INFORMATION MEMORANDUM

REVAL HOTELLIGRUPI AS

(incorporated as a joint-stock company with limited liability in the Republic of Estonia)

The information contained herein relates to the issue and offering of up to 1,300,000 ordinary shares in registered form of nominal value of EEK 10 each (the "Offered Shares") of Reval Hotelligrupi AS (Reval Hotel Group Ltd.), a public limited company incorporated in the Republic of Estonia (the "Company"). The shares to be offered in the public offering are those shares not taken up by existing shareholders of the Company pursuant to their pre-emptive rights in connection with an increase in the capital of the Company by the issue of New Shares. The offer to existing shareholders (the "Rights Offering") and the public offering are being made based on the prospectus which was approved by the Securities Commission of Estonia on 13 May 1999. The sole purpose of this Information Memorandum (the "Information Memorandum") is to assist the recipient in deciding whether or not to further evaluate the profitability of such an investment.

The list of shareholders with pre-emptive rights will be fixed on 31 May 1999 at 9 a.m. The period for subscription and payment for Offered Shares is from 31 May to 13 June 1999. The Offered Shares will be transferred to investors' securities accounts in Estonian Central Depository for Securities by 16 June 1999.

Price Range for Offer: EEK 35 - 40 per Offered Share

The Share Issue is registered with the Estonian Securities Board as a public share issue under registry number RVPA-275. The Offered Shares may not be distributed in any other jurisdiction where such a registration is required.

The existing shares (the "Existing Shares") are, and the new shares issued pursuant to the Rights Offering and the Offered Shares (together with the Existing Shares, the "Shares") will be, listed on the Tallinn Stock Exchange (the "TALSE"). On 11 May 1999 the closing price for the Existing Shares on the TALSE was EEK 36 per Existing Share. The Shares are and will be held in dematerialised form in the Estonian Central Depository for Securities (the "Central Depository") and may be held, bought and sold only through the Central Depository.

Prospective investors should consider a number of matters relating to the Republic of Estonia ("Estonia") in general and the Offering in particular when deciding whether to purchase the Offered Shares (see "Investment Considerations" below).

Arranger

HANSA INVESTMENTS

This Information Memorandum is dated May 1999

The purpose of this Information Memorandum is to provide information with regard to the Company and the Offered Shares. No person has been authorised to provide any information or to make any representations other than those contained in this Information Memorandum in connection with the offer or sale of Offered Shares and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by Hansa Investments Limited (the "Arranger"). Neither the delivery of this Information Memorandum nor any sale made in connection herewith shall, under any circumstances, create an implication that the information contained herein is correct at any time after the date hereof or that there has been no change in the affairs of the Company or its subsidiaries since the date hereof. Nothing contained herein is, or may be relied upon as, a promise or representation as to the future performance or policies of the Company.

The Company confirms that the information contained in this Information Memorandum is in every material respect true and accurate and not misleading. To the best knowledge and belief of the Company (which has taken all reasonable care to ensure that such is the case) there are no other facts the omission of which would, in the context of this Information Memorandum, make any statements in this Information Memorandum misleading in any material aspect. The Company also confirms that, in its judgement, the assumptions on which the projections contained in this Information Memorandum are based are reasonable in all material aspects.

All information and statements in this Information Memorandum regarding the Shares, the Articles of Association (the "Articles" of the Company) and any other documents are subject to detailed provisions of the rights attaching to the Shares, the Articles and such other documents and are qualified in their entirety by reference to such rights, the Articles and other documents, copies of which will be made available to each offeree, each offeree's representative, or both upon their request.

This Information Memorandum does not constitute an offer or invitation by or on behalf of the Company to purchase any of the Offered Shares in any jurisdiction in which such offer or solicitation is unlawful. No person has been authorised to give any information or make any statements, other than those contained herein, in connection with the sale of the Offered Shares.

The distribution of this Information Memorandum and the offering of the Offered Shares in certain jurisdictions may be restricted by law. This Information Memorandum may not be used for the purpose of an offer or solicitation by anyone in any jurisdiction where such an offer or solicitation is unlawful or to any person to whom it is unlawful to make such an offer or solicitation. Persons who gain possession of this Information Memorandum are required by the Company to be informed of and observes any such restrictions. For a further description of certain restrictions on offers and sales on Offered Shares, see "Subscription and Sale" below.

