

## MANAGEMENT REPORT

### General information

The Company was formed after demerger from AS Järvevana, as a result of which the complete set of assets related to the business activities of the construction company was separated and transferred to AS Merko Ehitus, including all concluded construction contracts, subcontracts and supply contracts, machinery, equipment and employees, all professional know-how and cash flows from uninterrupted, continuous economic activities, except for liabilities arising from the criminal case no. 05913000055, including compensations for damage, penalties and other payables, legal expenses and liquid assets to cover potential liabilities arising from the criminal proceedings in the amount of EEK 250 million. The Company does not have ordinary economic activities and the only objective of its activities is to protect the interests of the Company and shareholders in the long-lasting criminal proceedings related to land swap.

At a joint meeting held at 14 March 2008, the Management Board and the Supervisory Board of AS Järvevana adopted a resolution to restructure the Company and separate operating activities from the criminal proceedings related to land swap. The Company's management estimates that the restructuring of the Company is the best way to ensure its sustainable development and protect the interests of shareholders and employees in the long-lasting criminal proceedings related to land swap.

At 15 April 2008, management of AS Järvevana presented the Company's restructuring plan ([http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news\\_id=222602](http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news_id=222602)), according to which AS Merko Ehitus is divided so that the enterprise of AS Merko Ehitus, i.e. assets (other than liquid assets in the amount of EEK 250 million), liabilities and contracts as well as the business name are separated and transferred to the new company being set up.

According to the demerger plan (<http://www.merko.ee/upload/File/Restruktureerimise%20dokumendid/AS%20Merko%20Ehitus%20Jagunemiskava%20ENG.pdf>), upon division AS Järvevana transferred to AS Merko Ehitus the complete set of assets related to the economic activities of the construction company, including all concluded construction contracts, subcontracts and supply contracts, machinery, equipment and employees, all professional know-how and cash flows from uninterrupted, continuous economic activities, the only activity that remained with the Company was the seeking of fast acquittal in the criminal case no. 05913000055 ([http://www.baltic.omxnordicexchange.com/market/?pg=news&news\\_id=226059](http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=226059)).

At 3 June 2008, the General Meeting of Shareholders ([http://www.baltic.omxnordicexchange.com/market/?pg=news&news\\_id=226094](http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=226094)) approved the demerger of the Company into public limited companies the new Merko Ehitus (registry code 11520257) and Järvevana (registry code 10068022).

At 1 August 2008, the registration department of Harju County Court registered the demerger of AS Merko Ehitus (registry code 10068022, with the new business name of public limited company Järvevana) into public limited companies Merko Ehitus (registry code 11520257) and Järvevana (registry code 10068022) with the Commercial Register.

At 3 April 2009, the Prosecutors' Office submitted to AS Järvevana a suspicion on bribery in the criminal proceedings related to land swap. At the same day, AS Järvevana was declared suspect in the criminal case on bribery related to Ivo Parbus. According to the suspicion, a representative of the Company gave a gift coupon of EEK 15 thousand to an official for accelerated proceedings with two detailed plans and one construction project ([http://www.nasdaqomxbaltic.com/market/?pg=news&news\\_id=232462](http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=232462)).

## Operating activities

The public limited company does not have active business operations. The Company's only income is generated from finance income earned on the investment of the Company's liquid funds. Between 01.08.2008 and 31.12.2008, AS Järvevana earned finance income in the amount of EEK 3.7 million. The Company's operating results for 2007 also include pre-demerger financial information of AS Järvevana for 7 months.

From 1 August 2008, one person has been employed by AS Järvevana, its Director Toomas Annus. According to the service contract entered into with the member of the Management Board, he was paid remuneration for five months in the amount of EEK 152 thousand. Upon the premature removal of the member of the Management Board or non-extension of his service contract, the member is paid severance pay which equals his basic salary over the last 24 months. Until the demerger of the Company at 01.08.2008, the Management Board of AS Järvevana had 5 members and the members of the Management Board were paid remuneration in the total amount of EEK 9317.7 thousand in 2008.

