AS Pro Kapital Grupp

Interim Report 01.01. – 30.06.2012

PROKAPITAL

AS Pro Kapital Grupp
Interim Report 01.01. – 30.06.2012

Company name	AS Pro Kapital Grupp
Beginning of the financial year	1 January
End of the financial year	31 December
Reporting period	01.01.2012 – 30.06.2012
Registration code	10278802
Address	21 Põhja Avenue 10414 Tallinn Estonia
Telephone	+372 6 144 920
Facsimile	+372 6 144 929
Email	prokapital@prokapital.ee
Business activities	Holding company operations Buying and selling of owned real estate Rental and operation of owned or leased real estate Management of real estate on a fee or contract basis
Supervisory Board	Emanuele Bozzone - Chairman Giuseppe Prevosti Renato Bullani Sari Aitokallio Pertti Huuskonen Petri Olkinuora
Management Board	Paolo Michelozzi - Chairman and CEO Allan Remmelkoor

AS Pro Kapital Grupp

Interim Report 01.01. – 30.06.2012

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Management report

PKG in brief

Pro Kapital Grupp AS (the Company) is a leading Estonian real estate company with a focus on development, management and sale of modern large-scale retail and residential real estate in the capitals of Estonia, Latvia and Lithuania.

The Company also owns and manages three hotels in Tallinn, Riga and Bad Kreuznach, Germany.

Since its establishment in 1994, Pro Kapital has completed 20 development projects with ca 180 000 square meters of total saleable area.

Pro Kapital follows a conservative policy in financing the projects – a high proportion of equity and low leverage compared to the industry average enables the company to develop the most profitable sales.

The estimated value of the investments in Pro Kapital's current real estate portfolio is approximately 180.2 million euros: 63% residential developments, 24% commercial premises and 13% hotels. (Newsec, April 2012).

Key financial figures

	2012 1st half	2011 1st half
Revenue, th. EUR	9 932	8 016
Gross profit, th. EUR	1 862	2 260
Gross profit, %	18.8%	28,2%
Operating profit, th. EUR	-2 236	53 536
Operating profit, %	-22.5%	667.9%
Net profit, th. EUR	-2 889	52 047
Net profit, %	-29.1%	649.3%
Total Assets, th. EUR	102 702	113 472
Total Liabilities, th. EUR	33 570	41 414
Total Equity, th. EUR	69 132	72 058
Debt/Equity	0.49	0.57
Return on Assets, %	-2.7%	35.7%
Return on Equity, %	-4.1%	75.1%

CEO review

The first half of 2012 has been very intensive for the Company defining its long-term strategies and continuing preparations for the new real estate developments planned for the coming years and initial public offering scheduled for the 2nd half of the year. In April the shareholders elected 3 new independent Supervisory Council members - Ms. Sari Aitokallio, Mr. Pertti Huuskonen and Mr. Petri Olkinuora - as persons with wide experience in administrating of public companies and relationship with international institutional investors. Starting from 16th of April Ms. Ruta Juzulenaite started to work as Chief Financial Officer of the company. Her experience in the financial sector has contributed to introduce strong and focused financial and administrative structures of Pro Kapital in order to strengthen the Company's position in the market.

During the reporting period the Company continued with projecting works of 3 new development projects, Peterburg road shopping centre and first part of new stage in Tondi Quarter in Tallinn and Tallinnas Residential Complex in Riga for obtaining building licences. In connection with the shopping centre project we have signed the agreements for preprojecting of tram line Majaka str. – Peterburi road 2, projecting of rainwater sewage line on Kivimurru street and connection agreement with AS Eesti Gaas. In June we received the building licence for the entrance crossroad from the Peterburi road to the eastern side of the projected shopping centre.The Company has also started successfully the leasing activities for the shopping centre premises with first lease agreements signed at the end of the reporting period.

Alongside with the real estate development activities the Company continued with preparation works for the initial public offering of its new shares, scheduled to take place in September 2012 at Tallinn Stock Exchange with Porta Finance UAB and AS LHV Pank respectively as advisor and global coordinator.

At the end of the reporting period the Company recorded net revenue 9,93 mln EUR, +23,9% compared to the same period in 2011. Recorded net loss 2,89 mln EUR include non-recurring costs related to IPO preparations in amount of 0,37 mln EUR and additional provision regarding legal dispute in Netherland (see Legal overview and developments) in amount of 0,71 mln EUR.

In Tallinn the sale of residential recorded 2 flats and 3 parking places as well 6 lease agreements signed for parking places and 4 agreements for offices. In total in Tallinn there are at the moment for sale 16 flats (11 in Ilmarise Quarter and 5 in Tondi), 11 office premises (Tondi), 4 basement premises (3 in Narva str. 13 and 1 in Vene 19) and several underground parking places in Ilmarine Quarter.

Domina Inn Ilmarine Hotel showed results well above expectations, with occupancy rate growth by 4,1% the gross operating profit was 223 484 EUR, recording the increase more than 2 times.

In Riga 1 flat has been sold and in total 20 lease agreements were signed for World Trade Centre office premises. There are 3 flats in Riga for sale at the end of the reporting period. We are pleased with the results of Domina Inn Riga Hotel, with occupancy rate growth by 26,4% compared to last year and the gross operating profit being 282 529 EUR, increased by 7,8%.

In Vilnius the sale of residential properties recorded 31 flats and commercial premises and 13 parking places. Major part (27 flats and all parking places) was part of a bulk deal. In total the are 55 apartments and 113 parking places for sale in Vilnius.
Bad Kreuznach Domina Parkhotel Kurhaus, Germany, occupancy rate dropped by ca 13%, with gross operating profit decreasing by 2% to 255 th EUR. Bad Kreuznach hotel operating company was acquired in November 2011 and currently is undergoing the process of cost review and efficiency means.

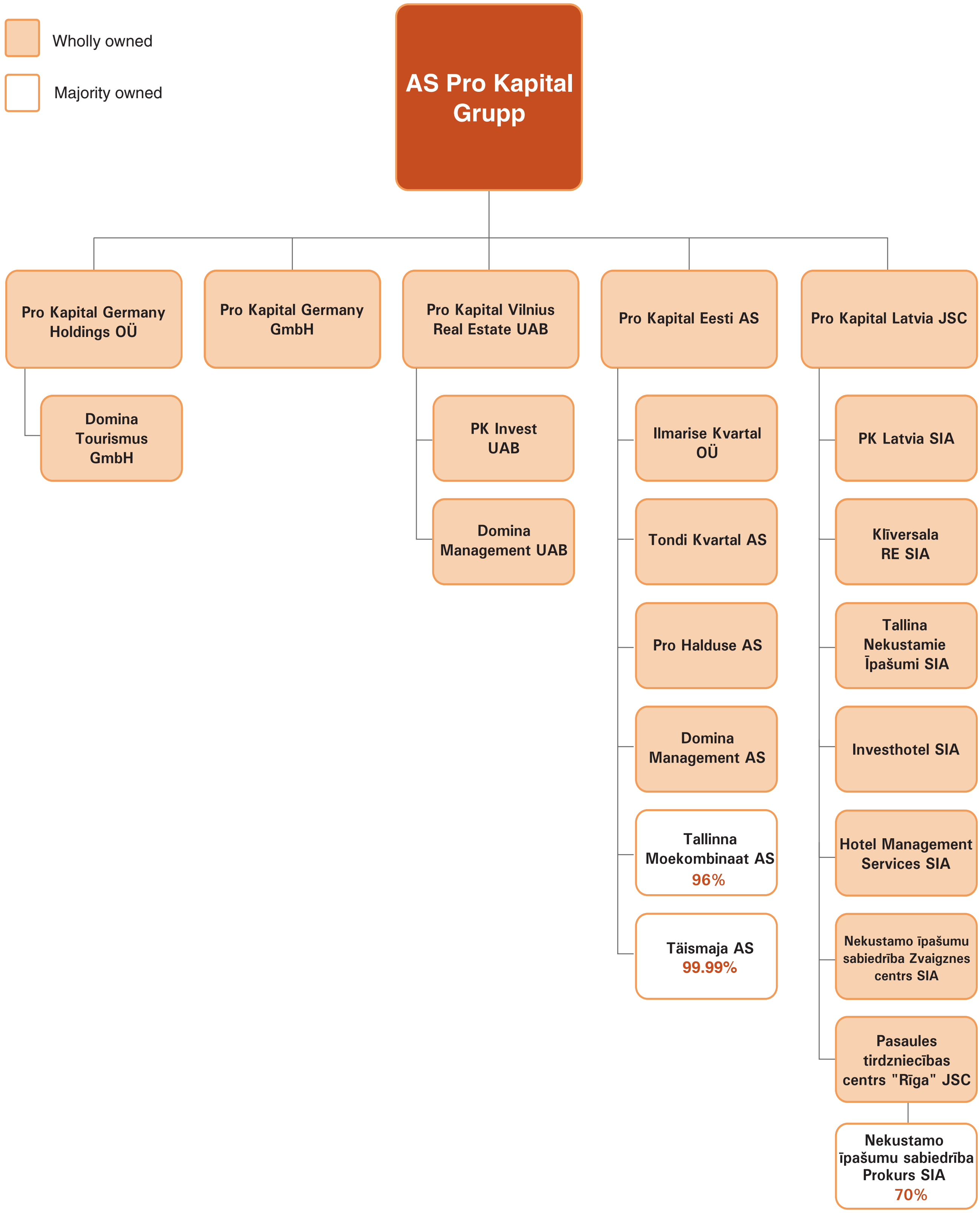
The Company's outstanding bank loan at the end of the period was 12,3 mln EUR, which has decreased by 15,7% during the reporting period. The Company will introduce additional overdraft agreement of 3,0 mln EUR shortly after the end of the reporting period.
The Company as of June 30, 2012 had 11,272 mln EUR worth convertible bonds, no changes since the start of reporting period.

As of June 30, 2012 there were 142 employees working in the Company, 102 of them were employed in hotel and property maintenance business.

Paolo Michelozzi
CEO
Pro Kapital Grupp AS

July 24, 2012

Group structure as of 30.06.2012



Overview of development projects

Project name	Type	Location	Ownership	Planned Volume	Status	Classification
Peterburi road Shopping Centre	Retail	Tallinn	96%	GLA 55 000 m²	Application submitted for a building licence	Investment property
Ülemiste	Office	Tallinn	100%	GLA 22 880 m²	Detail plan approved. Project not started	Investment property
Tondi	Residential	Tallinn	100%	NSA 83 462 m² *71 280 m² residential* *12 182 m² commercial*	Application submitted for a building licence for stage two	Inventories
Kalaranna	Residential	Tallinn	100%	NSA 33 013 m² *27 600 m² residential* *5 413 m² commercial*	Detail plan approval in process	Inventories
Tallinas	Residential	Riga	100%	NSA 18 845 m² *17 650 m² residential* *1 195 m² commercial*	Project work in process for building licence application	Inventories
Kliversala	Residential	Riga	100%	NSA 49 920 m² *31 600 m² residential* *7 920 m² commercial* *10 400 m² hotel*	Detail plan approval in process	Inventories
Zvaigznes	Residential	Riga	100%	NSA 17 949 m² *11 277 m² residential* *6 672 m² commercial*	Building licence for reconstruction of the existing building issued	Inventories
Saltiniu Namai	Residential	Vilnius	100%	NSA 23 056 m² *20 343 m² residential* *2 713 m² commercial*	First stage completed and on sale except for two buildings, which already have building licences. Stage two is being designed ready for the building licence application	Inventories

*NSA – Net Saleable Area
GLA – Gross Leasable Area

Segments and Key Performance Indicators

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

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

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted 17,3% compared to 70,1% of the comparable period last year, when major part of the revenue was created by Kristiine Shopping Centre, that was sold in May 2011.