This Information Memorandum has been prepared from information provided by the Company and from other sources, and has been reviewed and approved by the Company. It is expected that investors interested in participating in the Offering will conduct their own independent investigation of the Company. In making the investment decision, investors must rely on their own assessment of the Company and the terms of the Offering, including the merits and risks involved.

The Company is a company organised under the laws of Estonia. The Directors and executive officers of the Company reside in Estonia. A substantial portion of the assets of such persons and of the Company is located in Estonia. As a result, it may not be possible for investors to effect service or process outside Estonia upon such persons or the Company or to enforce in Estonia judgements obtained against them in courts outside Estonia.

Unless otherwise indicated, the financial statements and other financial information in this Information Memorandum have been prepared in accordance with International Accounting Standards ("IAS").

In this Information Memorandum, all references to "USD" are to United States Dollars, to "DEM" are to German Marks, and to "EEK" and "Kroon" are to Estonian Kroons. For information purposes only, on28 April, 1999, the official exchange rate (mid-market) between the USD and the EEK was US$ 1 = EEK 14.62. The official exchange rate between the DEM and the EEK is fixed at DEM 1 = EEK 8.00

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SUMMARY

The following summary does not purport to be complete and is taken from, is qualified in its entirety by, and should be read in conjunction with, the more detailed information set forth elsewhere in this Information Memorandum. Terms used in this summary that are not otherwise defined herein shall have the meanings given to them elsewhere in this Information Memorandum.

The Company

The Company was established as a limited liability company in the Republic of Estonia on 27 May 1991. The Company was registered in the Commercial Register on 19 June 1996 under the registration number 10041810.

The Company is a hotel management company, which renders management services to hotels and catering companies and develops new projects to be added to the existing chain of hotels managed by the Company.

The Company manages three of the top five hotels in Estonia. The Company manages Hotel Olümpia through its fully owned subsidiary *AS Hotell Olümpia*, and has management contracts with *AS ETK Hotell* to operate Hotel Central and with *Kungla Investeeringute AS* to operate Park Hotel & Casino. In addition, the Company has a 50% shareholding in the Latvian company *SIA Eldikrija*, which is currently establishing a hotel and office complex in Riga. The Company currently has a 50% ownershipand a pre-opening management agreement with *OÜ Hansa Hotell*, which is building a two-star hotel in the Tallinn Passenger Port area. The Company is working on a number of potential hotel projects in Vilnius, St. Petersburg and Ukraine.

As of 31 December 1998, the Company had 434 employees of which 19 were employed by the parent company and 415 by its full subsidiary, *AS Hotell Olümpia*. The Company is organised under the laws of the Republic of Estonia. The Company's head office is Narva mnt. 30, Tallinn.

The shares of the Company have been listed on the Secondary List of the Tallinn Stock Exchange since 27 January 1998.

The Offering

The Offering:	The Rights Offering to existing shareholders, the public offering of Offered Shares in Estonia, and the placing of Offered Shares with institutional investors internationally (outside of the United States of America).
Number of Offered Shares:	Up to 1,300,000 ordinary shares in registered form. The shares to be offered in the Offering are those shares not taken up by existing shareholders of the Company pursuant to their pre-emptive rights in connection with an increase in the capital of the Company by the issue of the New Shares. The offer to existing shareholders (the "Rights Offering") is being made by means of a domestic prospectus (the "Estonian Prospectus"), which has been approved by the Securities Commission of Estonia on 13 May 1999. The shares offered through the Rights Offering and Offering represent 24.13 per cent of the total number of 5,388,442 shares of the Company after the issue.
Offer Price:	The final price for Offered Shares (the "Equilibrium Price") will be established by book-building within the pre-set price range of EEK 35 to EEK 40 per Offered Share. The Company will announce the Equilibrium Price no later than three business days after the closing of the Offering.
Ranking and Dividends:	The Offered Shares will rank *pari passu* with the Existing Shares and will carry an identical entitlement to dividends. If and when paid, all dividends will be declared in Estonian Kroons.
Taxation of Dividends:	Dividends received by Estonian residents are not subject to income tax. Dividends paid to non-residents are subject to income tax in the amount of 26 per cent of the dividend received.
Offering Period:	The Offering Period begins on 31 May 1999 and ends on 13 June 1999.
Payment Date:	Payment must be made in full for the Offered Shares at the date of subscription. The fully paid Offered Shares will be registered as subscription notes with the Estonian Central Depository of Securities (the "Central Depository") on or about 16 June 1999.

