AS Järvevana

Consolidated Annual Report
(Translation of the Estonian Original)

Beginning of financial year: 01.01.2009
End of financial year: 31.12.2009

Commercial Registry 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

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MANAGEMENT REPORT

General information

The company was formed after the 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 the land swap.

At 3 April 2009, the Public Prosecutor's Office submitted a statement of charges (dated 31.03.2009) against AS Järvevana and Toomas Annus in criminal case no. 05913000055 concerning the land swap (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=232810). In the statement of charges, the Public Prosecutor's Office has withdrawn the episodes initially included in the suspicion (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=218499), according to which Toomas Annus abused the trust of the company by not acquiring the property under protection, and the suspicions according to which the property received as a result of the swap deal was transferred to a person designated by Vilju Reiljan. An episode was added to the charges according to which AS Järvevana allegedly brokered the swap of two properties with the state at the request of Kalev Kangur. Based on the statement of charges, a total of five episodes will be discussed at the court.

At 3 April 2009, the Prosecutors' Office named AS Järvevana as a 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 25 thousand to Ivo Parbus for accelerated proceedings with two detailed plans and one construction project. AS Järvevana was named as a suspect due to its being the owner of the registered immovables which the bribery relates to.

At 26 May 2009, the Public Prosecutor's Office terminated the proceedings in Ivo Parbus criminal case concerning AS Järvevana on the basis of the Code of Criminal Procedure § 203 (6) due to lack of proportionality of punishment. AS Järvevana has agreed to termination of the criminal proceedings for considerations of procedural efficiency, in order to save time and expenses. No conditions and obligations were imposed on AS Järvevana upon the termination of the criminal proceedings (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=234331).

At 12 November 2009, the legal proceedings concerning the so-called land swap case commenced at Harju County Court. An overview of the legal proceedings is available at: http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=238437.

The company considers the brought charges to be groundless. The Supervisory Board and Management Board of AS Järvevana are convinced that the activities of the company and its governing bodies have been conducted properly and in conformity with the laws of the Republic of Estonia, and are also able to supply relevant proof in the court.

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 01.01.2009 and 31.12.2009, AS Järvevana earned finance income in the amount of EEK 7.2 million. The most significant cost article is the legal costs related to the criminal proceedings of the land swap, which totalled 75% of the administrative expenses in 2009. A claim against AS Merko Ehitus arising from a collaboration agreement totalled EEK 209 million of the company's assets (http://www.merko.ee/upload/File/Restruktureerimise%20dokumendid/Koost%F6%F6leping%20EST.pdf).
As at 31 December 2009, one person was 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 543.6 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 base salary over the last 24 months. The company's activities do not have seasonal or cyclical nature.

The Supervisory Board of AS Järvevana has 3 members. In 2009, the members of the Supervisory Board were paid remuneration in the amount of EEK 120 thousand. 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 31.12.2009, the company did not have any overdue receivables.

As at 31.12.2009, the receivable from AS Merko Ehitus in the amount of EEK 209.0 million which arose in the demerger represents the largest credit risk for the company. Management estimates that the credit risk of AS Merko Ehitus is currently low (as at 31.12.2009, the company's equity ratio was 61%, the quick ratio was 1.2). The company's cash is mainly held in overnight or term deposits with the banks Swedbank, SEB, Nordea and the banks in the Unicredit Group with a credit rating (Moody's rating of Baa3/D and higher). The company's management considers the diversification of credit risk as one of the most important goals in 2010.

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 31.12.2009, AS Järvevana had interest bearing assets in the amount of EEK 150 million, including short-term bank deposits with maturities of three months or less in the amount of EEK 30 million and EEK 10 million in 4-12 month deposits and a loan in the amount of EEK 110 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 2010 is the diversification 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 returns. As the expectation in respect of the termination of the criminal proceedings due to violation and lack of evidence was not realised, management is looking for investment 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 31.12.2009, 43.7% 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 31.12.2009, the group had set up a provision for possible claims and court expenses arising from the criminal case related to the land swap in the amount of EEK 17.5 million.

At 3 April 2009, the Prosecutor's Office submitted a statement of charges to AS Järvevana and Toomas Annus (dated 31.03.2009) in criminal case no. 05913000055 related to the land swap, which elaborated the content of the earlier suspicion submitted and according to which AS Järvevana is accused of the following acts:

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

At 12 November 2009, the legal proceedings concerning the so-called land swap case commenced at Harju County Court. In 2009, nearly 30 witnesses summoned by the Public Prosecutor's Office were heard. All witnesses confirmed that the land swaps were lawful, neither was any of the witnesses aware of the promising or giving of a bribe to an official. Witnesses of the defence have not yet been heard.

During intervals between the hearings of witnesses, the documentary evidence was presented by the public prosecutors. Mainly such evidence was presented which proves that AS Järvevana's former subsidiary OÜ Woody wished to swap and did swap land properties. AS Järvevana estimates that no documentary evidence has been published yet which would refer to the promising or giving of a bribe or to unlawfulness of the swap deals.

The counsels of all accused persons have repeatedly drawn the attention of the court to the matter that the Public Prosecutor's Office does not enable the right of defence to be exercised, because it fails to demonstrate relevance of the evidence, also association with the subject of proof. The counsels find that the mere reading out of documents, without knowing the relevance of evidence, neither which accused person in which episode with regard to which subject of proof it concerns, and how it is intended to be used against a particular accused person, is in essence a fictitious act that does not ensure the right of defence and is in conflict with the nature of an adversarial procedure.

AS Järvevana's defense counsel, attorney at law Leon Glikman, filed another petition with the court at 7 December 2009, referring to decisions of the European Court of Human Rights, in conjunction with the continuing violation of the right of defence. A similar petition was filed by Reiljan's counsel, attorney at law Aivar Pilv, at 8 December 2009. The court has interrupted the presentation of documentary evidence, because not all counsels have yet had a possibility to formulate such petitions concerning the persons defended by them.

Neither has AS Järvevana obtained any clarity about authorities of the judges who issued surveillance permits.

The Supervisory Board and Management Board of AS Järvevana are convinced that the activities of the company and its governing bodies have been conducted properly and in compliance with the laws of the Republic of Estonia and are also able to provide relevant evidence in court.

