	11
Payments for intangible assets		-13	0
Payments for investment property	12	-1 306	-822
Proceeds from disposal of subsidiaries	7	0	146
Interest received		6	61
Net cash from investing activities		**-1 368**	**-775**
Cash flows from financing activities			
Proceeds from increase of share capital	19	214	0
Proceeds from changes in non-controlling interests		153	958
Proceeds from issue on non-convertible bonds	18	7 652	600
Redemption of convertible bonds	18	-62	-53
Proceeds from borrowings		3 673	3 448
Repayment of borrowings		-6 794	-2 840
Interest paid		-2 455	-1 147
Net cash from financing activities		**2 381**	**966**
Net change in cash and cash equivalents		**4 511**	**-878**
Cash and cash equivalents at the beginning of the year	8	1 881	2 759
Cash and cash equivalents at the end of the year	8	6 392	1 881

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 2014	**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**
Allocation to statutory reserve	0	0	18	0	0	-18	0	0	0
Increase of share capital	20	195	0	0	0	0	215	0	215
Changes in non-controlling interests	0	0	0	0	0	-464	-464	-313	-777
Comprehensive loss for the year	0	0	0	73	143	-1 934	-1 718	-76	-1 794
31 December 2015	**10 841**	**1 669**	**1 082**	**9 462**	**0**	**58 743**	**81 797**	**1 635**	**83 432**

Properties revaluation reserve decreased in amount 1 941 due to impairment loss of German hotel property in 2014. More details can be found in Note 11.
Changes in non-controlling interests are described in Note 7 and Note 20.

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

Notes to the Consolidated Financial Statements

Note 1. General Information

The consolidated financial statements of AS Pro Kapital Grupp (hereinafter the Parent) and its subsidiaries (hereinafter the Group or Company) for the financial year ended 31 December 2015 were signed by the Management Board on 19 April 2016.

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). On 8 July 2015 the secured callable fixed rate bonds were listed on Nasdaq Stockholm Stock Exchange.

As at 31 December 2015, the main shareholders of the Company are the following:

Shareholder	Country of incorporation	Share of ownership 31.12.2015	Share of ownership 31.12.2014
Nordea Bank Finland Plc Clients	Finland	36,47%	0,30%
Eurofiduciaria S.r.l.	Italy	12,71%	13,25%
Svalbork Invest OÜ	Estonia	12,62%	12,64%
Sueno Latino AG	Liechtenstein	8,35%	8,37%
Anndare Ltd.	Ireland	7,18%	6,91%

The address of registered office and principal place of business of the Company 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 2015 are consistent with those followed in the preparation of the Group`s annual financial statements for the year ended 31 December 2014.

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:

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (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),

- **IFRIC 21 "Levies**" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 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 IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (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 - adopted by the EU on 2 December 2015 (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 - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **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),

- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016).

- **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 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 - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 15 "Revenue from Contracts with Customers"** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **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 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

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.

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

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

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

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

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

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

3.5 Goodwill

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

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

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

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

3.6 Foreign currencies

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

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

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

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

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

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

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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	**31.12.2015**	**2015 average**	**31.12.2014**	**2014 average**
Lithuanian litas (LTL) *	0	0	0,28962	0,28962

** Lithuania adopted euro on 1 January 2015.*

3.7 Cash and cash flows

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

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

3.8 Inventories

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

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

3.9 Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

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

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

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

- Buildings in use 2 to 5% per annum;
- Machinery and equipment 8 to 20% per annum;
- Other fixtures 20 to 50% per annum.

3.10 Investment property

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

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

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

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between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

3.12 Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

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

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

3.14 Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. 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.

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

Financial assets at FVTPL

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

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

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

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

Held-to-maturity investments

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

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

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

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

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

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- 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.

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers 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 has issued convertible bonds that are convertible into shares at bondholder's request. The Company has classified convertible bonds as financial liability.

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

Financial liabilities

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

Other financial liabilities

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

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

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

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

3.17 Provisions

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

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

3.18 Contingent liabilities

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

3.19 Statutory reserve

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

3.20 Revenue recognition

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

Net sales

Net sales of the Group 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.

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 1 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.

3.26 Changes into accounting policies

To present more clearly the gross operating profit, the Group has decided to account real estate transaction costs (notary fees, state taxes and commissions) for as direct costs instead of marketing costs. The changes have been implemented starting from 1 January 2015 and the following adjustments are presented 2014 comparative data:

Consolidated statements of comprehensive income *in thousands of euros*	**Note**	**Initially 2014**	**Adjust-ment**	**Adjusted 2014**
Cost of sales	22	-7 756	-84	-7 840
Marketing expenses	23	-530	+84	-446

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

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

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

4.1 Critical judgements in applying accounting policies

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

Classification of real estate

Real estate classification to inventory, investment property or property, plant and equipment is done based on management's intention over the future use of the object (see Note 10; 11 and 12). Property is recognized as inventory, if the objective of purchase is connected with development of environment, it is sale or resale during ordinary course of business. Objects 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.

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

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

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated 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. In respect of those assets Note 12 includes details of their nature and their carrying amount through the end of the reporting period.

Estimation of net realisation value of inventories

According to the Group principles, inventories are stated on the 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.

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		Principal activity
			31.12.2015	31.12.2014	
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 Tondi Kvartal	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
OÜ Marsi Elu	AS Tondi Kvartal	Estonia	100.00%	65.00%	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	92.78%	93.10%	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%	100,00%	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
Klīversala 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
Nekustamo īpašumu sabiedrība Prokurs SIA (liquidated)	Pro Kapital Latvia PJSC	Latvia	0.00%	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 31.12.2015	Cost at 31.12.2014	Revenue for 2015	Profit/loss for 2015	Net Assets at 31.12.2015	Net Assets at 31.12.2014
AS Pro Kapital Eesti	EUR	17 981	17 981	782	-90	107 763	107 853
OÜ Ilmarise Kvartal	EUR	286	286	49	87	2 871	2 784
AS Tondi Kvartal	EUR	4 364	4 364	268	417	20 617	20 200
OÜ Marsi Elu	EUR	458	6	5 110	590	270	-460
OÜ Pro Halduse	EUR	27	27	1 491	35	592	557
AS Tallinna Moekombinaat	EUR	12 345	12 345	0	-968	21 902	22 717
Hotel Management Services OÜ	EUR	420	420	1 508	47	230	183
Pro Kapital Vilnius Real Estate UAB	EUR	2 375	2 375	37	-209	2 300	2 302
PK Invest UAB	EUR	6 679	6 679	4 837	645	2 360	1 715
Pro Kapital Bonum UAB	EUR	800	800	0	-31	750	781
In Vitam UAB	EUR	43	43	109	0	63	63
Pro Kapital Latvia PJSC	EUR	10 188	10 188	175	-472	8 753	9 225
Klīversala SIA	EUR	9 819	9 819	100	-3 738	17 051	20 789
Tallina Nekustamie Īpašumi SIA	EUR	5 689	5 689	0	-308	509	817
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	EUR	2 500	2 500	15	-117	880	997
Investhotel SIA	EUR	996	996	587	301	1 589	1 288
Nekustamo īpašumu sabiedrība Prokurs SIA (liquidated)	EUR	0	1 422	0	0	0	2 059
Hotel Management Services SIA	EUR	797	797	1 485	70	479	409
OÜ Pro Kapital Germany Holding	EUR	202	2	0	-1	199	0
Pro Kapital Germany GmbH	EUR	25	25	436	-10	3 018	3 034
PK Hotel Management Services GmbH	EUR	201	201	3 501	1	2	1

Nekustamo īpašumu sabiedrība Prokurs SIA, subsidiary company of Latvian subgroup has been liquidated as of 10 March 2015. Subsidiary 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.

