AS Järvevana

Group

Consolidated Annual Report

Beginning of financial year: 01.01.2008

End of financial year: 31.12.2008

(translation of the Estonian original)

Commercial Register no.:	10068022
Address:	Järvevana tee 9G 11314 Tallinn
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E-mail:	merko@merko.ee
Main activity:	general contracting of construction
Auditor:	AS PricewaterhouseCoopers

TABLE OF CONTENTS

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), 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).

At 3 June 2008, the General Meeting of Shareholders (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).

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 Rävala pst 19-33 in Tallinn (67.7 m2), 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 m2) 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 Rävala pst. 19-61 for free.
Our explanation is that Ester Tuiksoo wished to acquire the apartment at Rävala pst 19-61 in Tallinn (54.7 m2) 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

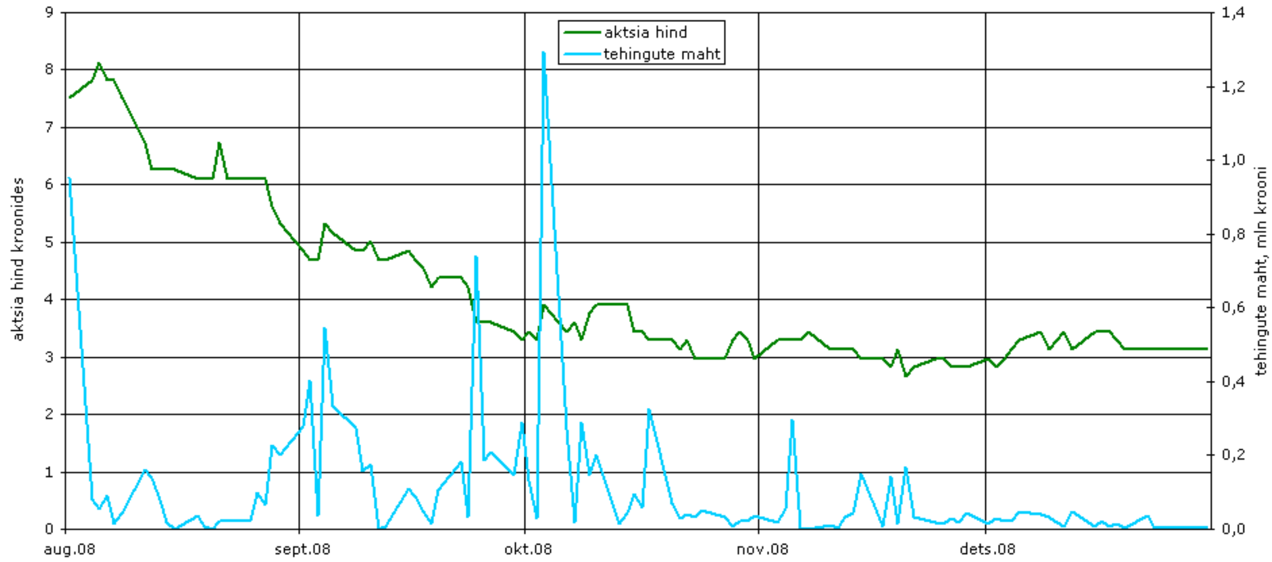
	Number of shares	% of shares
AS Riverito	12 742 686	71.99%
ING Luxembourg S.A., customers	963 376	5.44%
Skandinaviska Enskilda Banken Ab, customers	773 194	4.37%
Rimonne Baltic OÜ	190 000	1.07%

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.

FINANCIAL STATEMENTS

MANAGEMENT DECLARATION

The Management Board confirms the correctness and completeness of AS Järvevana consolidated financial statements as presented on pages 10-55.

The Management Board confirms that:

1. the accounting methods used for preparing the financial statements are in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements give a true and fair view of the financial position, the results of operations and the cash flows of the Company;
3. the Company is a going concern.

Toomas Annus Member of the Management Board 15.04.2009

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CONSOLIDATED INCOME STATEMENT

in thousands of		EEK		EUR	
	Note	**2008**	**2007**	**2008**	**2007**
Revenue	2,3	2 798 466	5 510 760	178 854	352 202
Cost of goods sold	4	(2 273 798)	(4 731 752)	(145 322)	(302 415)
Gross profit		524 668	779 008	33 532	49 787
Marketing expenses	5	(21 143)	(32 472)	(1 351)	(2 075)
Administrative and general expenses	6	(123 699)	(213 806)	(7 906)	(13 665)
Other operating income	7	6 781	6 424	434	411
Other operating expenses	8	(7 773)	(18 109)	(497)	(1 157)
Operating profit		378 834	521 045	24 212	33 301
Finance income	9	16 618	11 016	1 062	704
Finance cost	10	(15 917)	(17 762)	(1 017)	(1 135)
Profit/loss from associates and joint ventures	19	1 282	76 440	82	4 885
Profit before tax		380 817	590 739	24 339	37 755
Corporate income tax expense	11	(41 100)	(30 830)	(2 627)	(1 970)
Net profit for financial year		339 717	559 909	21 712	35 785
incl. net profit attributable to equity holders of the parent		335 502	545 049	21 442	34 835
minority interest		4 215	14 860	270	950
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in kroons/ euros)	12	18,95	30,79	1,21	1,97

The notes set out on pages 16-55 are an integral part of these consolidated financial statements.

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CONSOLIDATED BALANCE SHEET

in thousands of		EEK		EUR	
	Note	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
ASSETS					
Current assets					
Cash and cash equivalents	14	26 242	205 564	1 677	13 138
Trade and other receivables	15	225 927	1 199 566	14 439	76 666
Prepaid corporate income tax		-	2 376	-	152
Inventories	17	-	2 025 426	-	129 448
		252 169	3 432 932	16 116	219 404
Non-current assets					
Investments in associates and joint ventures	19	-	272 964	-	17 446
Other long-term loans and receivables	20	-	14 492	-	926
Deferred income tax assets		-	3 396	-	217
Investment property	21	-	7 361	-	470
Property, plant and equipment	22	-	172 912	-	11 051
Intangible assets	23	-	12 574	-	804
		-	483 699	-	30 914
TOTAL ASSETS		252 169	3 916 631	16 116	250 318
LIABILITIES					
Current liabilities					
Borrowings	25	-	304 879	-	19 485
Trade and other payables	26	242	1 015 492	16	64 902
Corporate income tax liability		-	16 718	-	1 068
Government grants	27	-	1 498	-	96
Short-term provisions	28	17 500	73 212	1 118	4 680
		17 742	1 411 799	1 134	90 231
Non-current liabilities					
Long-term borrowings	25	-	397 713	-	25 418
Other long-term trade payables	29	-	57 423	-	3 670
		-	455 136	-	29 088
TOTAL LIABILITIES		17 742	1 866 935	1 134	119 319
EQUITY					
Minority interest		-	33 939	-	2 169
Equity attributable to equity holders of the parent					
Share capital	30	177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation differences		-	(5 085)	-	(325)
Retained earnings		39 727	1 826 142	2 539	116 712
		234 427	2 015 757	14 982	128 830
TOTAL EQUITY		234 427	2 049 696	14 982	130 999
TOTAL LIABILITIES AND EQUITY		252 169	3 916 631	16 116	250 318

The notes set out on pages 16-55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of ***EEK***		**Equity attributable to equity holders of the parent**					**Minority interest**	**Total**
	Note	**Share capital**	**Statutory reserve capital**	**Currency translation differences**	**Retained earnings**	**Total**		
Balance as at 31.12.2006		177 000	17 700	(5 751)	1 404 993	1 593 942	18 904	1 612 846
Currency translation differences		-	-	666	-	666	-	666
Net profit for financial year		-	-	-	545 049	545 049	14 860	559 909
Total recognised income for 2007		-	-	666	545 049	545 715	14 860	560 575
Minority interest of acquired subsidiary		-	-	-	-	-	5 240	5 240
Dividends	13	-	-	-	(123 900)	(123 900)	(5 065)	(128 965)
Balance as at 31.12.2007		177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
Currency translation differences		-	-	5 085	-	5 085	-	5 085
Net assets transferred during demerger	37	-	-	-	(2 121 917)	(2 121 917)	(31 626)	(2 153 543)
Net profit for financial year		-	-	-	335 502	335 502	4 215	339 717
Total recognised income for 2008		-	-	5 085	(1 786 415)	(1 781 330)	(27 411)	(1 808 741)
Dividends	13	-	-	-	-	-	(6 528)	(6 528)
Balance as at 31.12.2008		177 000	17 700	-	39 727	234 427	-	234 427

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in thousands of ***EUR***	**Equity attributable to equity holders of the parent**					**Minority interest**	**Total**
	Share capital	**Statutory reserve capital**	**Currency translation differences**	**Retained earnings**	**Total**		
Balance as at 31.12.2006	11 312	1 131	(368)	89 796	101 871	1 208	103 079
Currency translation differences	-	-	43	-	43	-	43
Net profit for financial year	-	-	-	34 835	34 835	950	35 785
Total recognised income for 2007	-	-	43	34 835	34 878	950	35 828
Minority interest of acquired subsidiary	-	-	-	-	-	335	335
Dividends	-	-	-	(7 919)	(7 919)	(324)	(8 243)
Balance as at 31.12.2007	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Currency translation differences	-	-	325	-	325	-	325
Net assets transferred during demerger	-	-	-	(135 615)	(135 615)	(2 021)	(137 636)
Net profit for financial year	-	-	-	21 442	21 442	269	21 711
Total recognised income for 2008	-	-	325	(114 173)	(113 848)	(1 752)	(115 600)
Dividends	-	-	-	-	-	(417)	(417)
Balance as at 31.12.2008	11 312	1 131	-	2 539	14 982	-	14 982

AS Järvevana share capital consists of 17 700 000 registered shares with the nominal value of 10 kroons / 0.64 euros each.

The notes set out on pages 16-55 are an integral part of these consolidated financial statements.