The Company's operations in **Latvia** mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of office properties, and management of cash flow generating hotel properties.
The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period amounted 13,7% compared to 14,9% of the comparable period last year.

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

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted 53,5% compared to 12,2% of the comparable period last year. The reason of such increase was a bulk sale of 27 flats and 13 parking places.

The Company's operations in **Germany** consist of the development and management of Domina Kurhaus hotel located in Bad Kreuznach, Germany.

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 15,5% compared to 2,7% of the comparable period last year. The reason of such increase was the acquisition of the Bad Kreuznach hotel operating company in November 2011.

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

Revenue structure, th. EUR

	EST 2012 H1	EST 2011 H1	LV 2012 H1	LV 2011 H1	LT 2012 H1	LT 2011 H1	GER 2012 H1	GER 2011 H1	TOTAL 2012 H1	TOTAL 2011 H1
Sale of Real Estate	290	463	105	-	5256	938	-	-	5 651	1 401
Rent	47	2 865	418	344	35	22	-	217	500	3 448
Hotels	681	423	590	533	-	-	1 538	-	2 809	956
Maintenance	692	1 779	11	23	25	20	-	-	728	1 822
Other	5	93	238	296	1	-	-	-	244	389
TOTAL	**1 715**	**5 623**	**1 362**	**1 196**	**5 317**	**980**	**1 538**	**217**	**9 932**	**8 016**

Other selected data

	EST 2012 H1	EST 2011 H1	LV 2012 H1	LV 2011 H1	LT 2012 H1	LT 2011 H1	GER 2012 H1	GER 2011 H1	TOTAL 2012 H1	TOTAL 2011 H1
m^2 sold	117	320	60	0	2 356	523	-	-	2 533	843
Average price/m^2, EUR	1 363	1 429	1 583	-	2 151	2 191	-	-	2 101	1 902
m^2 under maintenance management	42 685	50 363	15 013	15 013	7 826	7 826	-	-	65 524	73 202
Occupancy rate, hotels, %	66.1	63.5	78.2	61.9	-	-	48.4	55.6	62.7	60.1

Financing sources and policies

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

During first half of 2012 the Company has repaid 2,37 mln EUR of its bank loans. The Company is about to sign bank overdraft agreement of 3,0 mln EUR, to enhance its working capital flexibility.

Shares and shareholders

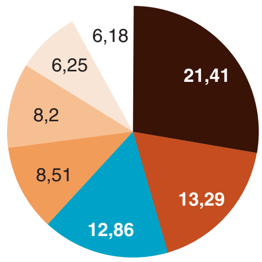
As of 30.06.2012 AS Pro Kapital Grupp has issued total 53 185 422 shares with the nominal value 0,2 euros. The registered share capital of the company is 10 637 084.40 EUR.

By the shareholders decision of 13.04.2009 the share capital has been increased conditionally. By the 13.04.2012 shareholders decision the decision of the conditional share capital increase was amended and it was confirmed the share capital is increase conditionally by 805 151.60 EUR in connection with possible conversion of the issued convertible bonds to the shares of the Company.

As of 30.06.2012 there are 51 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

Shareholders holding over 5% of the shares as of 30.06.2012:

	Shareholders	Number of shares	Percentage of shares
1	Clearstream Banking Luxembourg S.A. Clients	11 387 230	21.41
2	Eurofiduciaria S.R.L.	7 067 431	13.29
3	Svalbork Invest OÜ	6 839 938	12.86
4	Sueno Latino AG	4 528 531	8.51
5	A.F.I. American Financial Investments Ltd.	4 359 935	8.20
6	Anndare Ltd.	3 323 202	6.25
7	Unicredit Bank Austria AG	3 287 801	6.18



Participation of Member of the Management Board and the Council Members as of 30.06.2012:

Name	Position	Number of shares	Percentage of shares	Number of convertible bonds
Paolo Michelozzi	CEO	0	0.00	0
Allan Remmelkoor	COO	0	0.00	0
Emanuele Bozzone	Chairman of the Council	0	0.00	22 224
Sari Aitokallio	Supervisory Board Member	0	0.00	0
Petri Olkinuora	Supervisory Board Member	0	0.00	0
Pertti Huuskonen	Supervisory Board Member	0	0.00	0
Giuseppe Prevosti	Supervisory Board Member	4 447 597*	8.36	0
Renato Bullani	Supervisory Board Member	133 000	0.25	0

** participation directly and through (a) UNICREDIT BANK AUSTRIA AG nominees account, (b) Zunis S.A and (c) wife Donatella Grigioni*

Legal overview and developments

As of 30.06.2012 AS Pro Kapital Grupp companies had 6 pending court cases (as of 31.12.2011 there were 10 pending court cases). During the reporting period AS Pro Kapital Grupp companies won or settled 5 court cases and one additional court case was filed against AS Pro Kapital Grupp company.

The most material ongoing court case is between the AS Pro Kapital Grupp as the ultimate parent company and Aprisco B.V.

On May 27, 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the issued guarantee letter with what AS Pro Kapital Grupp assures the rental liabilities of the Serval S.r.l arising from the rental agreement of the Rotterdam hotel.

On July 4, 2012 Rotterdam City Court made a decision and awarded Aprisco B.V claim in the amount of 1 409 265,2 EUR to be paid. The part of the claim in the amount of 786 434.7 EUR has to be paid without delay, while the payment of the remaining part of 622 830.52 EUR is dependent on the outcome of Aprisco B.V court case against Serval S.r.l in regards to the rent reduction agreement validity.

The Management Board of AS Pro Kapital Grupp does not agree with the court decision. The Management Board of AS Pro Kapital Grupp does not recognize the claim and states that the guarantee was given to Hotel Blijdorp B.V and not to Aprisco B.V and AS Pro Kapital Grupp was not informed for the transfer of the guarantee letter and therefore Aprisco B.V cannot file the claim related to the guarantee letter. The Management Board of AS Pro Kapital Grupp claims alternatively that according to the guarantee letter Aprisco B.V can claim only unpaid rental payments in amount of 406 thousand euros with accumulated interest for default and which could increase by 282 thousand euros in case the rental lowering agreement between Serval S.r.l. and Aprisco B.V. is found to be unbinding. In addition the Management Board of AS Pro Kapital Grupp is of opinion that the Rotterdam City Court has incorrectly considered the period for which the rent payments are due. The court acknowledged in the decision that AS Pro Kapital Grupp is liable just for rent payments and not the damages. Serval S.r.l was ordered by Aprisco B.V. do vacate the premises and did so on 17.06.2010. Despite this the court ruled that AS Pro Kapital Grupp is liable for rent difference between the new tenant and Aprisco B.V. until 29.07.2011. The Management Board of AS Pro Kapital Grupp is of opinion that the difference in rent is not to be considered as rent payments, but should be considered as damaged, which are not secured by the letter of guarantee issued by AS Pro Kapital Grupp.

The Management Board of AS Pro Kapital Grupp is planning to appeal the court decision. For further details on legal disputes please see Note 31 of the Interim Report.

People

At the end of first half of 2012 the Company employed 142 people compared to 153 at the end of first half of 2011. 102 of them were engaged in hotel and property maintenance services (115 at the end of first half of 2011). The total remuneration expenses for the Company at the end of first half of 2012 were 1 920 777 EUR compared to 2 618 930 EUR for corresponding period of 2011 (included one-time premiums in amount of 559 486 EUR for successful sale of Kristiine Shopping Centre).

Risks

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

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

Asset risks are covered by effective insurance contracts.

Interim Financial Statements

Consolidated statement of financial position

(Th. EUR)	Notes	30.06.2012	31.12.2011
ASSETS			
Current Assets			
Cash and cash equivalents	8	2 142	8 637
Current receivables	9	2 857	2 865
Inventory	10	49 395	53 186
Total Current Assets		54 394	64 688
Non-Current Assets			
Non-current receivables	11	152	152
Deferred tax assets	27	368	370
Property, plant and equipment	12	21 393	21 863
Investment property	13	26 111	26 111
Intangible assets		284	288
Total Non-Current Assets		48 308	48 784
TOTAL ASSETS		**102 702**	**113 472**

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

Consolidated statement of financial position

(Th. EUR)	Notes	30.06.2012	31.12.2011
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	14	6 898	14 002
Customer advances		579	838
Current payables	15	1 497	1 791
Taxes payable		106	95
Short-term provisions	31	1 755	1 091
Total Current Liabilities		10 835	17 817
Non-Current Liabilities			
Long-term debt	16	20 673	21 462
Other long-term liabilities		132	0
Deferred income tax liability	27	1 878	1 962
Long-term provisions		52	173
Total Non-Current Liabilities		**22 735**	**23 597**
Total Liabilities		**33 570**	**41 414**
Equity attributable to equity holders of the parent			
Share capital in nominal value	20	10 637	10 637
Revaluation reserve	20	11 337	11 330
Foreign currency differences		-1 130	-1 130
Retained earnings			
Accumulated profits		49 624	27 693
Profit (loss) for the period		-2 889	21 931
Total equity attributable to equity holders of the parent		**67 579**	**70 461**
Non-controlling interest	21	**1 553**	**1 597**
Total equity and liabilities		**102 702**	**113 472**

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

Consolidated statement of comprehensive income

(Th. EUR)	Notes	2012 1st half.	2011 1st half.
Operating income			
Revenue	7, 22	9 932	8 016
Cost of goods sold	23	-8 070	-5 756
Gross profit		**1 862**	**2 260**
Marketing expenses	24	-289	-169
Administrative expenses	24	-2 707	-2 776
Other income	25	118	54 692
Other expenses	25	-1 220	-471
Operating profit (loss)		**-2 236**	**53 536**
Financial income	26	16	659
Financial expense	26	-679	-2 155
Profit (loss) before income tax		**-2 899**	**52 040**
Income tax	7, 27	-42	7
Deferred tax	7	56	0
Net profit (loss) for the period		**-2 885**	**52 047**
Net profit (loss) attributable to:			
Equity holders of the parent		**-2 889**	**23 909**
Non-controlling interest		**4**	**28 138**
Other comprehensive income (loss), net of income tax			
Comprehensive income (loss) for the period		-2 885	52 047
Equity holders of the parent		**-2 889**	**23 909**
Non-controlling interest		**4**	**28 138**
Earnings per share (EUR)	28	-0.05	0.45
Diluted earnings per share (EUR)	28	-0.05	0.45