Share and shareholders

The largest shareholders of AS Järvevana as at 31.12.2009

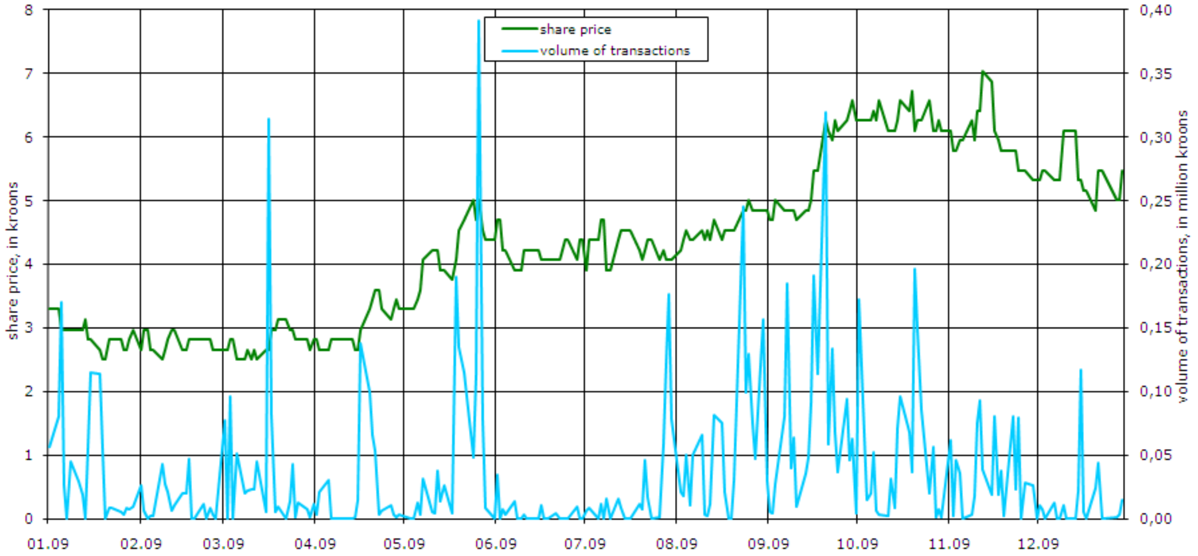
	Number of shares	% of shares
AS Riverito	12 742 686	71.99%
ING Luxembourg S.A., customers	963 376	5.44%
Skandinaviska Enskilda Banken Ab, customers	704 634	3.98%

Structure of shareholders as at 31.12.2009

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-100	281	30.58%	13 891	0.08%
101-1000	363	39.50%	159 984	0.90%
1001-10 000	197	21.44%	750 108	4.24%
10 001 – 100 000	71	7.72%	1 855 884	10.49%
100 001 – 1 000 000	6	0.65%	2 177 447	12.30%
1 000 001 - …	1	0.11%	12 742 686	71.99%
Total	919	100%	17 700 000	100%

From 15.09.2009, the shares of AS Järvevana are included in the secondary 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. In 2009, 1210 transactions were performed with the shares of AS Järvevana in the course of which 2.2 million shares were traded and the total monetary value of transactions was EEK 9.3 million. The lowest share price was EEK 2.35 and the highest share price was EEK 7.04 per share. The closing price of the shares as at 30.12.2009 was EEK 5.48.

Dynamics of the price and trading volume of the shares of Järvevana on NASDAQ OMX Tallinn Stock Exchange (last 12 months)



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 at 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 at 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 at 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 three-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 member 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 by the European Union.

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

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

The Management Board of AS Järvevana acknowledges and confirms that to the best of management's knowledge, the management report for the 2009 financial year presents a true and fair view of the business development and results, and the financial position of the Issuer and the consolidation group entities, and it includes a description of the main risks and uncertainty.

Toomas Annus	Member of the Management Board		15.04.2010

FINANCIAL STATEMENTS

MANAGEMENT DECLARATION

The Management Board confirms the correctness and completeness of AS Järvevana consolidated financial statements as presented on pages 10-45.

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		15.04.2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of		EEK		EUR	
	note	**2009**	**2008**	**2009**	**2008**
Revenue	2,3	-	2 798 466	-	178 854
Cost of goods sold	4	-	(2 273 798)	-	(145 322)
Gross profit		-	524 668	-	33 532
Marketing expenses	5	-	(21 143)	-	(1 351)
Administrative and general expenses	6	(9 273)	(123 699)	(593)	(7 906)
Other operating income	7	-	6 781	-	434
Other operating expenses	8	-	(7 773)	-	(497)
Operating profit		(9 273)	378 834	(593)	24 212
Finance income	9	7 174	16 618	459	1 062
Finance cost	10	(3)	(15 917)	-	(1 017)
Profit/loss from associates and joint ventures	19	-	1 282	-	82
Profit before tax		(2 102)	380 817	(134)	24 339
Corporate income tax expense	11	-	(41 100)	-	(2 627)
Net profit for financial year		(2 102)	339 717	(134)	21 712
incl. net profit attributable to equity holders of the parent		(2 102)	335 502	(134)	21 442
minority interest		-	4 215	-	270
Other comprehensive income					
Currency translation differences of foreign entities		-	5 085	-	325
Comprehensive income (-loss) for the period		(2 102)	344 802	(134)	22 037
incl. net profit attributable to equity holders of the parent		(2 102)	340 587	(134)	21 767
attributable to minority interest		-	4 215	-	270
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in kroons/ euros)	12	(0.12)	18.95	(0.01)	1.21

The notes set out on pages 15-45 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of		EEK		EUR	
	note	**31.12.2009**	**31.12.2008**	**31.12.2009**	**31.12.2008**
ASSETS					
Current assets					
Cash and cash equivalents	14	30 425	26 242	1 944	1 677
Short-term financial investments	15	10 000	-	639	-
Trade and other receivables	16	209 890	225 927	13 415	14 439
Total current assets		250 315	252 169	15 998	16 116
Non-current assets					
Property, plant and equipment	21	40	-	2	-
Total non-current assets		40	-	2	-
TOTAL ASSETS		250 355	252 169	16 000	16 116
LIABILITIES					
Current liabilities					
Trade and other payables	25	530	242	34	16
Short-term provisions	27	17 500	17 500	1 118	1 118
Total current liabilities		18 030	17 742	1 152	1 134
TOTAL LIABILITIES		18 030	17 742	1 152	1 134
EQUITY					
Share capital	28	177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Retained earnings		37 625	39 727	2 405	2 539
TOTAL EQUITY		232 325	234 427	14 848	14 982
TOTAL LIABILITIES AND EQUITY		250 355	252 169	16 000	16 116