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CONSOLIDATED CASH FLOW STATEMENT

in thousands of		EEK		EUR	
	Note	**2008**	**2007**	**2008**	**2007**
Cash flows from operating activities					
Operating profit		378 834	521 045	24 212	33 301
Adjustments:					
depreciation and impairment charge	21-23	16 618	28 670	1 062	1 832
profit/loss from sale of non-current assets	7,8	(800)	(275)	(51)	(18)
change in receivables and liabilities related to construction contracts recognised under the stage of completion method		173 625	(130 927)	11 097	(8 368)
interest income from business activities		(2 123)	(2 844)	(136)	(182)
change in government grants and other provisions		(14 246)	49 456	(910)	3 161
profit on acquisition of subsidiary		-	(720)	-	(46)
Change in trade and other receivables related to operating activities		156 248	(108 379)	9 986	(6 927)
Change in inventories		3505	(665 436)	224	(42 529)
Change in trade and other payables related to operating activities		(107 642)	(127 742)	(6 881)	(8 164)
Interest paid		(12 218)	(17 144)	(781)	(1 096)
Other finance income		(27)	(11)	(2)	(1)
Corporate income tax paid		(32 963)	(34 597)	(2 107)	(2 211)
		558 811	(488 904)	35 713	(31 248)
Cash flows from investing activities					
Investment in subsidiaries	18	(7 500)	(29 575)	(479)	(1 890)
Proceeds from sale of subsidiaries	18	1 000	500	64	32
Investments in associates and joint ventures	19	(1 000)	(3 352)	(64)	(214)
Proceeds from sale of associates and joint ventures		58 000	-	3 707	-
Purchase of investment property		(112)	-	(7)	-
Purchase of property, plant and equipment		(15 638)	(48 757)	(1 000)	(3 116)
Proceeds from sale of property, plant and equipment		2 469	2 718	158	174
Purchase of intangible assets		(1 118)	(4 413)	(72)	(282)
Loans granted	16	(21 331)	(145 692)	(1 363)	(9 311)
Loan repayments received	16	4 190	134 599	268	8 602
Interest received		16 412	16 226	1 049	1 037
Dividends received		-	4 380	-	280
		35 372	(73 366)	2 261	(4 688)
Cash flows from financing activities					
Proceeds from borrowings	25	69 361	582 283	4 433	37 215
Repayments of borrowings	25	(155 654)	(345 739)	(9 948)	(22 097)
Finance lease principal payments	25	(10 407)	(14 260)	(665)	(911)
Dividends paid		(6 528)	(128 965)	(417)	(8 242)
		(103 228)	93 319	(6 597)	5 965
Cash transferred during demerger	37	(666 689)	-	(42 609)	-
Net increase/decrease in cash and cash equivalents		(175 734)	(468 951)	(11 232)	(29 971)
Cash and cash equivalents at beginning of the period	14	205 564	676 143	13 138	43 213
Exchange losses on cash and cash equivalents		(3 588)	(1 628)	(229)	(104)
Cash and cash equivalents at end of the period	14	26 242	205 564	1 677	13 138

The notes set out on pages 16-55 are an integral part of these consolidated financial statements.

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NOTES

Note 1 Summary of significant accounting policies

1.1. General information

The consolidated financial statements of AS Järvevana for the year ended 31 December 2008 were signed by the Management Board at 15 April 2009.

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

AS Järvevana is a public limited company registered in the Republic of Estonia (Commercial Register no.: 10068022, address: Järvevana tee 9G, Tallinn) and from 1 August 2008, it operates in Estonia. Until 1 August 2008, the Company operated in Estonia, Latvia and Lithuania and its main activities were construction and real estate development. After the demerger, the Company does not have active operating activities.

The shares of AS Järvevana are included in the Main List of NASDAQ OMX Tallinn Stock Exchange. In the course of the demerger process of AS Merko Ehitus, the Company's business name was changed to AS Järvevana and from 4 August 2008, the shares of AS Järvevana are traded under the symbol of JRV1T.

1.2. Bases of preparation

The consolidated financial statements of Merko Ehitus Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention.

Several financial figures are based on management's estimates, including for example, assessment of profitability of construction contracts upon the application of the stage of completion method, assessment of useful lives of items of property, plant and equipment, assessment of impairment losses of receivables and inventories, recognition of provisions for warranty obligations. Management's estimates have been made to the best of its knowledge, but they may not be accurate. The effect of changes in accounting estimates is reported in the financial statements of the period in which the change occurred.

Assets and liabilities are classified as current and non-current in the balance sheet. Current assets include assets that are expected to be used within the next financial year. Current liabilities include liabilities the due date of which is within 12 months after the balance sheet date. The remaining assets and liabilities are classified as non-current.

Expenses are classified according to their function in the income statement.

Items included in the financial statements of each of Järvevana's group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency): the Estonian kroon, Latvian lats and the Lithuanian litas. The consolidated financial statements are presented in Estonian kroons. The primary financial statements and notes are presented in thousands of kroons. Pursuant to the requirements of NASDAQ OMX Tallinn Stock Exchange, the primary financial statements are also presented in thousands of euros. As the Estonian kroon is pegged to the Euro (EUR 1=EEK 15.6466), no exchange rate differences arise in the translation of the financial statements.

1.3. New International Financial Reporting Standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations

<u>a) Standards, amendments to standards and interpretations</u> effective for financial year starting 1 January 2008.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*. The interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. The amendment will not have an effect on the Group's financial statements.

Reclassification of Financial Assets **– amendments to IAS 39** ***Financial Instruments: Recognition and Measurement*** **and IFRS 7** ***Financial Instruments - Disclosures*** *and consequential amendment: Reclassification of Financial Assets: Effective Date and Transition.* The amendments allow entities the following options (a) to reclassify a financial asset out of the held-for-trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale or held-for-trading asset to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments to the standards will not have an effect on the Group's financial statements.

b) New standards, amendments to standards and interpretations effective for annual periods beginning at or after 1 January and which the Group has not adopted early

By the time of preparing these financial statements, new International Financial Reporting Standards and their interpretations have been issued which are effective for the Group's annual periods beginning at or after 1 January 2009 but that the Group has not adopted early. Below is an estimate of the Group's management on the potential effect of new standards and interpretation in the period of their first-time adoption:

IFRS 8 ***Operating Segments*** (effective for annual periods beginning at or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or another regulatory agency for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group will evaluate the effect of the new standard on segment reporting in the consolidated financial statements.

IAS 23 ***Borrowing Costs*** (revised March 2007; effective for annual periods beginning at or after 1 January 2009). The main change to the standard is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Entities need to capitalise such borrowing costs within the acquisition cost of the asset. The revised standard is applied prospectively to borrowing costs attributable to specific assets that need to be capitalised from 1 January 2009. The Group estimates that the adoption of the amended standard will not have an effect on the consolidated financial statements.

IAS 1 ***Presentation of Financial Statements*** (revised September 2007; effective for annual periods beginning at or after 1 January 2009)***.*** The main change in IAS 1 is the replacement of the income statement by the statement of comprehensive income which also includes all non-owner changes in equity, such as revaluation of available-for-sale financial assets. Two statements are allowed to be presented as an alternative: a separate income statement and a statement of comprehensive income. The revised standard also requires the disclosure of the financial position (balance sheet) for the opening balances of the comparative period when comparatives have been restated due to reclassifications, changes in accounting policies or correction of errors. The Group estimates that the revised IAS 1 will have an effect on the presentation of financial information but will not be relevant to the recognition and measurement principles used until now in the consolidated financial statements.

IAS 27 ***Consolidated and Separate Financial Statements*** (revised January 2008; effective for annual periods beginning at or after 1 July 2009; the revised standard has not been adopted by the EU yet). The revised standard requires an entity to attribute total comprehensive income to the owners of the parent and to minority interests even if this results in the non-controlling interests having a deficit balance (in most cases, the current standard requires the excess losses to be allocated to the owners of the parent). The revised standard specifies that changes in the parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group will evaluate the effect of the amended standard on the consolidated financial statements.

Vesting Conditions and Cancellations **- amendment to IFRS** ***2 Share-based Payment*** (revised in January 2008; effective for annual periods beginning at or after 1 January 2009). The amendment explains that the transfer of ownership may be conditional upon satisfying vesting conditions and performance conditions. Other conditions of share-based payments are not vesting conditions. The amendment explains that all cancellations whether by the Group or other parties shall be accounted for in a similar manner. The Group estimates that the amended standard will not have a material effect on the consolidated financial statements.

***Reassessment of Embedded Derivatives* – amendments to IFRIC 9 and IAS 39** (effective for annual periods beginning at or after 30 June 2009; the amendment has not been adopted by the EU yet). The amendment clarifies that upon classification of financial assets out of the category 'at fair value through profit or loss', embedded derivatives shall be assessed and if necessary, recognised separately.

IFRS 3 *Business Combinations* (effective for business combinations for which the acquisition date is in the first annual period beginning at or after 1 July 2009; the amended standard has not been adopted by the EU). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to premeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will evaluate the effect of the amended standard on the consolidated financial statements.

Amendment to IAS 32 and IAS 1 – *Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning at or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group estimates that the adoption of the amended standard will not have an effect on the consolidated financial statements.

IFRIC 12 – ***Service Concession Arrangements*** (IFRIC 12, as adopted by the EU is effective for annual periods beginning at or after 30 March 2009, earlier application is permitted). The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price. The Group estimates that the adoption of the interpretation will not have an effect on the consolidated financial statements, because none of the group entities provides services to the public sector.

IFRIC 13 – **Customer Loyalty Programmes** (effective for annual periods beginning at or after 1 July 2008; IFRIC 13 as adopted by the EU is effective for annual periods beginning at or after 31 December 2008, earlier application is permitted). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. Due to the Group's business, the amendment has no effect and the Management Board estimates that the interpretation will not have an effect on the consolidated financial statements.

IFRIC 14 IAS 19 – ***The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning at or after 1 January 2008; IFRIC 14 as adopted by the EU is effective for annual periods beginning at or after 31 December 2008, earlier application is permitted). The interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan. The Group estimates that the interpretation will not have an effect on the consolidated financial statements because it does not have any such assets.

IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning at or after 1 January 2009, the interpretation has not been adopted by the EU yet). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 will not have an effect on the Group's financial statements because the Group's accounting principle is in accordance with it.

IFRIC 16 ***Hedges of a Net Investment in a Foreign Operation*** (effective for annual periods beginning at or after 1 October 2008; the interpretation has not been adopted by the EU yet). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The interpretation allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 will not have an effect on the Group's financial statements, because the Group does not use hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate **— amendments to IFRS 1 and IAS 27** (issued in May 2008; effective for annual periods beginning at or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying amount as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an effect on the Group's financial statements.

Eligible Hedged Items **– amendment to IAS 39,** ***Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning at or after 1 July 2009)***.*** The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment will not have an effect on the Group's financial statements because the Group does not use hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method for making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36 clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group's estimates that the amendments will not have a material effect on the financial statements.

IFRIC 17 ***Distribution of Non-Cash Assets to Owners*** (effective for annual periods beginning at or after 1 July 2009; the interpretation has not been adopted by the EU yet). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 will not have an effect on the Group's financial statements, because the Group does not distribute non-cash assets to its owners.

IFRS 1 ***First-time Adoption of International Financial Reporting Standards*** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning at or after 1 July 2009; the amended standard has not adopted by the EU yet). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The amendments will not have an effect on the Group's financial statements.

IFRIC 18 ***Transfers of Assets from Customers*** (effective for annual periods beginning at or after 1 July 2009; the interpretation has not been adopted by the EU yet). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 will not have an effect on the Group's financial statements.