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

Consolidated statement of cash flows

(Th. EUR)	Notes	2012 1st half.	2011 1st half.
Profit (loss) for the period		-2 885	52 047
Adjustments:			
Depreciation charge for the period	7, 12	650	297
Amortisation charge for the period		4	4
Loss from change in fair value of investment property	13	230	0
Profit from sale of investment property		0	-54 057
Interest income	26	-16	-659
Interest expenses	26	679	2 155
Non-monetary transactions		614	334
Change in:			
Current receivables	9	8	-277
Inventory	10	3 791	-277
Customer advances		-259	1 065
Current payables	15	-294	-3 883
Taxes payable		11	
Short-term provisions		664	0
Other long-term liabilities		132	0
Deferred income tax liability	27	-84	0
Long-term provisions		-121	0
Other changes		-6 282	-8 327
Change in cash from (used in) operating activities		**-3 158**	**-11 578**
Additions to fixed assets	7, 12	-66	-822
Additions to investment property	13	-230	0
Proceeds from sale of investment property	13	0	104 997
Proceeds from sale of tangible assets	5	0	5
Acquisition of subsidiaries	5	-9	-8 866
Interests collected		16	47
Change in cash from (used in) investing activities		**-289**	**95 361**
Proceeds from convertible bonds	19	0	3 062
Proceeds from loans / debt		0	1 642
Repayment of loans / debt		-2 369	-67 286
Interests paid		-679	-2 151
Change in cash from (used in) financing activities		**-3 048**	**-64 733**
Net change in cash and cash equivalents		**-6 495**	**19 050**
Opening balance	8	8 637	1 194
Closing balance	8	2 142	20 243

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

Consolidated statement of changes in equity

(Th. EUR)	Nominal value of share capital	Share premium	Statutory legal reserve	Revaluation reserve	Foreign currency differences	Retained earnings: Accumulated profits (losses)	Retained earnings: Accumulated profits (losses) separated	Retained earnings: Profit (loss) for the financial period	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
NBV 01.01.2010	**33 992**	**45 089**	**2 938**	**0**	**-1 373**	**111 925**	**-142 761**	**-3 455**	**46 354**	**29 390**	**75 745**
Transfer to retained earnings	0	0	0	0	0	-3 455	0	-3 455	0		0
Profit (loss) for the financial period	0	0	0	0	0	0	0	-7 413	-7 413	393	-7 020
Change in interest in subsidiaries	0	0	0	0	0	-2 097	0	0	-2 097	- 112	- 2 209
Foreign currency differences	0	0	0	0	-9	0	0	0	-9	0	-9
NBV 31.12.2010	**33 992**	**45 089**	**2 938**	**0**	**-1 382**	**106 373**	**-142 761**	**-7 413**	**36 836**	**29 670**	**66 507**
Transfer to retained earnings	0	0	0	0	0	-7 413	0	7 413	0	0	0
Decrease in share capital 30.06.2012	-2 081	0	0	0	0	2 081	0	0	0	0	0
Impact of separation	0	0	0	0	0	-142 761	142 761	0	0	0	0
Profit (loss) for the financial period	0	0	0	0	0	0	0	23 905	23 905	28 138	52 043
Change in interest in subsidiaries	0	0	0	0	0	-22 105	0	0	-22 105	-9 855	-31 960
Foreign currency differences	0	0	0	0	4	0	0	0	4	0	4
NBV 30.06.2011	**31 911**	**45 089**	**2 938**	**0**	**-1 378**	**-63 825**	**0**	**23 905**	**38 641**	**47 953**	**86 594**
Decrease in share capital 16.09.2011	-21 274	-45 089	-2938	0	0	69 301	0	0	0	0	0
Appropriation to revaluation reserve	0	0	0	11 330	0	0	0	0	11 330	0	11 330
Profit (loss) for the financial period	0	0	0	0	0	0	0	-1 974	-1 974	33	-1 941
Change in interest in subsidiaries	0	0	0	0	0	22 217	0	0	22 217	-46 389	-24 172
Foreign currency differences	0	0	0	0	247	0	0	0	247	0	247
NBV 31.12.2011	**10 637**	**0**	**0**	**11 330**	**-1 130**	**27 693**	**0**	**21 931**	**70 461**	**1 597**	**72 058**
Transfer to retained earnings	0	0	0	0	0	21 931	0	-21 931	0	0	0
Profit (loss) for the financial period	0	0	0	0	0	0	0	-2 889	-2 889	4	-2 885
Change in interest in subsidiaries	0	0	0	0	0	0	0	0	0	-48	-48
Foreign currency differences	0	0	0	7	0	0	0	0	7	0	7
NBV 30.06.2012	**10 637**	**0**	**0**	**11 337**	**-1 130**	**49 624**	**0**	**-2 889**	**67 579**	**1 553**	**69 132**

NOTE 1. General information

AS Pro Kapital Grupp (hereinafter also referred to as "the Ultimate Parent Company") is a holding company incorporated and operating in the Republic of Estonia. The main shareholders of the Ultimate Parent Entity are the following:

Shareholder	Country of incorporation	Share of ownership 30.06.2012	Share of ownership 31.12.2011
Clearstream Banking Luxembourg S.A. Clients	Luxembourg	21.41%	0.00%
Eurofiduciaria S.r.l.	Italy	13.29%	11.98%
Svalbork Invest OÜ	Estonia	12.86%	12.86%
Sueno Latino AG	Liechenstein	8.51%	8.51%
A.F.I. American Financial Investments Ltd.	Liechtenstein	8.20%	9.57%
Anndare Ltd.	Ireland	6.25%	41.69%

For the purpose of comparative financial figures of these interim financial statements as at 30 June 2011, AS Pro Kapital Grupp (hereinafter also referred to as "PKG") is a holding company, which owns subsidiary groups in Estonia (Pro Kapital Eesti AS), Latvia (Pro Kapital Latvia PJSC), Lithuania (Pro Kapital Vilnius Real Estate UAB), and Germany (Pro Kapital Germany GmbH) (hereinafter also referred to as „the Group") and whose main fields of activity are to coordinate and control the development and implementation of the subsidiaries' business strategies, to administrate the Group's financial management, business reporting, and to forward information to investors.

For the comparative period of 6-months 2011, these interim financial statements represent the consolidated assets, liabilities, equity, results of operations and cash flows of the Ultimate Parent Company and its subsidiaries (hereinafter also referred together to as "the Group") enlisted in Note 4 to these financial statements.

NOTE 2. Basis of preparation of interim financial statements

Basis of preparation

In 2011, PKG disposed its operations in Ukraine and Russia:

- By 14 September 2011 liquidation of subsidiary of the Ultimate Parent Company, Pro Kapital Ukraine 3AT was finished. In regard of this, the business activity of the Group ended in Ukraine.
- On 28 November 2011 the Ultimate Parent Company sold 100% of Pro Kapital Rus OOO shares at the price of 10 thousand Russian roubles (292 EUR). Profit from sale of ownership amounted to 6 589 th. EUR. In regard of this, business activity of the Group ended in Russia.

In connection with the initial public offering of PKG bonds, to present an economic view of the Group business as a whole, historical financial statements for the period 1 January – 30 June 2011 have been prepared based on the financial statements historically included in the consolidated financial statements of AS Pro Kapital Grupp and excluding financial effect arising from Pro Kapital Ukraine 3AT and Pro Kapital Rus OOO.

These comparative financial statements for the period 1 January – 30 June 2011 are not necessarily indicative of the consolidated financial statements that would have been prepared if the subsidiaries in Ukraine and Russia had been disposed at an earlier date than the actual. They provide an indicative view of the Group businesses' historical operations within AS Pro Kapital Grupp.

Compliance with International Financial Reporting Standards

International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union do not include any guidance on preparing comparative combined financials. This section describes how IFRSs have been applied to prepare the comparative financial statements for the six-month period ended 30 June 2011.

Comparative historical financial statements for the six-month period ended 30 June 2011 include the companies owned directly or indirectly by the Group. Following the same logic, subsidiaris in Ukraine and Russia have been excluded from the scope.

These interim financial statements ("financial statements") have been prepared in accordance with IFRS as adopted in the European Union, with the exception of the following Principes:

> IAS 27 requires that a group consolidates its operations as if it was a single entity. Group's operations are defined through existence of control that the parent company exercices over other entities (subsidiaries), i.e. the parent company has the power to govern, directly or indirectly, the financial and operating policies of other entities so as to obtain benefits from its activities. The comparative financial statements for the six-month periood ended 30 June 2011, have been compiled in line with the existance of control over entities as of 31 December 2011 (listed in Note 4 to these financial statements) and in accordance with consolidation principes described in Note 3 below.
>
> Consequently, the comparative financial information provided does not reflect factual legal structure nor presence of control over other entities by the Group as at 30 June 2011. The purpose for such presentation is providing sufficiently comparable historical information about the operations of the group entities retained after the disposal of Ukraine and Russian operations on the second half of 2011.
>
> This results in deviation from IFRS 5 principles for reporting on discontinuing operations, as after applying the IAS 27 deviation described above, has lost its relevance for the context purposes.

Use of judgements, estimates and assumptions

According to IFRS, the preparation of the consolidated financial statements assumes judgements, estimates and assumptions to the Group's assets and liabilities which are not readily apparent from other sources as at the balance sheet date and income earned and expenses covered during the reporting period and made by the management board of the Ultimate Parent Company. These estimates are based on historical experience and the up-to-date information about the state of the Group and considering the plans and risks as at the date of the preparation of the consolidated financial statements. The final results of these economic transactions may differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods.

Estimation and decision of management, which influence information presented in financial statements includes following accounting areas:

Classification of real estate

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

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

Estimation of net realization value of inventory

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

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

Fair value of property investment

As of balance sheet date the property investments are valued at their fair value. In determination of the fair value estimations of management were used, and if needed opinion of independent certified real estate appraisers. In determination of the fair value two methods are used: discounted cash flow method and comparative transaction price method. Discounted cash flow method is used for assigning fair value of real estate objects with stable rental income.

Recoverable value of fixed assets

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

Useful life of property, plant and equipment

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

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated separately. Receivable overdue for more than 180 days, are considered to be non-collectible and are fully written-off.

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

Application of new and revised IFRS

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- Amendments to IAS 1 "Presentation of financial statements" - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013).

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 30 June 2012:

IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2015),

IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013),

IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013),

IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after 1 January 2013),

IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013),

IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2013),

IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 1 “First-time Adoption of IFRS” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),

Amendments to IFRS 1 “First-time Adoption of IFRS” - Government Loans (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures,

Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),

Amendments to various standards “Improvements to IFRSs (2012)” resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),

IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013). The Entity anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

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

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

NOTE 3. Principal accounting policies

The financial statements have been compiled under principles of consistency and comparability, meaning adherence to the principles of the accounting policies and representation are altered in case of the require of new or revised IFRS's or the interpretations of the standards issued or if a change of the policy provides a more objective overview of the financial position, the economic performance and cash flows of the Group.

These interim financial statements are prepared on the accrual basis.

Basis of consolidation

These interim financial statements comprise of the financial statements of the Ultimate Parent Company of the Group and its subsidiaries. Subsidiary is considered to be under the control of the parent company when it has the power to govern the financial and operational policies of an entity, so as to obtain benefits from its activities.

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

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

In case the parent company has obtained control over a subsidiary during the accounting period, the financial results of that subsidiary are recorded from the date the control was acquired. If the parent company has sold a subsidiary during the accounting period, the financial results of that subsidiary are included in the consolidated financial statements of the Group up to the date of disposal.