Note 6. Segment Reporting

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

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

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

in thousands of euros	PKG holding	Estonia	Latvia	Lithuania	Germany	*Elimi-nations*	Total
2015							
Revenue	386	8 279	1 624	4 925	3 937	*-829*	18 322
Other operating income/ expenses (net)	-25	-2 484	-2 724	7 748	177	*0*	2 692
Incl net gain from fair value adjustm	*0*	*-2 476*	*-2 222*	*7 739*	*0*	*0*	*3 041*
Segment operating profit (loss)	-1 395	-2 438	-3 311	8 476	92	*0*	1 424
Financial income and expense (net)	-4 072	2 515	-254	-537	-102	*-143*	-2 593
Profit (loss) before income tax	**-5 467**	**77**	**-3 565**	**7 939**	**-10**	***-143***	**-1 169**
Income tax	0	0	325	-1 166	0	*0*	-841
Non-controlling interest	0	-76	0	0	0	*0*	-76
Net profit (loss) for the financial year attributable to equity holders of the parent	**-5 467**	**153**	**-3 240**	**6 773**	**-10**	***-143***	**-1 934**
Assets	57 019	145 419	28 275	21 609	5 936	*-127 935*	130 323
Liabilities	101 723	8 375	15 524	15 518	2 916	*-97 165*	46 891
Acquisition of non-current assets	0	13	3	9	30	*0*	55
Depreciation and amortisation	0	-154	-219	-26	-294	*0*	-693
2014							
Revenue	371	3 382	1 585	2 441	3 363	*-807*	10 335
Other operating income/ expenses (net)	-38	24 210	5 961	1 679	303	*-3 145*	28 970
Incl net gain from fair value adjustm	*0*	*21 044*	*5 895*	*1 672*	*0*	*0*	*28 611*
Segment operating profit (loss)	-1 618	23 214	5 492	1 959	-103	*-3 085*	25 859
Financial income and expense (net)	-3 470	2 745	-202	-539	-116	*-1 134*	-2 716
Profit (loss) before income tax	-5 088	25 959	5 290	1 420	-219	*-4 219*	23 143
Income tax	0	0	-1 605	-303	0	*0*	-1 908
Non-controlling interest	0	-154	8	0	0	*0*	-146
Net profit (loss) for the financial year attributable to equity holders of the parent	**-5 088**	**26 113**	**3 677**	**1 117**	**-219**	***-4 219***	**21 381**
							0
Assets	52 650	145 587	30 694	14 812	5 967	*-124 679*	125 031
Liabilities	92 101	8 461	14 084	15 573	3 132	*-94 108*	39 243
Acquisition of non-current assets	0	40	40	2	89	*0*	171
Depreciation and amortisation	0	-143	-214	-25	-361	*0*	-743

Note 7. Changes in Ownership in Subsidiaries

Liquidation of subsidiary *in thousands of euros*	**Nekustamo īpašumu sabiedrība Prokurs SIA**
Net assets at the date of liquidation	2 058
Share (%) as at 31 December 2014	**70%**
Liquidated	70%
Share (%) as at 31 December 2015	**0%**
Received, non-cash	1 441
Received, cash	0
Net cash flow from liquidation	0

Purchase of shares *in thousands of euros*	**OÜ Marsi Elu**
Share (%) as at 31 December 2014	**65%**
Acquired	35%
Share (%) as at 31 December 2015	**100%**
Acquisition cost	361
Paid in cash*	0
Net cash flow in acquisition	0

**Price was paid after the balance date*

Changes in minority shareholding	**AS Tallinna Moekombinaat**	**OÜ Marsi Elu**	**Nekustamo īpašumu sabiedrība Prokurs SIA**
Minority (%) as at 31 December 2014	**6,90%**	**35,00%**	**30,00%**
Changes	0,32%	-35,00%	-30,00%
Minority (%) as at 31 December 2015	**7,22%**	**0,00%**	**0,00%**

Value of minority shareholding as at 31 December 2014 *in thousands of euros*	**1 567**	**-161**	**617**	*Effect to minority share-holding*	*Effect to retained earnings*
Increase of share capital	84	49	0	*133*	*68*
Sales of minority shareholding	0	112	0	*112*	*-473*
Liquidation	0	0	-617	*-617*	*0*
Loss for the current year	-76	0	0	*-76*	*0*
Adjustment - additional % from retained earnings to B shareholders	59	0	0	*59*	*-59*
Changes total	67	161	-617	-389	-464
Value of minority shareholding as at 31 December 2015	**1 634**	**0**	**0**	***N/A***	***N/A***

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On 10 March 2015 the liquidation process of Latvian subsidiary Nekustamo īpašumu sabiedrība Prokurs SIA was finalised.

On 28 December 2015 Estonian subsidiary of the Group AS Tondi Kvartal concluded the contract for purchase of minority shareholding of 35% in its subsidiary OÜ Marsi Elu from Katmandu Stiftung, Liechtenstein company controlled by Mr Ernesto Preatoni. As a result AS Tondi Kvartal is holding 100% of the share capital of OÜ Marsi Elu. In addition AS Tondi Kvartal refinanced the shareholder loan of 1 million euros granted by the minority shareholder and accrued interest of the loan.

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	**31.12.2015**	**31.12.2014**
Cash at hand	39	36
Bank accounts	6 353	1 845
Total	**6 392**	**1 881**

Note 9. Current Receivables

in thousands of euros	**31.12.2015**	**31.12.2014**
Trade receivables	1 012	551
Receivables from related parties (Note 28)	10	503
Other receivables	59	1 090
Accrued income	43	11
Prepaid expenses	484	308
Total	**1 608**	**2 463**

In 2015, 18 thousand euros trade receivables were written off (2014: 13 thousand euros) and 83 thousand euros allowance of credit losses was booked in 2015 (312 thousand euros for credit losses were made in 2014).

As at 31 December 2015, there were 259 thousand euros of current receivables overdue (31.12.2014: 217 thousand euros), of which 88 thousand euros were overdue by more than 360 days (31.12.2013: 37 thousand euros).

In May 2015 the subsidiary of the Group AS Pro Kapital Eesti received the remaining balance of 1 million euros from sales of Kristiine shopping centre, which was sold in March 2011.

Note 10. Inventories

in thousands of euros	**31.12.2015**	**31.12.2014**
Property held for resale	7 654	8 105
WIP (works in progress)	4 693	6 359
Goods bought for resale	91	71
Total	**12 438**	**14 535**

The cost of inventories recognised as an expense during the year was 7 755 thousand euros (2014: 2 625 thousand euros). In 2015 no inventories were written down (2014: inventories' value in amount of 166 thousands euros was written-down). The balances of inventories are net amounts including write-downs. The management estimates that property held for resale (including works in progress that will be completed in 2016) will be sold in cost amount of 10,8 million euros and goods bought for resale will be sold in full during twelve months after the reporting period.