Improving Disclosures about Financial Instruments* - amendment to IFRS 7 *Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009; the amendment has not been adopted by the EU yet). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee and in the earliest period in which the guarantee can be collected; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable the readers of the financial statements to evaluate the nature and extent of liquidity risk. The Group will assess the impact of the amendment on disclosures in its financial statements.

1.4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are relevant to the consolidated financial statements of the Group, are disclosed below. Changes in management's estimates are reported in the income statement of the period of the change.

The key management estimates include

Revenue under the stage of completion method
Revenue from construction in progress is recognised under the stage of completion method (Note 1.24), which also assumes that the stage of completion of construction contracts can be determined reliably. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31.12.2008, the Company does not have any contracts in progress.

Determination of the useful lives of items of property, plant and equipment
Management has estimated the useful lives of items of property, plant and equipment, taking into consideration conditions and volumes of business activities, historical experience in this area and future outlook. Management estimates that the useful lives of buildings and facilities are between 10 and 33.3 years depending on their structure and the purpose of use. The average useful lives of machinery and equipment are on average between 3 and 5 years and those of other fixtures between 2.5 to 5 years depending on the purpose of use of the asset. As at 31.12.2008, the Company does not have any items of property, plant and equipment.

Assessment of the effect of criminal case no.05913000055
At 3 April 2009, the Prosecutor's Office submitted a charge against AS Järvevana of giving a bribe in the criminal proceedings related to land swap. At the same day, AS Järvevana was declared a suspect in the criminal proceedings regarding a bribery related to Ivo Parbus. It is an elaboration of the suspicion submitted to a member of the Management Board of AS Merko Ehitus and hence to AS Merko Ehitus. 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 has in its ownership the projects in the interests of which the bribe under suspicion was allegedly given. The Company considers the submitted charge and suspicion to be groundless, therefore the potential penalties arising from the legal proceedings are disclosed as contingent liabilities.

1.5. Consolidation

Subsidiaries or entities that are either directly or indirectly through fellow subsidiaries controlled by the parent AS Järvevana, have been consolidated on a line-by-line basis in the consolidated financial statements. Control exists when the parent owns more than one half of the voting power of the subsidiary or otherwise has power to govern the operating and financial policies of the other entity. Subsidiaries are fully consolidated in the financial statements of the Group from the date of acquiring control until the date at which control ceases.

The parent and all its subsidiaries are treated as one entity in the consolidated financial statements. Upon consolidation, intra-group receivables and liabilities, income and expenses as well as unrealised profits and losses arising from intra-group transactions have been eliminated. Minority interests are shown separately.

Group entities use uniform accounting policies.

1.6. Business combinations

Business combinations are accounted for under the purchase method. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. From the date of acquisition, the revenue and expenses of the acquired entity are reported in the income statement of the Group and goodwill is reported in the balance sheet of the Group.

Goodwill is the excess of the cost of acquisition over the fair value of the assets acquired, reflecting the portion of the cost which was paid for such assets of the acquired entity that cannot be separated and recognised separately. Goodwill is recognised at its cost as an intangible asset at the date of acquisition.

Goodwill is subsequently measured at its cost less any impairment losses. Goodwill arising in a business combination is not amortised. Instead, an impairment test is carried out once a year. Goodwill is written down to its recoverable amount if the carrying amount is not recoverable (Note 1.12).

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An impairment test for goodwill is performed at least once a year and when an event or a change in circumstances refers to possible impairment of goodwill.

Transactions with minority interest
The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases of interests from minority shareholders result in goodwill, being the difference between the acquired ownership and the consideration paid for it.

1.7. Associates

Associates are all entities in which the Group has significant influence but not control over their operating and financial policies. Significant influence is presumed to exist when the parent owns between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and subsequently measured using the equity method of accounting. Investments in associates include goodwill (less any impairment losses)identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Group's income statement, and its share of post-acquisition movements in equity is recognised directly in the Group's equity items. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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1.8. Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at acquisition cost and subsequently adjusted by the changes that have occurred in the Group's share of the net assets under joint control. The income statement of the Group includes the Group's share in the profits or losses of the entity under joint control.

1.9. Jointly controlled operations

Under IAS 31 Interests in Joint Ventures, jointly controlled operations are joint operations with third parties, whereby the assets and other resources of venturers are used without the establishment of a new entity or another unit or creation of a separate financial structure. Each venturer uses its own property, plant and equipment and carries its own inventories in the balance sheet. The venturer also incurs its own expenses and liabilities and raises its own funds which represent its own obligations. In respect of its interest in jointly controlled operations, a venturer recognises in its financial statements:

- the assets that it controls and the liabilities that it incurs;
- the expenses that it incurs and its share of revenue that it earns from the sale of goods or services of the joint venture.

1.10. Foreign currency

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Monetary financial assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Exchange rate differences from translation are reported in the income statement of the reporting period.

The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into Estonian kroons for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the Bank of Estonia prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity item Currency translation differences.

1.11. Financial assets

The purchases and sales of financial assets are recognised at the trade date.
Depending on the purpose for which financial assets were acquired, financial assets are classified into the following categories at the Group:

- financial assets at fair value through profit or loss;
- loans and receivables not held for trading;
- held-to-maturity investments;
- available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for the purpose of trading (i.e. assets acquired or generated primarily for the purpose of selling or repurchasing in the near term; a part of a jointly managed portfolio of financial instruments; or a derivative financial instrument that is not a hedging instrument) as well as other financial assets that have been designated by the Group at inception as financial assets at fair value through profit or loss. Financial assets in this group are classified as current assets if they are primarily held for the purpose of trading or are expected to be disposed of within 12 months after the balance sheet date. After initial recognition, the financial assets in this category are measured at fair value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets except for maturities greater than 12 months after the balance sheet date. Such assets are classified as non-current assets. Loans and receivables are initially recognised at fair value net of transaction costs. After initial recognition, the Group carries loans and receivables at amortised cost (less any impairment losses), calculating interest income on the receivable in the following periods using the effective interest rate method.

Receivables are assessed based on the collectible amounts. Each receivable is assessed separately considering all known information on the solvency of the party to transaction. Receivables whose collection is improbable are written down during the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are classified in this category or that are not classified in any other category. Available-for-sale financial assets are included within non-current assets unless management plans to dispose of the investment within 12 months after the balance sheet date. Available-for-sale financial assets are subsequently measured at fair value and the changes in fair value are recognised in equity. If available-for-sale securities are disposed of or their value falls, the accumulated adjustments of fair value included within equity are recognised as gains or loss from securities in the income statement. Interest on available-for-sale financial assets calculated using the effective interest rate is included within other operating income. Dividend income on available-for-sale equity instruments is recognised in the income statement as other operating income at the time when the Group has a legal right to receive them.

The Company does not have any held-to-maturity financial assets. The Group does not have any derivatives either.

1.12. Impairment of assets

Financial assets at amortised cost
The Group assesses at each balance sheet date whether there is any indication that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (loss events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that is available to the Group regarding the following events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it is probable that the debtor will enter bankruptcy;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or a group of financial assets, although the decrease cannot yet be measured reliably.

If there is objective evidence that an impairment loss has incurred for loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have already been recognised), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Non-financial assets
Assets that have indefinite useful lives (including goodwill) are not subject to amortisation but they are tested annually for impairment, by comparing their carrying amounts with their recoverable amounts. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and is compared with the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date and if necessary, the impairment loss is reversed.

1.13. Inventories

Inventories are recorded in the balance sheet at cost, which consists of the purchase costs, production costs, transportation and other costs incurred in bringing the inventories to their present location and condition.

In case of separately identifiable inventory items, their cost is determined based on expenditure incurred specifically for the acquisition of each asset. If inventory items are not clearly distinguishable from each other, then the weighted average cost method is used.

Inventories are recognised in the balance sheet at the lower of cost and net realisable value. The net realisable value is the sales price less estimated costs to sell.

Expenditure incurred for real estate development is reported in the balance sheet line *Inventories* either as work-in-progress or finished goods, depending on the stage of completion. When the real estate property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. A completed real estate property is sold either in parts (by houses, apartments, office spaces, etc.) or as a whole. Revenue is recognised as income from the sale of goods (Note 1.23). Upon the sale of real estate properties, a notarially certified agreement is entered into between the Group and the acquirer for transferring the property, and a respective entry is made in the land register.

1.14. Investment property

Investment property is real estate property which is primarily held for the purpose of earning rental income or for capital appreciation or for both, but not for the production of goods or services, for administrative purposes or for sale in the ordinary course of business. Investment property is measured using the cost model, that is at cost less any accumulated depreciation and any accumulated impairment losses.

Buildings included in investment properties are depreciated on a straight-line basis over the period of 12.5 to 33.3 years. Land is not depreciated.

1.15. Property, plant and equipment

An item of property, plant and equipment is an asset used for production, provision of services or administrative purposes over a period longer than one year. The cost consists of the purchase price of the asset and other expenditure incurred in bringing the asset to its operating condition and location.

An item of property, plant and equipment is carried in the balance sheet at its cost less any accumulated depreciation. Subsequent expenditure incurred for items of property, plant and equipment are recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred. Depreciation is calculated on a straight-line basis over the following useful lives:

- buildings 10-33.3 years;
- machinery and equipment 3-5 years:
- other items of property, plant and equipment 2.5-5 years;
- right of superficies 50 years.

Land is not depreciated.

At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets is assessed.

Non-current assets are written down to their recoverable amount if the latter is lower than its carrying amount. The recoverable amount is the higher of the asset's net selling price and its value in use.

1.16. Intangible assets

Intangible assets are recognised in the balance sheet when the asset can be controlled by the Company, the expected future benefits attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. The cost of an intangible asset consists of its purchase price and other expenditure directly related to the purchase. Intangible assets are carried in the balance sheet at cost less any accumulated amortisation and any accumulated impairment losses.

Software and information systems

The costs related to the development of information systems and software which are reported as intangible assets, are depreciated under a straight-line method over their estimated useful lives (2-10 years).

1.17. Finance and operating leases

Leases of property, plant and equipment which transfer all significant risks and rewards of ownership to the lessee are classified as finance leases. All other leases are recognised as operating leases.

Assets and liabilities leased under the finance lease terms are reported in the balance sheet at the lower of fair value of the leased asset and the present value of minimum rental payments. Items of property, plant and equipment leased under the finance lease terms are depreciated over the shorter of the lease term and the useful life.

Finance lease liabilities are reduced by principal payments; interest expenses on lease payments are included within finance costs in the income statement.

Operating lease payments are reported in the income statement as expenses on an accrual basis over the lease term.

