

AS Pro Kapital Grupp

CONSOLIDATED INTERIM REPORT FOR IV QUARTER
AND 12 MONTHS OF 2017 (UNAUDITED)

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AS Pro Kapital Grupp in brief

Established in 1994 AS Pro Kapital Grupp (hereinafter as „the Company“ and/or „Pro Kapital“) 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 owns and manages also a hotel in Bad Kreuznach, Germany.

Since its establishment Pro Kapital has completed ca 20 development projects with ca 190 000 square meters of total saleable area. Pro Kapital's operating strategy is to develop prime residential and retail real estate in all three Baltic capitals. The Company adds value through the entire life cycle of the development process, taking a long-term approach.



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Management report

Key figures, main events 1 January – 31 December 2017 and after the reporting period

- Total revenue of the Company for the year of 2017 was 14 098 thousand euros, a decrease of 32% compared to the reference period (2016 12 months: 20 652 thousand euros). Total revenue of the fourth quarter was 4 281 thousand euros comparing to 4 475 thousand euros in 2016. Revenues of the Company depend on completing residential developments, as sales revenues are recorded at the moment of handing over the premises. Positive results of the fourth quarter of 2017 were influenced by completion of the 4th building in a Kristina Houses development in Tallinn.
- Gross profit for the year of 2017 was 5 365 thousand euros, a decrease of 11% compared to the reference period (2016 12 months: 6 054 thousand euros). Gross profit for the fourth quarter was 2 056 thousand euros comparing to 1 424 thousand euros in 2016. Although total revenue and gross profit of reporting period were lower, profitability of activities was higher – gross margin was 38% during the year of 2017 (2016 12 months: 29%).
- Operating result during the reporting year increased by 1 242 thousand euros (402%) compared to the reference period, totalling to operating profit of 933 thousand euros (2016 12 months: operating loss of 309 thousand euros). Operating result for the fourth quarter was profit of 1 155 thousand euros (2016 Q4: loss of 872 thousand euros). Operating result of the year was influenced positively by profit from sales of Tallinn hotel property in July which was recorded as other income, but marketing costs due to more active development and consulting costs due to share issue were higher than during comparative period.
- Net result for the year of 2017 increased positively by 3 507 thousand euros (87%) compared to the reference period, totalling still to negative result of 518 thousand euros (2016 12 months: loss of 4 025 thousand euros). Net result for the fourth quarter was profit of 922 thousand euros (2016 Q4: loss of 1 655 thousand euros). The net result of the year was influenced positively by profit from sales of Riga hotel property owning company in August which was recorded as financial income. Nevertheless, high interest costs resulted in negative bottom line.
- Cash flow from operations for the year of 2017 was negative 5 267 thousand euros (2016 12 months: positive 648 thousand euros). Cash flow from operations for the fourth quarter was negative 2 186 thousand euros (2016 Q4: negative 2 027 thousand euros). Negative operating cash flow is mainly influenced by active development and increase in inventories in Tallinn, Riga and Vilnius.

- Net assets per share on 31 December 2017 totalled to 1.46 euros (31 December 2016: 1.48 euros).
- On 12 January 2017 Pro Kapital group company PK Invest UAB concluded the contract for construction of four residential apartment buildings and underground parking to be located in Vilnius City, in the existing Šaltinių Namai quarter in the Old Town. The price of the construction contract is 10.8 million euros, excluding VAT and has the duration of 24 months.
- On 3 February 2017 Pro Kapital group company AS Tondi Kvartal and Tarrest LT OÜ concluded the contract for reconstruction of historical caserm building Marsi 6 to an apartment building with 45 flats in Kristiine City. The cost of the construction works will be close to 2.5 million euros, to which VAT is added and shall have the duration of ca 1 year.
- On 8 March 2017 the Company prolonged the redemption date of 382 778 PKG6 convertible bonds by 2 years. New redemption date is 8 March 2019. 186 495 PKG6 convertible bonds were redeemed with issue price of 522 186.00 euros.
- On 6 April 2017 Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the second construction phase of Kristina Houses. In the second phase a 5-storey residential building with 31 apartments shall be completed. The planned completion of the works is June 2018 and the price of construction works is slightly over two million euros, to which VAT is added. In addition, OÜ Marsi Elu and Nordecon AS have agreed on option for the two remaining construction phases for 62 additional apartments which will include also accomplishment of utility networks on Sõjakooli and Sammu streets.
- On 3 May 2017 AS Pro Kapital Grupp decided to make a change in the composition of the Supervisory Council of its Latvian group subsidiary AS Pro Kapital Latvia. Aivars Blūmiņš was recalled from the Supervisory Council of AS Pro Kapital Latvia and Pro Kapital Head of Legal Ervin Nurmela was elected as a new council member. AS Pro Kapital Latvia Supervisory Council shall continue with three members in the following composition: Ernesto Achille Preatoni, Emanuele Bozzone and Ervin Nurmela.
- On 23 May 2017 the Company prolonged the redemption date of 82 950 PKG7 convertible bonds by 2 years. New redemption date is 25 May 2019. 5 937 PKG7 convertible bonds were redeemed with issue price of 16 623.60 euros.
- On 25 July 2017 the Company concluded the contract for the sale of group hotels PK Ilmarine and PK Riga. The object of the transaction was the sale of both operating activities and real estate of hotels. Transaction concerning Estonian segment involved completion of the sale of 100% shares of OÜ Hotel Management Services (operator of PK Ilmarine hotel) and sale of real estate used by PK Ilmarine hotel. Sale of PK Ilmarine hotel was completed on 25 July 2017. Transaction concerning Latvian segment involved

sale of 100% shares of SIA Hotel Management Services (operator of PK Riga hotel) and 100% shares of SIA Investhotel (owner of real estate of PK Riga hotel). Sale of PK Riga hotel was completed on 22 August 2017. The total amount of hotels sale transaction was 14 114 537 euros.

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

- On 19 September 2017 Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the third building of second construction phase of Kristina Houses. A 5-storey residential building with 31 apartments shall be completed, which is the sixth building of Kristina Houses development. The planned completion of the works is December 2018 and the price of construction works is slightly over 2.6 million euros, to which VAT is added. In addition, OÜ Marsi Elu and Nordecon AS have agreed on option for the seventh building in Kristina Houses development.

- On 19 September 2017 the Company announced a Public Offering of shares of AS Pro Kapital Grupp. AS Pro Kapital Grupp offered up to 6 000 000 shares at price range 1.80 to 2.30 euros, of which 0.20 euros was the nominal value and the rest share issue premium. The shares were offered from 20 September till 4 October 2017.

- On 6 October 2017 the Supervisory Council of AS Pro Kapital Grupp decided on allocation of the subscribed shares. In total 2 416 232 new shares were allocated to the investors at the issue price of 1.80 euros (0.20 euros as nominal value and 1.60 euros as share premium) for each share. The Management Board of AS Pro Kapital Grupp decided to cancel 3 583 768 shares which were not subscribed for.

- On 19 October 2017 the increase of share capital of AS Pro Kapital Grupp was registered in the Commercial Register. As of 19 October 2017, the number of shares of AS Pro Kapital Grupp is 56 687 954 forming the share capital of 11 337 590.80 euros. 2 416 232 new shares are admitted to trading on the regulated market (secondary list) operated by Nasdaq Tallinn AS.

- On 20 December 2017 the extraordinary shareholders meeting of AS Pro Kapital Grupp took place. It was decided to distribute 850 319.31 euros from retained earnings as profit to the shareholders (0.015 euros per each share). Dividends were paid out on 15 January 2018.

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

- On 30 January 2018, after reporting period, Pro Kapital group company OÜ Marsi Elu notified Nordecon AS to start with the fourth building of second construction phase of Kristina Houses. A 5-storey residential building with 31 apartments shall be

completed, which is the seventh building of Kristina Houses development. The planned completion of the works is April 2019 and the price of construction works is slightly over 2.8 million euros, to which VAT is added.