Listing:	The Existing Shares and the new shares issued pursuant to the Rights Offering and the Offered Shares will be listed on the Tallinn Stock Exchange (the "TALSE"). The Shares are and will be held in dematerialised form in the Central Depository and may be held, bought and sold only through the Central Depository.
Under-subscription:	In the case not all of the 1,300,000 shares offered through the Offering are subscribed, the Company has the right to cancel the un-subscribed shares.
Over-subscription:	Should more than 1,300,000 shares offered through the Offering be subscribed, the existing shareholders will be guaranteed 0.3179 new shares per one existing share, with the remainder being allocated proportionally between subscribers.

Summarised Financial Data

The summarised financial data for the Company has been derived from the audited financial statements of the Company for and as of the years ending 31 December 1996, 1997 and 1998, and have been prepared in accordance with International Accounting Standards. The financial data of the Company is presented in Appendix 1 – "The Financial Statements."

Summary of Income Statements

000 EEK	1998	1997	1996
Net turnover	210,114	204,192	174,012
Operating profit	33,243	41,546	30,827
Net profit	23,775	28,923	19,518

Summary of Balance Sheets

000 EEK	31.12.1998	31.12.1997	31.12.1996
Assets			
Total current assets	37,448	65,884	39,227
Total fixed assets	305,261	134,173	82,541
Total assets	343,191	200,056	121,769
Liabilities and owners' equity			
Liabilities			
Total current liabilities	73,398	20,884	35,368
Total long-term liabilities	154,442	87,596	36,947
Total liabilities	227,840	168,560	72,315
Owners' equity			
Paid-in capital	52,916	25,660	12,460
Reserves	1,363	1,246	684
Retained earnings	37,298	35,748	16,791
Net profit for the financial year	23,775	28,923	19,518
Total owners' equity	115,351	91,577	49,454
Total liabilities and owners' equity	343,191	200,056	121,769

Summary of Financial Ratios and Selected Statistics

	31.12.1998	31.12.1997	31.12.1996
Owners' equity to total assets (%)	33.61	45.78	40.61
Debt to owners' equity (%)	168.61	89.18	93.55
ROAE (%)	22.98	41.02	48.44
ROAA (%)	15.91	28.74	29.91
Net profit margin (%)	11.32	14.16	11.22
EBIT margin (%)	15.82	20.04	17.41
Current ratio	0.51	3.15	1.11
Receivables turnover (days)	11.34	15.10	22.00
Inventory turnover (days)	13.08	13.11	14.62
Days of accounts payable	21.95	37.63	52.45
Earnings per share (EEK)	5.82	7.56	5.22
Dividend per share (EEK)	0.00	0.00	0.00

The following formulas have been used in calculating the ratios:

Owners' equity to total assets = Owners' equity / Total assets
Debt to owners' equity = Total debt / Owners' equity
ROAE = Net profit / Average total equity
ROAA = (EBIT + financial income) / Average total assets
Net profit margin = Net profit / Total revenues
EBIT margin = EBIT / Total revenues
Current ratio = Current assets / Current liabilities
Receivables turnover (days) = 365 / (Total revenues / Customer receivables)
Inventory turnover (days) = 365 / (Cost of goods sold / Average total inventory)
Days of accounts payable = Average accounts payable / Cost of goods sold × 365
Earnings per share = The calculation is based on the average number of shares which have been transformed into shares with the nominal value of EEK 10 per share.
Dividend per share = The calculation is based on the number of shares outstanding as of the end of the year.

INVESTMENT CONSIDERATIONS

Before investing in the Offered Shares, prospective investors should carefully consider the following investment considerations, along with the other information set forth herein. Prospective purchasers should also consider that the Company is governed by a legal and regulatory environment that, in some respects, may differ from that which prevails in other countries. The potential risk factors set forth below are not intended to be exhaustive, and there may be other investment considerations that should be taken into when regarding investment in Estonia generally or the Company in particular.