1.18. Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses, bonds issued and other short and long-term borrowings) are initially recorded at their fair value and are subsequently stated at amortised cost, using the effective interest rate method. The amortised cost of the current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the balance sheet in their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but that are refinanced after the balance sheet date as non-current, are recognised as current ones. Also, borrowings are classified as current if the lender had at the balance sheet date the contractual right to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

1.19. Corporate income tax

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not related to business operations. Thus there are no differences between the tax bases and the carrying amounts of assets which would give rise to a deferred income tax asset or liability. From 01.01.2008, the tax rate on dividends payable is 21/79 (in 2007: 22/78; 2006: 23/77) of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared.

Corporate income tax on profits and deferred income tax expense or income of the subsidiaries located in Latvia and Lithuania as well as corporate income tax on dividends of Estonian entities are reported in the consolidated income statement.

Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax assets are recognised in the Group's balance sheet if their future realisation is probable.

Legal entities in Latvia and Lithuania that belong to the Group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia and the Republic of Lithuania. The profits of entities located in the Republic of Latvia are taxed at the rate of 15%+3%, the profits of entities located in the Republic of Lithuania are taxed at the rate of 15% in 2007 (2008: 15%+4%).

1.20. Loans

Loans are initially recognised at fair value (net of transaction costs incurred). After initial recognition, loans are measured at amortised cost, calculating interest income on loans in subsequent periods using the effective interest rate.

Loans are classified as short-term when the borrower cannot postpone payment for later than 12 months after the balance sheet date.

Borrowing costs directly related to the acquisition and construction of a real estate property until the property is ready for use or sale, are capitalised. In other cases, borrowing costs are recognised as an expense in the period in which they are incurred.

1.21. Employee benefits

Termination benefits – Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of another offer made to encourage voluntary redundancy. Benefits due more than 12 months after the balance sheet date are discounted to present value.

Profit-sharing and bonus plans – The Company recognises a liability and an expense for bonuses and profit–sharing, based on a formula that takes into consideration the profit attributable to the parent's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or when there is past practice that has created a constructive obligation.

1.22. Provisions

Provisions are constructive or legal obligations which arise as a result of events occurring before the balance sheet date. Setting up of provisions or increasing existing provisions is recognised as expense in the income statement of the reporting period.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation which are not included already in the best estimate of the related expenses.

Pursuant to respective building acts, the construction companies of the Group provide 2-year warranties on their buildings. The calculation of warranty provisions is based on management estimates and previous periods' experience with regard to actual warranty expenses.

The expected loss arising from construction contracts is immediately recognised as an expense. A provision is recognised for onerous construction contracts which have not been completed yet (Note 1.24).

1.23. Revenue

Revenue is recognised at the fair value of the consideration received or receivable.

Revenue from the provision of construction services is recognised as revenue by reference to the stage of completion of the contract (see Note 1.24) in accordance with IAS 11 C*onstruction Contracts*. Revenue from own real estate development projects (private dwelling houses, apartments, office premises, etc.) that have been built on the registered immovables owned by entities of Merko Ehitus Group) is recognised as revenue in accordance with IAS 18 *Revenue* when significant risks and rewards of ownership of the goods are transferred to the buyer, the receipt of payment is probable and the costs incurred in respect of the transaction can be measured reliably.

When goods are sold or swapped in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents received or paid. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents received or paid.

Revenue from the provision of services is recognised based on the stage of completion of the service at the balance sheet date.

Revenue arising from interest and dividends is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably.

1.24. Construction contracts in progress

Income and expenses of construction contracts in progress have been matched under the stage of completion method. The stage of completion is determined on the basis of the relationship between the actual costs incurred by the balance sheet date and the estimated costs of the contract. The actual costs of the contract consist of direct and overhead costs of the construction contact.

If invoices submitted to the customer by the balance sheet date are either higher or lower than the income calculated under the stage of completion method, then the difference is recognised as a liability or as a receivable in the balance sheet.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and in full.

1.25. Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate. Government grants received to compensate the operating expenses of the previous period or where there are no additional conditions attached to grants to be addressed in the future, are accounted for as income when the grant is received. Government grants are recognised when there is reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

1.26. Cash and cash equivalents

In the balance sheet and the cash flow statement, cash and cash equivalents comprise highly liquid funds with low variation in value, such as cash on hand, cash in bank accounts and term deposits with maturities of three months or less.
The indirect method has been used for the preparation of the cash flow statement.

1.27. Contingent liabilities

Contingent liabilities are those liabilities the realisation of which is less probable than non-realisation and the amount of which cannot be determined reliably. Contingent liabilities are not recognised in the balance sheet, but they are disclosed in the notes to the financial statements.

1.28. Statutory reserve capital

Reserve capital is formed to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

1.29. Events after the balance sheet date

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities which became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods. Material events after the balance sheet date not related to transactions in the reporting period or previous periods are not reported in the balance sheet but they are disclosed in the notes to the financial statements.

1.30. Dividends

The distribution of dividends to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

1.31. Segment reporting

A business segment is a part of the Group engaged in making similar products or providing similar services and whose profitability and risks differ from those of other parts of the Group. The business segments at the Group comprise construction, road construction, construction of communication networks and production of concrete elements. Segment expenses are those which are incurred in the segment's main operations and which can be allocated to the segment reliably and objectively. Such expenses, assets and liabilities have not been allocated to segments that cannot be or are not suitable to be associated with a specific segment. In preparing the financial statements, business segments have been considered as primary segments.

A geographical segment is a part of the Group where operating activities occur in an economic environment in which returns and risks differ from those of other parts of the Group. The main geographical segments of the Group are Estonia, Latvia and Lithuania. In preparing the financial statements, geographical segments have been considered as secondary segments.

Until 1 August 2008, the Company operated in Estonia, Latvia and Lithuania, and its main activities were construction and real estate development. After the demerger process, the parent Järvevana operates mostly in Estonia although after the demerger, the Company does not have any active operations. Segment revenue is shown according to geographical segments of markets and segment assets, according to geographical locations of assets.

Note 2 Business and geographical segments

in thousands of kroons

Business segments

2008	General construction	Road construction	Concrete elements	Group
Consolidated revenue	2 555 998	242 468	-	2 798 466
Inter-segment revenue	10	7 019	-	7 029
Segment revenue	2 556 008	249 487	-	2 805 495
Segment operating profit	361 646	17 188	-	378 834
Finance income/costs				1 983
incl. profit/loss from associates and joint ventures (Note 19)	882	-	400	1 282
Profit before tax				380 817
Corporate income tax				(41 100)
Net profit of the Group				339 717
incl. attributable to equity owners of the parent				335 502
minority interest				4 215
Segment assets	251 908	-	-	251 908
Unallocated assets				261
Total consolidated assets				252 169
Segment liabilities	17 731	-	-	17 731
Unallocated liabilities				11
Total consolidated liabilities				17 742
Purchase of investment property	5 655	-	-	5 655
Transferred during demerger	(5 655)	-	-	(5 655)
Purchase of property, plant and equipment and intangible assets	29 701	9 343	-	39 044
Transferred during demerger	(29 701)	(9 343)	-	(39 044)
Depreciation and impairment charge (Notes 21-23)	(10 349)	(6 269)	-	(16 618)

2007	**General construction**	**Road construction**	**Concrete elements**	**Group**
Consolidated revenue	5 004 039	506 721	-	5 510 760
Inter-segment revenue	191	199	-	390
Segment revenue	5 004 230	506 920	-	5 511 150
Segment operating profit	487 697	33 348	-	521 045
Finance income/costs				69 694
incl. profit/loss from associates and joint ventures (Note 19)	55 577	-	20 863	76 440
Profit before tax				590 739
Corporate income tax				(30 830)
Net profit of the Group				559 909
incl. attributable to equity owners of the parent				545 049
minority interest				14 860
Segment liabilities	3 406 435	178 816	-	3 585 251
Associates and joint ventures	215 922	-	57 042	272 964
Unallocated assets				58 416
Total consolidated assets				3 916 631
Segment liabilities	(1 083 479)	(82 223)	-	(1 165 702)
Unallocated liabilities				(701 232)
Total consolidated liabilities				(1 866 934)
Purchase of property, plant, equipment and intangibles	52 129	21 822	-	73 951
Depreciation and impairment charge (Notes 21-23)	(18 654)	(10 014)	-	(28 668)

It is not possible or practical to attribute unallocated expenses, assets and liabilities of the Group to a specific segment.

Geographical segments

Revenue

	2008	**2007**
Estonia	1 719 941	3 385 635
Latvia	618 059	1 386 332
Lithuania	460 446	738 793
Total	2 798 466	5 510 760

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	Total assets		Purchase of property, plant and equipment	
	31.12.2008	31.12.2007	2008	2007
Estonia	252 169	2 022 549	11 846	59 117
Latvia	-	1 486 220	4 684	14 741
Lithuania	-	407 862	338	93
Total	252 169	3 916 631	16 868	73 951

Note 3 Revenue

in thousands of kroons

	2008	2007
Sale of services	1 998 556	4 591 718
Sale of real estate property and real estate development	797 184	915 742
Rental income	2 286	2 163
Sale of goods	440	1 137
Total revenue	2 798 466	5 510 760

Note 4 Cost of goods sold

in thousands of kroons

	2008	2007
Construction services	1 396 459	3 191 237
Materials	236 156	419 679
Properties purchased for resale	246 353	398 825
Staff costs	204 794	373 901
Construction mechanisms and transport	76 318	106 955
Design	45 133	92 772
Depreciation and impairment charge	10 965	20 596
Other expenses	57 620	127 787
Total cost of goods sold	2 273 798	4 731 752

Note 5 Marketing costs

in thousands of kroons

	2008	2007
Advertising, sponsorship	10 638	12 379
Staff costs	6 744	10 674
Construction tenders	787	1 754
Transport	1 040	1 226
Depreciation and impairment charge	261	434
Other expenses	1 673	6 005
Total marketing costs	21 143	32 472

Note 6 General and administrative expenses

in thousands of kroons

	2008	2007
Staff costs	67 149	127 856
IT-equipment and services	14 407	30 977
Office expenses, communication services	10 638	15 494
Depreciation and impairment charge	5 377	7 638
Transport	4 952	8 114
Other expenses	21 176	23 727
Total general and administrative expenses	123 699	213 806

Note 7 Other operating income

in thousands of kroons

	2008	2007
Interest income from operating activities	2 123	2 844
Fines and amounts for delay received	1 854	723
Profit from sale of non-current assets	800	488
Other income	2 004	2 369
Total other operating income	6 781	6 424

Note 8 Other operating expenses

in thousands of kroons

	2008	2007
Fines, penalties	6 197	13 307
Gifts, donations	1 296	3 851
Foreign exchange loss	-	325
Loss from sale of investment property	-	212
Other expenses	280	414
Total other operating expenses	7 773	18 109

Note 9 Finance income

in thousands of kroons

	2008	2007
Interest income	16 614	11 016
Other finance income	4	-
Total finance income	16 618	11 016