- Sale of Šaltinių Namai project in Vilnius and Kristina Houses in Tallinn have been continued. In Vilnius, at the moment of issuing interim report, in the 2nd stage of Šaltinių Namai project 69 preliminary agreements are signed. In Tallinn, in Kristiine City, four apartment buildings of Kristina Houses have been completed and 118 apartments out of 124 have been handed over to the clients. Presale is continuing for the fifth building with 25 presales out of 31 and sixth building with 8 presales out of 31 apartments. Presale of the seventh building has started. Marsi 6 project is completed and 36 out of 45 apartments are handed over to the clients and 2 apartments still available. In Kliversala project in Riga, 11 presale agreements out of 47 apartments have been concluded for the first residential building.

Key financial figures (incl discontinued operations)

	2017 12M	2016 12M	2017 Q4	2016 Q4
Revenue, th EUR	14 098	20 652	4 281	4 475
Gross profit, th EUR	5 365	6 054	2 056	1 424
Gross profit, %	38%	29%	48%	32%
Operating result, th EUR	933	-309	1 155	-872
Operating result, %	7%	-1%	27%	-19%
Net result, th EUR	-518	-4 025	922	-1 655
Net result, %	-4%	-19%	22%	37%
Earnings per share, EUR	-0.01	-0.07	0.02	-0.03
	31.12.2017	31.12.2016	31.12.2015	
Total Assets, th EUR	175 158	142 314	130 323	
Total Liabilities, th EUR	92 476	62 110	46 891	
Total Equity, th EUR	82 682	80 204	83 432	
Debt / Equity *	1.12	0.77	0.56	
Return on Assets, % **	-0.3%	-3.0%	-1.5%	
Return on Equity, % ***	-0.6%	-4.8%	-2.4%	
Net asset value per share, EUR ****	1.46	1.48	1.54	

*debt / equity = total debt / total equity

**return on assets = net profit/loss / total average assets

***return on equity = net profit/loss / total average equity

****net asset value per share = net equity / number of shares

CEO review

During the fourth quarter of 2017 Pro Kapital continued construction works of the new T1 Mall of Tallinn shopping and entertainment centre in Tallinn, which is the Company's largest single-object development project. Active negotiations with several local and international retail operators were carried on. The Company continued residential development activities in Kliversala in Riga, Šaltinių Namai in Vilnius and Kristiine City in Tallinn.

In Vilnius the first stage of Šaltinių Namai development has been almost sold. In January 2017, the construction works for the second stage residential buildings started and 69 preliminary agreements have been already signed. Four buildings of the second stage should be completed in the beginning of 2019. Our Vilnius real estate portfolio has no further projects for development after completion of Šaltinių Namai project, therefore the Company is seeking for obtaining attractive developments in the region.

In Tallinn, Kristiine City (Tondi quarter), the Company has completed four apartment buildings where 118 apartments out of 124 have been handed over to the clients. Next two buildings are under construction. Presale has been continuing for the fifth building with 25 presales out of 31 and sixth building with 8 presales out of 31 apartments. Presale of the seventh building has started. Marsi 6 project has been completed and 36 out of 45 apartments have been handed over to the clients.

In Riga, the construction works of River Breeze Residence in Kliversala project were continued and 11 presale agreements have been signed out of 47 flats in total. Many negotiations are in process with potential new buyers. The first phase of the project will be completed this spring. The projecting works were continued also for Tallinas Residential Complex and for the first stage of office complex in Zvaigznes Quarter.

At the end of reporting period the Company recorded net revenue of 14.1 million euros, a decrease of 32% as compared to 20.7 million euros in the same period in 2016. Revenues have decreased in real estate segment. This segment is influenced by time of completion of the buildings as revenues are recorded at the moment notary deed of sale is concluded. Gross profit has increased by 30%. The net result remained negative due to high financial costs, though recorded net loss of 0.5 million euros for the year in 2017 was 88% lower as compared to 4.0 million euros loss in 2016. The Company is working on increasing its efficiency and results are improving. For 2018 we foresee a

positive year end result, which is influenced by completion of residential real estate developments in Tallinn and in Riga and opening of T1 Mall of Tallinn.

Overall loans from financial institutions were 29.7 million euros as at 31 December 2017. The loans from minority shareholders were 0.3 million euros. The Company had 10.3 million euros worth convertible bonds debt and 28.9 million euros worth non-convertible bonds debt at the end of reporting date.

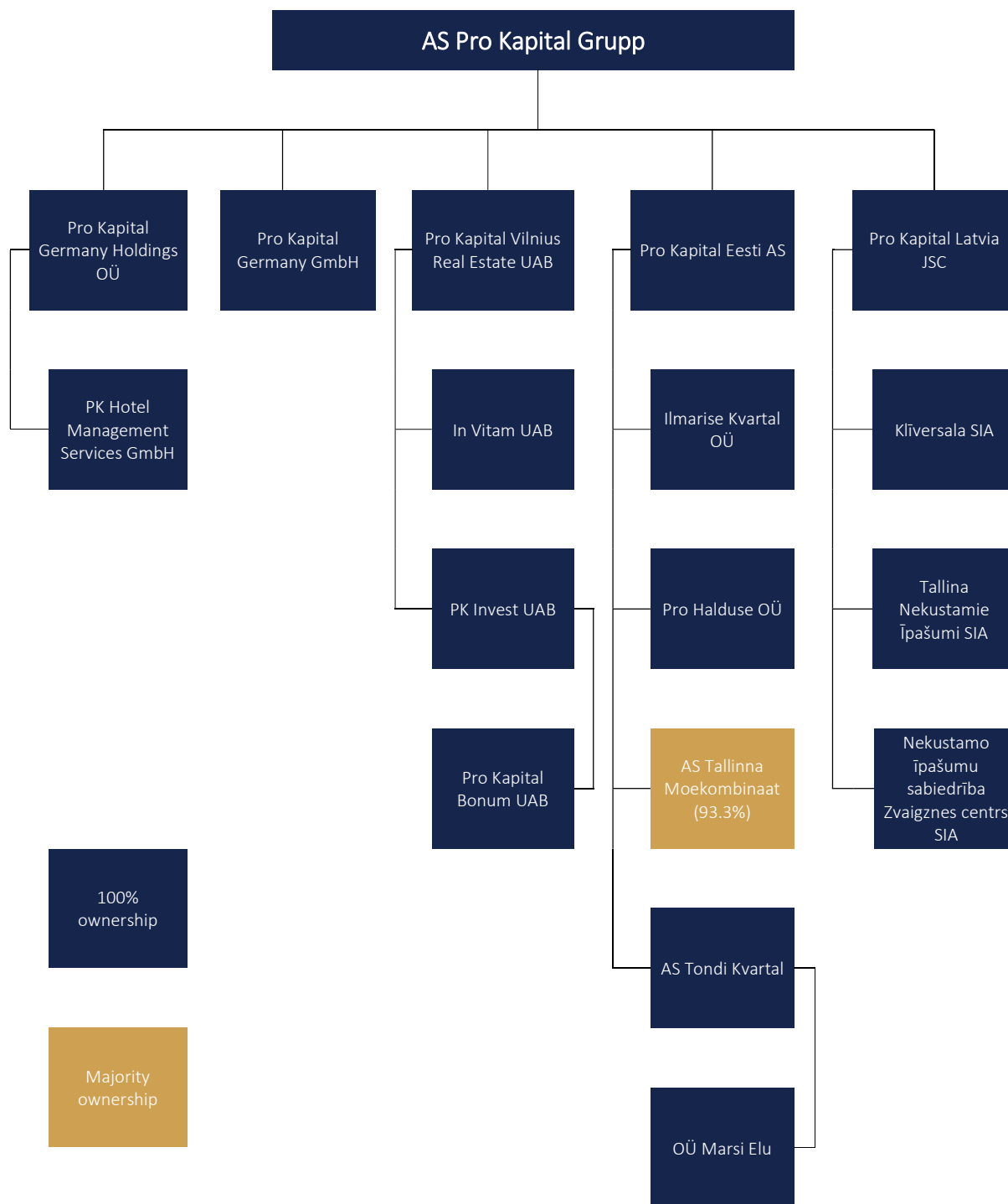
As at 31 December 2017 there were 88 employees working in the Company, 48 of them were employed in hotel and property maintenance business.