Political and Country Risks

The Company is organised and its head office is located in the Republic of Estonia. Accordingly, the Company may be affected generally by governmental policy and other political and economic developments in or affecting the Republic of Estonia.

Following the restoration of Estonia's independence in 1991, the Government of Estonia has pursued a radical programme of political and economic reforms, aimed at the introduction of a market-based economy through privatisation of state enterprises and deregulation of the economy. There can be no assurance that such reforms will continue or achieve their intended aims. Moreover, while the Estonian Government's policies have generally resulted in improved economic performance, there can be no assurance that such a level of performance can be sustained or that the political changes in the Estonian Government will not result in a reduction or even reversal of the process of reform in the Republic of Estonia.

No assurance can be given that the Government of Estonia will not implement regulations or fiscal or monetary policies, including regulations or policies relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions that could have a material effect on the Company's business, financial condition, results of operations or prospects that could adversely effect the market price and liquidity of the Company's shares.

In regard to political risks, instability in Russia may result in a decline in the number of travellers to Estonia. Possible membership in the European Union is assumed to have a positive effect on the development of hotels.

The Company

The Company in its present form has been operating for a relatively short period of time, and while it is in the course of development there can be no assurance as to the effectiveness of its development strategy.

Competition

Competition in the Tallinn hotel service market is increasing. In the coming years, the supply of hotel services may considerably exceed the demand, thus lowering the occupancy rate of hotels.

Liquidity of Shares

An investment in the Company is most suitable for investors who have the ability to maintain their interest in the Company over several years. The securities market in Estonia is substantially smaller, less liquid and significantly more volatile than are established securities markets, such as those in the United States or the United Kingdom. While the shares of the Company are listed and traded on the Tallinn Stock Exchange, there can be no assurance that the shares will have any significant liquidity, particularly as the amount of the shares to be sold will be substantially bigger than the usual trading lot.

Risk of Development

The Company is planning to expand its operations to the markets of Latvia, Lithuania, Russia and Ukraine. Therefore, the Company is influenced by the political and economic risks derived from these countries. Changes in the political and economic conditions, as well as changes in fiscal and monetary policies of these countries, may negatively influence the Company's operations in these markets.

THE COMPANY

Introduction

The Company, organised under the laws of the Republic of Estonia, is engaged in rendering hotel management services. The Company manages three of the top five hotels in Estonia. The Company manages Hotel Olümpia through its fully owned subsidiary *AS Hotell Olümpia*, and has management contracts with *AS ETK Hotell* to operate Hotel Central and with *Kungla Investeeringute AS* to operate Park Hotel & Casino. In addition, the Company has a 50% shareholding in the Latvian company *SIA Eldikrija*, which is currently establishing a hotel and office complex in Riga. The Company currently has 50% ownership and a pre-opening management agreement with *OÜ Hansa Hotell*, which is building a two-star hotel in the Tallinn Passenger Port area. The Company is working on a number of potential hotel projects in Vilnius, St. Petersburg and Ukraine.

The Company was established as a limited liability company in the Republic of Estonia on 27 May 1991. The Company was registered in the Commercial Register on 19 June 1996 under registration number 10041810. The Company's registered head office is currently in Tallinn, Liivalaia 33.

The Company's share register is held by the Estonian Central Depository of Securities under ISIN code EE3100003666. The Company's shares are listed on the Tallinn Stock Exchange.

The principal bank of the Company is Hansapank, located at Liivalaia 8, Tallinn. Law office Raidla & Partners, located at Pärnu mnt. 10, Tallinn, has provided the Company with legal aid.

The fiscal year of the Company begins 1 January and ends 31 December. In 1994-1998, the Company's financial statements were audited by authorised auditors Andres Root and Roy Vaimand from KPMG Estonia. In 1994-1998, the auditors issued a standard, unqualified opinion to the shareholders of the Company. The Company's Articles of Association, Annual Reports and the Information Memorandum are on file in the Company's office at Narva mnt. 30, Tallinn. The Articles of Association of the Company and the Audited Financial Statements for 1998 are also enclosed in the Information Memorandum.