The notes set out on pages 15-45 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*in thousands of **EEK***	Equity attributable to equity holders of the parent						
	Share capital	**Statutory reserve capital**	**Currency translation differences**	**Retained earnings**	**Total**	**Minority interest**	**Total**
Balance as at 31.12.07	177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
Comprehensive income for the period	-	-	5 085	335 502	340 587	4 215	344 802
Net assets transferred during demerger	-	-	-	(2 121 917)	(2 121 917)	(31 626)	(2 153 543)
Dividends	-	-	-	-	-	(6 528)	(6 528)
Balance as at 31.12.08	177 000	17 700	-	39 727	234 427	-	234 427
Balance as at 31.12.08	177 000	17 700	-	39 727	234 427	-	234 427
Comprehensive income for the period	-	-	-	(2 102)	(2 102)	-	(2 102)
Balance as at 31.12.09	177 000	17 700	-	37 625	232 325	-	232 325

*in thousands of **EUR***	Equity attributable to equity holders of the parent						
	Share capital	**Statutory reserve capital**	**Currency translation differences**	**Retained earnings**	**Total**	**Minority interest**	**Total**
Balance as at 31.12.07	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Comprehensive income for the period	-	-	325	21 442	21 767	270	22 037
Net assets transferred during demerger	-	-	-	(135 615)	(135 615)	(2 022)	(137 637)
Dividends	-	-	-	-	-	(417)	(417)
Balance as at 31.12.08	11 312	1 131	-	2 539	14 982	-	14 982
Balance as at 31.12.08	11 312	1 131	-	2 539	14 982	-	14 982
Comprehensive income for the period	-	-	-	(134)	(134)	-	(134)
Balance as at 31.12.09	11 312	1 131	-	2 405	14 848	-	14 848

AS Järvevana's 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 15-45 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of		EEK		EUR	
	note	**2009**	**2008**	**2009**	**2008**
Cash flows from operating activities					
Operating profit		(9 273)	378 834	(593)	24 212
Adjustments:					
depreciation and impairment charge	20-22	13	16 618	1	1 062
profit/loss from sale of non-current assets	7	-	(800)	-	(51)
adjustment of revenue from construction contracts recognised under the stage of completion method		-	173 625	-	11 097
interest income from business activities		-	(2 123)	-	(136)
change in governments grants and other provisions		(17)	(14 246)	(1)	(910)
Change in trade and other receivables related to operating activities		87	156 248	6	9 986
Change in inventories		-	3 505	-	224
Change in trade and other payables related to operating activities		305	(107 642)	19	(6 881)
Interest paid		-	(12 218)	-	(781)
Other finance income		(2)	(27)	-	(2)
Corporate income tax paid		-	(32 963)	-	(2 107)
Total cash flows from operating activities		(8 887)	558 811	(568)	35 713
Cash flows from investing activities					
Investment in subsidiaries	18	-	(7 500)	-	(479)
Proceeds from sale of subsidiaries	18	-	1 000	-	64
Investments in associates and joint ventures	19	-	(1 000)	-	(64)
Proceeds from sale of associates and joint ventures		-	58 000	-	3 707
Purchase of other financial investments	15	(10 000)	-	(639)	-
Purchase of investment property		-	(112)	-	(7)
Purchase of property, plant and equipment		(53)	(15 638)	(3)	(1 000)
Proceeds from sale of property, plant and equipment		-	2 469	-	158
Purchase of intangible assets		-	(1 118)	-	(72)
Loans granted	17	-	(21 331)	-	(1 363)
Loan repayments received	17	15 647	4 190	1 000	268
Interest received		7 476	16 412	477	1 049
Total cash flows from investing activities		13 070	35 372	835	2 261
Cash flows from financing activities					
Proceeds from borrowings	24	-	69 361	-	4 433
Repayments of borrowings	24	-	(155 654)	-	(9 948)
Finance lease principal payments	24	-	(10 407)	-	(665)
Dividends paid		-	(6 528)	-	(417)
Total cash flows from financing activities		-	(103 228)	-	(6 597)
Cash transferred during demerger		-	(666 689)	-	(42 609)
Net increase/decrease in cash and cash equivalents		4 183	(175 734)	267	(11 232)
Cash and cash equivalents at beginning of the period	14	26 242	205 564	1 677	13 138
Exchange losses on cash and cash equivalents		-	(3 588)	-	(229)
Cash and cash equivalents at end of the period	14	30 425	26 242	1 944	1 677

The notes set out on pages 15-45 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 2009 were signed by the Management Board at 15 April 2010.

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 Secondary 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. Basis of preparation

The consolidated financial statements of Järvevana 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 in the period in which the change occurred.

Assets and liabilities are classified as current and non-current in the statement of financial position. 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 in 2008 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

a) Standards, amendments to standards and interpretations which became effective for financial year beginning on 1 January 2009.

IAS 1 *Presentation of Financial Statements* (revised in September 2007)**.** 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. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The group has elected to present a single statement of comprehensive income. The revised standard also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the enitity restates comparatives due to reclassifications, changes in accounting policies, or correction of errors. The revised IAS 1 had an impact on the presentation of the group's primary statements but had no impact on the recognition or measurement of specific transactions and balances.

IFRS 8 *Operating Segments*. 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 organisation 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 required information has been presented for year 2008, since demerger AS Järvevana has no business activity and hence the standard has no impact on the financial statements.

IAS 23 *Borrowing Costs* (revised in March 2007). 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. Such borrowing costs are part of the cost of the asset, if the commencement date for capitalisation is on or after 1 January 2009. The change in the accounting policy had no material impact on earnings per share.

IAS 32 and IAS 1 Amendment – *Puttable Financial Instruments and Obligations Arising on Liquidation*. The amendment requires classification of some financial instruments meeting the definition of a financial liability, as equity instruments. The amendment had no impact on the financial statements.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7 *Financial Instruments: Disclosures* (issued in March 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is 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 in the earliest period in which the guarantee could be called; 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 users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in the financial statements as applicable.