The balances and transactions between Group entities and unrealized profits/losses from intragroup transactions are eliminated in the consolidated financial statements.

Business combinations

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

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

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Foreign currency transactions

The subsidiaries of the Group prepare their financial statements for consolidation purposes in local currencies. Foreign currency transactions are recorded on the basis of the foreign currency exchange rates, prevailing on the date of the transaction, of the Central Banks of sub-group's country of incorporation. At each balance sheet date the monetary balances are recalculated based on the currency rate prevailing at the balance sheet date, of the Central Banks of sub-group's country of incorporation. Non-monetary items recorded at fair value are recalculated based on the currency rate prevailing on the date of the revaluation. Non-monetary items recorded at acquisition price are not recalculated concerning the changes in the foreign currency rate. Gains and losses arising from exchange rate differences are recognized in the income statement for the accounting period.

In consolidation process, assets and liabilities, including the goodwill formed from the acquisition of foreign subsidiaries and revaluations to fair values are recalculated to the reporting currency based on the currency exchange rates prevailing at the balance sheet date of Central Bank of European Union of the country of incorporation of the consolidating company. Income statement lines are recalculated based on the average annual exchange rates. Gains and losses arising from exchange rate differences appeared during the consolidation process are recorded on a separate line in the consolidated company equity.

Differences of currency translation are recognized as income or expense of the period when the transaction occurred, i.e. in case of disposal or liquidation of a subsidiary.

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

(in euros)	**30.06.2012**	**2012 1st** half average	**31.12.2011**	**2011 1st** half average
Latvian lat (LVL)	1.42287	1.42287	1.42959	1.41583
Lithuanian lita (LTL)	0.28962	0.28962	0.28962	0.28962

Cash and cash flows

Cash on the balance sheet and cash flow statement comprises cash on hand, bank accounts, and short-term bank deposits (with time term less than three months).

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

Inventories

Inventories are recorded at cost, which comprises purchase price, non-refundable taxes and other direct acquisition expenditures, which are necessary to transfer inventories to their current location and condition. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, then weighted average cost method is used. Inventories are stated on the balance sheet at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less all estimated costs of making the sale. Revaluation of inventories to net realizable value is recognized as expense for the accounting period.

Real estate held for sale

Real estate's (land and buildings) that have been acquired and developed to be sold, are presented on the balance sheet as inventories on the line “Property held for sale” and recognized at cost that comprises of acquisition cost of the real estate and direct expenses (design, construction and technical supervision) necessary to bring the property to the current condition. Borrowing costs from third party loans accrued during the construction period until the issuance of the certificate of occupancy are included in the cost value. Depending on the estimate of the stage of completion, finished and unfinished property for sale is distinguished.

In case the net realizable value of the real estate object is less than its cost value, the real estate object is written down to its net realizable value and the impairment is charged as expense for the accounting period.

In case the usage purpose of a real estate objects changes, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied.

Property, plant and equipment

Assets used for rendering services or used for administrative purposes and with useful life of over one year are considered to be property, plant and equipment. Property, plant and equipment are recognized at cost, which comprises purchase price, non-refundable taxes and other expenditures directly related to taking the asset into use.

In the balance sheet property, plant and equipment are measured either at fair value (land and buildings) or at cost less accumulated depreciation and impairment losses (machinery and equipment, other fixtures).

Revaluation of land and buildings to fair value are performed with sufficient regularity such that the carrying amounts do not differ signifivantly from those that would be determined using fair values at the end of each reporting period.

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

Depreciation of property, plant and equipment commences when the assets are taken into use. Depreciation is calculated on the straight-line method. Depreciation rate to each tangible asset item is determined according to its estimated useful life. Depreciation on revalued buildings in recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

The annual depreciation rates for groups of property, plant and equipment are as follows:
- Buildings in use 2 to 5% per annum;
- Machinery and equipment 8 to 20% per annum;
- Other fixtures 20 to 50% per annum.

Investment property

Land and buildings, also equipment related to buildings, that are held to generate rental revenue or with the purpose to increase its market value and which are not used in operations of the Group, are reported on the balance sheet as investment property.

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property.

Investment property is initially recognized at cost, which comprises of purchase price, non-refundable taxes and other expenditures directly related to taking the investment property into use. Subsequently to initial recognition, investment properties are measured using the fair value method.

In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied.

Intangible assets

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

Franchises, patents, licenses, trademarks and usage rights are recorded on the balance sheet at cost less accumulated amortization and impairment losses. Amortization is calculated on the straight-line method using an annual rate of 20%. Usage rights are amortized using the straight-line method and the maximum length of the amortization period is the period where the asset is being used.

Impairment of assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its limited lifetime tangible and intangible assets in order to determine whether there are any indications that the assets have suffered an impairment loss. For this purpose, the recoverable value of an asset is estimated.

The recoverable value of the asset is the higher of the present value of the future cash flows from the asset (i.e. value in use) or the fair value of the asset less costs of disposal. In estimating value of use, the estimated cash flows are discounted with a rate which expresses the trends of current market value and specific risks related to assets.

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

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

Investments in subsidiaries
(in Parent company's unconsolidated financial statements (Note 4))

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

Financial instruments

Financial instruments held to maturity

Investments are recognized on a transaction date basis and are initially measured at fair value less transaction costs. Subsequently for financial instruments that the entity has expressed intention and ability to hold to maturity are measured at amortized cost, less any impairment loss by using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts over financial asset's expected life time or a shorter period if appropriate.

Financial instruments available for sale

Available for sale financial assets are non-derivatives that are either designated as available for sale or are not classified as:

- Loans and receivables
- Held-to-maturity investments
- Financial assets at fair value through profit and loss.

Available for sale financial assets that are traded in an active market are stated at fair value at the end of each reporting period. Available for sales equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment at the end of each reporting period.

Interest income calculated using the effective interest method and dividends available for sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available for sale financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Loans granted and receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Trade receivables recorded in the balance sheet are evaluated based on collectability expectations. Doubtful receivables are recorded as expense of the accounting period.

Bank borrowings

Interest-bearing loans and overdrafts are initially measured at their fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Financial expenses, including the transaction costs and the settlement costs, are recorded on an accrual basis. Interest expenses are charged to the income statement as an expense of the period, unless the interest expense is related to loans obtained to finance development of property or similar assets, in which case the interests are capitalized as acquisition cost of the asset.

Convertible bonds

Convertible bonds that are convertible into shares at bondholder's request are initially measured in their fair value and are subsequently measured at amortized cost, using the effective interest rate method. Interest expense from convertible bonds is recorded in the income statement for the reporting period based on actual interest rates.

Other financial liabilities

Other financial liabilities are initially recognized at cost which is equal to their fair value at the date of transaction. The cost of a financial liability includes all transactions costs that are directly attributable to its acquisition. After initial recognition, financial liabilities are measured at amortized cost (except for financial liabilities acquired for resale).

Generally the amortized cost of current financial liabilities is equal to their nominal value; therefore, current financial liabilities are stated in the statement of financial position at the amounts payable.

Non-current financial liabilities are initially recognized at the fair value of the consideration received (less the transactions charges). In subsequent periods the amortized cost of non-current financial liabilities are determined using the effective interest rate method.

Equity instruments

Issued equity instruments are recorded at the amount of proceeds received, less direct issuing costs.

Provisions

Provisions are recognized when the Group has an obligation, and it is probable that the Group will be required to settle that obligation in the future. At the balance sheet date, provisions are measured based on the management's best estimate on the expenditure required to settle the obligation. Provisions are discounted to their present value if the effect is material.

Contingent liabilities

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

Reserves

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

Revenue recognition

Net sales

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

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

Other income

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

Financial income

Interest income is recorded on the accrual basis and dividend income is recorded when the right for a dividend has occurred.

Expenses

Cost of sales

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

Marketing expenses

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

Administrative expenses

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

Other expenses

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

Financial expense

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

Leases

A lease is classified as finance lease when all the risks and rewards incident to ownership are substantially transferred to the lessee. The criteria of contracts, which lead to a lease being classified as finance lease, are the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price, which is expected to be sufficiently lower than the expected fair value at the date the option becomes exercisable, and at the inception of the lease it is reasonably certain that the option will be exercised;
- the lease term covers the majority (over 75%) of the economic life of the asset even if the title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to approximately the fair value (over 90%) of the leased asset;
- the leased assets are of a specialized nature such that only the lessee is able to use them without major modifications being made.

If the above-mentioned conditions are not met, either individually or in combination, the transaction is recorded as operating lease.

The Group as a lessee

An asset held under finance lease is recognized as an asset and a liability of the Group at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

If ownership is to be transferred to the lessee, depreciation is calculated on the regular basis taking into account useful lifetime of the asset. If the leased asset is to be returned to the lessor, then the maximum depreciation period is the leasing period, whereas depreciation is not calculated for the guaranteed residual value.

Lease payments are apportioned between finance charges and reduction of the lease obligation. Financial costs are apportioned for the lease period so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in income statement on the accrual basis.

Assets held under operating lease are not reported on the balance sheet. Rentals payable under operating leases are charged to the income statement as cost on a straight-line basis over the term of the relevant lease, irrespectively from disbursements.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Payments due from lessees are allocated to financial income and principal repayments (to decrease the finance lease receivable). Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases. Financial income is recorded in income statement on accrual basis.

In the balance sheet assets leased under the terms of operating lease are reported similarly to other assets. Rental income from operating leases is recognized as revenue on a straight-line basis over the term of the relevant lease despite timing and amounts of actual collection of rentals.

Taxation

Estonia

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

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

Other subsidiaries

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

Operating segments

The Group discloses its operating segments on basis of internal information used and analysed by the Ultimate Parent Company. The primary decisions are made on country basis. Primary criteria for monitoring of operating segments are the following: revenue from third parties, EBIT, net profit earned and total assets.