History

In 1976, the state approved the establishment of Hotel Olümpia in the centre of Tallinn for the regatta of the 1980 Summer Olympics. On 27 June 1980, the 26-storey Hotel Olümpia with 405 rooms was opened. From the opening until 1991, the prices of hotel services were set by the State, and the occupancy rate of the hotel was considerably high. According to the hotel standards established in the Soviet Union, Hotel Olümpia was the only A-category hotel in Estonia.

In 1991, *AS Hotell Olümpia* was founded by *Tallinna Hotellikoondis* (Tallinn Hotel Association), the Tallinn City Government and Finest Hotel Group. In order to develop and improve the hotel and its services, the management of Hotel Olümpia was re-structured. Extensive investments have been made since 1993; in June 1995, Hotel Olümpia obtained a four-star rating.

On 28 September 1992, Estonia's first independent hotel management company, *AS Inn Grupp*, was established. From 1 November 1995 until 1 October 1997, *AS Inn Grupp* provided *AS Hotell Olümpia* with management services.

On 18 July 1997, privatisation of the State's controlling interest in *AS Hotell Olümpia* was completed. On 16 July 1997, the shareholders of *AS Hotell Olümpia* arranged a closed share issue to *AS Inn Grupp*. According to the resolution of the shareholders of *AS Hotell Olümpia*, *AS Inn Grupp* paid for 8.57% shares of *AS Hotell Olümpia* with the shares of its own company. The payment in kind was made on 1 October 1997, and was valued by KPMG Estonia.

According to Article 5 of the Estonian Business Law, the previous transaction transferred ownership *of AS Inn Grupp* to *AS Hotell Olümpia*. As a result of the transaction, *AS Hotell Olümpia* became a holding company, which owns and manages hotel management and catering companies. The shareholders of *AS Hotell Olümpia* voted on 19 August 1997 to re-name the company as *Reval Hotelligrupi AS*, and to establish *AS Hotell Olümpia* as a 100% subsidiary to operate Hotel Olümpia.

On 27 January 1998, the Company's shares were listed on the Secondary List of the Tallinn Stock Exchange.

The Company has developed into a holding company that provides management services to hotels and catering companies, and develops new projects to be added to the existing chain of hotels managed by the Company.

The table below sets out the major financial indicators of the Company from 1993-1998[1]:

000 EEK	1993	1994	1995	1996	1997	1998
Net sales	73,393	103,371	137,165	174,012	204,192	210,114
Net income	3,372	-5,210	13,682	19,518	28,923	23,775
Total assets	26,742	34,824	101,352	121,769	200,056	343,191
Current assets	18,541	11,659	26,625	39,227	65,884	37,448
Current liabilities	4,236	15,934	22,389	35,368	20,884	73,398
Owners' equity	22,506	17,296	31,137	49,453	91,577	115,351

The following table lists the main changes in the Company's management and organisation in 1997 and 1998 in chronological order:

Date	Changes in Management and Organisation
16.07.97	Shareholders of *AS Hotell Olümpia* increased the share capital through a closed issue
18.07.97	Last day of subscription of *AS Hotell Olümpia* privatisation auction
19.08.97	Shareholders of *AS Hotell Olümpia* re-named the company to *Reval Hotelligrupi AS*
19.08.97	Shareholders of *AS Hotell Olümpia* amended the Articles of Association with expansion of operations
19.08.97	Shareholders of the Company established AS Hotell Olümpia as a 100% subsidiary of the Company
20.08.97	The Council elected Tarmo Sumberg as the Chairman of the Council
20.08.97	The Council elected Andres Liinat as the Chairman of the Board
26.09.97	The following amendments were registered in the Commercial Register: *AS Hotell Olümpia* was re-named as *Reval Hotelligrupi AS*, amendments were made to the Articles of Association, and Andres Liinat was elected Chairman of the Board.
30.09.97	Shareholders of *AS Hotell Olümpia* increased *AS Hotell Olümpia* share capital up to EEK 30,000,000 through a closed share issue to Reval Hotel Group
01.10.97	*AS Inn Grupp* transferred its company as a payment in kind to the Company
01.10.97	The Company paid with in kind contributions to *AS Hotell Olümpia* for the shares
14.11.97	The Company's share capital increase was registered in the Commercial Register
18.11.97	The Company announced the sale of 50% shareholding in *Strand Projekt*, the company operating Hotel Strand
12.12.97	The Company acquired 50% of *SIA Eldikrija*, which is registered in the Republic of Latvia
27.02.98	Reval Hotel Group paid for 15.9% of the shares in *AS ETK Hotell*. The issue for the Company was registered in the Commercial Register on 10 June 1998
31.03.98	The Company sold the shares of *AS Taimekt*
25.04.98	Shareholders of the Company increased the Company's share capital up to EEK 40,884,420 through a bonus issue
25.06.98	The Company paid for additional 4.1% of the shares of *AS ETK Hotell*, and thus increased its shareholding to 20%
06.07.98	The bonus issue was registered in the Commercial Register
04.09.98	The Company signed an agreement with E.L.L. Real Estate to build a new, two-star hotel in the Tallinn Passenger Port area. A new company, *OÜ Hansa Hotell*, will be created, where Reval Hotel Group will have 34% ownership
20.11.98	The Company signed a privatisation agreement for the real estate of Hotel Olümpia on Liivalaia 33 and 33a, Tallinn. The privatisation price for the real estate was 230,111,111 EEK. 50% of the price was paid at signing the contract, and the rest is payable in 3 years. Half of the price will be paid in privatisation securities (EVP).