Improvements to International Financial Reporting Standards (issued in May 2008). 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 (effective for annual periods beginning on or after 1 July 2009); 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 amendments had no material impact on the 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

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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 amendment had no impact on the financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate — IFRS 1 and IAS 27 Amendment. The amendment had no impact on the financial statements.

IFRIC 11, IFRS 2 - *Group and Treasury Share Transactions*. The interpretation contains guidelines on the following issues: 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. Adoption of the interpretation did not have any significant impact on the group's financial statements.

IFRIC 13 – ***Customer Loyalty Programmes***. 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. The interpretation had no impact on the financial statements.

IFRIC 14 IAS 19 – ***The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** 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. The application of the interpretation will have no impact on the financial statements.

b) <u>New standards, amendments to standards and interpretations effective for annual periods beginning at or after 1 January 2010 that the group has not adopted early.</u>

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 2010 but that the group has not adopted early.

IFRS 3 Business Combinations (revised in January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). 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 remeasure 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 for the year. 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 amended standard has no significant impact on the financial statements as the group has no business combinations.

Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a 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 amendment has no significant impact on the financial statements.

Amendment to IAS 24 *Related Party Disclosures* (issued in November 2009; effective for annual periods beginning at or after 1 January 2011; not yet adopted by the EU). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The group will assess the effect of the amendment on the disclosures.

***Classification of Rights Issues* – IAS 32 Amendment** (issued in October 2009, effective for annual periods beginning at or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The group estimates that the amendment has no impact on the 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 group estimates that the amendment has no impact on the financial statements.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (pursuant to amendments made in December 2008, the standard is effective for IFRS financial statements prepared for a period beginning at or after 1 July 2009; as adopted by the EU is effective for annual periods beginning after 31 December 2009). 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 group estimates that the amendment has no impact on the financial statements.

IFRS 9 *Financial Instruments* Part 1: Classification and Measurement (issued in November 2009; effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The group is assessing the principles of the standard, effect of the group and timing of adoption.

Improvements to IFRS (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; as adopted by the EU, the amendments will be effective for annual periods beginning after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requirement to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amendment of IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; revision of IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; permission to classify certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementation of IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; revision of IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amendment of IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removal of the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The group estimates that the improvements will not have a significant impact on the financial statements.

Embedded Derivatives **– Amendments to IFRIC 9 and IAS 39** (issued in March 2009, effective for annual periods beginning at or after 30 June 2009; as adopted by the EU is effective for annual periods beginning after 31 December 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The group estimates that the amendments have no effect on financial statements.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The amendment has no impact on the group's financial statements.

Group Cash-settled Share-based Payment Transactions **- Amendments to IFRS 2** (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments have no effect on the group's financial statements.

Additional Exemptions for First-time Adopters **- Amendments to IFRS 1** (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the group's financial statements.

Prepayments of a Minimum Funding Requirement **– Amendment to IFRIC 14** (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). The amendment has no impact on the group's financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters **- Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). The amendment has no impact on the financial statements.

IFRIC 12 – ***Service Concession Arrangements***. The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. The amendment had no impact on the financial statements.

IFRIC 15 ***Agreements for the Construction of Real Estate***. 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 has no impact on the financial statements.

IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, early adoption permitted). The interpretation has no impact on the financial statements.

IFRIC 17 *Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted). 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. The group estimates that the interpretation has no effect on the financial statements.

IFRIC 18, *Transfers of Assets from Customers* (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted). 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. The interpretation has no impact on the group's financial statements.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning at or after 1 July 2011; not yet adopted by the EU). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The group estimates that the interpretation has no impact on the 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

<u>Valuation of receivables</u>
In valuation of receivables, each receivable is analysed separately. In determining the need for a complete or partial write-down of receivables, the debtor's financial position, the guarantees provided, the solutions offered to pay off the loan and the previous payment behaviour of the debtor are considered.

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.
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, unless the losses are due to impairment. Group entities use uniform accounting policies.

After the de-merger at 01.08.2008, the company does not have any subsidiaries, associates and joint ventures.

1.6. 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*.

1.7. 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;
- held-to-maturity investments;
- available-for-sale financial assets.

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

The company does not have any held-to-maturity financial investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The company does not have any derivative transactions either.

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 those with maturities longer 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 valued 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.

1.8. 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 objectively be related to an event occurring after the impairment loss 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.

1.9. Inventories

Inventories are recorded in the statement of financial position 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 statement of financial position 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 statement of financial position 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 1.21). 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.

1.10. 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.

1.11. 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 statement of financial position 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.

If an item of property, plant and equipment consists of separately identifiable components with different useful lives, these components are accounted for as separate assets and accordingly, separate depreciation rates are set for them depending on their useful lives.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

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.

1.12. Intangible assets

Intangible assets are recognised in the statement of financial position 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 statement of financial position 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).

1.13. 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 statement of financial position 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. Finance cost is allocated to lease terms in a way that achieves a constant periodic rate of interest on the liability's outstanding balance.

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

1.14. 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 statement of financial position 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 at the balance sheet date, the lender had the contractual right to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

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.

1.15. 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 01.01.2009, the tax rate on dividends payable is 21/79 (in 2008: 21/79; 2007: 22/78) 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 statement of financial position. Deferred tax assets are recognised in the group's statement of financial position 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% (2008: 15%), the profits of entities located in the Republic of Lithuania are taxed at the rate of 20% (2008: 15%).

1.16. Revenue

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

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.

1.17. Cash and cash equivalents

In the statement of financial position 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.

1.18. 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 statement of financial position, but they are disclosed in the notes to the financial statements.

1.19. 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.

1.20. 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 statement of financial position but they are disclosed in the notes to the financial statements.

1.21. 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.

1.22. Segment reporting

IFRS 8 *Operating Segments*, which became effective at 1 January 2009, specifies segment reporting for operating segments whose results are regularly reviewed by the entity's chief operating decision maker to make business-related decisions. Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance.

The following segments are identified in the group's financial statements:

- construction of buildings,
- construction of facilities,
- road construction,
- real estate,
- other.

The first three segments relate to the provision of construction services. The real estate segment is primarily based on its own real estate development – construction and sale, and to a lesser degree, maintenance and leasing of real estate. Other activities (management related service, security services, etc.) are immaterial from the group's standpoint and they are not reported as separate operating segments in the financial statements.