Paolo Michelozzi
CEO
AS Pro Kapital Grupp

26 February 2018

Group Structure

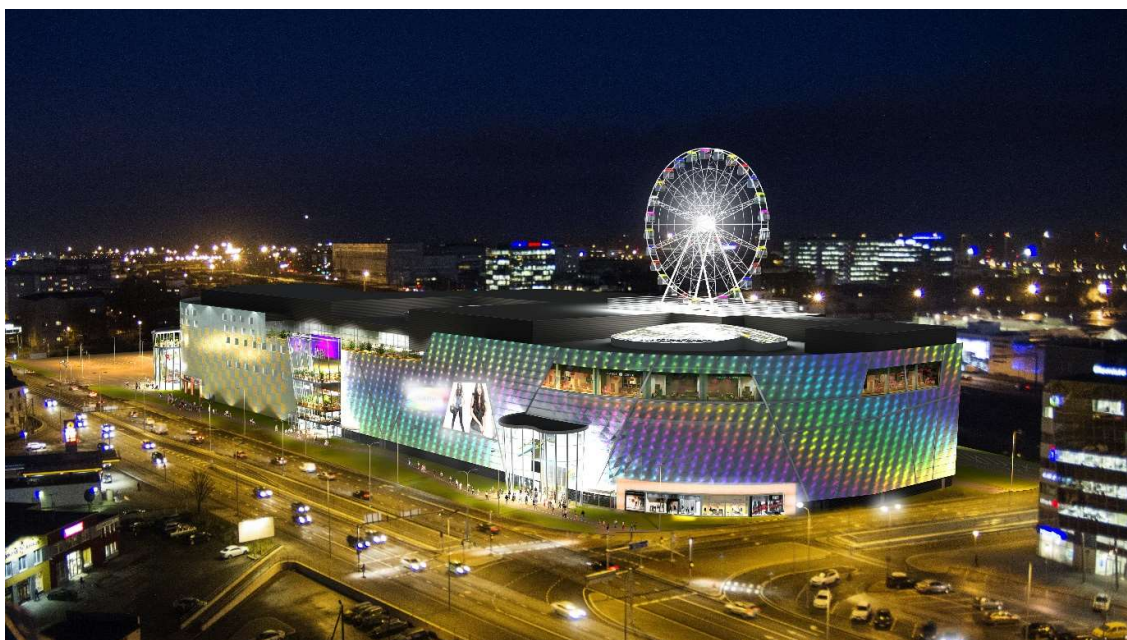
As at 31 December 2017



Overview of development projects

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

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



Ülemiste 5, Tallinn

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

Kristiine City in Tallinn

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

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



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



Kalaranna in Tallinn

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



Kliversala in Riga

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

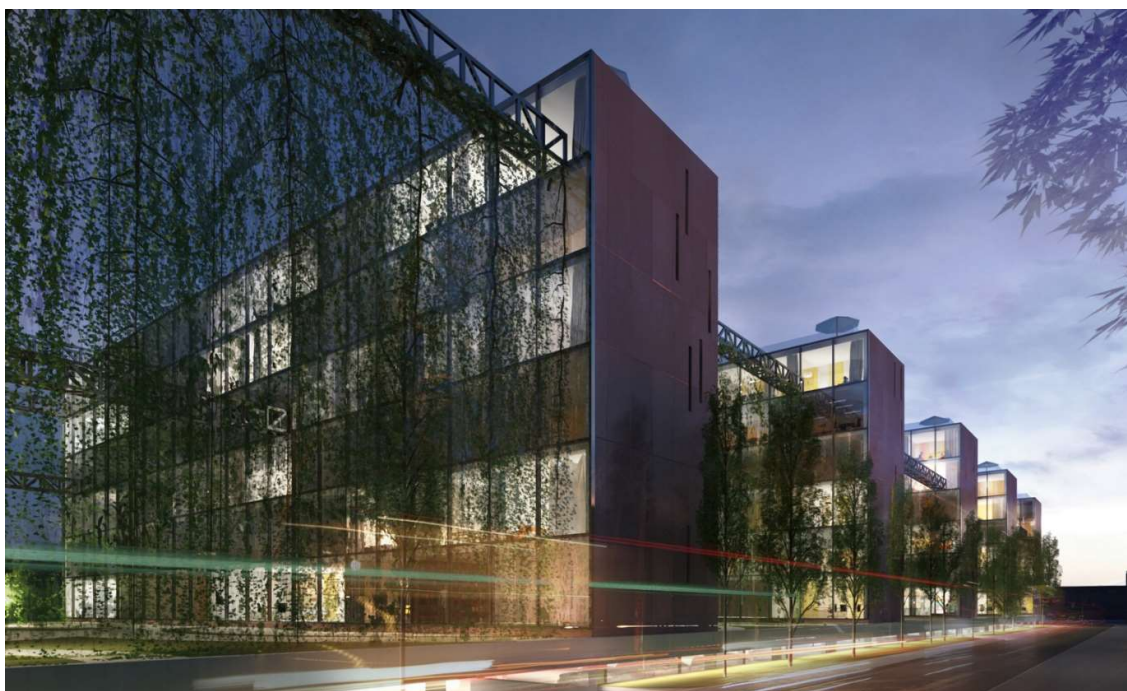
The River Breeze Residence and the adjacent territory have been included in the long-term development strategy of Riga for the period until year 2030 as a high added value territory, which will be developed because it is located within the UNESCO heritage protection area.

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



Zvaigznes Quarter in Riga

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



Tallinas Quarter in Riga

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

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

Šaltinių Namai in Vilnius

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

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



Segments and key performance indicators

The Company's operations are spread across four geographical segments: Estonia, Latvia, Lithuania, and Germany. In addition, the Company monitors its activities amongst business lines of real estate (sale), rental activities, hotel operations, maintenance of real estate and other services.

Revenue structure 1 January – 31 December 2017, in thousands of euros

	EST	EST	LV	LV	LT	LT	GER	GER	Total	Total
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	12M	12M	12M	12M	12M	12M	12M	12M	12M	12M
Real estate	5 067	4 173	0	0	1 554	8 729	0	0	6 621	12 902
Rent	19	20	69	59	87	91	0	0	175	170
Hotels	1 019	1 613	996	1 395	0	0	3 539	2 935	5 554	5 943
Maintenance	1 483	1 412	100	51	137	112	0	0	1 720	1 575
Other	0	7	22	22	6	33	0	0	28	62
Total	7 588	7 225	1 187	1 527	1 784	8 965	3 539	2 935	14 098	20 652

Revenue structure 1 October – 31 December 2017, in thousands of euros

	EST	EST	LV	LV	LT	LT	GER	GER	Total	Total
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4
Real estate	2 591	503	0	0	117	2 054	0	0	2 708	2 557
Rent	2	5	19	10	21	24	0	0	42	39
Hotels	0	347	0	281	0	0	1 026	771	1 026	1 399
Maintenance	426	408	35	24	36	12	0	0	497	444
Other	0	0	7	8	1	28	0	0	8	36
Total	3 019	1 263	61	323	175	2 118	1 026	771	4 281	4 475

During reporting period, the Company's operations in **Estonia** mainly consisted of development and sale of apartments in premium residential real estate properties, development and lease of office premises and until July also management of cash flow generating hotel property.