The Supervisory Board of AS Järvevana has 3 members. In 2008, the members of the Supervisory Board were paid remuneration in the amount of EEK 5695 thousand, incl. EEK 50 thousand for 5 months prior to the demerger of AS Järvevana. According to the new policy for paying remuneration approved by the Extraordinary Meeting of Shareholders, the remuneration of the members of the Supervisory Board would have been EEK 120 thousand over a 12-month period. Upon premature termination or non-extension of the powers, no severance pay is paid to the members of the Supervisory Board.

## Business risks

Credit risk. As the Company does not have ordinary economic activities and related receivables, credit risk arising from accounts receivable is insignificant. As at 31.12.2008, the Company did not have any overdue receivables.

The largest credit risk for the Company is the receivable from AS Merko Ehitus in the amount of EEK 225.0 million which arose in the demerger. Management estimates that the credit risk of AS Merko Ehitus is currently low (as at 31.12.2008, the company's equity ratio was 54%, the quick ratio was 1.3), however, the Company's management considers the dispersion of this risk one of the most important goals in 2009. The Company's cash is held in short-term deposits with banks with a good credit rating (Moody's rating of Baa3/D and higher).

Interest risk. Due to the Company's capital structure, the Company does not have interest bearing liabilities and interest risk for the Company represents a possible decline in the return on assets. As at 31.12.2008, AS Järvevana had interest bearing assets in the amount of EEK 150 million, including short-term bank deposits in the amount of EEK 25 million and a loan in the amount of EEK 125 million to AS Merko Ehitus. As the Company does not have any direct operating activities, the amount and regularity of interest income is relevant for it. One of the priorities of the Company in 2009 is the dispersion of credit risks and attainment of a better return on assets.

Liquidity risk. Based on the Company's structure of assets, its liquidity measures are very good, and the Company should look for asset classes with longer maturities and better return. As the expectation in respect of the termination of the criminal proceedings was not realised due to violation and lack of evidence, management is looking for alternatives for the Company's assets with longer maturities and better returns.

Foreign exchange risk. In concluding contracts and assuming obligations, the Company prefers the Estonian kroon to foreign currencies. Due to speculations regarding the stability of the currencies of the Baltic States which have recently become more frequent, the Group has changed the treatment of foreign currency risks and it

pays more attention to balancing currencies by assets and liabilities. As at 31.12.2008, 49.5% of the Group's assets and 0% of its liabilities were denominated in foreign currencies.

Legal risks. Due to different interpretations of contracts, regulations and laws, there is a risk that some buyers, contractors or supervisory authorities evaluate the Company's activities to be in conflict with laws or contracts. Legal risk is one of the largest and most ambiguous risks for AS Järvevana's activities. As at 31.12.2008, the Group had set up a provision for possible claims and court expenses arising from the criminal case related to land swap in the amount of EEK 17.5 million.

At 3 April, the Prosecutor's Office submitted to AS Järvevana and Toomas Annus a statement of charges (dated 31.03.2009) in criminal case no. 05913000055 related to land swap, which elaborated the content of earlier presented suspicions and according to which AS Järvevana is accused of the following acts:

1. Alleged promising of a bribe to Villu Reiljan

a) Alleged promising of a bribe to Villu Reiljan lies in the giving of an apartment to Lea Kiivit, a co-party member of Villu Reiljan, to be used for free. As far as the Company is aware, L. Kiivit wished to purchase the apartment at Rävåla pst 19-33 in Tallinn (67.7 m<sup>2</sup>), at the sales price of EEK 1 624 650, together with a parking space and additional works. As L. Kiivit did not enter into a purchase and sale contract within a reasonable time period, the Company sold the apartment to a third party. Allegedly L. Kiivit purchased the same property at 11 October 2006 together with a parking space. The Company has not given the apartment to be used for free. The Company's position is that delivery of keys to potential purchasers is usual practice.

b) Alleged promise to Villu Reiljan to enable him or a person named by him to acquire a holding in a company not specified in the charge. The charge is completely incomprehensible, since it is not even explained whether such a company existed at all. As far as the Company is aware, Villu Reiljan is not directly nor through a shadow person a co-shareholder in any company related to Toomas Annus.