Note 2 Operating segments
in thousands of kroons

2008	Buildings	Facilities	Roads	Develop-ment of real estate	Other	Total segments
Segment revenue	1 365 254	417 432	249 487	813 172	24 067	2 869 412
Inter- segment revenue	(37 515)	(5 452)	(7 019)	(15 988)	(4 972)	(70 946)
Revenue from external clients	1 327 739	411 980	242 468	797 184	19 095	2 798 466
Depreciation and impairment charge	(1 641)	(2 282)	(4 376)	(170)	(2 496)	(10 965)
Profit (loss) from associates and joint ventures	-	-	-	882	400	1 282
Profit before tax	279 212	24 698	17 639	211 490	(8 370)	524 669
Segment assets	-	-	-	-	-	-

The group's expenses, assets and liabilities that are not possible or practical to be associated to a segment are unallocated. As of 31.12.2008 the group's assets amounted to EEK 252 169 thousand which was not allocated to segments.

Reconciliation of the pretax profit of segments and the group

	2009	2008
Profit (loss) from reportable segments	-	524 669
Unallocated expense (income)		
marketing expenses	-	(21 143)
administrative expenses	(9 273)	(123 699)
other operating income (expense)	-	(993)
financial income (expense)	7 171	1 983
incl. interest income	7 174	16 614
interest expense	-	(8 734)
Profit before tax	(2 102)	380 817

Revenue by client location

Revenue	2009	2008
Estonia	-	1 719 941
Latvia	-	618 059
Lithuania	-	460 466
Total	-	2 798 466

The company had no business activities in 2009.

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Note 3 Revenue

in thousands of kroons

	2009	2008
Sale of services	-	1 998 556
Sale of real estate property and real estate development	-	797 184
Rental income	-	2 286
Sale of goods	-	440
Total revenue	-	2 798 466

Note 4 Cost of goods sold

in thousands of kroons

	2009	2008
Construction services	-	1 396 459
Materials	-	236 156
Properties purchased for resale	-	246 353
Staff costs	-	204 794
Construction mechanisms and transport	-	76 318
Design	-	45 133
Depreciation and impairment charge	-	10 965
Other expenses	-	57 620
Total cost of goods sold	-	2 273 798

Note 5 Marketing expenses

in thousands of kroons

	2009	2008
Advertising, sponsorship	-	10 638
Staff costs	-	6 744
Construction tenders	-	787
Transport	-	1 040
Depreciation and impairment charge	-	261
Other expenses	-	1 673
Total marketing expenses	-	21 143

Note 6 General and administrative expenses

in thousands of kroons

	2009	2008
Staff costs	927	67 149
IT-equipment and services	7 158	14 407
Office expenses, communication services	514	10 638
Depreciation and impairment charge	13	5 377
Transport	448	4 952
Other expenses	213	21 176
Total general and administrative expenses	9 273	123 699

Note 7 Other operating income

in thousands of kroons

	2009	2008
Interest income from operating activities	-	2 123
Fines and amounts for delay received	-	1 854
Profit from sale of non-current assets	-	800
Other income	-	2 004
Total other operating income	-	6 781

Note 8 Other operating expenses

in thousands of kroons

	2009	2008
Fines, penalties	-	6 197
Gifts, donations	-	1 296
Other expenses	-	280
Total other operating expenses	-	7 773

Note 9 Finance income

in thousands of kroons

	2009	2008
Interest income	7 174	16 614
Other finance income	-	4
Total finance income	7 174	16 618

Note 10 Finance costs

in thousands of kroons

	2009	2008
Interest expenses	-	8 734
Foreign exchange loss	-	5 875
Other finance costs	3	1 308
Total finance costs	3	15 917

Note 11 Corporate income tax

in thousands of kroons

The income tax on the group's profit before tax differs from the tax charge calculated 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)

As at 31.12.2009, it is possible to pay out dividends to shareholders from retained earnings in the amount of EEK 29 724 thousand and the corresponding income tax would amount to EEK 7901 thousand. As at 31.12.2008, it would have been possible to pay out dividends to shareholders from retained earnings in the amount of EEK 31 384 thousand and the corresponding income tax would have amounted to EEK 8343 thousand.

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.

	2009	2008
Net profit attributable to shareholders *(in thousands of kroons*)	(2 102)	335 502
Weighted average number of ordinary shares *(thousand pcs)*	17 700	17 700
Earnings per share (*in kroons*)	(0,12)	18,95

In 2008 and 2009, 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 2009. No dividends were paid in 2008.

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Note 14 Cash and cash equivalents

in thousands of kroons

	31.12.2009	31.12.2008
Short-term bank deposits (with a term of 1-3 months)	30 425	26 242
Total cash and cash equivalents	30 425	26 242

As at 31.12.2009, the average interest on overnight deposits was 1.30% (31.12.2008: 5.75%) and the interest on bank deposits of maturities of 3 months or less was 5.00%.

Note 15 Short-term financial investments

in thousands of kroons

	31.12.2009	31.12.2008
Short-term bank deposits (with maturities of 3- 12 months)	10 000	-
Total cash and cash equivalents	10 000	-

As at 31.12.2009, the interest on 4-month bank deposits included within short-term bank deposits was 5.30%

Note 16 Trade and other receivables

in thousands of kroons

	31.12.2009	31.12.2008
Tax prepayments excluding corporate income tax	162	261
value-added tax	162	261
Other short-term receivables		
short-term loans (Note 17) *	109 354	125 001
interest receivables	343	646
other short-term receivables **	100 007	100 000
	209 704	225 647
Prepayments for services		
prepaid insurance	24	19
	24	19
Total trade and other receivables	209 890	225 927

* * According to the demerger agreement between AS Järvevana and AS Merko Ehitus, the company granted a loan to AS Merko Ehitus in amount of EUR 7989 thousand with the 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, from 1.08.2009, the loan interest is 2.355% pa.

** 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. The respective right is recognised in the statement of financial position of AS Järvevana as a short-term receivable.