Note 11. Property, Plant and Equipment

As at 31 December 2011 the 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	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Pulkvieza Brieza 11, Riga	1 633	1 673	5 506	5 600
Põhja Avenue 21, 21a, 21b-1, Tallinn	3 270	3 353	5 601	5 725
Kurhausstrasse 28, Bad Kreuznach	2 047	2 130	5 267	5 470
Office premises	220	157	359	265
Total	**7 170**	**7 313**	**16 733**	**17 060**

**Both cost value and revaluation value have been adjusted with depreciation.*

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 9 462 thousand euros as at 31 December 2015 (31 December 2014: 9 389 thousand euros). There are no restrictions on distribution of revaluation reserve.

in thousands of euros	**Land and buildings**	**Machinery and equipment**	**Other property, plant and equipment**	**Total**
Revaluation value at 1 January 2014	**21 638**	**1 211**	**2 441**	**25 290**
Additions:				
Acquired	6	89	82	177
Change in fair value	-1 941	0	-5	-1 946
Disposals:				
Sold through subsidiary	-912	-12	-19	-943
Written off	0	-13	-10	-23
Revaluation value at 31 December 2014	**18 791**	**1 275**	**2 489**	**22 555**
Additions:				
Acquired	7	34	20	61
Reclassified	475	395	-870	0
Change in fair value	43	0	0	43
Disposals:				
Sold	0	0	-1	-1
Written off	0	-16	-433	-449
Revaluation value at 31 December 2015	**19 316**	**1 688**	**1 205**	**22 209**

in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Total
Accumulated depreciation at 1 January 2014	**1 985**	**900**	**2 184**	**5 069**
Additions:				
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**
Additions:				
Charge for the period	488	152	44	684
Reclassified	428	280	-708	0
Change in fair value	-64	0	0	-64
Disposals:				
Sold	0	0	-1	-1
Written off	0	-15	-433	-448
Accumulated depreciation at 31 December 2015	**2 583**	**1 429**	**1 095**	**5 107**

in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Total
Residual value at 31 December 2014	**17 060**	**263**	**296**	**17 619**
Residual value at 31 December 2015	**16 733**	**259**	**110**	**17 102**

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 Group 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 effective operating the hotel generates 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 improved comparing to last year. The occupancy of the hotel has increased essentially and although the average rate has decreased by 3% the revenue per available room has increased in the same pace as the occupancy. After several years the hotel operations generated profit. The valuators have considered in the last 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 Group’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 2015 has been derived on the basis of valuations carried out by Colliers International and at 31 December 2014 by Newsec Valuations, independent valuators not related to the Group. Both valuation companies 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. Mainly discounted cash flow method is used due to low number of comparable market transactions.

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in thousands of euros	Investment properties held for increase in value	Total
Balance at 1 January 2014	**26 001**	**26 001**
Additions:		
Acquired	822	822
Reclassification from inventories	29 591	29 591
Changes in fair value:		
Gain from existing properties	2 077	2 077
Gain from reclassified properties	29 619	29 619
Balance at 31 December 2014	**88 110**	**88 110**
Additions:		
Acquired	1 306	1 306
Changes in fair value:		
Gain from existing properties	3 041	3 041
Balance at 31 December 2015	**92 457**	**92 457**

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 Group provides valuators with the following information: purpose of a property, development plans, estimated construction costs and estimated sales or rental prices if available. Valuators also use assumptions and valuation models, which are typically market related such as discount rates and exit yields. Valuation reports are reviewed and accepted by the Management of the Company.

Until 31 December 2014 the Group used to apply threshold, according to which the value of the properties remained unchanged if the value determined by independent real estate valuator was not higher than 3% of the recorded book value and not lower than 1,5% of the recorded book value of the properties. Due to reclassification of multiple assets from inventories into investment property at the end of 2014, the Group has decided to neglect the threshold and record any fluctuations in fair value starting 1 January 2015.

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 Group. The mall represents a modern view to a shopping centre concept where retail areas are combined with numerous options of leisure and entertainment activities. The valuator has considered the following inputs in valuation: construction period of 2 years, construction cost 514 €/m² (2014: 507 €/m²), average rent price 15,32 €/m² on 1st year, 16,70 €/m² on 2nd year, 18,72 €/m² on 3rd year of operations (2014: average 17,5 €/m²), exit yield 7% (2014: 7%). 7 year discounted cash flow method has been used by the valuator with a discount rate of 14,75% (2014: 14,85%). The increase in fair value comparing to last valuation was 600 thousand euros, the subsidiary company has invested 983 thousand euros into the project in 2015, total net effect of revaluation is -383 thousand euros. The net decrease in value of 1,4% is affected by constant changes to the project being actively under development.

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 6 thousand square meters (2014: estimated 14 thousand square meters). The valuator has considered the following inputs in valuation: construction period of 2 years, starting after three years of waiting period (2014: estimated 1 year waiting period), construction cost 513 €/m² (2014: 554 €/m²), average rent price 17 €/m² for retail spaces (2014: 11 €/m² for offices and 16 €/m² for retail spaces, exit yield 7% (2014: 7,5%). 7 year discounted cash flow method has been used by the valuator with a discount rate of 14,75% (2014: 16%). The decrease in fair value comparing to last valuation was 730 thousand euros as a result of reduced leasable area.

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 centre. 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: the property is planned to be developed in 4 phases, construction period of each phase 2 years (2014: estimated 3 years), starting after one year of waiting period, construction cost 720-742 €/m² (2014: 836 €/m²), average apartment sale price 2 600 €/m² (2014: 2 750 €/m²) and commercial premises 1 900 €/m² (2014: 1 800 €/m²). 11 years (2014: 6 years) discounted cash flow method has been used by the valuator with a discount rate of 14,75% (2014: 16%). The decrease in fair value comparing to last valuation was 1 900 thousand euros, the subsidiary company has invested 12 thousand euros into the project in 2015, total net effect of revaluation is -1 888 thousand euros.

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. Construction works have been completed in Marsi 3 and Marsi 3b and works for the next building Marsi 3a continued. 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 1-2 years, last phase 4 years (2014: estimated 3-4 years) starting after 2-6 years and lasting altogether 12 years, construction cost 545-686 €/m² (2014: 637-683 €/m²), average apartment sale price 1 750 €/m² (2014: 1 750 €/m²), average rent 10 €/m² (2014: 10 €/m²) for commercial spaces (phase 3). For sales 11 years (2014: 5-12 years) discounted cash flow method has been used by the valuator with a discount rate of 14,75-17,25% (2014: 15-16%). The increase in fair value comparing to last valuation was 620 thousand euros, the subsidiary company has invested 71 thousand euros into the project in 2015, total net effect of revaluation is 549 thousand euros.

Kliversala residential complex, Riga

Kliversala is a residential and commercial development project located on the left bank of river Daugava. The land is located between two main bridges, next to one of the biggest parks in Riga and has a long coastline. The property is situated on the waterfront and provides views of the Old Town on the opposite bank. The project for the residential area foresees a series of exclusive apartment buildings coupled with commercial premises. It has been planned to develop the property in 4 phases. The first phase 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 38 thousand square meters (2014: estimated 56 thousand square meters) and rentable commercial area of 11 thousand square meters, construction period of 1-3 years (2014: estimated 3-4 years) for each phase, construction cost 876 €/m² (2014: 785 €/m²), average apartment sale price 2 700 €/m² (2014: 2 500 €/m²), average rent 10-16,30 €/m² (2014: 13 €/m²) for commercial spaces. 11 year discounted cash flow method (2014: 12 year DCF) has been used by the valuator with a discount rate of 11,8% (2014: 14,75%) and starting time after 1 year (2014: estimated 3 years). The decrease in fair value comparing to last valuation was 2 100 thousand euros, the subsidiary company has invested 2 thousand euros into the project in 2015, total net effect of revaluation is -2 098 thousand euros.

Tallinas Street residential complex, Riga

Tallinas is a residential development project located in Riga at the right bank of river Daugava, right next to the border of Riga's historical City Centre. The project for the residential area foresees a series of apartment buildings with commercial functions on the first floor with net sellable area of 34 thousand square meters (2014: estimated 21 thousand square meters) and 1 thousand square meter respectively. It has been planned to develop the property in three 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 702 €/m² (2014: 778 €/m²), average apartment sale price 2 300 €/m² (2014: 2 100 €/m²), average rent 11 €/m² (2014: 11,7 €/m²) for commercial spaces. 7 year discounted cash flow method has been used by the valuator with a discount rate of 11,4% (2014: 14,75%) and with the assumption of immediate start. The value of the property remained at the same level as 31 December 2014.