The share of the Estonian segment as a percentage of total revenues of the Company during the year of 2017 amounted 53.8% comparing to 35.0% during the same period last year. The increase results from reduced share of revenues in Lithuania.

During the year the total of 18 apartments, 24 parking lots and 17 storage rooms (2016 12M: 32 apartments, 34 parking lots and 23 storage rooms) were sold. In Kristina Houses development project of ten buildings the construction of four apartment

buildings have been completed today. The notary deeds for 118 apartments have been signed out of 124 at the moment of the preparation of current report. Three following buildings are under construction and / or available for presales: 25 agreements have been concluded for the fifth building and 8 agreements for the sixth building. Marsi 6 project construction works were completed in January of the current year and almost all of 45 apartments have been sold. At the end of reporting period the stock consisting of 18 apartments and 2 business premises, also several parking spaces and storage rooms were available for sale in Tallinn.

In July 2017 the Company sold hotel real estate property and the hotel operating company in Tallinn. For more details, please see Stock Exchange notice:

<https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=784814&messageId=986892>

Before the sale transaction PK Ilmarine Hotel occupancy rate 76.3% increased by 6% and gross operating profit increased by 30% comparing to the same period last year.

During reporting period, the Company's operations in **Latvia** mainly consisted of development and sale of apartments in premium residential real estate property and until August 2017 also management of cash flow generating hotel property.

The share of the Latvian segment as a percentage of total revenues of the Company during the year of 2017 was 8.4% comparing to 7.4% in the same period last year. In Latvia there are no residential real estate properties for sale until new developments will be completed. Kliversala project has been issued a building permit for the first building with 47 flats and construction works are planned to be completed in spring 2018. At the moment of issuing current report 11 presale agreement have been signed and further agreements are under negotiation.

In August 2017 the Company sold hotel real estate and hotel operating companies in Riga. For more details, please see Stock Exchange notices:

<https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=784814&messageId=986892>

<https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=788257&messageId=991617>

Before the sale transaction PK Riga Hotel occupancy rate 75.5% increased by 3% and gross operating profit increased by 4% comparing to comparative period.

The Company's operations in **Lithuania** mainly consist of development and sale 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 year of 2017 amounted to 12.7% comparing to 43.4% during the same period last year. The first stage of Šaltinių Namai project has been completed and most of the premises are sold. In the beginning of 2017 construction works of the second stage started and four apartment buildings should be completed in the beginning of the next year. At the moment of compilation of this report 69 preliminary agreements have been signed for the second stage in Šaltinių Namai project.

In Lithuania 4 apartments, 3 business premises, 8 parking lots and 2 storage rooms were sold during the year of 2017 (2016 12M: 41 apartments, 7 business premises, 35 parking lots and 2 storage rooms). There were 4 apartments, 4 cottages, 4 business premises, 10 storage rooms and several parking lots in stock in Vilnius at the end of the reporting period.

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

The share of the German segment as a percentage of total revenues of the Company during the year of 2017 amounted to 25.1% comparing to 14.2% of the comparable period last year. The occupancy of PK Parkhotel Kurhaus 63.7% shows 17% increase comparing to 54.6% for the same period in 2016. Gross operating profit has increased almost nine times and net result improved by 77% comparing to the same period last year. The hotel has recovered from renovation process's negative effect and results are improving steadily since the end of the works.

Other operative data 1 January – 31 December 2017

	EST	EST	LV	LV	LT	LT	GER	GER	Total	Total
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	12M	12M	12M	12M	12M	12M	12M	12M	12M	12M
M2 sold*	2 762	2 271	0	0	564	3 435	0	0	3 326	5 706
Average price, m2/EUR*	1 682	1 717	0	0	2 532	2 389	0	0	1 826	2 122
M2 under maintenance	61 869	61 869	15 038	15 038	17 546	16 907	0	0	94 453	93 814
Occupancy rate %, hotels**	76.3%	72.1%	75.5%	73.2%	0.0%	0.0%	63.7%	54.6%	69.7%	63.4%

*Square meters do not include parking spaces nor storage rooms, prices are considered without value added tax

** EST, LV and Total hotel occupancy is presented until the hotel sale transaction dates in comparable period

Other operative data 1 October – 31 December 2017

	EST	EST	LV	LV	LT	LT	GER	GER	Total	Total
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4
M2 sold*	1 355	201	0	0	56	564	0	0	1 411	765
Average price, m2/EUR*	1 777	2 317	0	0	2 041	2 875	0	0	1 788	2 728
M2 under maintenance	61 869	61 869	15 038	15 038	17 546	16 907	0	0	94 453	93 814
Occupancy rate %, hotels**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	68.7%	52.7%	68.7%	52.7%

*Square meters do not include parking spaces nor storage rooms, prices are considered without value added tax

** EST, LV and Total hotel occupancy is presented until the hotel sale transaction dates in comparable period

Financing sources and policies

Pro Kapital pursues conservative financing policy, targeting for high ratio of equity in its projects, as compared to the industry standards. Company's goal is to use external financing in a manner to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. 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 the twelve months of 2017 the Company has borrowed 20 696 thousand euros from Lintgen Adjacent Investments, 4 998 thousand euros from Swedbank Latvia and 2 565 thousand euros from Nordea Bank. The Company has repaid 7 048 thousand

euros of bank loans during 2017. Total amount borrowed from banks was 29.7 million euros as at 31 December 2017. Bank loans are predominantly of middle-term duration, maturing within one to five years. Repayment schedule is mixed, both fixed for some loans and floating in dependence on sales volumes for others.

As at 31 December 2017 the Company had 10.3 million euros convertible bonds (current portion: 5.9 million euros; long term portion: 4.4 million euros), 1.2 million euros non-convertible bonds (current portion: 0.6 million euros; long term portion: 0.6 million euros) and 29.3 million euros secured, callable, fixed rate bonds with redemption date 1 June 2020 of which 1.4 million euros worth bonds are held by Pro Kapital.

Shares and shareholders

As at 31 December 2017 Pro Kapital has issued total 56 687 954 shares with the nominal value 0.20 euros. The registered share capital of the Company was 11 337 590.80 euros.

During reporting period 2 416 232 new shares were issued at the issue price of 1.80 euros (0.20 euros as nominal value and 1.60 euros as share premium) for each share. On 19 October 2017 the increase of share capital was registered in the Commercial Register. 2 416 232 new shares were admitted to trading on the regulated market (secondary list) operated by Nasdaq Tallinn AS.

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

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

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

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

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

During the last share issue Paolo Vittorio Michelozzi subscribed 29 000 shares, Petri Olkinuora subscribed 30 000 shares and Pertti Huuskonen subscribed 13 447 shares.

Since May 2016 Paolo Vittorio Michelozzi is holding 3 secured, callable, fixed rate bond of the Company with the nominal value of 300 000 euros.

Earnings per share during the year of 2017 were -0.01 euros (2016 12M: -0.07 euros).

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



Source: nasdaqbaltic.com

On 23 November 2012 the Company's shares started trading on the secondary list of Tallinn's stock exchange. During the period 1 January – 31 December 2017 the shares were trading at the price range 1.81 - 2.75 euros, with the closing price of 1.82 euros per share on 31 December 2017. During the period 219 thousand of the Company's shares were traded with their turnover amounting to 0,46 million euros.

On 13 March 2014 the Company's shares started trading on Frankfurt's stock exchange trading platform Quotation Board. During the period of 1 January – 31 December 2017 the shares were trading at the price range of 1.55- 2.66 euros, with the closing price 2.00 euros per share on 31 December 2017. During the period 131 thousand of the Company's shares were traded with their turnover amounting to 0,28 million euros.