Note 17 Loans granted

in thousands of kroons

	2009	2008
Loans granted to joint ventures		
Loan balance at beginning of the year	-	12 725
Granted	-	21 331
Collected	-	(175)
Exchange difference	-	(1 437)
Transferred during demerger	-	(32 444)
Loan balance at end of the year	-	-
Loans granted to entities under joint control		
Loan balance at beginning of the year	125 001	7 178
Transferred during demerger	-	125 001
Reclassification of loan granted to subsidiary	-	4 015
Collected	(15 647)	(4 015)
Exchange difference	-	(77)
Transferred during demerger	-	(7 101)
Loan balance at end of the year	109 354	125 001
incl. current portion	109 354	125 001
Average effective interest rate 4.48% (2008: 6.0%)		
Loans granted to non-related legal entities		
Loan balance at beginning of the year	-	29 899
Exchange difference	-	(14)
Transferred during demerger	-	(29 885)
Loan balance at end of the year	-	-
Total loans granted		
Loan balance at beginning of the year	125 001	49 802
Granted	-	21 331
Originated during demerger	-	125 001
Reclassification of loan granted to subsidiary	-	4 015
Collected	(15 647)	(4 190)
Exchange difference	-	(1 528)
Transferred during demerger	-	(69 430)
Loan balance at end of the year	109 354	125 001
incl. current portion (Note 16)	109 354	125 001

Note 18 Shares in subsidiaries

As at 31.12.2008 and 31.12.2009, the company does not have any subsidiaries.
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 EUR 37 882 thousand kroons and of this amount, the profit amounted to EEK 37 649 thousand.

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 EEK 1539 thousand, EEK 77 thousand and EEK 12 395 thousand, respectively.
In 2008, EEK 1000 thousand was 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 EEK 7500 thousand for OÜ Tevener.

Note 19 Investments in associates and joint ventures

As at 31.12.2008 and 31.12.2009, the company did not have any associates and joint ventures.
In May 2008, AS Merko Ehitus sold its ownership interest in the joint venture OÜ Tornimäe Apartments at the sales price of EEK 59 856 thousand (until demerger of AS Merko Ehitus, the cash received from the sale totalled EEK 58 000 thousand).
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 EEK 1000 thousand.
In 2008, the profit from associates and joint ventures totalled EEK 1282 thousand.

Note 20 Investment property

in thousands of kroons

	Land	Buildings	Total
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	(7 657)	(5 154)	(12 811)
Carrying amount at 31.12.2008	-	-	-
Carrying amount at 31.12.2009	-	-	-

Note 21 Property, plant and equipment

in thousands of kroons

	Land	Buildings	Superficies	Machinery and equipment	Other fixtures	Construction in progress	Prepayments	Total
Cost at 31.12.2007	15 943	24 627	458	153 587	64 970	36	8 728	268 349
Accumulated depreciation and impairment 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

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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	(6 700)	(19 901)	(358)	(124 627)	(57 337)	(117)	-	(209 040)
Carrying amount at 31.12.2008	-	-	-	-	-	-	-	-
Acquisition	-	-	-	53	-	-	-	53
Depreciation	-	-	-	(13)	-	-	-	(13)
Carrying amount at 31.12.2009	**-**	**-**	**-**	**40**	**-**	**-**	**-**	**40**

Information on leased assets is provided in Note 23 and on lease payments, in Note 24.

Note 22 Intangible assets

in thousands of kroons

	Software	Prepayments	Total
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	(10 467)	(1 808)	(12 275)
Carrying amount at 31.12.2008	-	-	-
Carrying amount at 31.12.2009	-	-	-

Note 23 Leased assets

in thousands of kroons

	2009	2008
Assets acquired under finance lease terms		
Machinery and equipment		
Cost	-	119 021
Accumulated depreciation	-	(27 140)
incl. depreciation charge	-	(5 761)
Transferred during demerger	-	(91 881)
Carrying amount	-	-

Note 24 Borrowings

in thousands of kroons

	2009	2008
Finance lease payables		
Present value of lease payments at beginning of the year	-	48 114
Received	-	24 009
Paid	-	(10 407)
Transferred during demerger	-	(61 716)
Present value of lease payments at end of the year	-	-
Interest cost of reporting period	-	1 710
Average effective interest rate 6.9% in 2008		
Bank loans		
Loan balance at beginning of the year	-	630 543
Received	-	69 361
Paid	-	(136 619)
Currency translation differences	-	(4 645)
Transferred during demerger	-	(558 640)
Loan balance at end of the year	-	-
Interest cost of reporting period	-	12 218
Average effective interest rate 5.2% in 2008		
Loans from the parent		
Loan balance at beginning of the year	-	19 035
Paid	-	(19 035)
Loan balance at end of the year	-	-
Average effective interest rate 4.9% in 2008		
Loans from other entities		
Loan balance at beginning of the year	-	4 900
Transferred during demerger	-	(4 900)
Loan balance at end of the year	-	-
Average effective interest rate 5.5% in 2008		
Total loans		
Loan balance at beginning of the year	-	654 478
Received	-	69 361
Paid	-	(155 654)
Currency translation differences	-	(4 645)
Transferred during demerger	-	(563 540)
Loan balance at end of year	-	-
Total borrowings	-	-

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

Note 25 Trade and other payables

in thousands of kroons

	31.12.2009	31.12.2008
Trade payables	422	204
Payables to employees	60	27
Tax liabilities, except for corporate income tax		
personal income tax	10	2
social security tax	37	8
other taxes	1	1
	48	242
Total trade and other payables	530	242

Note 26 Government grants

in thousands of kroons

	31.12.2009	31.12.2008
Residual value at beginning of the year	-	1 498
Transferred during demerger	-	(1 498)
Balance at end of the year	-	-

Note 27 Short-term provisions

in thousands of kroons

	2009	2008
Provision for warranty obligation for construction		
Residual value at beginning of the year	-	15 625
Accrued	-	6 390
Utilised	-	(7 048)
Transferred during demerger	-	(14 967)
Balance at end of the year	-	-
Provision for onerous construction contracts		
Residual value at beginning of the year	-	32 512
Accrued	-	2 040
Utilised	-	(12 944)
Transferred during demerger	-	(21 608)
Balance at end of the year	-	-
Provision for completion of construction projects		
Residual value at beginning of the year	-	-
Accrued	-	32
Transferred during demerger	-	(32)
Balance at end of the year	-	-
Provision for legal costs and claims filed		
Residual value at beginning of the year	17 500	22 786
Accrued	-	6 050

Utilised	-	(1 010)
Transferred during demerger	-	(10 326)
Balance at end of the year (Note 31)	17 500	17 500
Other provisions		
Residual value at beginning of the year	-	2 289
Accrued	-	3 270
Utilised	-	(376)
Transferred during demerger	-	(5 183)
Balance at end of the year	-	-
Total short-term provisions	17 500	17 500

Note 28 Share capital

As at 31.12.2009, the share capital in the amount of EEK 177 000 thousand consisted of EEK 17 700 thousand registered shares with the nominal value of 10 kroons each.