2. Alleged giving of a bribe to Kalev Kangur

a) AS Järvevana is accused of selling a furnished apartment to Kalev Kangur below the market price. The Company sold the apartment at the address Lossi 18/Soone 3 in Tallinn (65.8 m<sup>2</sup>) at the price of EEK 1 million to AS Hansa Liising Eesti at 30.12.2003, where the lessee was OÜ Sootel that in turn allegedly sold it to Kalev Kangur at 07.02.2005.

AS Järvevana has never sold an apartment to Kalev Kangur and it is in no way related to transactions between AS Hansa Liising, OÜ Sootel and Kalev Kangur.

b) According to the statement of charges, AS Järvevana swapped two properties with the state at Kalev Kangur's order. The Company is accused of providing Kangur with an opportunity to participate covertly in the economic activities of OÜ KV Tarantel as well as of promising to transfer the share of the aforementioned company to an anonymous person to be named by Kangur.

The content of the charge is incomprehensible to the Company, but we confirm that the Company has not committed such acts.

3. Alleged giving of a bribe to Ester Tuiksoo.

According to the charge, AS Järvevana allegedly provided Tuiksoo with a possibility to use an apartment at Rävåla pst. 19-61 for free.

Our explanation is that Ester Tuiksoo wished to acquire the apartment at Rävåla pst 19-61 in Tallinn (54.7 m<sup>2</sup>) together with a parking space and received from AS Järvevana an offer at the price of EEK 1 696 300. Ester Tuiksoo did not acquire the given apartment. The Company has not given the apartment to be used for free.

At 3 April 2009, the Prosecutor's Office declared AS Järvevana a suspect in the criminal case on a bribery related to Ivo Parbus. According to the suspicion, a representative of the Company gave Ivo Parbus a gift coupon of EEK 15 thousand for accelerated proceedings with two detailed plans and one construction project. The suspicion was submitted against AS Järvevana because the Company owns properties in the interests of which the bribe suspected was allegedly given.

The Company considers the submitted suspicion to be groundless.

The Supervisory Board and Management Board of AS Järvevana are convinced that the activities of the Company and its directing bodies have been correct and in compliance with the laws of the Republic of Estonia and are able to provide relevant evidence in court.