Legal overview and developments

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

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

People

As at 31 December 2017 the Company employed 88 people compared to 121 people on 31 December 2016, 48 of them were engaged in hotel and property maintenance services (86 on 31 December 2016). The number of employees has decreased due to disposal of Tallinn and Riga hotels.

Risks

Market risk, liquidity risk and risk of financing have the most significant influence on the Company. The long- term orientation in business model the Company enables to mitigate the risks of possible market fluctuation. The Company is further pursuing long term strategic approach, enabling it to acquire properties for development when market is low and sell the developed properties at the peak of business circle, thus naturally capitalising on market opportunities and hedging market risk.

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

Risk of financing might prolong the Company's schedule of property development and cause the slow-down of realization of its real estate portfolio. The risk is managed through maintaining the continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and other debentures as well as expanding its investor base and attracting additional private equity.

Asset risks are covered by effective insurance contracts.

Management Board's confirmation of the management report

The Management Board confirms that the management report presents a true and fair view of any significant event, development of business activities and financial position as well as includes a description of the main risks and doubts. The interim report includes description of relevant transactions with related parties.

Paolo Michelozzi	Chief Executive Officer and Chairman of the Management Board	26 February 2018
Allan Remmelkoor	Chief Operating Officer and Member of the Management Board	26 February 2018
Edoardo Preatoni	Member of the Management Board	26 February 2018

Consolidated financial report

Consolidated interim statements of financial position

in thousands of euros	Notes	31.12.2017	31.12.2016
ASSETS			
Current Assets			
Cash and cash equivalents		10 317	5 382
Current receivables		4 888	4 475
Inventories	5	38 024	14 144
Total Current Assets		53 229	24 001
Non-Current Assets			
Non-current receivables		37	42
Property, plant and equipment	6	7 435	18 336
Investment property	7	114 140	99 660
Intangible assets		317	275
Total Non-Current Assets		121 929	118 313
TOTAL ASSETS	3	175 158	142 314

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

Consolidated interim statements of financial position

in thousands of euros	Notes	31.12.2017	31.12.2016
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	8	6 738	8 261
Customer advances		7 224	2 226
Current payables		10 091	8 502
Taxes payable		132	547
Short-term provisions		170	5
Total Current Liabilities		24 355	19 541
Non-Current Liabilities			
Long-term debt	8	62 527	38 040
Other long-term liabilities		3 437	804
Deferred income tax liability		2 058	3 360
Long-term provisions		99	365
Total Non-Current Liabilities		68 121	42 569
TOTAL LIABILITIES	3	92 476	62 110
Equity attributable to equity holders of the parent			
Share capital in nominal value		11 338	10 854
Paid in capital		5 661	1 816
Statutory reserve		1 082	1 082
Revaluation reserve		3 256	9 462
Retained earnings		60 369	59 104
Profit (loss) for the period		-419	-3 913
Total equity attributable to equity holders of the parent		81 287	78 405
Non-controlling interest	4	1 395	1 799
TOTAL EQUITY		82 682	80 204
TOTAL LIABILITIES AND EQUITY		175 158	142 314

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

Consolidated interim statements of comprehensive income

in thousands of euros

	Notes	2017 12M	2016 12M	2017 Q4	2016 Q4
CONTINUING OPERATIONS					
Operating income					
Revenue	9,14	12 077	17 610	4 281	3 838
Cost of goods sold	10,14	-7 475	-12 725	-2 210	-2 696
Gross profit	11,14	4 602	4 885	2 071	1 142
Marketing expenses		-822	-445	-186	-150
Administrative expenses	12,14	-5 235	-5 052	-1 478	-1 401
Other income		2 316	183	748	30
Other expenses		-454	-697	0	-630
Operating profit/ loss		407	-1 126	1 155	-1 009
Financial income	13,14	1 402	-77	3	-37
Financial expense	13,14	-3 398	-3 417	-817	-761
Profit/ loss before income tax		-1 589	-4 620	341	-1 807
Income tax		581	-163	582	22
Net profit/ loss from continuing operations		-1 008	-4 783	923	-1 785
Profit from discontinued operations	14	490	758	0	130
Net profit / loss for the period		-518	-4 025	923	-1 655
Attributable to:					
Equity holders of the parent	3	-419	-3 913	955	-1 598
Non-controlling interest	3	-99	-112	-32	-57
Other comprehensive income, net of income tax					
Income that will not be reclassified subsequently to profit					
Net change in properties revaluation reserve		6 206	0	3	0
Total comprehensive income for the year					
Attributable to:					
Equity holders of the parent		5 787	-3 913	958	-1 598
Non-controlling interest		-99	-112	-32	-57
Earnings per share from continuing operations (EUR)	15	-0.02	-0.09	0.02	-0.03
Earnings per share for the period (EUR)	15	-0.01	-0.07	0.02	-0.03

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

Consolidated interim statements of cash flows

in thousands of euros

Note 2017 12M 2016 12M 2017 Q4 2016 Q4

Cash flows from operating activities

Loss for the year		-518	-4 025	923	-1 655
Adjustments for:					
Depreciation and amortisation of non-current assets	3	455	695	-20	166
Gain from disposal of property, plant and equipment		-1 247	-4	0	-4
Change in fair value of property, plant and equipment		-26	30	-26	30
Change in fair value of investment property	7	-530	599	-530	599
Gain from disposal of shares of subsidiaries		-1 452	0	0	0
Finance income and costs	13	3 460	3 499	815	784
Other non-monetary changes (net amounts)		12 424	302	-683	353
Changes in working capital:					
Trade receivables and prepayments		-408	-2 862	-833	-2 999
Inventories	5	-23 880	-1 707	-4 221	-4 329
Liabilities and prepayments		6 556	4 185	2 367	5 102
Provisions		-101	-64	23	-74
Net cash used in/ generated by operating activities		-5 267	648	-2 186	-2 027

Cash flows from investing activities

Payments for property, plant and equipment	6	-281	-1 206	-127	-520
Payments for intangible assets		-52	-2	-22	-1
Proceeds from disposal of property, plant and equipment		6 651	7	0	7
Payments for investment property	7	-24 772	-8 552	-7 424	-2 893
Net cash from disposal of shares of subsidiaries		6 235	0	0	0
Interests received		6	13	2	9
Net cash used in/ generated by investing activities		-12 213	-9 740	-7 571	-3 398

Cash flows from financing activities

Proceeds from increase of share capital		4 328	0	4 328	0
Net changes related to non-controlling interests		-480	276	0	-550
Proceeds from bonds		1 446	12 637	0	0
Redemption of convertible bonds	8	-773	-123	0	-111
Proceeds from borrowings		28 260	2 961	8 984	936
Repayment of borrowings		-7 048	-3 310	-909	-556
Interests paid		-3 318	-3 359	-1 122	-1 126
Net cash used in/ generated by financing activities		22 415	8 082	11 281	-2 407

Net change in cash and cash equivalents

		4 935	-1 010	1 524	-7 832
Cash and cash equivalents at the beginning of the period		5 382	6 392	8 793	13 214
Cash and cash equivalents at the end of the period		10 317	5 382	10 317	5 382