Note 10 Finance costs

in thousands of kroons

	2008	2007
Interest expenses	8 734	16 948
Foreign exchange loss	5 875	809
Other finance costs	1 308	5
Total finance costs	15 917	17 762

Note 11 Corporate income tax

in thousands of kroons

The income tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities for the following reasons:

2008

	Latvia	Lithuania	Estonia	Total
Profit before tax	185 035	17 053	178 729	380 817
Tax rate applicable to profits	15%	15%	0%	
Corporate income tax on dividends	-	-	(11 122)	(11 122)
Tax charge	(27 756)	(2 222)	(11 122)	(41 100)
incl. current tax	(27 756)	(2 222)	(11 122)	(41 100)

2007

	Latvia	Lithuania	Estonia	Total
Profit before tax	134 848	24 592	431 299	590 739
Tax rate applicable to profits	15%	18%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(20 227)	(4 427)	-	(24 654)
Tax calculated on expenses not deductible for tax purposes	(4 594)	(680)	-	(5 274)
Tax calculated on income not subject to tax	8 672	295	-	8 967
Corporate income tax on dividends	-	-	(9 869)	(9 869)
Tax charge	(16 149)	(4 812)	(9 869)	(30 830)
incl. current tax	(15 978)	(1 787)	(9 869)	(27 634)
deferred tax charge	(171)	(3 025)	-	(3 196)

As at 31.12.2008, it is possible to pay out dividends to shareholders from retained earnings in the amount of 31 384 thousand kroons and the corresponding income tax would amount to 8 343 thousand kroons. As at 31.12.2007, it would have been possible to pay out 1 438 635 thousand kroons, and the corresponding income tax would have amounted to 382 422 thousand kroons.

Note 12 Earnings per share

Basic earnings per share for profit attributable to equity holders of the parent have been derived by dividing the net profit attributable to shareholders by the weighted average number of shares.

	2008	2007
Net profit attributable to shareholders (in thousands of kroons)	335 502	545 049
Weighted average number of ordinary shares (thousand pcs)	17 700	17 700
Earnings per share (in kroons)	18,95	30,79

In 2007 and 2008, the Group did not have any potential ordinary shares to be issued; therefore the diluted earnings per share equal the basic earnings per share.

Note 13 Dividends per share

Dividends payable are recognised after the approval of profit allocation at the General Meeting of Shareholders. According to the profit allocation proposal, dividends will not be paid in 2008. In 2007, 123 900 thousand kroons, i.e. 7.0 kroons per share were paid out as dividends.

Note 14 Cash and cash equivalents

in thousands of kroons

	31.12.2008	31.12.2007
Cash on hand	-	116
Bank accounts	-	53 722
Overnight deposits	26 242	151 726
Total cash and cash equivalents	26 242	205 564

As at 31.12.2008, the average interest on overnight deposits was 5.75% (31.12.2007: 4.63%).

Note 15 Trade and other receivables

in thousands of kroons

	31.12.2008	31.12.2007
Trade receivables		
accounts receivable	-	886 967
allowance for doubtful receivables	-	(2 111)
	-	884 856
Tax prepayments excluding corporate income tax		
value added tax	261	38 139
social security tax	-	12
other taxes	-	1
	261	38 152
Amounts due from customers for contract works (Note 31)	-	151 119
Other short-term receivables		
short-term loans (Note 16) *	125 001	41 135
interest receivables	646	2 075
receivable from sale of subsidiary	-	1 000
other short-term receivables **	100 000	2 662
	225 647	46 872
Prepayments for services		
prepayments for construction services	-	64 864
prepaid insurance	19	2 339
other prepaid expenses	-	11 364
	19	78 567
Total trade and other receivables	225 927	1 199 566

* According to the demerger agreement between AS Järvevana and AS Merko Ehitus the Company granted loan to AS Merko Ehitus in amount of 7 989 thousand euros with interest rate of 12 month EURIBOR + 1% per annum. The interest in the first 12 months of loan period is fixed at 6% per annum (note 37).

** In the demerger agreement AS Järvevana and AS Merko Ehitus agreed that AS Järvevana has the right to sell and AS Merko Ehitus the obligation to purchase 5 registered immovables with total transaction price of 100 000 thousand kroons. Respective right is recognised in the balance sheet of AS Järvevana as a short-term receivable.

Note 16 Loans granted

in thousands of kroons

	2008	2007
Loans granted to joint ventures		
Loan balance at beginning of the year	12 725	24 750
Granted	21 331	6 725
Collected	(175)	(18 750)
Exchange difference	(1 437)	-
Transferred during demerger	(32 444)	-
Loan balance at end of the year	-	12 725
incl. current portion	-	7 000
non-current portion 1...5 years	-	5 725
Average effective interest rate 5,0% (2007: 6,0%)		
Loans granted to entities under common control		
Loan balance at beginning of the year	7 178	12 700
Granted	-	110 230
Originated during demerger (Note 37)	125 001	-
Reclassification of loan granted to subsidiary	4 015	-
Collected	(4 015)	(115 774)
Exchange difference	(77)	22
Transferred during demerger	(7 101)	-
Loan balance at end of the year	125 001	7 178
incl. current portion	125 001	4 236
non-current portion 1...5 years	-	2 942
Average effective interest rate 6% (2007: 4,5%)		
Loans granted to non-related legal entities		
Loan balance at beginning of the year	29 899	1 177
Granted	-	28 737
Collected		(15)
Exchange difference	(14)	-
Transferred during demerger	(29 885)	-
Loan balance at end of the year	-	29 899
incl. current portion	-	29 899
Average effective interest rate 6,0% (2007: 6,0%)		
Loans to non-related individuals		
Loan balance at beginning of the year	-	60
Collected	-	(60)
Loan balance at end of the year	-	-
Total loans granted		
Loan balance at beginning of the year	49 802	38 687
Granted	21 331	145 692
Originated during demerger (Note 37)	125 001	-
Reclassification of loan granted to subsidiary	4 015	-
Collected	(4 190)	(134 599)
Exchange difference	(1 528)	22
Transferred during demerger	(69 430)	-

Loan balance at end of the year	125 001	49 802
incl. current portion (Note 15)	125 001	41 135
non-current portion 1...5 years (Note 20)	-	8 667

Note 17 Inventories

in thousands of kroons

	31.12.2008	31.12.2007
Raw materials and materials	-	3 501
Work-in-progress	-	1 209 117
Finished goods	-	72 434
Goods for resale		
registered immovables purchased for resale	-	704 111
incl. registered immovables located on nature preserve areas	-	*61 098*
other goods purchased for resale	-	13
	-	704 124
Prepayments for inventories		
prepayments for real estate properties	-	35 653
prepayments for other inventories	-	597
	-	36 250
Total inventories	-	2 025 426

Note 18 Shares in subsidiaries

in thousand of kroons

	Ownership interest and voting right % 31.12.2008	31.12.2007	Location	Area of operation
Subsidiaries of AS Merko Ehitus				
AS Gustaf	-	75	Pärnu	construction
AS Merko Tartu	-	66	Tartu	construction
AS Merko Insenerehitus	-	100	Tallinn	construction
OÜ Merko Ehitustööd	-	100	Tallinn	construction
Eesti Ehitusekspordi OÜ	-	100	Tallinn	construction
Tallinna Teede AS	-	100	Tallinn	road construction
SIA Merks	-	100	Republic of Latvia, Riga	construction
UAB Merko Statyba	-	100	Republic of Lithuania, Vilnius	construction
OÜ Merko Elamu	-	100	Tallinn	real estate
OÜ Põrguvälja Soojus (previous name: OÜ Merko Maja)	-	100	Tallinn	real estate
OÜ Woody	-	100	Tallinn	real estate
OÜ Gustaf Tallinn	-	80	Tallinn	construction
OÜ Karulaugu Kinnisvara (previous name: OÜ Maavõlur)	-	100	Tallinn	real estate
OÜ Rae Tehnopark	-	100	Tallinn	real estate
OÜ Maryplus	-	100	Tallinn	real estate
OÜ Metsailu	-	100	Tallinn	real estate
OÜ Pire Projekt	-	100	Tallinn	real estate
OÜ Constancia	-	100	Tallinn	real estate
OÜ Käibevara	-	100	Tallinn	real estate

OÜ Baltic Electricity Engineering	-	100	Tallinn	electricity systems
OÜ Fort Ehitus	-	75	Harjumaa, Viimsi rural municipality	construction

In April 2008, AS Järvevana sold its subsidiary OÜ Karulaugu Kinnisvara to the subsidiary of AS Riverito, E.L.L. Kinnisvara AS which was recognised as a sale of property at the Group (one-asset entity, the only significant asset of which was land included in inventories). The sales price for land was 37 882 thousand kroons and of this amount, the profit amounted to 37 649 thousand kroons.
In June 2008, AS Järvevana liquidated its non-operating wholly-owned subsidiaries AS Merko Insenerehitus, OÜ Merko Ehitustööd and OÜ Pire Projekt; according to allocation plans of assets, liquidation proceeds totalled 1539 thousand kroons, 77 thousand kroons ja 12 395 thousand kroons, respectively.
In 2008 1 000 thousand kroons had been collected for the 25% of shares of the subsidiary AS Gustaf sold in 2006. In 2007, Tallinna Teede AS acquired a 100% interest in the one-asset entity OÜ Tevener (the only significant asset being land for mining of mineral resources), as a result of which the acquisition of the entity was not accounted for as a business combination. In 2008 until demerger of AS Merko Ehitus the second instalment payment was made in the amount of 7 500 thousand kroons for OÜ Tevener.