### Share and shareholders

The largest shareholders of AS Järvevana as at 31.12.2008

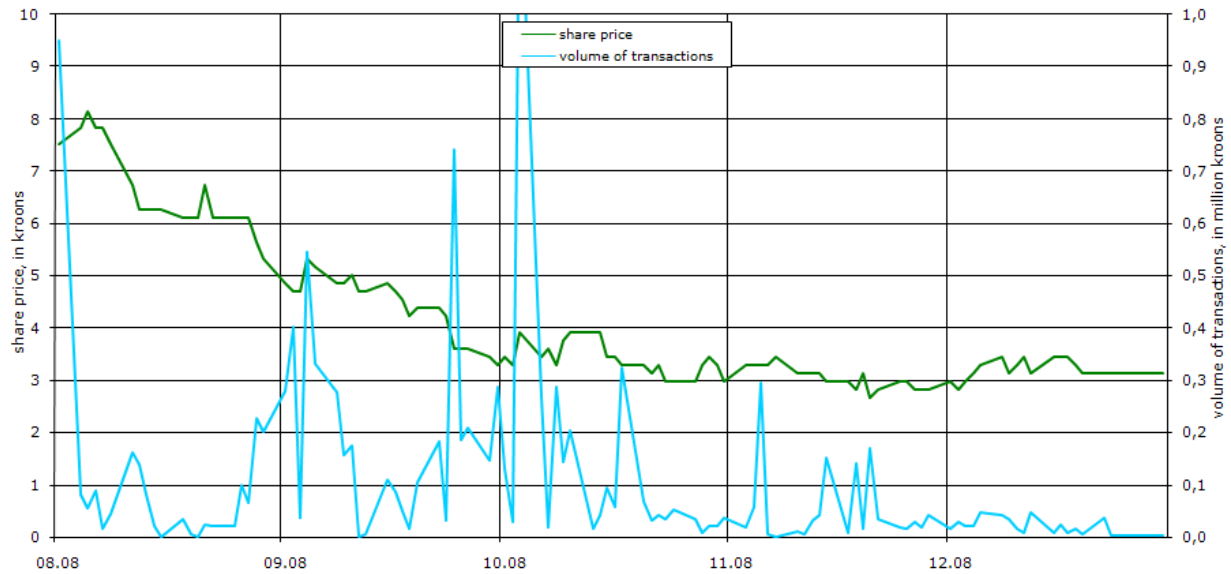
	Number of shares	% of shares
AS Riverito	12 742 686	71.99%
ING Luxembourg S.A., customers	963 376	5.44%
Skandinaviska Enskilda Banken Ab, customers	773 194	4.37%
Rimonne Baltic OÜ	190 000	1.07%

Structure of shareholders as at 31.12.2008

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-100	314	33.33%	15 271	0.09%
101-1000	363	38.54%	154 578	0.87%
1001-10 000	197	20.91%	747 895	4.23%
10 001 – 100 000	59	6.26%	1 521 971	8.60%
100 001 – 1 000 000	8	0.85%	2 517 599	14.22%
1 000 001 - ...	1	0.11%	12 742 686	71.99%
Total	942	100%	17 700 000	100%

The shares of AS Järvevana are included in the main list of NASDAQ OMX Tallinn Stock Exchange. During the demerger of AS Merko Ehitus, the Company's business name was changed to AS Järvevana and from 04.08.2008, the shares of AS Järvevana are traded under the symbol of JRV1T. Between 01.08.2008 and 31.12.2008, 1244 transactions were performed with the shares of AS Järvevana in the course of which 2.8 million shares were traded and the total monetary value of transactions was EEK 11.5 million. The lowest share price was EEK 2.66 and the highest share price was EEK 8.14 per share. The closing price of the shares as at 30.12.2008 was EEK 3.13.

Dynamics of the price and trading volume of the shares of Järvevana on NASDAQ OMX Tallinn Stock Exchange (from 01.08.2008)



## Corporate Governance Code (CGC)

From 2006, the Corporate Governance Code (CGC) which lays down the general principles for managing entities and treating shareholders applies to the issuers of equity securities which are listed on NASDAQ OMX Tallinn Stock Exchange. The CGC principles are recommended to the publicly traded companies and the entities are free to decide whether to follow the main CGC principles or not. The Corporate Governance Code is based on the principle of *follow or explain* according to which an entity shall explain its standpoints and activities with regard to those CGC provisions which it does not follow.

AS Järvevana places great value on the equal treatment of its shareholders, the transparency of the Company's management processes as well as the reliability of its activities. This report deals with those CGC principles which AS Järvevana does not follow for technical, economic or other reasons.

### I General Meeting of Shareholders

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company.

The Company shall announce the time, place, and agenda of the General Meeting as well as the recommendations of the Supervisory Board with regard to the items on the agenda in a national daily newspaper and through the stock exchange system. The General Meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m. enabling most of the shareholders to participate in the General Meeting of Shareholders. Any shareholder or his authorised representative may participate in the General Meeting. No picture taking or filming is allowed at the General Meeting, because it may disturb the privacy of shareholders. Participation in the General Meeting cannot be accomplished through the means of communication because there are no reliable ways to identify shareholders and to ensure the privacy of participating shareholders.