Zvaigznes Centrs, Riga

Zvaigznes is a mixed development project located at one of the main transport arteries heading through the City, next to the railways within a former industrial area. The project foresees renovation of the existing industrial building into mostly office buildings with total net rentable area of 17 thousand square meters (2014: estimated 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 one year waiting period (2014: estimated immediate start), construction cost 656 €/m² (2014: 673-740 €/m²), average rent 12,9-14,5 €/m² (2014: 11 €/m²) for commercial spaces. For sales 4 year discounted cash flow method has been used by the valuator with a discount rate of 11,4% (2014: 14,75%). The decrease in fair value comparing to last valuation was 33 thousand euros.

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 5 years (2014: estimated 4 years) of the second stage starting after 1 year of waiting period, construction cost of commercial and residential area 450-700 €/m² (2014: average 818 €/m²), average apartment sale price 2 000-3 100 €/m² (2014: average 2 118 €/m²) and commercial premises 1 500-1 900 €/m² (2014: average 1 426 €/m²). For sales 7 year discounted cash flow method has been used by the valuator with a discount rate of 10,4% (2014: 16%). The increase in fair value comparing to last valuation was effect of revaluation was 7 890 thousand euros, the subsidiary company has invested 151 thousand euros into the project in 2015, total net effect of revaluation is 7 739 thousand euros.

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

	Fair value	Construction costs/m²		Sale price/m²		Rent price/m²		Exit yield	
	th euros	5%	-5%	5%	-5%	5%	-5%	5%	-5%
Peterburi	26 300	-3 000	3 100	N/A	N/A	0	0	-2 900	3 200
Ülemiste	2 470	-260	260	N/A	N/A	410	-400	-350	380
Kalaranna	12 600	0	0	1 600	-1 600	N/A	N/A	N/A	N/A
Tondi	17 620	-290	300	1 830	-1 770	N/A	N/A	0	0
Kliversala	14 100	-2 340	2 330	2 920	-2 930	750	-760	N/A	N/A
Tallinas	4 100	-1 430	-1 420	1 510	-1 520	40	-50	N/A	N/A
Zvaigznes	2 467	-800	800	N/A	N/A	800	-800	-360	400
Šaltinių	12 800	-630	620	1 260	-1 270	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 Group according to management judgement are evaluated based on the assumed highest and best use.

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

Note 13. Current Debt

in thousands of euros	**31.12.2015**	**31.12.2014**
Bank loans and overdrafts (Note 16)	931	6 877
Convertible bonds (Note 18)	6 052	5 167
Non- convertible bonds (Note 18)	1 000	0
Payables to related parties (Note 28)	0	4 284
Current portion of finance lease	21	20
Total	**8 004**	**16 348**

Note 14. Current Payables

in thousands of euros	**31.12.2015**	**31.12.2014**
Trade payables	3 039	2 688
Payables to related parties (Note 28)	391	0
Accrued expenses	1 673	1 261
Other	0	812
Total	**5 103**	**4 761**

Note 15. Non-Current Debt

in thousands of euros	**31.12.2015**	**31.12.2014**
Bank loans and overdrafts (Note 16)	6 924	3 728
Convertible bonds (Note 18)	5 104	6 052
Non- convertible bonds (Note 18)	14 640	2 240
Payables to non-controlling interest	362	1 365
Non-current portion of finance lease	24	45
Total	**27 054**	**13 430**

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Note 16. Bank Loans and Overdrafts

in thousands of euros

Borrower	Creditor	Contract currency	Loan balance at 31.12.2014	Loan balance at 31.12.2015	Loan repayments			Interest rate	Maturity date	Collateral
					Within 1 year	2-5 years	Over 5 years			
Pro Kapital Eesti:										
AS Pro Kapital Eesti	AS Swedbank	EUR	1 507	1 405	102	1 303	0	2,65% + 6 month EURIBOR	01.11.2018	Note 17
AS Tondi Kvartal	AS Swedbank	EUR	18	0	0	0	0	2,5% + 6 month EURIBOR	16.07.2015	Note 17
AS Pro Kapital Eesti	AS Swedbank	EUR	2 271	2 107	165	1 942	0	2,65%+ 6 month EURIBOR	09.08.2018	Note 17
OÜ Marsi Elu	Nordea Bank	EUR	659	220	220	0	0	3,1%+ 1 month EURIBOR	27.09.2016	Note 17
			4 455	**3 732**	**487**	**3 245**	**0**			
Pro Kapital Latvia:										
Investhotel SIA	AS Swedbank	EUR	3 605	3 245	368	2 877	0	3,0% + 3 month EURIBOR	01.05.2017	Note 17
			3 605	**3 245**	**368**	**2 877**	**0**			
Pro Kapital Vilnius:										
PK Invest UAB	AB Swedbank	EUR	1 871	878	76	802	0	3,0% + 6 month EURIBOR	07.12.2018	Note 17
PK Invest UAB	AB Swedbank	EUR	674	0	0	0	0	3,85% + 6 month EURIBOR	28.11.2017	Note 17
			2 545	**878**	**76**	**802**	**0**			

During the reporting period AS Tondi Kvartal has repaid the loan to AS Swedbank.

AS Pro Kapital Eesti loan repayments to AS Swedbank have been extended by 3 years and PK Invest UAB loan repayment to AB Swedbank by 2 years.

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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 31.12.2015	Collateral description	Owner of collateral	Type of assets	Book value of collateral at 31.12.2015
AS Pro Kapital Eesti	AS Swedbank	1 405	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 600
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	303
AS Pro Kapital Eesti	AS Swedbank	2 107	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 600
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	303
			Tondi street 51, Tallinn	AS Tondi Kvartal	Finished construction (inventories)	595
OÜ Marsi Elu	Nordea Bank Finland	220	Marsi 3, 3a, 3b, Tallinn	OÜ Marsi Elu	Unfinished construction (inventories)	4 346
			Sõjakooli 12, 12a,12b, 12c, Tallinn	AS Tondi Kvartal	Unfinished construction (inventories)	208
			Sammu 6, 6a, 6b; Tallinn	AS Tondi Kvartal	Investment property	2 190
			Guarantee letter	AS Pro Kapital Eesti	Entity´s assets	X
Investhotel SIA	AS Swedbank	3 245	Pulkveza Brieza Str. 11, Riga	Investhotel SIA	Land and buildings	5 506
				Investhotel SIA	Other assets	3 373
			Trijadibas street 5, Rīga	Kliversala RE SIA	Unfinished construction (inventories), investment property	15 601
PK Invest UAB	AB Swedbank	878	Aguonu str.12,14 Šaltinių 20,22,26, Vilnius	PK Invest UAB	Finished construction (inventories)	5 288
			Šaltinių 24, Vilnius	Pro Kapital Bonum UAB	Unfinished construction (inventories)	1 474
			Aguonu str.10	PK Invest UAB	Investment property	12 800
			Aguonu str.12	PK Invest UAB	Entity´s assets	358
			Guarantee letter	AS Pro Kapital Grupp	Entity´s assets	X
Total		**7 855**				

AS Tallinna Moekombinaat has pledged Peterburi 2 property in favour of AS Merko Ehitus Eesti to guarantee construction agreement up to 5 million euros. The pledged amount is 6,5 million euros, value of the property on 31 December 2015 was 26,3 million euros.

AS Pro Kapital Grupp has pledged in favour of Nordic Trustee & Agency AB the shares of all subsidiaries of the Group with an exception for AS Tallinna Moekombinaat and Investhotel SIA shares. The pledges have been set to guarantee non-convertible bonds issues in 2015 in total amount of 13,4 million euros. The total value of pledged shares is 77,2 million euros. Additionally to share pledges the Parent's bank accounts held with Nordea Bank AB are pledged. The balance of cash in Nordea bank pledged accounts was 560 thousand euros on 31 December 2015.