Note 19 Investments in associates and joint ventures

	Ownership interest and voting right %		Location	Area of operation
	31.12.2008	**31.12.2007**		
Associates of AS Merko Ehitus				
AS Tartu Maja Betoontooted	-	25	Tartu	concrete elements
Joint ventures AS Merko Ehitus				
Normanni Linnagrupi AS	-	50	Tallinn	construction
OÜ Unigate	-	50	Tallinn	real estate
OÜ Tornimäe Apartments	-	50	Tallinn	real estate
Joint ventures of SIA Merks				
PS Merks Terbe Lat	-	50	Republic of Latvia, Riga	construction
SIA Zakusala Estates	-	50	Republic of Latvia, Riga	real estate
Joint venture of AS Merko Tartu				
OÜ Kortermaja	-	50	Tartu	real estate

in thousands of kroons	**Investment at 31.12.2008**	**Investment at 31.12.2007**
Associates of AS Merko Ehitus		
AS Tartu Maja Betoontooted	-	57 042
Joint ventures AS Merko Ehitus		
Normanni Linnagrupi AS	-	410
OÜ Unigate	-	16
OÜ Tornimäe Apartments	-	56 255
Joint ventures of SIA Merks		
PS Merks Terbe Lat	-	25
SIA Zakusala Estates	-	154 701

Joint venture of AS Merko Tartu		
OÜ Kortermaja	-	4 515
Total associates and joint ventures	-	272 964

In May 2008, AS Merko Ehitus sold its ownership interest in the joint venture OÜ Tornimäe Apartments at the sales price of 59 856 thousand kroons (until demerger of AS Merko Ehitus the cash received from the sale totalled 58 000 thousand kroons).
In order to restore equity in the joint venture OÜ Unigate, the existing shares were cancelled in January 2008, and an additional contribution was made to the share capital in the amount of 1 000 thousand kroons
In 2008 the profit from associates and joint ventures totalled 1 282 thousand kroons

Note 20 Other long-term loans and receivables

in thousands of kroons

	31.12.2008	31.12.2007
Long-term loans (Note 16)	-	8 667
Long-term receivable from buyer of subsidiary	-	3 625
Long-term receivables from customers of construction services	-	2 200
Total other long-term loans and receivables	-	14 492

Note 21 Investment property

in thousands of kroons

	Land	Buildings	Total
Acquisition cost at 31.12.2006	2 134	2 589	4 723
Accumulated depreciation at 31.12.2006	-	(823)	(823)
Carrying amount at 31.12.2006	2 134	1 766	3 900
Currency translation differences	2	15	17
Sale	-	(212)	(212)
Reclassification	-	3 733	3 733
Depreciation	-	(77)	(77)
Carrying amount at 31.12.2007	2 136	5 225	7 361
Acquisition cost at 31.12.2007	2 136	5 600	7 736
Accumulated depreciation at 31.12.2007	-	(375)	(375)
Carrying amount at 31.12.2007	2 136	5 225	7 361
Currency translation differences	(23)	(38)	(61)
Acquisition	5 544	111	5 655
Depreciation	-	(144)	(144)
Transferred during demerger (Note 37)	(7 657)	(5 154)	(12 811)
Carrying amount at 31.12.2008	-	-	-

As at the balance sheet date the Company had no Investment Property as a result of the demerger process.

In 2007, items of property, plant and equipment in the amount of 3733 thousand kroons were reclassified from construction in progress to investment property. As at 31.12.2007: the carrying amounts of investment properties did not significantly differ from their fair values.

Note 22 Property, plant and equipment

in thousands of kroons

	Land	Buildings	Super-ficies	Machinery and equipment	Other fixtures	Construction in progress	Pre-payments	Total
Acquisition cost at 31.12.2006	145	18 682	458	92 430	51 257	553	-	163 525
Accumulated depreciation and decrease in value at 31.12.2006	-	(3 436)	(86)	(41 160)	(28 398)	-	-	(73 080)
Carrying amount at 31.12.2006	145	15 246	372	51 270	22 859	553	-	90 445
Currency translation differences	-	-	-	-	57	-	-	57
Acquisition	15 798	4 695	-	33 766	16 543	5 465	8 230	84 497
Acquired through business combinations	-	1 106	-	28 757	-	-	1 278	31 141
Sale	-	-	-	(2 181)	(738)	-	-	(2 919)
Reclassification	-	-	-	1 915	1 114	(5 982)	(780)	(3 733)
Write-offs	-	-	-	(250)	(136)	-	-	(386)
Depreciation	-	(666)	(9)	(14 790)	(10 725)	-	-	(26 190)
Carrying amount at 31.12.2007	15 943	20 381	363	98 487	28 974	36	8 728	172 912
Cost at 31.12.2007	15 943	24 627	458	153 587	64 970	36	8 728	268 349
Accumulated depreciation and decrease in value at 31.12.2007	-	(4 246)	(95)	(55 100)	(35 996)	-	-	(95 437)
Carrying amount at 31.12.2007	15 943	20 381	363	98 487	28 974	36	8 728	172 912
Currency translation differences	-	-	-	-	(140)	-	-	(140)
Acquisition	4 204	-	-	25 624	5 934	1 894	272	37 928
Acquired through business combinations	-	-	-	-	15 000	-	-	15 000
Sale	-	-	-	(1 208)	(457)	-	-	(1 665)
Reclassification	(13 447)	(18)	-	9 345	15 013	(1 813)	(9 000)	80
Write-offs	-	-	-	-	(21)	-	-	(21)
Depreciation		(462)	(5)	(7 606)	(6 966)	-	-	(15 039)
Depreciation from warranty reserve	-	-	-	(15)	-	-	-	(15)
Transferred during demerger (Note 37)	(6 700)	(19 901)	(358)	(124 627)	(57 337)	(117)	-	(209 040)
Carrying amount at 31.12.2008	-	-	-	-	-	-	-	-

Information on leased assets is provided in Note 24 and on lease payments in Note 25.

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Note 23 Intangible assets

in thousands of kroons

	Software	Prepayments	Total
Acquisition cost at 31.12.2006	4 368	7 515	11 883
Accumulated amortisation at 31.12.2006	(1 706)	-	(1 706)
Carrying amount at 31.12.2006	2 662	7 515	10 177
Acquisition	2 004	2 410	4 414
Reclassification	8 112	(8 112)	-
Amortisation	(2 017)	-	(2 017)
Carrying amount at 31.12.2007	10 761	1 813	12 574
Acquisition cost at 31.12.2007	14 443	1 813	16 256
Accumulated amortisation at 31.12.2007	(3 682)	-	(3 682)
Carrying amount at 31.12.2007	10 761	1 813	12 574
Currency translation differences	(11)	(5)	(16)
Acquisition	1 116	-	1 116
Amortisation	(1 399)	-	(1 399)
Transferred during demerger (Note 37)	(10 467)	(1 808)	(12 275)
Carrying amount at 31.12.2008	-	-	-

Note 24 Leased assets

in thousands of kroons

	2008	2007
Assets acquired under finance lease terms		
Machinery and equipment		
Acquisition cost	119 021	90 195
Accumulated depreciation	(27 140)	(20 871)
incl. depreciation charge	(5 761)	(8 291)
Transferred during demerger	(91 881)	-
Carrying amount	-	69 324
Assets leased under non-cancellable operating lease terms		
Right of superficies		
Payments made in financial year	-	-
Future lease payments:		
payments in next financial year	-	475
payments in 1...5 years	-	950
payments after year 5	-	9 482

Note 25 Borrowings

in thousands of kroons s

	2008	2007
Finance lease payables		
Present value of lease payments at beginning of the year	48 114	25 851
Received	24 009	36 523
Paid	(10 407)	(14 260)
Transferred during demerger	(61 716)	-
Present value of lease payments at end of the year	-	48 114
incl. current portion	-	11 879
non-current portion 1...4 years	-	36 235
Interest cost of reporting period	1 710	3 272
Minimum future lease payments	-	51 404
incl. current portion	-	13 441
non-current portion 1...4 years	-	37 963
Average effective interest rate 6,9% (2007: 5,7%)		
Base currencies EEK, EUR and LVL		
Bank loans		
Loan balance at beginning of the year	630 543	417 276
Received	69 361	558 348
Paid	(136 619)	(345 739)
Currency translation differences	(4 645)	658
Transferred during demerger	(558 640)	-
Loan balance at end of the year	-	630 543
incl. current portion	-	273 965
non-current portion 1...5 years	-	356 578
Interest cost of reporting period	12 218	28 714
incl. capitalised interest cost	-	20 975
Average effective interest rate 5,2% (2007: 7,0%)		
Base currencies LVL and EUR		
Loans from the parent		
Loan balance at beginning of the year	19 035	-
Received	-	19 035
Paid	(19 035)	-
Loan balance at end of the year	-	19 035
incl. current portion	-	19 035
Average effective interest rate 4,9% (2007: 4,9%)		
Loans from other entities		
Loan balance at beginning of the year	4 900	-
Received	-	4 900
Transferred during demerger	(4 900)	-
Loan balance at end of the year	-	4 900

incl. non-current portion 1...5 years	-	4 900

Average effective interest rate 5,5% (2007: 6,0%)

Total loans		
Loan balance at beginning of year	654 478	417 276
Received	69 361	582 283
Paid	(155 654)	(345 739)
Currency translation differences	(4 645)	658
Transferred during demerger	(563 540)	-
Loan balance at end of year	-	654 478
incl. current portion	-	293 000
non-current portion 1...5 years	-	361 478
Total borrowings	-	702 592
incl. current portion	-	304 879
non-current portion 1...5 years	-	397 713

Bank loans have floating interest rates related to EURIBOR or RIGIBOR (Riga Interbank Offered Rate).

Note 26 Trade and other payables

in thousands of kroons

	31.12.2008	**31.12.2007**
Trade payables	204	528 856
Payables to employees	27	74 892
Tax liabilities, except for corporate income tax		
value added tax	-	26 979
personal income tax	2	10 720
social security tax	8	17 654
land tax	-	46
unemployment insurance tax	-	319
contributions to mandatory funded pension	-	527
other taxes	1	570
	242	56 815
Amounts due to customers for contract works (Note 31)	-	161 725
Other liabilities		
interest liabilities	-	465
other liabilities	-	21 503
	-	21 968
Prepayments received	-	171 235
Total trade and other payables	242	1 015 492

Note 27 Government grants

in thousands of kroons

	31.12.2008	31.12.2007
Residual value at beginning of the year	1 498	1 498
Transferred during demerger (Note 37)	(1 498)	-
Balance at end of the year	-	1 498

Note 28 Short-term provisions

in thousands of kroons

	2008	2007
Provision for warranty obligation for construction		
Residual value at beginning of the year	15 625	9 662
Accrued	6 390	13 325
Utilised	(7 048)	(7 362)
Transferred during demerger (Note 37)	(14 967)	-
Balance at end of the year	-	15 625
Provision for onerous construction contracts		
Residual value at beginning of the year	32 512	17 848
Accrued	2 040	20 541
Utilised	(12 944)	(5 877)
Transferred during demerger (Note 37)	(21 608)	-
Balance at end of the year	-	32 512
Provision for completion of construction		
Residual value at beginning of the year	-	-
Accrued	32	-
Transferred during demerger (Note 37)	(32)	-
Balance at end of the year	-	-
Provision for legal costs and claims filed		
Residual value at beginning of the year	22 786	4 054
Accrued	6 050	21 878
Utilised	(1 010)	(3 146)
Transferred during demerger (Note 37)	(10 326)	-
Balance at end of the year (Note 34,37)	17 500	22 786
Other provisions		
Residual value at beginning of the year	2 289	1 953
Accrued	3 270	2 480
Utilised	(376)	(2 144)
Transferred during demerger (Note 37)	(5 183)	-
Balance at end of the year	-	2 289
Total short-term provisions	17 500	73 212

Note 29 Other long-term trade payables

in thousands of kroons

	31.12.2008	31.12.2007
Trade payables	-	11 091
Prepayments received	-	46 332
Total other long-term trade payables	-	57 423

Note 30 Share capital

As at 31.12.2008, the share capital in the amount of 177 000 thousand kroons consisted of 17 700 thousand registered shares with the nominal value of 10 kroons each.