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

Consolidated interim statements of changes in equity

in thousands of euros	Share capital	Share premium	Statutory reserve	Properties revaluation reserve	Foreign currency translation reserve	Retained earnings	Attributable to equity owners of the parent	Non- controlling interests	Total equity
1 January 2015	10 821	1 474	1 064	9 389	-143	61 159	83 764	2 024	85 788
Allocation of funds to statutory reserve	0	0	18	0	0	-18	0	0	0
Increase of share capital	20	195	0	0	0	0	215	0	215
Changes in non- controlling interests	0	0	0	0	0	-464	-464	-313	-777
Comprehensive profit/ loss for the period	0	0	0	73	143	-1934	-1 718	-76	-1 794
31 December 2015	10 841	1 669	1 082	9 462	0	58 743	81 797	1 635	83 432
Increase of share capital	13	147	0	0	0	0	160	0	160
Changes in non- controlling interests	0	0	0	0	0	361	361	276	637
Comprehensive profit/ loss for the period	0	0	0	0	0	-3 913	-3 913	-112	-4 025
31 December 2016	10 854	1 816	1 082	9 462	0	55 191	78 405	1 799	80 204
Increase of share capital	484	3 845	0	0	0	0	4 329	0	4 329
Distribution of dividends	0	0	0	0	0	-850	-850	0	-850
Changes in non- controlling interests	0	0	0	0	0	-174	-174	-305	-479
Changes in revaluation reserve	0	0	0	-6 202	0	6 202	0	0	0
Comprehensive profit/ loss for the period	0	0	0	-4	0	-419	-423	-99	-522
31 December 2017	11 338	5 661	1 082	3 256	0	59 950	81 287	1 395	82 682

Notes to consolidated interim financial statements

Note 1. General information

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

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

For the purpose of comparative financial figures of these interim financial statements as at 31 December 2017, Pro Kapital 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 Holding OÜ) (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 twelve months of 2017, these interim financial statements represent the consolidated assets, liabilities, equity, results of operations and cash flows of the Ultimate Parent Company and its subsidiaries.

Note 2. Basis of preparation

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 „Interim Financial Reporting” as adopted by the European Union. The consolidated interim financial statements do not include all of the information required by complete set of financial statements and should be read in conjunction with annual consolidated financial statements of the Company as at and for the year ended 31 December 2016.

The accounting policies applied by the Company in these consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2016.

Note 3. Segment reporting

in thousands of euros (including discontinued operations)	the Ultimate Parent	Estonia	Latvia	Lithuania	Germany	Internal transactions elimination	Total
2017 12M							
Revenue	607	7 591	1 194	1 784	3 974	-1 052	14 098
Other operating income and expenses (net)	0	1 572	186	-16	230	-80	1 892
Segment operating profit (loss)	-1 471	2 903	-400	-90	-9		933
Financial income and expense (net)	-4 634	2 078	951	-239	-164		-2 008
Profit (loss) before income tax	-6 105	4 981	551	-329	-173		-1 075
Income tax	0	0	578	-21	0		557
Non-controlling interest	0	-99	0	0	0		-99
Net profit (loss) for the financial year attributable to equity holders of the parent	-6 105	5 080	1 129	-350	-173		-419
31.12.2017							
Assets	58 292	179 472	37 551	19 171	7 029	-126 357	175 158
Liabilities	111 680	35 772	24 687	11 031	4 123	-94 817	92 476
Acquisition of non-current assets	25	46	12	11	239		333
Disposal of non-current assets	0	-6 267	-7 562	0	0		-13 829
Depreciation and amortisation	-1	-114	-139	-28	-173		-455
2016 12M							
Revenue	523	7 230	1 565	8 965	3 421	-1 052	20 652
Other operating income and expenses (net)	7	-540	37	-65	171	-59	-449
Segment operating profit (loss)	-1 307	-829	-689	3 109	-593		-309
Financial income and expense (net)	-4 913	2 347	-347	-473	-113		-3 499
Profit (loss) before income tax	-6 220	1 518	-1 036	2 636	-706		-3 808
Income tax	0	0	20	-237	0		-217
Non-controlling interest	0	-112	0	0	0		-112
Net profit (loss) for the financial year attributable to equity holders of the parent	-6 220	1 630	-1 016	2 399	-706		-3 913
31.12.2016							
Assets	56 710	149 116	35 917	18 060	7 019	-124 508	142 314
Liabilities	107 472	9 918	24 182	9 570	4 705	-93 737	62 110
Acquisition of non-current assets	0	75	5	2	1 124		1 206
Depreciation and amortisation	-2	-154	-217	-38	-284		-695

Note 4. Changes in minority shareholding

AS Tallinna Moekombinaat

Minority (%) as at 31 December 2016	8.05%
Purchase of minority shares	-1.40%
Minority (%) as at 31 December 2017	6.65%

in thousands of euros

Non-controlling interest as at 31 December 2016	1 799
Increase of non-controlling interest	-305
Loss for the reporting period	-99
Non-controlling interest as at 31 December 2017	1 395

On 24 January 2017 Pro Kapital group company AS Pro Kapital Eesti concluded the contract for purchase of minority shareholding of its subsidiary AS Tallinna Moekombinaat in amount of 300 000 of the A-shares of AS Tallinna Moekombinaat for 480 000 EUR, which represents 1.4 % of all AS Tallinna Moekombinaat shares. After acquisition AS Pro Kapital Eesti holds 93.3% of AS Tallinna Moekombinaat shares.

Note 5. Inventories

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

Property held for resale include completed real estate stock in Tallinn and Vilnius. Works in progress include properties being under development in all three Baltic states or waiting for development in the nearest future. In the beginning of 2017 Lithuanian subsidiary PK Invest UAB concluded a construction contract for developing second stage of residential buildings. In relation to that the investment property in Vilnius was reclassified as inventories in total amount of 12 890 thousand euros (Note 7).

Note 6. Property, plant and equipment

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

On comparative date land and buildings included three hotel properties (in Tallinn, Riga and Bad Kreuznach) and administrative premises in Tallinn and Vilnius. Tallinn hotel property was sold on 25 July 2017 and Riga hotel property owning company was sold on 22 August 2017.

in thousands of euros	31.12.2017	31.12.2016
Acquisition value	10 500	24 086
Accumulated depreciation	-3 065	-5 750
Residual value	7 435	18 336

in thousands of euros	Land and buildings	Machinery and equipment	Other tangible assets	Prepay-ments	Total
Acquisition value 01.01.2016	19 316	1 688	1 205	0	22 209
Additions:					
Acquired	0	11	77	1 118	1 206
Reclassified from investment property	750	0	0	0	750
Disposals:					
Sold	0	0	-9	0	-9
Written off	0	-13	-57	0	-70
Acquisition value 31.12.2016	20 066	1 686	1 216	1 118	24 086
Additions:					
Acquired	1 351	7	27	-1 104	281
Changes in fair value	26	0	0	0	26
Disposals:					
Sold	-6 100	0	-9	0	-6 109
Sold through disposal of subsidiary	-6 076	-804	-835	-5	-7 720
Written off	0	-9	-55	0	-64
Acquisition value 31.12.2017	9 132	880	344	0	10 500

At the end of 2016 the German hotel started renovation works of ca 60 rooms and public spaces. The cost of works was recorded as prepayments for property, plant and equipment. At the end of the first quarter of 2017 renovation works of the first step were completed and prepayments were transferred to land and buildings.

	Land and buildings	Machinery and equipment	Other tangible assets	Prepay- ments	Total
in thousands of euros					
Accumulated depreciation 01.01.2016	2 583	1 429	1 095	0	5 107
Additions:					
Depreciation charge for the period	490	144	55	0	689
Change in fair value	-64	30	0	0	0
Disposals:					
Sold	0	0	-9	0	-9
Written off	0	-13	-54	0	-67
Accumulated depreciation 31.12.2016	3 103	1 560	1 087	0	5 750
Additions:					
Depreciation charge for the period	327	83	35	0	445
Disposals:					
Sold	-696	0	-8	0	-704
Sold through disposal of subsidiary	-800	-791	-771		-2 362
Written off	0	-9	-55	0	-64
Accumulated depreciation 31.12.2017	1 934	843	288	0	3 065

Note 7. Investment property

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

The fair values of the Group's investment property at 31 December 2017 have been derived on the basis of valuations carried out by Colliers International, an independent valuator not related to the Group. The valuations were performed by reference to recent market information. Mainly discounted cash flow method was used due to low number of comparable market transactions.