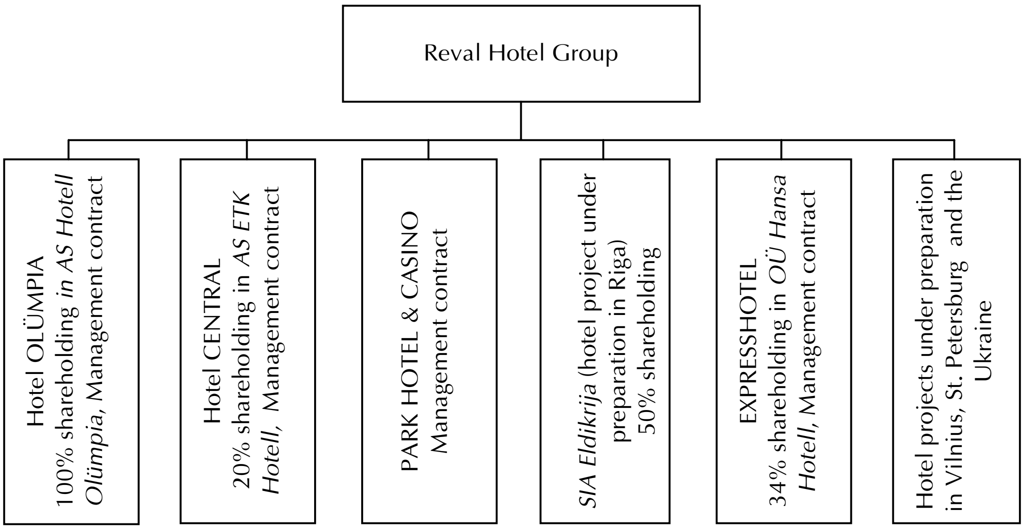
[1] 1994-1997 results are audited; 1997 and 1998 results are consolidated.

Main Activities

The Company is a holding company, which focuses on management of hotels and provides management services to hotel management companies.

According to the Articles of Association, the main activities of the Company are as follows: investment and financing activities; arrangement of hotel and restaurant services; management and development services; arrangement of commercial and mediation activities; acquisition, lease and disposition of real estate and real estate development; hotel operations, catering and any activities related thereof; arrangements of expositions, conferences and congresses and entertainment undertakings; and transportation activities within the Republic of Estonia.

At present, the Company's structure is as follows:



Hotel Management

The Company's main objective is to concentrate its activities on hotel management and development. The strategy for reaching this objective is as follows:

1) Hotel management via a lease contract;

2) Hotel management via a management contract;

3) Participation in the ownership circle of a hotel or hotel building and its development.

The management contract, which is not a widely used form of management in Estonia, is becoming more accepted among hotel owners. A management contract embodies day-to-day management in the name of and at the proxy of owners. A management contract specifies liabilities, rights and responsibilities of owners and an operator (or a management company), as well as determines principles and terms of payment of a management company.