Additional information is disclosed in Note 34 under *Capital management*

Note 31 Construction contracts in progress

in thousands of kroons

	31.12.2008	31.12.2007
Costs incurred for construction contracts in progress and corresponding profit	-	5 570 285
Progress billings submitted	-	(5 580 891)
Amounts due from customers for contract works (Note 15)	-	151 119
Amounts due to customers for contract works (Note 26)	-	(161 725)
Advance payments received for contract works	-	171 235

Amounts due from customers for contract works are included in the balance sheet line *Trade and other receivables*. Amounts due to customers for contract work are included in the balance sheet line *Trade and other payables.*

Note 32 Related party transactions

in thousands of kroons

In consolidated annual statements of the Group, the following entities have been considered as related parties:

- parent AS Riverito;
- shareholders of AS Riverito with significant influence over AS Järvevana through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito, so-called 'entities controlled by the parent';
- associates and joint ventures;
- key managers and their close relatives;
- entities sharing key personnel with AS Järvevana.

Significant influence is presumed to exist when the person has more than 20% of the voting power.

The parent of AS Järvevana is AS Riverito. As at 31.12.2008 and 31.12.2007, AS Riverito owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the Group is Mr Toomas Annus.

Goods and services

	2008	2007
Purchased construction services		
Associates and joint ventures	24 353	86 123
Entities under common control	7 019	8 425
Total purchased construction services	31 372	94 548
Construction services rendered		
Associates and joint ventures	150	33 642
Entities under common control	514 713	1 576 911
Management members	4 011	10 027
Total construction services provided	518 874	1 625 580
Construction materials purchased		
Other related parties	163	211
Real estate sold		
Entities under common control	143 167	81 583

Loans granted to related parties are disclosed in Note 16 *Loans granted*.

Balances with the related parties

	31.12.2008	31.12.2007
Trade and other receivables		
Trade receivables		
Associates and joint ventures	-	16 046
Entities under common control	-	182 802
Short-term loans		
Associates and joint ventures	-	7 000
Entities under common control (Note 16)	125 001	4 236
Interest receivables		
Associates and joint ventures	-	649
Entities under common control	646	-
Other short-term receivables		
Entities under common control	100 000	-
Other related parties	-	2
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	-	5 725
Entities under common control	-	2 942
Borrowings		
Short-term loans and bonds		
Parent	-	19 035
Trade and other payables		
Trade payables		
Associates and joint ventures	-	11 098

Entities under common control	-	326
Prepayments received		
Entities under common control	-	16 094
Interest liabilities		
Parent	-	272

No allowances for impairment losses have been set up for receivables from related parties in 2008.

Remuneration of the members of the Supervisory and Management Boards, and senior executives

In 2008, the members of the Supervisory and Management Boards as well as senior executives of AS Järvevana were paid remuneration totalling 16 197 thousand kroons (2007: 25 355 thousand kroons).

Termination benefits of members of the Supervisory and Management Boards

Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, if a new agreement has not been concluded, the Group has the obligation to pay compensation totalling 1 200 thousand kroons (2007: 4410 thousand kroons).

Note 33 Contingent liabilities

in thousands of kroons

The Group has purchased the following guarantees from financial institutions to guarantee the Group's obligations to third parties. These amounts represent the maximum right of claim by third persons against the Group in case the Group is unable to meet its contractual obligations. Management estimates that additional expenses related to these guarantees are unlikely.

	31.12.2008	**31.12.2007**
Performance period's warranty to the customer	-	309 904
Tender warranty	-	23 761
Guarantee warranty period	-	55 500
Prepayment guarantee	-	68 756
Contracts of surety	-	9 999
Payment guarantee	-	5 176
Letter of credit	-	11 218
Total contingent liabilities	-	484 314

Performance period's warranty to the customer – warranty provider guarantees to the customer that the contractor's obligations arising from construction contract will be adequately completed.
Tender warranty – warranty provider guarantees to the customer arranging the tender process that the tenderer will sign a contract as per tender conditions.
Guarantee for warranty period – warranty provider guarantees to the customer that construction defects discovered during the warranty period will be repaired.
Prepayment guarantee – warranty provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.
Payment guarantee – warranty provider guarantees to the customer payment for goods or services.

Contingent liabilities related to the criminal proceedings see Note 34 under legal risks.

Note 34 Risks

Credit risk
Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. Cash is mostly held in overnight deposits at Swedbank. Management estimates that the Group is not exposed to significant credit risk

Financial assets *in thousands of kroons*	Allocation by due dates 1-12 months	2-5 years	Carrying amount	Collateral
31.12.2008				
Cash and overnight deposits	26 242	-	26 242	-
Other short-term receivables (Note 15)	100 000	-	100 000	-
Loans granted (Note 16)	125 001	-	125 001	-
Interest receivable (Note 15)	646	-	646	
Total	**251 889**	**-**	**251 889**	**-**
31.12.2007				
Cash and overnight deposits	53 838	-	53 838	-
Term deposits	151 726	-	151 726	-
Trade receivables	884 856	5 825	890 681	-
Amounts due from customers for construction works	151 119	-	151 119	-
Loans granted	41 135	8 667	49 802	30 000
Total	**1 282 674**	**14 492**	**1 297 166**	**30 000**

According to the industry practice, trade receivables and amounts due from customers for construction works have not been secured by additional collateral.
Of the loans granted, 125 001 thousand kroons (31.12.2007: 19 903 thousand kroons) are made up of loans to entities under common control or associates of whose economic activities the Company has a good overview and therefore, no additional collateral is required.

Interest risk
Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the Company's financial assets and take into consideration higher financing costs in the future. As at the year-end, the Company did not have any interest-bearing liabilities, therefore there is no effect from the changes in the interest rate environment on the Group's operating results.

Foreign exchange risk
The Group's transactions are carried out in Estonian kroons, Latvian lati and Lithuanian litai. The exchange rate of the Latvian lats is 1 EUR=0.702804 LVL +/-1%. In order to eliminate foreign exchange risk, key foreign contracts and long-term loan agreements are concluded in euros.

Liquidity risk
The Company's solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2008, the Company's current ratio was 14.2 (31.12.2007: 2.4) and the quick ratio was also 14.2 (31.12.2007: 1.0), because there are no inventories at the Group.

Financial assets / liabilities *in thousands of kroons*	Allocation by due dates 1-3 months	4-12 months	2-5 years	Total	Carrying amount
31.12.2008					
Assets					
Cash and overnight deposits	26 242	-	-	26 242	26 242
Prepaid taxes *	261	-	-	261	261
Loans and interest	-	125 647	-	125 647	125 647
Other short-term receivables	-	100 000	-	100 000	100 000
Total	**26 503**	**225 647**	**-**	**252 150**	**252 150**
Liabilities					
Trade payables	204	-	-	204	204
Payables to employees	27	-	-	27	27
Tax liabilities	11	-	-	11	11
Total	**242**	**-**	**-**	**242**	**242**
31.12.2007					
Assets					
Cash and overnight deposits	53 838	-	-	53 838	53 838
Term deposits	151 726	-	-	151 726	151 726
Trade receivables	884 856	-	5 825	890 681	890 681
Prepaid taxes *	40 528	-	-	40 528	40 528
Amounts due from customers of construction works	151 119	-	-	151 119	151 119
Loans and interest	779	42 431	8 667	51 877	51 877
Other short-term receivables	3 662	-	-	3 662	3 662
Total	**1 286 508**	**42 431**	**14 492**	**1 343 431**	**1 343 431**
Liabilities					
Trade payables	528 856	-	11 091	539 947	539 947
Payables to employees	74 892	-	-	74 892	74 892
Tax liabilities	73 533	-	-	73 533	73 533
Taxes related to loan and finance lease liabilities **	91 535	213 344	397 713	702 592	702 592
Other payables	7 991	13 977	-	21 968	21 968
Total	**776 807**	**227 321**	**408 804**	**1 412 932**	**1 412 932**

* Although prepaid taxes do not meet the definition of financial assets, they will offset the amount of negative cash flows from tax liabilities.
** The schedule of expected interest payments cannot be determined with reasonable certainty. In line with property development best practice, the loan obligations to acquire land plots have been assumed with open-end maturities. The repayment of these loan obligations is dependent on the progress of related development projects and on the timing of cash flows generated from those projects upon completion. Consequently, management is of opinion that even their best estimate on the timing of expected interest payments would not be sufficiently accurate for the users of these financial statements and this information has not been disclosed.

Capital management
The Commercial Code of the Republic of Estonia specifies the following requirements for the share capital of the entities registered in Estonia:

- the minimum share capital of a public limited company shall be at least EEK 400 thousand;
- the net assets of a public limited company shall be at least one half of the Company's share capital but not less than EEK 400 thousand.

The size of share capital or its minimum and maximum are set out in the articles of association of a public limited company whereas the minimum share capital shall equal at least ¼ of maximum share capital.

According to the current articles of association of AS Järvevana, the Company's share capital consists of 17 700 thousand ordinary shares with the nominal value of 10 kroons each and without amending the articles of association of the public limited company, changes can be made to the Company's share capital within the range of 85 000 – 340 000 thousand kroons. As at 31.12.2008, the share capital of AS Järvevana was 177 000 thousand kroons and the net assets were 234 427 thousand kroons and therefore, the Company's share capital and equity were in compliance with the requirements established in the Republic of Estonia.

Legal risk
Due to different interpretations of contracts, regulations and laws related to Group's activities, there is a risk that some buyers, contractors or supervisory authorities evaluate the Company's activities in abiding by a law or a contract differently and dispute the legitimacy of the Company's activities.

At 3 April 2009, the Prosecutor's Office submitted against 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 prior suspicion and according to which AS Järvevana is accused of the following acts:

1. Alleged promising of bribe to Villu Reiljan;
2. Alleged giving of bribe to Kalev Kangur;
3. Alleged giving of bribe to Ester Tuiksoo.

At 3 April 2009, AS Järvevana was declared a suspect in the criminal case on a bribery related to Ivo Parbus. It is an extension of the suspicion submitted to a member of the Management Board of AS Merko Ehitus and hence to AS Merko Ehitus in December 2008. 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 has in its ownership the projects in the interests of which the bribe under suspicion was allegedly given. The Company considers the submitted charge and suspicion to be groundless.

According to Penal Code, upon conviction a pecuniary punishment from EEK 50 thousand to EEK 250 000 thousand may be imposed on AS Järvevana, with or without forced liquidation. Since the Company considers the charge and suspicion to be groundless, the potential penalty is disclosed as a contingent liability, the realisation of which depends on the resolution of criminal proceedings.