Investments into property during reporting period include mainly construction costs of AS Tallinna Moekombinaat ca 25 million euros. In the beginning of 2017 Lithuanian subsidiary PK Invest UAB concluded a construction contract for developing second stage of residential buildings, in relation to that the investment property in Vilnius was reclassified as inventories – construction in progress.

Note 8. Current and non-current debts

Current debts

in thousands of euros	31.12.2017	31.12.2016
Bank loans and overdrafts	168	3 141
Convertible bonds	5 930	5 104
Non-convertible bonds	640	0
Current portion of finance lease	0	16
Total	6 738	8 261

Non-current debts

in thousands of euros	31.12.2017	31.12.2016
Bank loans and overdrafts	29 498	4 365
Convertible bonds	4 331	5 930
Non-convertible bonds	28 261	27 337
Payables to non-controlling interest	437	400
Non-current portion of finance lease	0	8
Total	62 527	38 040

Creditors

in thousands of euros	31.12.2017	31.12.2016
Swedbank AS (EE)	0	1 303
Swedbank AS (EE)	0	1 942
Nordea Bank AB Estonian branch (EE)	474	501
Nordea Bank AB Estonian branch (EE)	1 663	0
AS Swedbank (LV)	0	2 874
AS Swedbank (LV)	4 999	0
Lintgen Adjacent Investments (Agent) incl long-term interests	22 530	886
Lease agencies	0	24
Fiducaria Emiliana S.r.l including long-term interests	283	259
Nikasi Overseas SA/ Anndare Limited including long-term interests	154	141
Convertible bonds, various investors	10 261	11 034
Non-convertible bonds, various investors	1 240	1 240
Secured bonds, various investors	27 661	26 097
Total	69 265	46 301

All agreements and liabilities are fixed in euros. The total interest cost for the reporting period was 3 262 thousand euros (2016 12M: 2 958 thousand euros).

Convertible bonds

The Company has issued convertible bonds with issue price 2.80 euros and remaining total value of 10 261 thousand euros. Each convertible bond entitles the holder to redeem and exchange one bond to one share of the Company and for that purpose to subscribe for 1 share as provided in Terms and Conditions of the Convertible Bond Issue by AS Pro Kapital Grupp. Convertible bonds carry interest rate of 7%.

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

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

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

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

All other conditions for convertible bonds have remained unchanged.

Non-convertible unsecured bonds

The company has issued non-convertible bonds with issue price 10 000 euros. On the reporting date the remaining balance of non-convertible unsecured bonds is 124 bonds with total value of 1 240 000 euros.

Non-convertible secured bonds

On 2 April 2015 the Supervisory Council of AS Pro Kapital Grupp decided to approve the issue of secured, callable, fixed rate bonds of the Company. The Management Board of the Company was authorized to issue the bonds in several tranches maximum up to 50 million euros. As at 31 December 2017 the Company has issued 293 bonds with the total value of 29.3 million euros with redemption date on 1 June 2020 and with a fixed rate of 8%. At the end of the reporting period 14 bonds were held by the Company itself and the liability on the balance sheet has been reduced by 1.4 million euros. The last emission of the bonds was issued with a discount, therefor 150 bonds are accounted

for at a discounted rate. The total value of the bonds on the balance sheet on 31 December 2017 was 27.7 million euros.

Secured, callable, fixed rate bonds of the Company are secured with the shares of all subsidiaries of the Group as at 31 December 2017. Since 8 July 2015 the bonds have been listed on Nasdaq Stockholm.

Pledged assets

in thousands of euros

Beneficiary	Collateral description	31.12.2017	31.12.2016
Swedbank AS (Estonia)*	Põhja Avenue 21, 21a, 21 b-1, Tallinn	N/A	5 475
Swedbank AS (Estonia)*	Põhja Avenue 21, 23, Tallinn	N/A	283
Nordea Bank AB Est Br (Estonia)	Sõjakooli St 12, 12a, 12b, 12c, Tallinn	5 612	230
Nordea Bank AB Est Br (Estonia)	Sammu St 6, 6a, 6b, Tallinn	2 355	2 310
Nordea Bank AB Est Br (Estonia)	Marsi 6, Tallinn	2 653	N/A
Nordea Bank AB Est Br (Estonia)	Sõjakooli 11, Tallinn	732	720
Lintgen Adjacent Investments	Peterburi 2, Tallinn	59 450	33 500
AS Swedbanka (Latvia)*	Pulkveza Brieza St 11, Riga	N/A	5 364
AS Swedbanka (Latvia)	Trijadibas St 5, Riga	27 701	22 877
<u>Share pledges related to secured callable fixed rate bonds:</u>			
Nordic Trustee & Agency AB	Pro Kapital Germany Holdings OÜ	10	10
Nordic Trustee & Agency AB	Pro Kapital Germany GmbH	25	25
Nordic Trustee & Agency AB	PK Hotel Management Services GmbH	116	116
Nordic Trustee & Agency AB	Pro Kapital Eesti AS	16 880	16 880
Nordic Trustee & Agency AB	OÜ Ilmarise Kvartal	3	3
Nordic Trustee & Agency AB	Pro Halduse OÜ	26	26
Nordic Trustee & Agency AB *	OÜ Hotel Management Services	0	25
Nordic Trustee & Agency AB	AS Tondi Kvartal	160	160
Nordic Trustee & Agency AB	OÜ Marsi Elu	20	13
Nordic Trustee & Agency AB	AS Tallinna Moekombinaat	11 795	11 795
Nordic Trustee & Agency AB	Pro Kapital Latvia JSC	9 960	9 960
Nordic Trustee & Agency AB	Kliversala SIA	14 531	14 531
Nordic Trustee & Agency AB	Tallina Nekustamie Īpašumi SIA	4 000	4 000
Nordic Trustee & Agency AB	Nekustamo Īpašumu sabiedrība Zvaigznes centrs SIA	2 500	2 500
Nordic Trustee & Agency AB *	Hotel Management Services SIA	0	569
Nordic Trustee & Agency AB	Pro Kapital Vilnius Real estate UAB	1 335	1 335
Nordic Trustee & Agency AB	In Vitam UAB	3	3
Nordic Trustee & Agency AB	PK Invest UAB	823	823
Nordic Trustee & Agency AB	Pro Kapital Bonum UAB	800	800
Nordic Trustee & Agency AB	bank accounts with Nordea Bank AB (SE)	374	24

*During third quarter in 2017 the Company exited Tallinn and Riga hotel operations by selling both hotel operating companies, property in Tallinn and property-owning company in Riga. As a result, loans that were related to the hotel properties were repaid. Due to sales also, hotel operating companies' shares were released from pledge.

The Company transferred proceeds from hotel operating companies' shares to the deposit account of Nordic Trustee.

The shares of Riga hotel property owning company Investhotel SIA were not pledged.

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

Note 9. Revenue

in thousands of euros	2017 12M	2016 12M	2017 Q4	2016 Q4
Revenue from sale of real estate	6 621	12 902	2 708	2 557
Rental revenue	175	170	42	39
Hotel operating revenue*	5 554	5 739	1 025	1 195
Revenue from maintenance services	1 720	1 779	497	648
Other services	28	62	9	36
Total	14 098	20 652	4 281	4 475

*Here including discontinued operations. Revenue from discontinued operations is disclosed in note 14.

Note 10. Cost of goods and services sold

in thousands of euros	2017 12M	2016 12M	2017 Q4	2016 Q4
Cost of real estate sold	3 303	8 536	1 083	1 464
Cost of providing rental services	182	116	35	42
Cost of hotel operations*	3 718	4 457	649	1 120
Cost of maintenance	1 467	1 454	411	419
Cost of other services	47	35	30	6
Total	8 717	14 598	2 208	3 051

* Here including discontinued operations. Cost of goods and services sold from discontinued operations is disclosed in note 14.