NOTE 4. Entities of the group

Unconsolidated financial statements of the parent

Statement of Financial Position

(Th. EUR)	30.06.2012	31.12.2011
ASSETS		
Current Assets		
Cash and cash equivalents	466	419
Current receivables	3 049	3 162
Inventory	49	0
Total Current Assets	3 564	3 581
Non-Current Assets		
Investments in subsidiaries	30 571	28 196
Non-current receivables	64 862	59 340
Property, plant and equipment	1	0
Total Non-Current Assets	95 434	87 536
TOTAL ASSETS	**98 998**	**91 117**
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	4 000	0
Current payables	6 176	3 732
Taxes payable	1	0
Short-term provisions	1 409	700
Total Current Liabilities	**11 586**	**4 432**
Non-Current Liabilities		
Long-term debt	11 272	11 272
Non-current payables	105 167	104 824
Long-term provisions	0	36
Total Non-Current Liabilities	**116 439**	**116 132**
Total Liabilities	**128 025**	**120 564**
Equity attributable to equity holders of the parent		
Nominal value of share capital	10 637	10 637
Retained earnings		
Accumulated profits (losses)	-36 046	-31 200
Profit (loss) for the financial year	-3 618	-8 884
Total equity	**-29 027**	**-29 447**
TOTAL LIABILITIES AND EQUITY	**98 998**	**91 117**

Statement of comprehensive income

(Th. EUR)	2012 1st half.	2011 1st half.
Operating income		
Revenue	0	71
Gross profit	**0**	**71**
Marketing expenses	-130	-1
Administrative expenses	-1 163	-1 135
Other expenses	-716	0
Operating profit (loss)	**-2 008**	**-1 065**
Financial income and expense, net	-1 610	-960
Profit (loss) for the financial period	**-3 618**	**-2 025**
Comprehensive profit (loss) for the financial period	**-3 618**	**-2 025**

Statement of adjusted unconsolidated equity

(Th. EUR)	Share capital in nominal value	Retained earnings / Accumulated losses	Total equity
NBV 31.12.2011	10 637	-40 084	-29 447
(Less) cost of shares of subsidiaries			-28 196
Investments in subsidiaries calculated using equity method			128 240
Adjusted unconsolidated equity 31.12.2011			**70 597**
NBV 30.06.2012	10 637	-39 664	-29 027
(Less) cost of shares of subsidiaries			-28 205
Investments in subsidiaries calculated using equity method			125 402
Adjusted unconsolidated equity 30.06.2012			**68 170**

Information about consolidated subsidiaries

	Country of incorporation	Share of ownership 30.06.2012	Share of ownership 31.12.2011	Field of activity
Pro Kapital Eesti AS	Estonia	100,00%	100,00%	Real estate development
Ilmarise Kvartal OÜ	Estonia	100,00%	100,00%	Real estate development
Täismaja AS (Kristiine Kaubanduskeskus AS)	Estonia	99,99%	99,99%	Real estate development
Tondi Kvartal AS	Estonia	100,00%	100,00%	Real estate development
Pro Halduse AS	Estonia	100,00%	100,00%	Real estate management
Tallinna Moekombinaat AS	Estonia	96,00%	96,00%	Real estate development
Domina Management AS	Estonia	100,00%	100,00%	Hotel management
Pro Kapital Vilnius Real Estate UAB	Lithuania	100,00%	100,00%	Real estate development
PK Invest UAB	Lithuania	100,00%	100,00%	Real estate development
Domina Management UAB	Lithuania	100,00%	100,00%	Real estate management
Pro Kapital Latvia PJSC	Latvia	100,00%	100,00%	Real estate development
PK Latvia SIA	Latvia	100,00%	100,00%	Real estate development
Klīversala RE SIA	Latvia	100,00%	100,00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Latvia	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	Latvia	100,00%	100,00%	Real estate development
Investhotel SIA	Latvia	100,00%	100,00%	Real estate development
Pasaules tirdzniecības centrs "Rīga" SIA	Latvia	100,00%	100,00%	Real estate development
Nekustamo īpašumu sabiedrība Prokurs SIA	Latvia	70,00%	70,00%	Real estate development
Hotel Management Services SIA (formerly Domina Management SIA)	Latvia	100,00%	100,00%	Hotel management
Pro Kapital Germany Holding OÜ	Estonia	100,00%	100,00%	Real estate development
Pro Kapital Germany GmbH	Germany	100,00%	100,00%	Real estate development
Domina Tourismus GmbH	Germany	100,00%	100,00%	Hotel management

(Th. EUR) Subsidiary	FCCY	Cost 30.06.2012	Cost 31.12.2011	Net assets 30.06.2012	Net assets 31.12.2011
Pro Kapital Eesti AS	EUR	17 981	17 981	109 016	109 017
Ilmarise Kvartal OÜ	EUR	286	286	2 533	2 531
Täismaja AS (Kristiine Kaubanduskeskus AS)	EUR	65853	65 853	118 133	115 338
Tondi Kvartal AS	EUR	4 364	4 364	6 583	6 647
Pro Halduse AS	EUR	27	27	469	440
Tallinna Moekombinaat AS	EUR	12 345	12 345	9 212	9 315
Domina Management AS	EUR	520	520	104	84
Pro Kapital Vilnius Real Estate UAB	LTL	688	688	-934	-460
PK Invest UAB	LTL	6 679	6 679	1 079	827
Domina Management UAB	LTL	43	43	46	45
Pro Kapital Latvia PJSC	LVL	10 188	10 188	13 092	13 893
PK Latvia SIA	LVL	188	188	4	10
Klīversala RE SIA	LVL	9 819	9 819	13 135	13 241
Tallina Nekustamie Īpašumi SIA	LVL	4 866	4 866	661	-460
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	LVL	1707	1 707	624	677
Investhotel SIA	LVL	996	996	1 869	1 731
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	9 733	9 733	10 373	10 213
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	1 422	1 422	2 054	2 151
Hotel Management Services SIA (formerly Domina Management SIA)	LVL	797	797	785	309
Pro Kapital Germany Holding OÜ	EUR	2	2	137	137
Pro Kapital Germany GmbH	EUR	1	1	83	137
Domina Tourismus GmbH	EUR	25	25	5 019	5 056

NOTE 5. Acquisitions of / change in ownership of subsidiaries

(Th. EUR)	AS Täismaja (2012)	AS Täismaja (2011)	Domina Tourismus GmbH (2011)
Total assets	X	X	615
of which Cash	X	X	173
Total liabilities	X	X	478
Non-controlling interest		54 454	-
Net assets	X	X	137
Share of ownership before acquisition	99.99%	52.00%	0.00%
Share (%) of ownership acquired	0.00784%	47.99%	100.00%
Share of ownership after acquisition	99.99%	99.99%	100.00%
Acquisition cost	9	53 847	0
Paid in cash	(9)	(22 998)	0
Net cash flow in acquisition	(9)	(22 998)	173
Goodwill and gain on bargain purchase	-	-	(137)
Profit (loss) in acquisition (equity)	-	(607)	-

NOTE 6. Disposals of subsidiaries

(Th. EUR)	PK Investments SIA (2011)
Non-controlling interest	x
Share of ownership before disposal	67,00%
Share (%) of ownership disposed of	67,00%
Share of ownership after disposal	0%
Cash at the moment of disposal	(114)
Received in cash	6 437
Net cash flow in disposal	6 323
Sales price	6 441
Profit (loss) at disposal	2 736

There have been no disposals of the shares of subsidiaries during the first half of year 2012.

NOTE 7. Segment reporting

(Th. EUR)	Estonia	Latvia	Lithuania	Germany	Total
2012 1st half					
Revenue	1 715	1 362	5 317	1 538	9 932
Other operating income	14	24	2	79	119
Segment operating profit (loss)	-2 511	-622	948	-51	-2 236
Financial income and expense (net)	-212	-101	-285	-65	-663
Profit (loss) before income tax	-2 723	-723	663	-116	-2 899
Income tax	0	22	-8	0	14
Non-controlling interest	3	7	0	0	-4
Net profit (loss) for the financial year attributable to equity holders of the parent	**-2 720**	**-708**	**655**	**-116**	**-2 889**
30.06.2012					
Assets	53 485	25 745	15 039	8 433	102 702
Liabilities	20 552	5 761	5 958	1 299	33 570
Acquisition of non-current assets	53	7	4	2	66
Depreciation and amortisation	(160)	(291)	(13)	(186)	(650)
2011 1st half					
Revenue	5 623	1 195	980	218	8 016
Other operating income	54 503	50	0	139	54 692
Segment operating profit (loss)	54 135	(592)	(103)	96	53 536
Financial income and expense (net)	(765)	(17)	-714	0	-1 496
Profit (loss) before income tax	53 370	(609)	-817	96	**52 040**
Income tax			7		7
Non-controlling interest	28 127	11	0	0	28 138
Net profit (loss) for the financial year attributable to equity holders of the parent					**23 909**
31.12.2011					
Assets	59 413	26 544	18 403	9 112	113 472
Liabilities	25 919	6 047	8 050	1 398	41 414
Acquisition of non-current assets	812	9	1	0	822
Depreciation and amortisation	(99)	(132)	(10)	(60)	(301)

During first half of 2012, Pro Kapital Lithuanian segment sold 4 535 th. EUR worth real estate properties (both residential, commercial and parking lots) to UAB Colosseum Real Estate Vilnius in bulk deal related party information is further disclosed in Note 29.

NOTE 8. Cash and cash equivalents

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

(Th. EUR)	30.06.2012	31.12.2011
Cash at hand	71	63
Bank accounts	2 071	8 574
Total	**2 142**	**8 637**

NOTE 9. Current receivables

(Th. EUR)	30.06.2012	31.12.2011
Trade receivables	779	669
Receivables from related parties (Note 29)	483	516
Other receivables	1 361	1 358
Accrued income	17	55
Prepaid expenses	217	267
Total	**2 857**	**2 865**

NOTE 10. Inventory

(Th. EUR)	30.06.2012	31.12.2011
Property held for resale	14 229	17 947
WIP (property under construction)	35 044	35 107
Goods held for resale	121	132
Prepayments	1	0
Total	**49 395**	**53 186**

As of June 30, 2012, inventories in value of 39 527 th. EUR are pledged as security for loan liabilities.

NOTE 11. Non-current receivables

(Th. EUR)	30.06.2012	31.12.2011
Other	152	152
Total	**152**	**152**

NOTE 12. Property, plant and equipment

As at 31 December 2011 the Group's land and buildings were valued at their fair value from the valuation of an independent expert. The valuation, which conforms to International Valuation Standards, was performed by the independent real estate appraiser SIA Newsec Valuation LV and was arrived at by the discounted cash flow method. Current market conditions (at the moment the valuation was performed) were used as assumptions for the valuations performed.

Based on independent appraiser's valuation, the following fair value adjustments were performed as of 31 December 2011 (th. EUR):

	Carrying amount 31.12.2011	Fair value 31.12.2011	Fair value 30.06.2012
Pulkvieza Brieza 11, Riga	1 795	6 070	5 837
Põhja pst. 21, 21a, 21b-1, Tallinn	3 602	6 100	6 037
Põhja pst.21c, Tallinn	198	268	265

The revaluation reserve (accounted for under equity) was set up to account for revaluation differences.

No additional adjustments were considered relevant as at 30 June 2012.