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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 SIA, an entity belonging to Pro Kapital Latvia subsidiary group, in the amount of 8 500 thousand euros, as Swedbank (Latvia) has issued a guarantee letter in amount of 8 084 thousand euros to VAS „Privatizācijas aģentūra” to assure the investment liabilities related to contract concluded between Klīversala SIA and VAS „Privatizācijas aģentūra”. The guarantee letter will expire 31 December 2017
- 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.

Note 18. Convertible and non-convertible bonds

in thousands of euros	**31.12.2015**	**31.12.2014**
Current convertible debt (Note 13)	6 052	5 167
Current non-convertible debt (Note 13)	1 000	0
Non-current convertible debt (Note 15)	5 104	6 052
Non-current non-convertible debt (Note 15)	14 640	2 240
Total	**26 796**	**13 459**

Convertible bonds

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 all convertible note issues have been prolonged respectively. 22 224 convertible bonds were repurchased in the amount of 62 227,20 euros in 2015 (18 983 convertible bonds in amount of 53 152,40 euros in 2014). No bonds have been converted into shares until 31 December 2015.

Registration date of bonds issued	**13 Aug 2009**	**20 Jan 2010**	**10 Aug 2010**	**16 Sept 2010**	**29 Nov 2010**	**8 March 2011**	**25 May 2011**
Amount, th euro	3 261	1 070	2 353	1 448	1 182	1 594	249
Issue price	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR
Return per annum (%) from issue price	7%	7%	7%	7%	7%	7%	7%
Bond interest payment frequency	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Repurchase date	13 Aug 2017	20 Jan 2016	10 Aug 2016	16 Sept 2016	29 Nov 2016	8 March 2017	25 May 2017
Due date to exchange bonds into shares	13.08. 2017	20 Jan 2016	10 Aug 2016	16 Sept 2016	29 Nov 2016	8 March 2017	25 May 2017

On 19 January 2016 the Company prolonged the redemption date of 378 070 convertible bonds PKG2 by 2 years and the new redemption date is 20 January 2018. 4 234 convertible bonds have been redeemed in amount of 11 855,20 euros.

number of bonds	**31.12.2015**	**31.12.2014**
Number of convertible bonds at the beginning of period	4 006 775	4 025 758
Number of convertible bonds issued	0	0
Number of repurchased bonds	-22 224	-18 983
Number of convertible bonds at the end of period	3 984 551	4 006 775

in thousands of euros	**31.12.2015**	**31.12.2014**
Value of convertible bonds at the beginning of period	11 219	11 272
Principal of convertible bonds issued	0	0
Repurchased bonds in repurchase price	-62	-53
Principal of the bonds issued at the end of the period	11 157	11 219
Current portion of liabilities at the end of the reporting period	**6 052**	**5 167**
Non-current portion of liabilities at the end of the reporting period	**5 104**	**6 052**

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

On 1 August 2013 the Company issued 64 new unsecured non-convertible bonds with face value of 10 000 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%.

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

On 27 May 2015 the Management Board of the Company decided on the allocation of the first subscription of above mentioned bonds with issue price 7 000 000 euros with redemption date on 1 June 2020. 70 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

On 28 July 2015 the Management Board of the Company decided on the allocation of the second subscription of the bonds at nominal value 6 400 000 euros with issue price 6 483 911 euros with redemption date on 1 June 2020. 64 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

Secured, callable, fixed rate bonds of the Company are secured with shares of all subsidiaries of the Group with an exception for AS Tallinna Moekombinaat and Investhotel SIA shares.

The Company applied respectively for the listing of the bonds on Nasdaq Stockholm and starting from 8 July the bonds have been listed. The listing prospectus has been made available on Company´s website.

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Registration date of bonds issued	1 Aug 2013	7 Nov 2013	15 April 2014	16 Sept 2014	27 May 2015	28 July 2015
Amount, th euro	640	1 000	300	300	7 000	6 400
Nominal value	10 000 EUR	10 000 EUR	10 000 EUR	10 000 EUR	100 000 EUR	100 000 EUR
Return per annum (%) from issue price	5%	5%	5%	5%	8%	8%
Bond interest payment frequency	Once a year	Once a year	Once a year	Once a year	Twice a year	Twice a year
Re-purchase date	15 Aug 2018	22 Nov 2016	23 April 2019	24 Sept 2019	1 June 2020	1 June 2020

number of bonds	**31.12.2015**	**31.12.2014**
Number of **non-convertible bonds** at the beginning of period	224	164
Number of non-convertible bonds	0	60
Number of non-convertible bonds at the end of period	224	224

in thousands of euros	**2015**	**2014**
Value of non-convertible bonds at the beginning of period	2 240	1 640
Principal of non-convertible bonds issued	0	600
Principal of the bonds issued at the end of the period	2 240	2 240
Current portion of liabilities at the end of the reporting period	**1 000**	**0**
Non-current portion of liabilities at the end of the reporting period	**1 240**	**2 240**

number of bonds	**31.12.2015**	**31.12.2014**
Number of **secured fixed rate bonds** at the beginning of period	0	0
Number of secured fixed rate bonds issued	134	0
Number of secured fixed rate bonds at the end of period	134	0

in thousands of euros	**2015**	**2014**
Value of secured fixed rate bonds at the beginning of period	0	0
Principal of secured fixed rate bonds issued*	13 400	0
Principal of secured fixed rate bonds issued at the end of the period	13 400	0
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	**13 400**	**0**

** The Company received from issue of secured fixed rate bonds 7 652 thousand euros cash, the rest of the amount was paid as non-monetary by reconciliation of the liability to OÜ Svalbork Invest – loan amount 5 175 thousand euros and interests in amount 573 thousand euros.*

Note 19. Share Capital and Reserves

Share capital

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

On 31 December 2014 the share capital in the amount of 10 821 thousand euros consisted of 54 106 575 ordinary shares at a nominal value of 0.2 euros per share. During the reporting period 97 363 shares were issued. On 31 December 2015 the share capital in the amount of 10 841 thousand euros consisted of 54 203 938 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 2015, 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 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 2015 amounted to 1 082 thousand euros (2014: 1 064 thousand 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 2015 is 9 462 thousand euros, decrease resulted from impairment of German hotel property in 2014.

Note 20. Non-Controlling Interest

in thousands of euros	**31.12.2015**	**31.12.2014**
Arising from Pro Kapital Eesti sub-group	1 635	1 406
Arising from Pro Kapital Latvia sub -group	0	618
Total	**1 635**	**2 024**

On 31 December 2014 the Group had three subsidiaries with non-controlling interests: two in Estonia and one in Latvia. On 31 December 2015 the Group had only one subsidiary with non-controlling interests in Estonia.

Portion of non-controlling interest has increased by 0,32% in Estonian group subsidiary AS Tallinna Moekombinaat during 2015. At the end of 2015 Eurofiduciaria subscribed to 72 393 shares of AS Tallinna Moekombinaat with nominal value 0,60 euros and with share premium 1,51 euros per share. The new shareholder paid in 153 thousand euros.

In 2014 the subsidiary of the Group AS Tondi Kvartal established 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. During 2015 Combrimat Limited transferred 35% of Marsi Elu OÜ shares to Katmandu Stiftung. At the end of the year AS Tondi Kvartal repurchased 35 % of Marsi Elu OÜ from Katmandu Stiftung.

Latvian subsidiary Nekustamo īpašumu sabiedrība Prokurs SIA was liquidated in the beginning of 2015 as all stock was sold and company had no more operating activities.