Additional information is disclosed in Note 31 under *Capital management*.

Note 29 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 31.12.2009 and 31.12.2008, 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

	2009	2008
Purchased construction services		
Associates and joint ventures	-	24 353
Entities under common control	572	7 019
Total purchased construction services	572	31 372
Construction services rendered		
Associates and joint ventures	-	150
Entities under common control	-	514 713
Management members	-	4 011
Total construction services provided	-	518 874

Construction materials purchased		
Other related parties	-	163
Real estate sold		
Entities under common control	-	143 167

Loans granted to related parties are disclosed in Note 17 *Loans granted*.
Interest revenue of EEK 5589 thousand (2008: EEK 3188 thousand) was accounted on the loan granted to AS Merko Ehitus by AS Järvevana.

Balances with the related parties

	31.12.2009	**31.12.2008**
Trade and other receivables		
Short-term loans		
Entities under common control (Note 17)	109 354	125 001
Interest receivables		
Entities under common control	233	646
Other short-term receivables		
Entities under common control	100 007	100 000

No allowances for impairment losses have been set up for receivables from related parties in 2009.

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

In 2009, the members of the Supervisory and Management Boards as well as senior executives of AS Järvevana were paid remuneration totalling EEK 559 thousand (2008: EEK 16 197 thousand).

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 is not concluded, the group has the obligation to pay compensation totalling EEK 1200 thousand.

Note 30 Contingent liabilities

For contingent liabilities related to the criminal proceedings, please refer to subsection on legal risks in Note 31.

Note 31 Risks

Credit risk
Credit risk relates to potential losses 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
31.12.2009			
Cash and overnight deposits	30 425	-	30 425
Short-term financial investments	10 000		10 000
Other short-term receivables (Note 16)	100 007	-	100 007
Loans granted (Note 17)	109 354	-	109 354
Interest receivable (Note 16)	343		343
Total	**250 129**	**-**	**250 129**
31.12.2008			
Cash and overnight deposits	26 242	-	26 242
Other short-term receivables (Note 16)	100 000	-	100 000
Loans granted (Note 17)	125 001	-	125 001
Interest receivable (Note 16)	646		646
Total	**251 889**	**-**	**251 889**

Of the loans granted, EEK 109 354 thousand (31.12.2008: EEK 125 001 thousand) 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 has been required.

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 31.12.2009, AS Järvevana had interest bearing assets in the amount of EEK 150 million, including short-term bank deposits with maturities of three months or less in the amount of EEK 30 million and EEK 10 million in 4-12 month deposits and a loan in the amount of EEK 110 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 2010 is the diversification of credit risks and attainment of a better return on assets.

Foreign exchange risk
The company's functional currency is the Estonian kroon, which is pegged to the Euro. Therefore, the company does not have significant foreign exchange risk.

Liquidity risk
The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2009, the company's current ratio was 13.9 (31.12.2008: 14.2) and the quick ratio was also 13.9 (31.12.2008: 14.2), 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	Total	Carrying amount
31.12.2009				
Assets				
Cash and overnight deposits	30 425	10 000	40 425	40 425
Prepaid taxes *	162	-	162	162
Loans and interest	296	109 401	109 697	109 697
Other short-term receivables	-	100 007	100 007	100 007
Total	**30 883**	**219 408**	**250 291**	**250 291**
Liabilities				
Trade payables	422	-	422	422
Payables to employees	60	-	60	60
Tax liabilities	48	-	48	48
Total	**530**	**-**	**530**	**530**
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
Assets	**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**

* Although prepaid taxes do not meet the definition of financial assets, they will offset the amount of negative cash flows from tax liabilities.

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 EEK 85 000 – 340 000 thousand. As at 31.12.2009, the share capital of AS Järvevana was EEK 177 000 thousand and the net assets were EEK 232 325 thousand and therefore, the company's share capital and equity were in compliance with the requirements established in the Republic of Estonia.

Legal risk
At 3 April 2009, the Prosecutor's Office submitted a statement of charges (dated 31.03.2009) against AS Järvevana and Toomas Annus in criminal case no. 05913000055 related to the land swap, which elaborated the content of the 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 was 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 25 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.

At 26 May 2009, the Public Prosecutor's Office terminated the proceedings in Ivo Parbus criminal case concerning AS Järvevana on the basis of the Code of Criminal Procedure § 203 (6) due to lack of proportionality of punishment. AS Järvevana has agreed to termination of the criminal proceedings for considerations of procedural efficiency, in order to save time and expenses. No conditions and obligations were imposed on AS Järvevana upon the termination of the criminal proceedings.

At 12 November 2009, the legal proceedings concerning the land swap case commenced at Harju County Court. In 2009, nearly 30 witnesses summoned by the Public Prosecutor's Office were heard. All witnesses confirmed that the land swaps were lawful, neither was any of the witnesses aware of the promising or giving of a bribe to an official. Witnesses of the defence have not yet been heard.

During intervals between the hearings of witnesses, the documentary evidence was presented by the public prosecutors. Mainly such evidence was presented which proves that AS Järvevana's former subsidiary OÜ Woody wished to swap and did swap land properties. AS Järvevana estimates that no documentary evidence has been published yet which would refer to the promising or giving of a bribe or to unlawfulness of the swap deals.

The counsels of all accused persons have repeatedly drawn the attention of the court to the matter that the Public Prosecutor's Office does not enable the right of defence to be exercised, because it fails to demonstrate relevance of the evidence, also association with the subject of proof. The counsels find that the mere reading out of documents, without knowing the relevance of evidence, neither which accused person in which episode with regard to which subject of proof it concerns, and how it is intended to be used against a particular accused person, is in essence a fictitious act that does not ensure the right of defence and is in conflict with the nature of an adversarial procedure.