(Th. EUR)	Land and buildings	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost 01.01.2011	**13 731**	**1 315**	**2 194**	**0**	**17 240**
Additions:					
Acquired	0	12	15	0	**27**
Disposals:					
Sold	0	-6	-3	0	**-9**
Written off	0	0	-21	0	**-21**
Other changes:					
Reclassified to/from inventory	-41	0	0	0	**-41**
Reclassified to/from investment property	0	0	-14	0	**-14**
Cost 30.06.2011	**13 690**	**1 321**	**2 171**	**0**	**17 182**
Additions:					
Acquired	0	0	12	0	**12**
Acquired in business combination	0	0	399	0	**399**
Disposals:					
Written off	0	-9	-203	0	**-212**
Application of revaluation model:					
Fair value gain	12 878	0	0	0	**12 878**
Reversal of accumulated depreciation	-1 955	0	0	0	**-1 955**
Other changes:					
Reclassified to/from inventory	-2 766	0	0	0	**-2 766**
Foreign currency differences	57	15	15	0	**87**
Cost 31.12.2011	**21 904**	**1 327**	**2 394**	**0**	**25 625**
Additions:					
Acquired	0	9	51	6	**66**
Disposals:					
Written off	0	-15	-62	0	**-77**
Other changes:					
Reclassified to/from inventory	-2 553	0	0	0	**-2 553**
Reclassified to/from investment property					
Change in value, total amount	2 569	0	0	0	**2 569**
Change in value, acc. Depr.	-607	0	0	0	**-607**
Cost 30.06.2012	**-21 313**	**1 321**	**2 383**	**6**	**25 023**

(Th. EUR)	Land and buildings	Machinery and equipment	Other tangible assets	Total
Accumulated depreciation 01.01.2011	**2 446**	**673**	**2 072**	**5 191**
Additions:				
Depreciation charge for the period	214	56	26	**297**
Disposals:				
Sold	0	-2	-2	**-4**
Written off	0	0	-14	**-14**
Other changes:				
Reclassified to/from non- current assets held for sale	0	0	-9	**-9**
Accumulated depreciation 30.06.2011	**2 660**	**726**	**2 075**	**5 461**
Additions:				
Depreciation charge for the period	201	53	27	**281**
Acquired in business combination	0	0	235	**235**
Application of revaluation model:				
Reversal of accumulated depreciation	-1 955	0	0	**-1 955**
Disposals:				
Sold	0	0	-2	**-2**
Written off	0	-9	-195	**-204**
Other changes:				
Reclassified				
Reclassified to/from inventories	-100	0	0	**-100**
Reclassified to/from investment property	0	0	0	**0**
Foreign currency differences	29	8	9	**46**
Accumulated depreciation 31.12.2011	**835**	**779**	**2 148**	**3 762**
Additions:				
Depreciation charge for the period	541	80	29	**650**
Acquired in business combination	0	0	0	**0**
Disposals:				
Written off	0	-15	-61	**-76**
Other changes:				
Reclassified				
Reclassified to/from inventories	-99	0	0	**-99**
Change in value, fair value	-607	0	0	**-607**
Accumulated depreciation 30.06.2012	**670**	**844**	**2 116**	**3 630**

NOTE 13. Investment property

(Th. EUR)	30.06.2012	31.12.2011
Investment property held for increase in value	26 023	26 023
Iinvestment property held to earn rent	88	88
Total	**26 111**	**26 111**

(Th. EUR)	Investment property held for increase in value	Investment property held to earn rent	Total
NBV 01.01.2011	**26 132**	**468**	**26 600**
Additions:			
Acquired	40	767	807
Other charges:			
Reclassified to/from inventory	0		0
Reclassified to/from assets held for sale			
NBV 30.06.2011	**26 172**	**1 235**	**27 407**
Additions:			
Acquired	292	-767	-475
Disposals:			
Written off	-110	-380	-490
Changes in fair value:			
Loss from change in fair value of IP	-331	0	-331
NBV 31.12.2011	**26 023**	**88**	**26 111**
Additions:			
Acquired	**230**	0	**230**
Fair value adjustments	-230	0	**-230**
NBV 30.06.2012	**26 023**	**88**	**26 111**

As of 31 December 2011 the assessment of the fair value of investment property by the management of the Group was based on valuation reports from independent real estate appraisers. The valuation, which conforms to International Valuation Standards, was in mostly arrived at by reference to recent market transactions under arm's length terms. In a few instances where appropriate, the discounted cash flow method was also used to determine the fair value of the Group's investment property.

As at 30 June 2012 the management of the Group had revisited the assumptions used for the valuations made by independent real estate appraisals before 31 December 2011 and found no need to make any adjustments in the assumptions used or the inputs. Consequently, the fair value of investment property as at 30 June 2012 was found to be unchanged since 31 December 2011. Fair value adjustment of 230 th. EUR comes from change in methology.

The rental income and the corresponding direct expenses from this investment property were the following:

(Th. EUR)	2012 1st half.	2011 1st half.
Rental income	5	6
Direct operating costs		
Maintenance	45	44

NOTE 14. Current debt

(Th. EUR)	30.06.2012	31.12.2011
Bank loans and overdrafts (Note 17)	2 822	4 402
Payables to related parties (Note 29)	4 076	9 520
Other	0	80
Total	**6 898**	**14 002**

NOTE 15. Current payables

(Th. EUR)	30.06.2012	31.12.2011
Trade payables	593	724
Payables to related parties (Note 29)	6	0
Accrued expenses	898	1 063
Deferred income	0	4
Total	**1 497**	**1 791**

NOTE 16. Non-current debt

(Th. EUR)	30.06.2012	31.12.2011
Bank loans and overdrafts (Note 17)	9 401	10 189
Convertible debt (Note 19)	11 272	11 272
Total	**20 673**	**21 461**

NOTE 17. Bank loans and overdraft

(Th. EUR)	30.06.2012	31.12.2011
Current debt (Note 14)	2 822	4 402
Non-current debt (Note 16)	9 401	10 190
Total	**12 223**	**14 592**

Creditor	30.06.2012	31.12.2011	CCY	Interest %
Swedbank AS (EE)	2 001	2 141	EUR	2% + 6m Euribor
Swedbank AS (EE)	605	605	EUR	2,5% + 6m Euribor
AS Swedbank (LV)	4 445	4 623	EUR	3,0% + 3m Euribor
Swedbank AB (LT)	5 156	7 200	EUR	2,4% + 6m Euribor
Volksbank Bad Kreusnach	16	23	EUR	5,1%
Total	**12 223**	**14 592**		

(Th. EUR)	30.06.2012	31.12.2011
Due within 1 year	2 822	4 402
Due between 2 to 5 years	9 401	10 190
Due after 5 years	0	0
Total	**12 223**	**14 592**

Collateral and pledged assets are disclosed in Note 18 to these financial statements.

NOTE 18. Collaterals and pledged assets

(Th. EUR) Beneficiary	Collateral description	Carrying value of the pledged assets 30.06.2012	 31.12.2011
Swedbank AS (Estonia)	Kalaranna 1, Tallinn	4 927	4 927
Swedbank AS (Estonia)	Ülemiste Road 5, Tallinn	1 700	1 700
Swedbank AS (Estonia)	Seebi 24a/ Tondi 53b, Tondi 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare Road 56/58, Tallinn	8 425	8 410
Swedbank AS (Estonia)	Põhja Avenue. 23, Jahu 1, Tallinn	1 113	1 205
Swedbank AS (Estonia)	Peterburi Road 2, Tallinn	24 300	24 300
Swedbank AS (Estonia)	Tondi 51, Tallinn	1 781	1 781
Swedbank AS (Estonia)	Põhja Avenue 21a, 21b, 21 (703/6962), Tallinn	6 100	6 037
AS Swedbanka (Latvia)	Pulkveza Brieza St. 11, Riga	5 837	6 070
AS Swedbanka (Latvia)	Trijadibas St.5, Riga	8 869	8 869
Swedbank AB (Lithuania)	Aguonu str.10, Vilnius	14 412	17 772
Total		**77 464**	**81 071**

As at June 30, 2012, all the obligations connected to the collateral at Kalaranna 1, Ülemiste Road 5, Seebi 24a/ Tondi 53b, Tondi 49a, 51d, 51f, 53, 53a, 53c, 55b, 57, Tammsaare Road 56/58 and Peterburi Road 2, all of which are located in Tallinn, have been fully repaid.

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

- To Hotel Blijdorp BV to assure the rental liabilities of Serval SRL for the hotel in Rotterdam under the rental agreement between Serval SRL and Hotel Blijdorp BV. The guarantee letter only assures the rental payments up to 2 300 Th. EUR (30.06.2012);

- To AS Swedbank (Latvia) to assure the potential liability of Klīversala RE SIA, an entity belonging to Pro Kapital Latvia subsidiary group, in the amount of 8 002 Th. EUR (5 681 334 LVL), as AS Swedbank (Latvia) has issued a guarantee letter in the same amount to VAS „Privatizācijas aģentūra" to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra" (30.06.2012).

- To Swedbank AS (Latvia) to assure loan liabilities of SIA Investhotel in the amount of 4 521 th. EUR as of June 30, 2012.

- AS Pro Kapital Grupp and AS Pro Kapital Eesti issued a guarantee letter to Kristiine Keskus OÜ of which they assure in solitary the monetary liabilities of Täismaja AS. In case Täismaja AS violates the confirmation given in the contract of sales of the shopping centre, Kristiine Keskus OÜ can lodge a claim with Täismaja AS. The guarantee is conditional and guarantors are responsible only if Täismaja AS is unable to settle the claim. The guaranteed amount is 5 000 th. EUR and it is effective for 18 months after enforcement of the sales contract, i.e. until November 2, 2012

- Guarantee letter to Kristiine Keskus OÜ to secure (jointly with Pro Kapital Eesti AS) possible claims against Täismaja AS arising from a loan contract concluded between Pro Kapital Eesti and Täismaja AS on March 9, 2004. The guarantee letter is limited to maximum amount of potential claim. The guarantee is effective for 72 months from concluding sales- purchase agreement, i.e. until May 2, 2017.

- As AS Swedbank (Estonia) to assure loan liabilities of AS Tondi Kvartal that amounted to 605 th. EUR as of June 30, 2012

- To Swedbank AB (Lithuania) to assure loan liabilities of UAB PK Invest in the amount of 5 156 th. EUR as of June 30, 2012.

NOTE 19. Convertible bonds

(Th. EUR)	30.06.2012	31.12.2011
Non-current debt (Note 16)	11 272	11 272
Total	**11 272**	**11 272**

Convertible bond can be exchanged for share of the Ultimate Parent Company on 31.12.2010, 31.12.2011 and 31.12.2012. The Ultimate Parent Company's shareholders' pre-emptive right to submit for the convertible bonds and shares issued upon conversion of these bonds are excluded with decision.

The issuance of convertible bonds of AS Pro Kapital Grupp in 1999 is redeemed in accordance with the terms of issue, for the issue price, on 20 January 2010. Redemption fees are paid to the owners in cash because the owners did not exercised the right to exchange the convertible bonds for the Ultimate Parent Company share 1:1. According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the period 2009-2010 can be converted to shares of the Ultimate Parent Company on 31 December 2010, 31 December 2011 and 31 December 2012 with the rate one convertible bond per share.

Registration date of bonds issued	13.05.1999	13.08.2009	20.01.2010	10.08.2010	16.08.2010	29.11.2010	25.05.2011
Issuance CCY	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Issue price of bond	3.20 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR
Bond return per annum (% of issue price)	6%	7%	7%	7%	7%	7%	7%
Bond interest payment frequency	Once a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Latest date for the repurchase of bonds	20.01.2010	13.08.2013	20.01.2014	10.08.2014	16.08.2014	29.11.2014	25.05.2015
Latest date for the exchange of bonds to shares	10.01.2010	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012
Discount rate (%)	11%	7%	7%	7%	7%	7%	7%

(Pcs.)	30.06.2012	31.12.2011	31.12.2010
Number of convertible bonds at the beginning of the period	**4 025 758**	**3 345 374**	**1 287 344**
Number of convertible bonds issued	0	680 384	2 180 567
Number of repurchased bonds	0	-	-122 537
Number of convertible bonds at the end of the period	**4 025 758**	**4 025 758**	**3 345 374**

(Th. EUR)	30.06.2012	31.12.2011	31.12.2010
Value of convertible bonds at the beginning of the period	11 272	9 367	3 654
Principal of convertible bonds issued	-	1 905	9 813
Principal of convertible bonds transferred through separation	-	-	-3 708
Bonds repurchased at repurchase price	-	-	-392
Principal of the bonds issued at the end of the period	11 272	11 272	11 272
Short-term portion of liabilities on the balance sheet	-	-	9 367
Long-term portion of liabilities on the balance sheet	**11 272**	**11 272**	**9 367**

NOTE 20. Share capital and reserves

Share capital

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

As at 30 June 2012, the share capital of 10 637 thousand EUR (31 December 2011: 10 637 Th. EUR) consisted of 53 185 422 ordinary shares with a nominal value of 0.2 euros per share. All shares have been paid for in full.