As at 31.12.2008, a provision has been set up for possible claims and legal costs arising from legal disputes in the amount of 17 500 thousand kroons (31.12.2007: 22 786 thousand kroons), (Note 28).

Market risk / fair value
Due to the significant deterioration of the economic environment in 2008, the market risk had a major effect on the Company's activities. As the Company does not currently have active operations, the effect of the market risk on the Company's financial indicators is low in the near future.
The carrying amounts of financial assets and financial liabilities did not significantly differ from their fair values.

Note 35 Number of shares owned by the members of the Supervisory and Management Board and their close relatives

As at 31.12.2008, neither members of the Supervisory Board and Management Board of AS Järvevana nor their close relatives owned any shares of AS Järvevana, except for Toomas Annus and Tõnu Toomik through AS Riverito.

Note 36 Shareholders with more than 5% ownership

	Shares	Ownership %
AS Riverito	12 742 686	71,99
Customers of ING Luxembourg S.A	963 376	5,44

Note 37 Demerger of the Company

The delay in the criminal proceedings related to land swap launched in 2005, the accompanying uncertainties and speculations in the media started to inhibit the Company's economic activities and harm the Company's and its shareholders' interests.

As at 14 March 2008 the Management and Supervisory Board of AS Järvevana decided to restructure the Company and separate the economic activities from the criminal proceedings related to land swap
The restructuring ensures in Managements opinion the Company's sustainable development in the best way possible and protects the interests of shareholders and employees in the long-lasting proceedings related to land swap.

At 15 April 2008, the management of AS Järvevana submitted the Company's restructuring plan which was approved at the General Meeting of Shareholders at 3 June 2008. At 1 August 2008, the demerger entries were registered with the Commercial Register. AS Järvevana was demerged in such a way that the core business of AS Järvevana (i.e. assets, liabilities, contracts and the business name), except for the net assets in the amount of 232.5 million kroons were separated and transferred to the new entity. As a result of the demerger, each shareholder of the public limited company received for each share of demerged AS Järvevana one share of the newly founded AS Merko Ehitus which is listed from 1 August 2008 on the NASDAQ OMX Tallinn Stock Exchange. The new business name of the demerged AS Järvevana (former Merko Ehitus) is AS Järvevana and its shares continue to be listed on the Tallinn Stock Exchange; the sole member of its Management Board is Toomas Annus.

Demerger balance sheet of the Company as at 31.07.2008 (in thousands of kroons):

	AS Järvevana before demerger	Transferred during demerger	AS Järvevana after demerger
Assets			
Current assets			
Cash and cash equivalents	691 689	(666 689)	25 000
Trade and other receivables	1 025 425	(1 025 425)	225 001
Inventories	2 016 384	(2 016 384)	-
	3 733 498	(3 708 498)	250 001
Non-current assets			
Long-term financial assets	251 404	(251 404)	-
Investment property	12 811	(12 811)	-
Property, plant and equipment	209 040	(209 040)	-
Intangible assets	12 275	(12 275)	-
	485 530	(485 530)	-
TOTAL ASSETS	4 219 028	(4 194 028)	250 001
Liabilities			
Current liabilities			
Borrowings	414 870	(539 871)	-
Trade and other payables	1 139 264	(1 239 264)	-
Government grants	1 483	(1 483)	-
Short-term provisions	69 616	(52 116)	17 500
	1 625 233	(1 832 734)	17 500

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Non-current liabilities			
Long-term borrowings	210 386	(210 386)	-
Other long-term trade payables	8 358	(8 358)	-
	218 744	(218 744)	-
TOTAL LIABILITIES	1 843 977	(2 051 478)	17 500
EQUITY			
Minority interest	31 617	(31 617)	-
Equity attributable to equity holders of the parent			
Share capital	177 000	(177 000)	177 000
Statutory reserve capital	17 700	(17 700)	17 700
Currency translation differences	(10 984)	10 984	-
Retained earnings	2 159 718	(1 927 217)	37 801
	2 343 434	(2 110 933)	232 501
TOTAL EQUITY	2 375 051	(2 142 550)	232 501
TOTAL LIABILITIES AND EQUITY	4 219 028	(4 194 028)	250 001

Note 38 Supplementary disclosures on the parent

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

Income statement

in thousands of kroons

	2008	**2007**
Revenue	1 161 680	2 466 908
Cost of goods sold	(1 057 178)	(2 194 892)
Gross profit	104 502	272 016
Marketing expenses	(9 158)	(16 439)
Administrative and general expenses	(51 674)	(121 424)
Other operating income	16 235	24 683
Other operating expenses	(7 015)	(14 413)
Operating profit	52 890	144 423
Finance income/costs	9 837	(861)
Finance income/costs from investments in subsidiaries	79 214	124 079
Finance income/costs from investments in associates and joint ventures	57 980	4 000
Net profit for the year	199 921	271 641

Balance sheet

In thousands of kroons

	31.12.2008	31.12.2007
ASSETS		
Current assets		
Cash and cash equivalents	26 242	107 000
Trade and other receivables	225 927	964 874
Prepaid corporate income tax	-	1 433
Inventories	-	373 734
	252 169	1 447 041
Non-current assets		
Investments in subsidiaries	-	318 069
Investments in associates and joint ventures	-	3 540
Other long-term financial assets	-	338 763
Property, plant and equipment	-	15 681
Intangible assets	-	8 801
	-	684 854
TOTAL ASSETS	252 169	2 131 895
Liabilities		
Current liabilities		
Borrowings	-	262 391
Trade and other payables	242	534 169
Corporate income tax liability	-	9
Short-term provisions	17 500	59 380
	17 742	855 949
Non-current liabilities		
Other long-term trade payables	-	5 690
TOTAL LIABILITIES	17 742	861 639
EQUITY		
Share capital	177 000	177 000
Statutory reserve capital	17 700	17 700
Retained earnings	39 727	1 075 556
TOTAL EQUITY	234 427	1 270 256
TOTAL LIABILITIES AND EQUITY	252 169	2 131 895

Statement of changes in equity

in thousands of kroons

Parent	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2006	177 000	17 700	927 815	1 122 515
Net profit for financial year	-	-	271 641	271 641
Dividends	-	-	(123 900)	(123 900)
Balance as at 31.12.2007	177 000	17 700	1 075 556	1 270 256
Carrying amount of holdings under dominant or significant influence				(321 609)
Carrying amount of holdings under dominant or significant influence if the equity method had been applied				1 067 110
Adjusted unconsolidated equity 31.12.2007				**2 015 757**
Net assets transferred during demerger	-	-	(1 235 750)	(1 235 750)
Net profit for financial year	-	-	199 921	199 921
Balance as at 31.12.2008	177 000	17 700	39 727	234 427

Adjusted unconsolidated retained earnings represent the amount that is available for distribution to the shareholders according to the Estonian Accounting Act.

Cash flow statement
in thousands of kroons

	2008	2007
Cash flows from operating activities		
Operating profit	52 890	144 423
Adjustments:		
depreciation and impairment charge	4 159	6 462
profit/loss from sale of non-current assets	(97)	57
adjustment of revenue from construction contracts under stage of completion method	92 759	19 786
interest income from business activities	(15 509)	(24 585)
change in provisions	(11 364)	49 203
Change in trade and other receivables related to operating activities	322 395	(220 877)
Change in inventories	77 720	(219 603)
Change in trade and other payables related to operating activities	(106 879)	(6 242)
Interest paid	(5 143)	(7 513)
Corporate income tax paid	(17)	-
	410 914	(258 889)
Cash flows from investing activities		
Investments in subsidiaries	-	(65 807)
Proceeds from sale of subsidiaries	38 882	500
Subsidiary liquidation portion to minority interests	506	-
Investments in associates and joint ventures	(1 000)	-
Proceeds from sale of associates and joint ventures	58 000	-
Purchase of property, plant and equipment	(8 981)	(5 459)
Proceeds from sale of property, plant and equipment	109	151
Purchase of intangible assets	(285)	(3 332)
Loans granted	(20 037)	(283 278)
Loan repayments received	4 415	161 502
Interest received	25 906	18 223
Dividends received	35 313	128 079
	132 828	(49 421)
Cash flows from financing activities		
Proceeds from borrowings	18 882	259 651
Loan repayments received	(195 001)	(30 436)
Finance lease principal payments	(412)	(1 063)
Dividends paid	-	(123 900)
	(176 531)	104 252
Cash transferred during demerger	(447 774)	-
Net increase/decrease in cash and cash equivalents	(80 563)	(204 058)
Cash and cash equivalents at beginning of the period	107 000	311 059
Exchange losses on cash and cash equivalents	(195)	(1)
Cash and cash equivalents at end of the period	26 242	107 000

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Järvevana

We have audited the accompanying consolidated financial statements of AS Järvevana and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tiit Raimla
AS PricewaterhouseCoopers

Märten Padu
Authorised Auditor

29 April 2009

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROFIT ALLOCATION PROPOSAL
in kroons

Total retained earnings as at 31.12.2008	**39 726 806**

Due to the need to ensure the ability of the Company to meet potential liabilities the Management Board proposes not to distribute dividends.

Toomas Annus	Member of the Management Board	15.04.2009

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2008 ANNUAL REPORT

The Management Board of AS Järvevana has prepared the management report, consolidated financial statements and the profit allocation proposal for 2008.

Toomas Annus	Member of the Management Board	15.04.2009

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

Tõnu Toomik	Member of the Supervisory Board	30.04.2009
Teet Roopalu	Member of the Supervisory Board	30.04.2009
Jaan Mäe	Member of the Supervisory Board	30.04.2009

REVENUE BREAK-DOWN OF THE PARENT COMPANY PRESENTED ACCORDING TO ESTONIAN CLASSIFICATIONS OF ECONOMIC ACTIVITIES (EMTAK 2008)

Revenues of the parent company by EMTAK (the Estonian classification of economic activities), as required by Code of Commerce §4 section 6.

EMTAK code		2008	2007
	Sale of construction services incl.		
4120	Construction of residential and non-residential buildings	554 113	1 577 180
4110	Development of building projects	213 445	205 982
4211	Construction of roads and motorways	3 551	107 501
4221	Construction of utility projects for fluids	242 626	388 160
4222	Construction of utility projects for electricity and telecommunications	84 254	53 113
4291	Construction of water projects	25 746	29 845
4213	Construction of bridges and tunnels	21 105	28 787
4299	Construction of other civil engineering projects n.e.c.	16 422	16 994
		1 161 262	2 407 562
	Real estate activities incl.		
6810	Buying and selling of own real estate	-	58 500
6820	Renting and operating of own or leased real estate	418	846
		418	59 346
	Total revenue	1 161 680	2 466 908