	AS Tallinna Moekombinaat	**OÜ Marsi Elu**	**Nekustamo īpašumu sabiedrība Prokurs SIA**
Principal place of business	Estonia	Estonia	Latvia
Non-controlling interest as at 31.12.2014	6,90%	35%	30%
Non-controlling interest as at 31.12.2015	7,22%	0%	0%

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Summarised financial information	AS Tallinna Moekombinaat		OÜ Marsi Elu		Nekustamo īpašumu sabiedrība Prokurs SIA	
in thousands of euros	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Current Assets	230	88	5 356	5 232	0	2 059
Non-Current Assets	26 300	25 700	0	0	0	0
Current Liabilities	939	183	2 116	2 725	0	0
Non-Current Liabilities	3 689	2 888	2 970	2 967	0	0
Equity attributable to owners	21 902	22 717	270	-460	0	2 059
including non-controlling interests	***1 635***	***1 567***	***0***	***-161***	***0***	***618***

in thousands of euros	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue	0	0	5 110	2	0	0
Gross profit (loss)	0	0	1 030	2	0	0
Operating profit (loss)	-801	289	796	-274	0	2
Profit (loss) before tax	-968	146	590	-470	0	31
Income tax	0	0	0	0	0	-4
Profit (loss) for the year	-968	146	590	-470	0	27
Attributable to:						
Owners of the Company	*-892*	*136*	*590*	*-306*	*0*	*19*
Non-controlling interests	*-76*	*10*	*0*	*-164*	*0*	*8*
Other comprehensive income						
Total comprehensive income for the year	-968	146	590	-470	0	27
Attributable to:						
Owners of the Company	*-892*	*136*	*590*	*-306*	*0*	*19*
Non-controlling interests	*-76*	*10*	*0*	*-164*	*0*	*8*
Net cash flows from operating activities	766	-221	-1 406	-1 263	0	-7
Net cash flows from investing activities	-983	-1 015	0	1	0	0
Net cash flows from financing activities	194	1 278	2 016	1 591	0	-97
Net change in cash and cash equivalents	-23	42	610	329	0	-104

Note 21. Revenue

in thousands of euros	**2015**	**2014**
Revenue from sale of real estate	10 055	2 720
Rental revenue	205	205
Hotel operating revenue	6 489	5 880
Revenue from maintenance and other services	1 573	1 530
Total	**18 322**	**10 335**

Real estate sales increased due to completion and sales activities of new apartment buildings in Tallinn and Vilnius. Hotel revenues increased significantly in German hotel due to implementing new sales strategy.

Note 22. Cost of Sales

in thousands of euros	**2015**	**2014 adjusted**
Cost of real estate sold	7 942	2 306
Cost of providing rental services	116	112
Cost of hotel operations	4 384	4 036
Cost of other services	1 432	1 386
Total	**13 874**	**7 840**

To present more clearly the gross operating profit, the Group has decided to account real estate transaction costs (notary fees, state taxes and commissions) for as direct costs instead of marketing costs. The effect of the change is 84 thousand euros higher direct costs in 2014.

In previous reports depreciation of hotel properties were shown as direct costs of rental services. As a result the costs seemed higher than rental revenue as most of rental services are provided internally and revenues are eliminated as intragroup transactions. The hotel properties of the Group are accounted for as fixed assets, not as rent earning investment properties. To make reporting more clear it has been decided to include depreciation of hotel properties into hotel operating costs not as cost of rental services.

in thousands of euros	**2015**	**2014 adjusted**
Personnel expenses	1 232	1 132
Depreciation charge	584	664
Other	12 058	6 044
Incl cost of real estate sold	7 719	2 222
Incl maintenance services purchased	1 768	1 677
Incl supplies costs	449	403
Incl commissions and service fees	294	242
Total	**13 874**	**7 840**

Note 23. Marketing and Administration Expenses

Marketing expenses

in thousands of euros	**2015**	**2014 adjusted**
Personnel expenses	144	122
Other	322	324
Total	**466**	**446**

To present more clearly the gross operating profit, the Group has decided to account real estate transaction costs (notary fees, state taxes and commissions) for as direct costs instead of marketing costs. The effect of the change is 84 thousand euros less marketing costs in 2014.

Administration expenses

in thousands of euros	**2015**	**2014**
Personnel expenses	2 437	2 286
Depreciation charge	100	79
Amortisation charge	7	7
Land/real estate taxes	482	462
Other	2 224	2 326
Total	**5 250**	**5 160**

In 2015, average number of employees in the Group was 104 (2014: 107) and total personnel cost (included in direct, marketing and administrative costs) 2015 was 3,81 million euros compared to 3,54 million euros in 2014.

Note 24. Other Income and Other Expenses

Other income

in thousands of euros	**2015**	**2014**
Fines collected	8	7
Gain from sales of property, plant and equipment	0	11
Gain from fair value adjustments	3 041	28 611
Release of allowance for bad debt	1	3
Other	303	418
Total	**3 353**	**29 050**

Other expenses

in thousands of euros	**2015**	**2014**
Fines paid	574	3
Loss from sales of property, plant and equipment	1	3
Other	87	74
Total	**662**	**80**

Other income is significantly influenced by revaluation of investment properties into fair value (Note 12).

The subsidiary of Latvian group Klīversala SIA has prolonged the term of obligatory investments into its property according to the agreement with Privatization agency till 31 October 2017. Kliversala SIA undertakes to invest in the Object 7 382 thousand euros till 31 December 2016 and to make an additional investment of 2 million euros till 31 October 2017. Kliversala SIA also undertakes to pay to Privatization agency for non-fulfilment of investment commitments previously calculated penalty in amount 259 thousand euros and a penalty of 6% of not invested amount - 443 thousand euros for the period from 1 January 2014 till 31 December 2015. Total penalty amounts to 702 euros. The penalty in amount 50 thousand euros was paid in 2015 and the rest will be paid during 2016 in several instalments. 573 thousand of the amount has been accounted for as costs in 2015, the amount of 131 thousand euros of the penalty has been provisioned for already in 2014.

Note 25. Finance Income and Cost

Finance income

in thousands of euros	**2015**	**2014**
Interest income	7	19
Gain from foreign currency translation	0	1
Income from disposal of subsidiary	0	19
Other	5	6
Total	**12**	**45**

Finance cost

in thousands of euros	**2015**	**2014**
Interest expenses:	2 080	1 537
Interest expense of convertible and non-convertible bonds	*884*	*884*
Interest expense of loans and overdrafts	*653*	*653*
Loss from foreign currency translation	144	1 135
Other	382	89
Total	**2 606**	**2 761**

Note 26. Income tax

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

Rates of statutory corporate income tax (on earnings)	**2015**	**2014**
Estonia*	20%	21%
Latvia	15%	15%
Lithuania	15%	15%
Germany	15%	15%

Income tax expense in unconsolidated reports

In thousands of euros	**Estonia**	**Latvia**	**Lithuania**	**Germany**	**Total**
Profit before taxation (unconsolidated)	-5 314	-3 376	428	-67	-8 329
Income tax, statutory rate	0	-506	64	0	-442
Non-deductible expenses	0	440	4	0	444
Non-taxable income and tax incentive	0	-37	-1	0	-38
Tax loss utilized	0	-15	-70	0	-85
Reversals	0	172	27	0	199
Total income tax expense	**0**	**54**	**24**	**0**	**78**