Note 11. Gross profit

in thousands of euros	2017 12M	2016 12M	2017 Q4	2016 Q4
Real estate	3 318	4 366	1 625	1 093
Rental revenue	-7	54	7	-3
Hotel operating*	1 836	1 282	376	75
Maintenance services	253	325	86	229
Other services	-19	27	-21	30
Total	5 381	6 054	2 073	1 424

* Here including discontinued operations. Gross profit from discontinued operations is disclosed in note 14.

Note 12. Administrative expenses

in thousands of euros	2017 12M	2016 12M	2017 Q4	2016 Q4
Staff costs	2 673	2 825	703	797
Offices and communication	155	216	28	48
Travel and transportation	190	210	57	63
Consulting, software licences, etc	742	388	347	132
Bank, stock exchange, depository fees	298	390	17	97
Land and real estate taxes	488	550	127	316
Depreciation charge	105	109	29	29
Amortisation charge	2	2	1	0
Other	808	706	170	61
Total*	5 461	5 396	1479	1543

* Here including discontinued operations. Administrative expenses from discontinued operations are disclosed in note 14.

Note 13. Financial income and expenses

Financial income

in thousands of euros	2017 12M	2016 12M	2017 Q4	2016 Q4
Interest income	6	12	2	8
Gain from foreign currency translation	0	1	0	0
Gain from disposal of subsidiary	1 452	0	0	0
Total*	1 458	13	2	8

Financial expenses

in thousands of euros	2017 12M	2016 12M	2017 Q4	2016 Q4
Interest expenses	3 262	2 958	781	840
Other financial expenses	204	554	36	-48
Total*	3 466	3 512	817	792

* Here including discontinued operations. Financial income and expenses from discontinued operations are disclosed in note 14.

Note 14. Discontinued operations

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

in thousands of euros

	Notes	2017 12M	2016 12M	2017 Q4	2016 Q4
DISCONTINUED OPERATIONS					
Operating income					
Revenue	9	2 021	3 042	0	637
Cost of goods sold	10	-1 243	-1 873	0	-355
Gross profit	11	778	1 169	0	282
Marketing expenses		-55	-73	0	-25
Administrative expenses	12	-226	-344	0	-142
Other income		33	71	0	24
Other expenses		-4	-6	0	-2
Operating profit		526	817	0	137
Financial income	13	56	90	0	45
Financial expense	13	-68	-95	0	-31
Profit before income tax		514	812	0	151
Income tax		-24	-54	0	-21
Profit from discontinued operations		490	758	0	130
Earnings per share from discontinued operations (EUR)		0.01	0.01	0.00	0.00

Note 15. Earnings per share

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

Average number of shares:

For the period	01.01.2017-31.12.2017	$(54\,271\,722 * 292/365 + 56\,687\,954 * 73/365)$	=54 754 968
For the period	01.10.2017-31.12.2017	$(54\,271\,722 * 19/92 + 56\,687\,954 * 73/92)$	=56 188 950
For the period	01.01.2016-31.12.2016	$(54\,203\,938 * 354/366 + 54\,271\,722 * 12/366)$	=54 206 160
For the period	01.10.2016-31.12.2016	$(54\,203\,938 * 80/92 + 54\,271\,722 * 12/92)$	=54 212 779

Indicative earnings per share from continuing operations:

01.01.2017-31.12.2017	- 1 008 thousand euros/ 54 754 968 = -0.02 euros
01.10.2017-31.12.2017	923 thousand euros/ 56 188 950 = 0.02 euros
01.01.2016-31.12.2016	- 4 783 thousand euros/ 54 206 160 = -0.09 euros
01.10.2016-31.12.2016	-1 785 thousand euros/ 54 212 779 = -0.03 euros

Indicative earnings per share for the period:

01.01.2017-31.12.2017	-518 thousand euros/ 54 754 968 = -0.01 euros
01.10.2017-31.12.2017	923 thousand euros/ 56 188 950 = 0.02 euros
01.01.2016-31.12.2016	- 4 025 thousand euros/ 54 206 160 = -0.07 euros
01.10.2016-31.12.2016	-1 655 thousand euros/ 54 212 779 = -0.03 euros

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

Note 16. Shareholders meetings

The annual shareholders meeting of AS Pro Kapital Grupp (the Company) took place on 24 May 2017. Eight shareholders were present, who represented 67.97% of all votes. The main decisions adopted at the meeting were as follows:

- 1) The audited annual report of the Company for the financial year 2016 was approved.
- 2) It was decided to cover the net loss for the financial year 2016 in the amount of 3 913 thousand euros with retained earnings of previous periods.
- 3) It was decided to elect AS Deloitte Audit Eesti as the auditor of the Company for the financial year of 2017.
- 4) It was decided to authorise the Management Board to conclude service agreements with Lunacon Oy (a company related to Council Member Pertti Huuskonen) and Forbia Oy (a company related to Council member Petri Olkinuora) on following main terms:

Nature of service: At the request of the Company participate in preparation of investor materials and participation at investor meetings.

Remuneration: Daily fee of 1 000 euros (half day 50%), VAT to be added, for preparation work related to investor materials. Same daily fee for investor meetings participation (when requested by Company).

Success fee: In case the Company decides on increase of share capital, then success fee of 0.25%, VAT to be added, on amounts invested into the share capital of the Company by investor as a result of service providers' active participation. Success fee is payable in case the service provider has actively participated in attracting specific investor.

Term of contract: without term.

Other conditions: to be decided by AS Pro Kapital Management Board. Appoint Chairman of the Management Board Paolo Vittorio Michelozzi as the representative of the Company for conclusion of the agreement.

The extraordinary shareholders meeting of AS Pro Kapital Grupp took place on 20 December 2017. Three shareholders were present, who represented 57.36% of all votes. It was decided to distribute 850 319,31 euro from retained earnings as profit to the shareholders (0,015 euros per share X 56 687 954 shares). 100% of the votes were in favour of the decision. Dividends were distributed on the 15 January 2018.

Note 17. 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 companies in which they hold majority interest or have significant influence.

Transactions with related parties in thousands of euros	2017 12M	2016 12M
Significant owners and owner related companies		
Revenues	69	78
Administrative expenses	7	12
Purchase of minority shares	480	550
Payment for minority shares	480	911
Redemption of non-convertible bonds	0	1 000
Interest expenses	0	91
Interest payments	0	91
Minority shareholders		
Interest expenses	37	38
Other shareholders/ bondholders		
Interest expenses	797	794
Redemption of convertible bonds	733	123
Interest payments	825	830
Members of the Management Board and Council		
Salaries and bonuses paid to management	802	872
Sales revenues	0	290
Administrative expenses	7	6
Receivables from related parties in thousands of euros	31.12.2017	31.12.2016
Short-term receivables		
From significant owners and owner related companies	2	11
Total	2	11
Payables to related parties in thousands of euros	31.12.2017	31.12.2016
Long-term payables		
To minority shareholders	437	400
Total	437	400
Shareholding in the Company %	31.12.2017	31.12.2016
Members of the Council and individuals related them	0.10%	0.02%
Members of the Board and individuals related them	0.50%	0.47%

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

Management Board's confirmation of the financial statements

The Management Board confirms the correctness and completeness of AS Pro Kapital Grupp consolidated interim report for the twelve months and the fourth quarter of 2017.

The consolidated interim report has been prepared in accordance with the International Financial Reporting Standards and gives a true and fair view of the company's financial position, its results of the operations and cash flows. AS Pro Kapital Group is a going concern.

Paolo Michelozzi	Chairman of the Management Board	26 February 2018
Allan Remmelkoor	Member of the Management Board	26 February 2018
Edoardo Preatoni	Member of the Management Board	26 February 2018