The articles of association applicable on 30 June 2012 state that the minimum share capital must be 6 000 th. EUR and the maximum share capital may be 24 000 th. EUR.

Following the introduction of the euro in the Republic of Estonia on 01 January 2011 and under the requirements of the Commercial Code, the nominal value of a share must be rounded to one decimal place. Therefore, on 30 June 2011 the shareholders meeting decided to decrease the share capital by reducing the nominal value of the shares. The decrease in share capital to 31 911 thousand EUR (53 185 422 shares at 0.6 euros per share) was registered in the Commercial Registry on 08 August 2011.

On 16 September 2011, the shareholders resolved to decrease the share capital further by 21 274 thousand EUR to 10 637 thousand EUR by decreasing the nominal value of each share from 0.6 euros to 0.2 euros. As a part of this change, a share premium of 45 089 thousand EUR and an accumulated statutory legal reserve of 2 938 thousand EUR were released to retained earnings.

As described in Note 19 to these financial statements, AS Pro Kapital Grupp has issued convertible bonds. The owners of the convertible bonds have not exercised their option to convert the bonds into shares of the Group.

Reserves

The statutory legal reserve of the Ultimate Parent Company is recorded under 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 30 June 2012 was nil, as it has been released against retained earnings following the shareholders' resolution of 16 September 2011. As at 31 December 2011 the statutory legal reserve was nil.

A revaluation reserve of 11 337 thousand EUR was set up after adoption of the revaluation model for property, plant and equipment (specifically land and buildings) under IAS 16 "Property, Plant and Equipment" in 2011.

The right to repurchase the Group's own shares

On 30 October 2008, the shareholders' meeting of AS Pro Kapital Grupp decided to allow the Group to acquire 1,000,000 of its own shares at a repurchase price of 3.83 EUR (60 EEK) per share over five years. The Management Board had the right to repurchase the Group's own shares in several rounds and the Management Board was obliged to dispose of the shares or make a proposal to the shareholders' meeting to decrease the share capital, during the three years after the acquisition of the shares.

On 13 April 2012 the shareholders' meeting decided to rescind the shareholders' resolution of 30 October 2008 that set the terms and conditions of the right to repurchase up to 1,000,000 of the Group's own shares. The Group did not exercise the repurchase option during the period of 30 October 2008 to 13 April 2012.

NOTE 21. Non-controlling interest

(Th. EUR)	30.06.2012	31.12.2011
Arising from Pro Kapital Estonia	937	949
Arising from Pro Kapital Latvia	616	648
Total	**1 553**	**1 597**

NOTE 22. Revenue

(Th. EUR)	2012 1st half.	2011 1st half.
Revenue from sales of real estate	5 661	1 401
Rental revenue	500	3 449
Hotel operating revenue	2 808	2 734
Other services	963	432
Total	**9 932**	**8 016**

NOTE 23. Cost of goods sold

(Th. EUR)	2012 1st half.	2011 1st half.
Cost of real estate sold	4 419	1 309
Cost of providing rental services	490	1 416
Cost of hotel operations	2 076	2 827
Cost of other services	1 085	204
Total	**8 070**	**5 756**

(Th. EUR)	2012 1st half.	2011 1st half.
Staff costs	881	527
Depreciation charge	516	551
Impairment of tangible and intangible assets	0	0
Inventory write-offs	0	0
Other	6 673	4 678
Total	**8 070**	**5 756**

NOTE 24. Marketing and administrative expenses

Marketing expenses

(Th. EUR)	2012 1st half.	2011 1st half.
Staff costs	77	21
Other	212	148
Total	**289**	**169**

Administrative expenses

(Th. EUR)	2012 1st half.	2011 1st half.
Staff costs	995	1 348
Depreciation charge	53	95
Amortisation charge	4	4
Gain on bargain purchase	0	-137
Other	1 655	1 329
Total	**2 707**	**2 776**

NOTE 25. Other income and other expenses

Financial income

(Th. EUR)	2012 1st half.	2011 1st half.
Fines collected	7	5
Gain from sales of non-current assets classified as held for sale	0	54 497
Release of allowance for bad debt	5	0
Other	106	190
Total	**118**	**54 692**

Other expenses

(Th. EUR)	2012 1st half.	2011 1st half.
Local taxes	205	223
Fines paid	25	6
Write-off of property, plant and equipment	1	0
Fair value measurement of investment property	230	0
Provisions recognised	709	0
Allowance for bad debt	8	108
Other	42	134
Total	**1 220**	**471**

NOTE 26. Financial income and expenses

Financial income

(Th. EUR)	2012 1st half.	2011 1st half.
Interest income	15	655
Income arising from transactions with participations in subsidiaries	0	0
Gain from foreign currency translation	1	4
Total	**16**	**659**

Financial expenses

(Th. EUR)	2012 1st half.	2011 1st half.
Interest expenses	670	2 129
Loss from foreign currency translation	9	0
Other	0	26
Total	**679**	**2 155**

NOTE 27. Income tax

(Th. EUR)	2012 1st half.	2011 1st half.
Statutory corporate income tax (on earnings) rates:		
Estonia	0%	0%
Latvia	15%	15%
Lithuania	15%	15%
Germany	15%	15%

(Th. EUR)	2012 1st half.	2011 1st half.
Profit (loss) before income tax	-21 299	52 487
Estimated income tax at the given tax rates	195	-152
Adjustments to estimated income tax:		
Non-deductible expenses (+)	23	53
Non-taxable income and tax incentive	-22	-22
Deductions (-)	0	-23
Reversal loss carried forward (+)	-154	143
Income tax expense	**42**	**0**
Effective tax rate	-0.20%	0.00%
Deferred income tax expense	0	0
Deferred income tax returns	-368	370
Effect on income statement	**-54**	**7**
Income tax paid	0	0

(Th. EUR)	30.06.2012	31.12.2011
Deferred income tax liability (+)	1 878	1 962
Deferred income tax assets (-)	-368	-370
Total	**1 510**	**1 592**

Contingent income tax

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

The consolidated retained earnings of the Group and the maximum possible corporate income tax (CIT) obligation were as follows:

(Th. EUR)	30.06.2012	31.12.2011
Consolidated retained earnings (Attributable to parent and non-controlling interest)	-21 280	51 221
Statutory tax rate applicable	21%	21%
Contingent CIT obligation	-	10 756

NOTE 28. Earnings per share

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

Average number of shares:

In the period 01.01.2012 – 30.06.2012 (53 185 422 x 6/6) = 53 185 422
In the period 01.01.2011 – 30.06.2011 (53 185 422 x 6/6) = 53 185 422

Indicative earnings per share (in EUR):
In the period 01.01 – 30.06.2012 (2 885 thousand)/53 185 422 = (0.05)
In the period 01.01 – 30.06.2011 23 909 thousand/53 185 422 = 0.45

The convertible bonds that had been issued did not have a dilutive effect on earnings in 2012 and 2011, therefore they have not been included in the calculation of the diluted net gain (loss) per share and the diluted gain (loss) per share equals the net gain (loss) per share indicator.

NOTE 29. Transactions with related parties

Transactions with related parties are considered to be transactions between the entities within the consolidated Group, its shareholders, the members of the Supervisory Council and the Management Board, their families and the companies in which they hold a majority interest or have significant influence.

Transactions with related parties

(Th. EUR)	2012 1st half.	2011 1st half.
Significant owners and owner related companies		
Goods and services sold	4 634	0
Interest income earned	7	651
Interest received (-)	0	-47
Loans issued	330	477
Claims granted	23 412	23 412
Acquisition of shares in subsidiaries	9	9
Convertible bonds issued	0	3 062
Salaries and bonuses paid to management	442	937

Receivables from related parties (Th. EUR)	**30.06.2012**	**31.12.2011**
Significant owners and companies related to owners Current receivables from related parties	483	516
Total	483	516

Payables to related parties (Th. EUR)	**30.06.2012**	**31.12.2011**
Significant owners and companies related to owners		
Payables to related parties	4 077	9 520
Total	**4 077**	**9 520**

Holdings in the Company	**30.06.2012**	**31.12.2011**
Members of the Supervisory Board and individuals related to them	8,61%	8,61%

Furthermore, 22,224 convertible bonds are held by members of the Supervisory Board.

The amounts outstanding are unsecured and will be settled in cash.

No guarantees have been given or received. No expense has been recognised in the current or prior periods for bad or doubtful debts for the amounts owed by related parties. The Group has been provided loans to related parties at rates comparable to the average commercial rate of interest. The loans to related parties are unsecured.

NOTE 30. Risk management

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

Business risk

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

The global financial crisis and the ensuing economic problems in recent years have negatively affected the development of both the real estate and tourism sectors. Although the global economy showed some signs of growth at the end of 2009, any positive impact on the real estate development sector will only be felt with a delay.

Significant risks posed by the crisis are a substantial fall in the purchasing capacity for permanent residences; an increase in the interest rates for mortgages; and other factors which could lower the demand for real estate and hotel services and have a negative impact on the Group's operating activities by lowering sales and rent income and the profit from development work, property management services and hotel operations. Changes in financial markets could reduce the opportunities for the Group to involve foreign capital for financing business and for refinancing existing financial liabilities.

The Group's Management believes it is not possible to assess reliably the effects of the ongoing economic crisis, but the management believes that all necessary measures have been taken to ensure sustainable development.

Interest risk

The main interest risk rises from the long-term liabilities of the Group. In general the interest rates on loans raised by the entities belonging to the Group are fixed through Euribor plus a risk margin. Interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. It has been estimated that a 100-basis-point change in the interest rate would result in a change of approximately 9.7 thousand EUR in the Company's interest expenses. A minimal amount of financial instruments are used to diversify the interest risk, as the management estimate the expenses related to interest diversification through a fixed interest rate exceed the possible losses from the change of interest rate. The estimate is based on the Group's medium term financing strategy.

Currency risk

Entities belonging to the Group perform transactions in the currency used in the country where they are resident, so currency risk arises from currency exchange transactions which are performed with currencies not directly linked to the euro. To hedge the currency risk, all the contracts affected in the Group are signed in euros or in currencies linked to the euro. Thus the main currency risk comes from the devaluation of currencies linked to euro, and the Group is not protected against this. The management, however, considers currency risk as insignificant, as most of its foreign assets are of tangible nature and foreign liabilities are denominated mainly in the Group's reporting currency (EUR).

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

Credit risk

Credit risk expresses the potential loss that could occur if customers do not fulfil their contractual obligations to the Group. In order to limit the credit risk, the payment discipline of customers is observed constantly.