On behalf of the Company, the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Järvevana, and if necessary, other members of Supervisory Board shall be involved. The Company does not consider the participation of all members of the Supervisory Board in the General Meeting relevant.

## **II Management Board**

The Management Board of AS Järvevana has one member and the Management Board represents the Company and manages its daily operations. A 3-year service contract has been concluded with the member of the Management Board and the remuneration of the member of the Management Board shall be disclosed in the Company's annual report. Neither share options nor other bonus schemes have been used to motivate the Chairman. Upon premature termination or non-extension of the service contract and under the condition that the member of the Management Board shall not compete with the Company, severance pay shall be paid to the members of the Management Board equalling twenty-four-month base remuneration of the member of the Management Board.

## **III Supervisory Board**

The General Meeting of Shareholders shall elect the Supervisory Board. The Supervisory Board shall determine the Company's operating strategy, endorse the transactions as authorised by the articles of association, elect the members of the Management Board and monitor the performance of the Management Board during the time the General Meetings are not held. The Supervisory Board of AS Järvevana has three members: Teet Roopalu, Jaan Mäe and Chairman of the Supervisory Board, Tõnu Toomik. The General Meeting of Shareholders shall approve the remuneration of the members of the Supervisory Board. The procedure for paying remuneration to the current Supervisory Board was approved by the General Meeting of Shareholders held at 3 June 2008. Upon premature termination or non-extension of the powers, no compensation is paid to the members of the Supervisory Board.

## **IV Collaboration of the Management and Supervisory Boards**

To ensure that the Company's interests are met as best as possible, the Management and Supervisory Boards shall collaborate extensively. At least once a month, a joint regular meeting of the Management Board and the Supervisory Board shall take place, in which the Management Board shall inform the Supervisory Board of significant issues in the Company's business operations and the risks impacting them.

## **V Disclosure of information**

In disclosing information, AS Järvevana shall follow the rules and regulations of NASDAQ OMX Tallinn Stock Exchange and immediately disclose important information regarding the Company's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the Company and its business partners.

During the year, AS Järvevana shall not publish the dates for disclosing information, the so-called financial calendar, because the disclosure of reliable dates would incorporate additional time factor into the dates and endanger the timeliness of disclosures. AS Järvevana shall generally disclose important information regarding the Company after the end of the trading day.

AS Järvevana does not have ordinary business operations and the success of the Company's activities will depend on the development of the charges filed against the Company. Management estimates that an objective coverage of the court case is complicated and may hinder successful arrangement of the work of defence, as a result of which management does not consider it necessary to participate in the presentations and press conferences arranged by analysts and investors. All objective and relevant information related to the Company's activities shall be made available through the stock exchange system and the shareholders are able to obtain additional information in the General Meeting of Shareholders.

#### **VI Election of an auditor and auditing the financial statements**

The Company's financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union.

In electing an auditor, the Company shall consider auditor's independence, competence, reliability and the price of the service offered. The Company shall not publish the fees paid for the provision of auditing and consulting services, because such activities may significantly impair the Company's ability to obtain the service for a competitive price in the future.

When proposing to elect a new auditor, the Supervisory Board shall also present its rationale for the change. In extending the contract with the auditor who audited the Company in the previous financial year, the Supervisory Board shall acknowledge with its choice that the auditor has fulfilled the expectations laid on him/her and the Supervisory Board is content with the quality of the service provided.

**The Board of AS Järvevana declares and confirms that to the best knowledge of the Management, the Management Report of the 2008 Annual Report gives a true and fair view of the business development and performance and financial state of the company and consolidated entrepreneurs as a whole and includes a description of risks and suspicions.**

Toomas Annus Member of the Management Board



03.08.2009