Income tax expense in consolidated report

in thousands of euros	**2015**	**2014**
Profit (loss) before income tax	-1 169	23 143
Estimated income tax respective to the tax rates	322	3 546
Adjustments to estimated income tax:		
Non-deductible expenses (+)	444	311
Non-taxable income and tax incentive	-38	-1 780
Tax loss utilised	-85	-169
Reversal loss carry forward (+)	199	0
Income tax expense	**842**	**1 908**
Effective tax rate	N/A	8,2%
Income tax expense	78	122
Deferred income tax expense	764	1 786
Total effect on income statement	**842**	**1 908**
Income tax paid	**137**	**24**

Deferred income tax asset and liability (net) movements:

in thousands of euros	**Accelerated tax depreciation**	**Revaluation of assets**	**Deferred tax losses**	**Total**
31 December 2014	**146**	**2 945**	**-347**	**2 744**
Effect on income statement:				
Income tax expense of the reporting period	0	1 174	0	1 174
Income tax reclaims of the reporting period	-1	-46	-363	-410
Effect on equity:	0	-5	0	-5
31 December 2015	**145**	**4 068**	**-710**	**3 503**

Deferred income tax balances

in thousands of euros	**31.12.2015**	**31.12.2014**
Deferred income tax liability (+)	3 503	2 744
Deferred income tax assets (-)	0	0
Total, net	**3 503**	**2 744**

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	**31.12.2015**	**31.12.2014**
Group's retained earnings	58 743	61 159
Estonian tax rate applicable	20%	20%*
Contingent CIT obligation	11 749	12 232

**Tax rate has changed from 21% to 20% on 1 January 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 2015 and 31 December 2014.

The Parent has potential opportunity (in case of retained earnings) to pay dividends that are not taxable with income tax in amount of 44 647 thousand euros because the Parent has received dividends from its subsidiary Pro Kapital Latvia PJSC, which is the resident and taxable person in the Republic of Latvia. The maximum related possible income tax free amount that could be considered as contingent asset and could be paid as net dividends is 11 162 thousand euros (31 December 2014: 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 01.01.2015 - 31.12.2015	(54 106 575 x 312/365)+(54 203 938 x 53/365) = 54 120 713
In period 01.01.2014 - 31.12.2014	(54 106 575 x 365/365) = 54 106 575

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

2015	-1 934 468/54 120 713=-0,04
2014	21 234 778/54 106 575=0,39

The convertible bonds issued did not have a dilutive effect on earnings in 2015 and 2014, 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 Parent and its subsidiaries, which are related parties of the Parent, 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.

Transactions with Related Parties

in thousands of euros	**2015**	**2014**
Owners holding significant influence		
Revenues	87	0
Administrative expenses	6	0
Loans received	630	812
Loans repaid	6 138	0
Interest expense	252	190
Interests paid	784	0
Purchase of minority shareholding	361	0
Members of the Management Board and Council		
Salaries to the Management Board and Council	929	942
Administrative expenses	6	0
Other related parties		
Loan repayments received	501	0
Loans received	0	1 365

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%. The credit limit in amount 800 thousand euros was used in 2014, the loan and accumulated interests have been repaid in 2015.

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. lended 1,0 million euros with annual interest of 5%. The loan and accumulated interests have been repaid in 2015.

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

On 12 January 2015 the Parent signed a loan agreement with Eginvest Ltd. Eginvest Ltd provides up to 1 000 000 euros in several instalments, with the due date of 2 years for each instalment and loan interest 5%. During reporting period the company has used the limit in amount 600 thousand euros and in July 2015 repaid the amount.

Receivables from related parties

in thousands of euros	**31.12.2015**	**31.12.2014**
Other related parties		
Current receivables from related parties (Note 9)	10	503
Total	**10**	**503**

Receivables from related parties on 31 December 2014 consist of loans issued to minority shareholders of Latvian subsidiary Nekustamo īpašumu sabiedrība Prokurs SIA including 27 thousand euros interests receivable. In 2015 receivables have been collected and Nekustamo īpašumu sabiedrība Prokurs SIA was liquidated. Receivables from related parties on 31 December 2015 consist of trade receivables.

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

Payables to related parties

in thousands of euros	**31.12.2015**	**31.12.2014**
Significant owners and owner related companies		
Short-term payables to related parties	391	4 280
Long-term payables to related parties	362	0
Total	**753**	**4 280**

Payables to related parties on 31 December 2014 consist of loan balance 3 738 thousand euros and interests 542 thousand euros to Svalbork Invest OÜ. In 2015 the loan and interests have been repaid.

On 31 December 2015 the subsidiary of the Group AS Tondi Kvartal had payable to Katmandu Stiftung for 35% of Marsi Elu OÜ shares in amount 361 thousand euros. The subsidiary of the Group AS Tallinna Moekombinaat had a short-term loan payable to Colosseum OÜ. Long-term payables to related parties on 31 December 2015 consist of loan balances and interests payable to minor shareholders of AS Tallinna Moekombinaat.

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

Holdings in the Parent

in thousands of euros	**31.12.2015**	**31.12.2014**
Significant owners and owner related companies	44,80%	36,24%
Members of the Council and persons related to them	0,20%	36,24%
Members of the Board and persons related to them	0,34%	0,16%

Note 29. Subsequent Events

On 19 January 2016 the Company redeemed 4 234 PKG2 convertible bonds with total issue price 11 855,20 euros and prolonged the redemption date of 378 070 PKG2 convertible bonds with total issue price 1 058 596 euros. New redemption date is 20 January 2018.

On 21 January 2016 the Council of AS Pro Kapital Grupp decided to elect Edoardo Axel Preatoni as an additional Management Board Member of the company with the term in office of 3 years starting 1 March 2016.

On 10 February 2016 the Management Board of AS Pro Kapital Grupp announced the start of the third subscription period for secured fixed rate bonds with nominal value 100 000 euros, fixed rate 8% and redemption date 1 June 2020.

In March 2016 the Management Board of AS Pro Kapital Grupp decided on the allocation of the third subscription of secured, callable, fixed rate bonds with nominal value 900 000 euros and total issue price of 919 726 euros with redemption date on 1 June 2020. After the third subscription the total nominal value of the issued bonds is 14,3 million euros.

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 2015:

	Carrying amount	Allocation by due dates		
		Within 1 year	2-5 years	More than 5 years
Investment property	92 457	0	0	92 457
Property, plant and equipment	17 102	0	0	17 102
Inventories (assets held for sale)	12 438	10 801	1 637	0
Financial debt	34 990	8 013	26 669	308

In 2015, investment properties were upraised by 3 041 thousand euros (recorded through income statement). Interest expense on financial debt was 2 080 thousands euros.

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 financial year end, the breakdown of interest- bearing financial debt was as follows:

	31.12.2015	**31.12.2014**
Fixed rate liabilities	27 135	19 305
Variable rate liabilities (1-12 months)	931	6 877
Variable rate liabilities(12+ months)	6 924	3 728

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 79 thousand euros (106 thousand euros in 2014) and net profit would decrease by 79 thousand euros (106 thousand euros in 2014).

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

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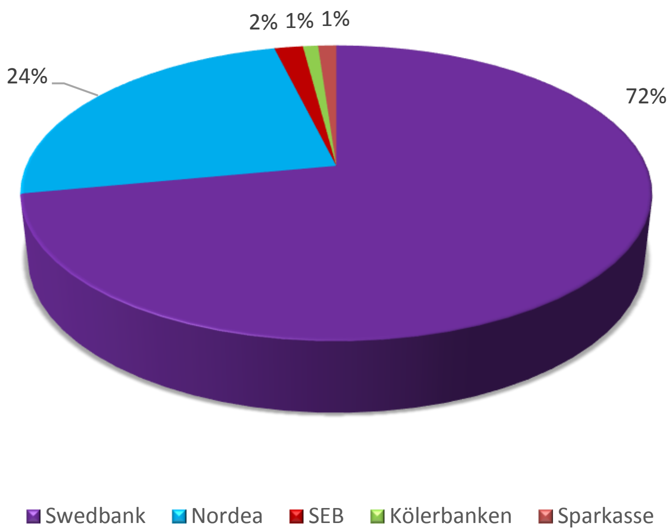
related to euro. Thus the main currency risk is related with devaluation of currencies related to euro, against which the Group is not protected.