AS Järvevana's defense counsel, attorney at law Leon Glikman, filed another petition with the court at 7 December 2009, referring to decisions of the European Court of Human Rights, in conjunction with the continuing violation of the right of defence. A similar petition was filed by Reiljan's counsel, attorney at law Aivar Pilv, at 8 December 2009. The court has interrupted the presentation of documentary evidence, because not all counsels have yet had a possibility to formulate such petitions concerning the persons defended by them.

Neither has AS Järvevana obtained any clarity about authorities of the judges who issued surveillance permits.

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 the criminal proceedings.

As at 31.12.2009, a provision has been set up for possible claims and legal costs arising from legal disputes in the amount of EEK 17 500 thousand (31.12.2008: EEK 17 500 thousand), (Note 27).

Market risk/fair value

Due to the significant deterioration of the economic environment in 2009, the market risk took a significant place in evaluation of 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 32 Number of shares owned by the members of the Supervisory and Management Board and their close relatives

As at 31.12.2009, 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 33 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 34 Demerger of the company

The delay in the criminal proceedings related to the 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 the land swap. In management's opinion, the restructuring ensures 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 the 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 at 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 EEK 232.5 million were separated and transferred to the new entity. As a result of the demerger, each shareholder of the public limited company received one share of the newly founded AS Merko Ehitus which is listed from 1 August 2008 on the NASDAQ OMX Tallinn Stock Exchange, for each share of demerged AS Järvevana. 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.

Note 35 Supplementary disclosures on the parent

The financial information of the parent comprises separate primary statements of the parent (income statement, statement of financial position, 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

	2009	**2008**
Revenue	-	1 161 680
Cost of goods sold	-	(1 057 178)
Gross profit	-	104 502
Marketing expenses	-	(9 158)
Administrative and general expenses	(9 273)	(51 674)
Other operating income	-	16 235
Other operating expenses	-	(7 015)
Operating profit	(9 273)	52 890
Finance income/costs	7 171	9 837
Finance income/costs from investments in subsidiaries	-	79 214
Finance income/costs from investments in associates and joint ventures	-	57 980
Net profit for the year	(2 102)	199 921

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Statement of financial position

in thousands of kroons

	31.12.2009	31.12.2008
ASSETS		
Current assets		
Cash and cash equivalents	30 425	26 242
Short-term financial investments	10 000	-
Trade and other receivables	209 890	225 927
Total current assets	250 315	252 169
Non-current assets		
Property, plant and equipment	40	-
Total non-current assets	40	-
TOTAL ASSETS	250 355	252 169
LIABILITIES		
Current liabilities		
Trade and other payables	530	242
Short-term provisions	17 500	17 500
Total current liabilities	18 030	17 742
TOTAL LIABILITIES	18 030	17 742
EQUITY		
Share capital	177 000	177 000
Statutory reserve capital	17 700	17 700
Retained earnings	37 625	39 727
TOTAL EQUITY	232 325	234 427
TOTAL LIABILITIES AND EQUITY	250 355	252 169

Statement of changes in equity
in thousands of kroons

	Share capital	Statutory reserve capital	Retained earnings	Total
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 had the equity method 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 the financial year	-	-	199 921	199 921
Balance as at 31.12.2008	177 000	17 700	39 727	234 427
Comprehensive income for the reporting period	-	-	(2 102)	(2 102)
Balance as at 31.12.2009	177 000	17 700	37 625	232 325

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

	2009	2008
Cash flows from operating activities		
Operating profit	(9 273)	52 890
Adjustments:		
depreciation and impairment charge	13	4 159
profit/loss from sale of non-current assets	-	(97)
adjustment of revenue from construction contracts under stage of completion method	-	92 759
interest income from business activities	-	(15 509)
change in provisions	(17)	(11 364)
Change in trade and other receivables related to operating activities	87	322 395
Change in inventories	-	77 720
Change in trade and other payables related to operating activities	305	(106 879)
Interest paid	-	(5 143)
Other finance income	(2)	-
Corporate income tax paid	-	(17)
Total cash flows from operating activities	(8 887)	410 914
Cash flows from investing activities		
Proceeds from sale of subsidiaries	-	38 882
Subsidiary's 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 other financial investments	(10 000)	-
Purchase of property, plant and equipment	(53)	(8 981)
Proceeds from sale of property, plant and equipment	-	109
Purchase of intangible assets	-	(285)
Loans granted	-	(20 037)
Loan repayments received	15 647	4 415
Interest received	7 476	25 906
Dividends received	-	35 313
Total cash flows from investing activities	13 070	132 828
Cash flows from financing activities		
Proceeds from borrowings	-	18 882
Loan repayments received	-	(195 001)
Finance lease principal payments	-	(412)
Total cash flows from financing activities	-	(176 531)
Cash transferred during demerger	-	(447 774)
Net increase/decrease in cash and cash equivalents	4 183	(80 563)
Cash and cash equivalents at beginning of the period	26 242	107 000
Exchange losses on cash and cash equivalents	-	(195)
Cash and cash equivalents at end of the period	30 425	26 242

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2009 ANNUAL REPORT

The Management Board of AS Järvevana has prepared the management report, consolidated financial statements and the profit allocation proposal for 2009.

Toomas Annus	Member of the Management Board	15.04.2010

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	29.04.2010
Teet Roopalu	Member of the Supervisory Board	29.04.2010
Jaan Mäe	Member of the Supervisory Board	29.04.2010

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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 statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, 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.

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 2009, 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	Märten Padu
AS PricewaterhouseCoopers	Authorised Auditor

27 April 2010

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* *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 31.12.2009	**37 624 621**

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		15.04.2010

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

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

EMTAK code		2009	2008
	Sale of construction services incl.		
4120	Construction of residential and non-residential buildings	-	554 113
4110	Development of building projects	-	213 445
4211	Construction of roads and motorways	-	3 551
4221	Construction of utility projects for fluids	-	242 626
4222	Construction of utility projects for electricity and Telecommunications	-	84 254
4291	Construction of water projects	-	25 746
4213	Construction of bridges and tunnels	-	21 105
4299	Construction of other civil engineering projects n.e.c.	-	16 422
		-	1 161 262
	Real estate activities incl.		
6810	Buying and selling of own real estate	-	-
6820	Renting and operating of own or leased real estate	-	418
		-	418
	Total revenue	-	1 161 680