In general sales of real estate are financed by prepayments from clients. If the real estate is sold under an instalment plan, the creditworthiness of each client is analysed separately. The ownership of the property sold remains with the Group's entities until the client has settled all debts. 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 danger that the Group's ability to settle its liabilities on time will degrade if its financial condition changes. The Company constantly monitors the proportions of short-term liabilities and current assets. To smooth fluctuations in working capital the Company plans to start using bank overdrafts. The Company has introduced thorough roll-on based cash planning procedures and the active use of intergroup funds among its subsidiaries.

Fair value

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

The 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 underpin the Group's sustainability and to ensure profit for the shareholders through the optimal structure of capital.

The Company finances its activities from internal and external sources of capital.

The Company uses proactive management of its working capital (defined as current assets excluding cash and non-current assets held for sale, minus current liabilities excluding short-term debt) on a regular basis as a tool for achieving its overall capital strategies. The Company regularly inspects its receivables and actively reviews customer policies, if needed.

Retained earnings are a substantial source of internal financing.

The Company has repeatedly issued convertible bonds in order to finance its activities.

Though long term bank loans are used as a source of external financing, the Company is very cautious when it comes to debt financing and strives to keep debt financing at less than 50% of total capital. The Company monitors its interest coverage, gearing and debt/equity indicators on a regular basis. As debt financing implies stricter restrictions on the Company's ownership structure, lending and asset transfer procedures, debt financing has to be approved by the Company's Council.

NOTE 31. Lawsuits

The company

As at 30 June 2012 the AS Pro Kapital Grupp had one court case pending.

On 27 May 2010 Aprisco BV filed a case in the Rotterdam court against AS Pro Kapital Grupp over a guarantee letter that AS Pro Kapital Grupp had issued to assure the rental liabilities of Serval SRL under the rental agreement for a Rotterdam hotel, signed on 4 August 2006 between Serval SRL and Hotel Blijdorp BV. In 2007 Aprisco BV acquired the hotel, which was managed by a subsidiary of Serval and the rental agreement with Serval SRL was transferred to Aprisco BV. Serval SRL has not fulfilled the rental obligations to Aprisco BV and so Aprisco BV is claiming payment in accordance with the guarantee letter. Aprisco has filed alternative claims with the court. Firstly, Aprisco BV is demanding payment for damages caused of 2,300 thousand euros or the amount decided by the court.

As an alternative claim, Aprisco BV is claiming overdue rental payments of 904 thousand euros including accumulated interest for default, or 504 thousand euros plus accumulated interest for default.

On 31 August 2011 Aprisco BV changed its claim and demanded payment for losses caused of 2,300 thousand euros with accumulated interest for default, or the amount stated by the court. As an alternative claim, Aprisco BV is claiming overdue rental payments of 1776 thousand euros including accumulated interest for default or 1 409 thousand euros plus accumulated interest for default.

On 4 July 2012 the Rotterdam City Court decided the case and awarded Aprisco BV 1,409,265.2 EUR, of which 786,434.7 EUR was to be paid without delay and the remaining 622,830.52 EUR was to be dependent on the outcome of the case of Aprisco BV against Serval SRL over the validity of the rent reduction agreement.

The Management Board of AS Pro Kapital Grupp disputes the court decision. The Management Board of AS Pro Kapital Grupp does not accept the claim and states that the guarantee was given to Hotel Blijdorp BV and not to Aprisco BV. AS Pro Kapital Grupp was not informed of the transfer of the guarantee letter and therefore Aprisco BV cannot file any claim relating to the guarantee letter. The Management Board of AS Pro Kapital Grupp believes that, conversely, Aprisco B.V can claim only unpaid rent of 406 thousand euros under the guarantee letter with accumulated interest for default. This sum could be increased by 282 thousand euros if the agreement for lowering the rent between Serval SRL and Aprisco BV is found to be unbinding. In addition the Management Board of AS Pro Kapital Grupp is of the opinion that the Rotterdam City Court has incorrectly calculated the period for which the rent payments are due. The court acknowledged in the decision that AS Pro Kapital Grupp is liable only for rent payments and not for damages. Serval SRL was ordered by Aprisco BV to vacate the premises and did so on 17.06.2010. Despite this the court ruled that AS Pro Kapital Grupp is liable for the difference in the rent paid by the new tenant to Aprisco BV until 29.07.2011. The Management Board of AS Pro Kapital Grupp is of the opinion that the difference in rent should not be considered as rent payments but as damages, which are not secured by the letter of guarantee issued by AS Pro Kapital Grupp.

The Management Board of AS Pro Kapital Grupp is planning to appeal against the court's decision.

Nevertheless, in line with the Company's conservative policies, a provision has been set up for the maximum amount of the claim (700,000 EUR provisioned in 2011 and 709,265,2 EUR in 2012).

As at 31 December 2011 the Group's consolidated statement included potential liabilities of 700 thousand euros related to the court case. As at 30 June 2012, this provision was increased to 1,409 thousand euros.

Pro Kapital Estonia sub-group

As at 30 June 2012 the parent company of the Pro Kapital Estonia sub-group and its subsidiaries did not have any court cases pending. AS Täismaja is involved in one law suit as a third party.

As at 31 December 2011 the Pro Kapital Estonia sub-group subsidiary AS Täismaja had three court cases pending to collect unpaid rent debts from former tenants of Kristiine Shopping Centre. All of the court cases were either settled with a payment schedule or a favourable decision was made by the court in favour of AS Täismaja.

Pro Kapital Latvia sub-group

As at 30 June 2012 the Pro Kapital Latvia sub-group had one court case pending.

Between August and October 2007 the Tax Board audited the VAT accounts of Pro Kapital Latvia PJSC for the period from January 2005 to December 2006. The Tax Board found from this that the entity's loss should have been 60 thousand Latvian lats smaller (approximately 86 thousand euros). Pro Kapital Latvia PJSC disputed the decision but the trial court rejected the claim. The entity appealed and the hearing is set for 22 August 2012.

As at 31 December 2011 the Pro Kapital Latvia sub-group had three court cases pending. Two of them have now been settled and compromise agreements have been signed.

SIA Hotel Management had one court case pending concerning the recall of former board member Inese Tomase and compensation of her average pay. On 25 October 2011 the entity filed a counter-claim based on sections 1.3 and 1.4 of the employment contract, which Inese Tomase had used to file her claim and demands, leaving Ms Tomase's claim unsatisfied and returning to her the income received without legal basis of 19 thousand Latvian lats (approximately 27 thousand euros). On 22 March 2012 the Parties entered into a settlement under which the Company pays approximately two thousand euros and the related resident income tax, and the Parties withdraw all other claims. On 27 March 2012 the court confirmed the settlement and decided to terminate court proceedings.

SIA Pasaules tirdzniecības centrs “Rīga” had filed a court case against PJSC Poligons claiming compensation for rental payments, contract fee and legal fees. On 11 May 2006 the court satisfied the claim and ruled that the debtor should pay five thousand Latvian lats (approximately seven thousand euros). On 30 May 2006 the court declared the debtor bankrupt as of 31 December 2004. On 20 January 2011 the court set an appeal date for the verdict of 11 May 2006 and the bankruptcy trustee filed an appeal. On 9 March 2009 the PJSC Poligons bankruptcy trustee filed a case against SIA Pasaules tirdzniecības centrs “Rīga” demanding that the debt of 0.8 thousand Latvian lats (approximately 1.1 thousand euros) and the contract fine of 15.3 thousand Latvian lats (approximately 22 thousand euros) resulting from the contract between the entities be settled. On 30 August 2010 the court left the case against the entity unsatisfied and on 1 October 2011 the bankruptcy trustee appealed. On 9 November 2011 the court decided to join both appeals into one case and on 9 May 2012 the Parties signed a mutually agreed settlement under which JSC Poligons paid 830.6 LVL and the case was closed.

The Management Board of AS Pro Kapital Grupp does not consider the claims as having any material impact on the business activities of the companies in the Pro Kapital Latvia sub-group.

Pro Kapital Vilnius sub-group

As at 30 June 2012 the entities of Pro Kapital Vilnius sub-group had three court cases pending.

UAB Apskaitos ir mokesčių konsultacijos has filed a claim for 70 thousand Lithuanian litas (approximately 20 thousand euros) plus interest at 6% with the Vilnius court for the return of a prepayment for an apartment sale contract. PK Invest UAB filed a counter claim for the withdrawal from the contract to be annulled. On 2 March 2011 the court ruled in favour of UAB Apskaitos ir mokesčių konsultacijos and rejected the claim of PK Invest UAB. PK Invest UAB lodged an appeal but the date for the hearing has not yet been announced by the Court of Appeal of Lithuania.

UAB Natalex filed a claim with the Vilnius court for the return of a prepayment of 166 thousand Lithuanian litas (approximately 48 thousand euros) plus interest at 6% for an apartment sale contract. PK Invest UAB found that UAB Natalex had breached its contract and the prepayment has been netted with the fine due from UAB Natalex. On April 2012, the court rejected the claim by UAB Natalex. UAB Natalex has appealed against the court's decision.

In February 2012, UAB Gatvių statyba submitted a claim with the Vilnius district court for LTL 197 thousand Lithuanian litas (approximately 57 thousand euros) plus interest at 8.06 % for work done in Saltiniu Namai. PK Invest did not accept the claim because the work was done incorrectly and the deficiencies were recorded by the parties in writing.

As at 31 December 2011 the Pro Kapital Vilnius sub-group had two court cases pending.

The Management Board of AS Pro Kapital Grupp does not consider that the claims have any material impact on the business activities of the companies in the Pro Kapital Vilnius sub-group.

Domina Tourismus GmbH

As at 30 June 2012 Domina Tourismus GmbH had one labour court case pending.

As at 31 December 2011 Domina Tourismus GmbH had the same labour court case pending.

Statement by the members of the management board

The Management Board of AS Pro Kapital Grupp confirms to the best of its knowledge that the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards and that the Group Management Report gives a true and fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties the Company faces.

Paolo Michelozzi
Chairman of the Board
AS Pro Kapital Grupp

Allan Remmelkoor
Member of the Board
AS Pro Kapital Grupp

July 24, 2012

Auditor's review

Deloitte.

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CERTIFIED AUDITOR'S REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the shareholders of AS Pro Kapital Grupp:

We have reviewed the accompanying consolidated balance sheet of AS Pro Kapital Grupp as of 30 June 2012 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards as adopted in the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information does not present fairly, in all material respects, the financial position of AS Pro Kapital Grupp as at 30 June 2012, and of its financial performance and its cash flows for the six-month period then ended in accordance with the International Financial Reporting Standards as adopted in the European Union.

Emphasis of Matter

In connection with the planned listing of AS Pro Kapital Grupp, the comparative information in statements of income and cash flows for the six-month period ended 30 June 2011 have been prepared based on the structure of AS Pro Kapital Grupp as at 31 December 2011, as described on Note 2. Comparative information in these financial statements are not necessarily indicative of the consolidated financial results of operations that would have existed had the group existed in this way for the six-month period ended 30 June 2011. Our opinion is not qualified in respect of this matter.

23 July 2012

Veiko Hintsov
Certified Auditor, No. 328
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