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 Company is holding its cash in the following banks: Swedbank, Nordea, SEB, LHV, Kölner Banken and Sparkasse. Cash on accounts in the banks on 31 December 2015 is distributed as follows:



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 2015 the working capital of the Group's is positive and the current assets portion of short-term liabilities is 1,3 (as at 31 December 2014 negative, by 0,9 times).

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

		Repayment of liabilities				**Repayment of liabilities**	
	31.12.2015	**Within 1 year**	**Within 2-5 years**	**After 5 years**	**31.12.2014**	**Within 1 year**	**Within 2-5 years**
Bank loans	8 363	1 147	7 216	0	10 605	6 877	3 728
Other loans	857	32	148	678	5 846	4 538	1 308
Convertible bonds	12 516	6 834	5 682	0	11 219	5 167	6 052
Non-convertible bonds	2 557	1 157	1 400	0	2 240	0	2 240
Secured bonds	18 224	1 072	17 152	0	0	0	0
Trade payables	4 176	4 176	0	0	3 961	3 961	0
Other debt	1 560	1 513	47	0	898	531	367
Total	**48 253**	**15 931**	**31 645**	**678**	**34 769**	**21 074**	**13 695**

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

		Repayment of liabilities		
	31.12.2015	**Within 1 month**	**Within 2-3 months**	**Within 4-12 months**
Bank loans	1 147	71	143	933
Other loans	32	0	0	32
Convertible bonds	6 834	406	0	6 428
Non-convertible bonds	1 157	112	0	1 045
Secured bonds	1 072	0	0	1 072
Total	**15 931**	**589**	**143**	**15 199**

**Financial liabilities carrying interests include interest amounts.*

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.

	31.12.2015	**31.12.2014**
Equity to total assets	64,02%	68,61%
Debt to total assets	35,98%	31,39%
Long term debt level	24,36%	13,12%

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

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

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

Estonian Commercial Code §301 establish a restriction to the level of mandatory equity level: total equity shall not be less than ½ of registered share capital. Under the Estonian Accounting Act such a compliance assessment is made based on the *adjusted unconsolidated* equity of the Parent. The adjusted unconsolidated equity equals unconsolidated equity of the parent less book values of investments into subsidiaries measured at cost less impairment plus the amount of investments into subsidiaries measured under the equity method of accounting. As disclosed in Note 32 to these consolidated financial statements, the Parent has been in compliance with such an equity restriction as at 31 December 2015 and 31 December 2014.

Note 31. Lawsuits

To bring out better the events which might have material financial effect on the Company and its share price and not to burden the reporting with smaller litigation issues, the Group has changed the reporting policy concerning its legal disputes.

The Group has set the policy to disclose in its reporting pending court litigation disputes which might have material financial effect on the Company and its share price. As per the policy all disputes which might have financial effect of at least 100 000 euros (at once or during the period of one financial year) are disclosed in the reporting.

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

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	**31.12.2015**	**31.12.2014**
ASSETS		
Current Assets		
Cash and bank balances	3 153	297
Current receivables	2 624	2 871
Total Current Assets	5 777	3 168
Non-Current Assets		
Investments in subsidiaries	28 396	28 196
Non-current receivables from the Group entities	20 468	18 907
Intangible assets	3	4
Total Non-Current Assets	48 867	47 107
TOTAL ASSETS	**54 644**	**50 275**
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	7 053	5 967
Current payables	21 826	23 740
Taxes payable	72	71
Short-term provisions	84	0
Total Current Liabilities	29 035	29 778
Non-Current Liabilities		
Long-term debt	19 744	8 293
Non-current payables to the Group entities	52 931	54 026
Other long term payables	12	4
Total Non-Current Liabilities	72 687	62 323
Total Liabilities	**101 722**	**92 101**
Equity		
Share capital in nominal value	10 841	10 821
Share premium	1 669	1 474
Statutory reserve	1 082	1 064
Retained earnings (accumulated losses)	-60 670	-55 185
Total equity	-47 078	-41 826
TOTAL LIABILITIES AND EQUITY	**54 644**	**50 275**

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Statement of Income

in thousands of euros	**2015**	**2014**
Operating income		
Revenue	385	371
Gross profit	**385**	**345**
Marketing expenses	-20	-45
Administration expenses	-1 735	-1 906
Other income	1	0
Other expenses	-26	-38
Operating loss	**-1 395**	**-1 618**
Finance income and cost		
Interest income	712	2 402
Interest expense	-4 430	-5 808
Other finance cost	-354	-63
Loss for the financial year	**-5 467**	**-5 087**

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Statement of Cash Flows

in thousands of euros	**2015**	**2014**
OPERATING ACTIVITIES		
Loss for the financial year	-5 467	-5 087
Adjustments:		
Depreciation of intangible assets	1	0
Gain/loss on disposal of PPE	0	-1
Interest income and expense (net)	4 072	3 406
Non- monetary transactions	77	78
Change in receivables and prepayments	-959	-125
Change in other receivables	0	314
Changes in liabilities and prepayments	56	298
Cash flow from operating activities	**-2 220**	**-1 117**
INVESTING ACTIVITIES		
Proceeds from sales of fixed assets	0	1
Loans granted	-1 079	-1 138
Repayments of loans granted	130	1 589
Interest received	100	165
Cash flows from investing activities	**-849**	**617**
FINANCING ACTIVITIES		
Share capital raised	20	0
Share premium raised	195	0
Bonds issued	7 652	600
Bonds redeemed	-62	-53
Loans raised	1 582	800
Repayments of loans raised	-1 467	-249
Interest paid	-1 995	-807
Cash flows from financing activities	**5 925**	**291**
Net change in cash	**2 856**	**-209**
Cash at the beginning of the year	297	506
Cash at the end of the year	3 153	297

Statement of Changes in Equity

in thousands of euros	Share capital	Share premium	Reserves	Retained earnings	Profit (loss) for the year	Total
1 January 2014	**10 821**	**1 474**	**1 064**	**-45 964**	**-4 134**	**-36 739**
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
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**
Allocation to reserves	0	0	18	-18	0	0
Increase in share capital	20	195	0	0	0	215
Allocation of net loss	0	0	0	-5 087	5 087	0
Result of the financial year	0	0	0	0	- 5 467	-5 467
31 December 2015	**10 841**	**1 669**	**1 082**	**-55 203**	**-5 467**	**-47 078**
Cost of subsidiaries shares	X	X	X	X	X	-28 396
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	158 906
Adjusted unconsolidated equity 31 December 2015	**X**	**X**	**X**	**X**	**X**	**83 432**

Signatures of the Management Board and Supervisory Council to the Consolidated Annual Report 2015

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2015.

Paolo Michelozzi	Chairman of the Management Board	19 April 2016
Allan Remmelkoor	Member of the Management Board	19 April 2016
Edoardo Preatoni	Member of the Management Board	19 April 2016

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	19 April 2016
Pertti Huuskonen	Member of the Supervisory Council	19 April 2016
Petri Olkinuora	Member of the Supervisory Council	19 April 2016

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

We have audited the consolidated financial statements (pages 35 to 89) of AS Pro Kapital Grupp (hereafter also "the Group"), which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, the statement of changes in equity and the 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 2015, 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 Note 12 of the Financial Statements according to which 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.

19 April 2016

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 account the net losses of the year ended at 31 December 2015 in the amount of 1 934 thousand euros into retained earnings.