A hotel management contract may accompany the following services: financial management, personnel management and training, public relations and advertising, sales management, technology development (including information technology), internal control, security services, etc.

The Company has a management contract with *AS Hotell Olümpia* to operate Hotel Olümpia, *AS ETK Hotell* to operate Hotel Central, management contract with *Kungla Investeeringute AS* to operate Hotel Park, and pre-opening management agreement with *OÜ Hansa Hotell* to operate ExpressHotel.

HOTELS ASSOCIATED WITH THE COMPANY

In order to show Reval Hotel Group's influence in the hotel market, the management of the Company uses a term called the *Reval Süsteem* (Reval System) to define the governance of Reval Hotel Group in the market of hotel services. The Reval System combines information on all hotels in the Reval Hotel Group that are connected to the group through ownership, management contract, or franchise. Reval Hotel Group intends to design a unified corporate identity for hotels within the Reval System by building up a unifying brand name, Reval Hotels.

Currently, Reval System includes Reval Hotel Group's central office, Hotel Olümpia, Hotel Central, and Park Hotell.

Hotel Olümpia

Hotel Olümpia was opened on 27 June 1980 in connection with the regatta of the XXII Summer Olympics in Tallinn. Hotel Olümpia is a four-star hotel in the centre of Tallinn with a broad service base. In addition to accommodation, Hotel Olümpia provides standard services in its conference centre, restaurants, bars, pastry shop, night club, health centre, swimming pool, saunas, business centre and newspaper kiosk.

Since 1996, Hotel Olümpia has an alliance with Steigenberger Reservation System (SRS) Worldhotel Partners, an international sales and marketing system uniting 350 partner hotels all over the world. Hotel Olümpia is the only hotel in the Baltics representing the *First Class Collection* level in this system.

In 1997, Hotel Olümpia introduced *Fidelio Front Office* and *Fidelio Sales and Catering* to improve internal communications, performance analysis and database management of the hotel. The new system enables Hotel Olümpia to offer faster service for customers through more effective and efficient account management and sales processes, and to become even more competitive through a strong and growing customer database.

In 1998, 80,152 guests stayed in Hotel Olümpia. In 1998, 56.4% of the visitors were business people, 41.3% holiday travellers, and 2.3% conference guests. In 1998, the majority of Hotel Olümpia guests were from Finland, Sweden, USA, Great Britain, Germany, Denmark, Russia, Estonia, Norway and Latvia. These results are consistent with registered guest statistics from 1997. The share of Estonian guests has increased in 1998 to 6% from 3.8% in 1997. Also, Tallinn residents purchase the greatest number of night club and health centre memberships and utilise the additional services provided by the hotel, such as restaurants, conference and catering services.

Hotel Olümpia provides strong business value and contributes the greatest profit to the Company's turnover. Additionally, a key strategic role for Hotel Olümpia is to provide training and development of managers and employees for future advanced placement into other existing and developing properties. Further, Hotel Olümpia offers the possibility to test new technology and services.

Breakdown of Net Turnover of Hotel Olümpia in Terms of Operations (*Uniform* standard[2]):

000 EEK	1995 Turnover	%	1996 Turnover	%	1997 Turnover	%	1998 Turnover	%
Accommodations	71,868	50.5	91,153	50.9	106,223	51.2	104,871	50.3
Catering	50,076	35.2	64,278	35.9	73,671	35.5	75,622	36.3
Communication services	4,541	3.2	3,951	2.2	3,257	1.6	3,162	1.5
Other hotel services	10,728	7.5	14,686	8.2	17,321	8.3	18,457	8.9
Rental income, etc.	5,201	3.7	4,982	2.8	7,097	3.4	6,396	3.0
Total Turnover	142,414	100.0	179,049	100.0	207,569	100.0	208,508	100.0

Accommodations

The 405 rooms can accommodate 627 people in the hotel:

- Standard Class: 204 rooms, of which 76 are single rooms and 128 are double rooms;
- Business Class: 189 rooms, of which 107 are single rooms and 82 are double rooms;
- 12 Suites, of which 8 are *Jewel* suites with double rooms.

Standard and business classes have designated floors for non-smokers, three rooms for allergy prone guests and two rooms for guests with disabilities. Accommodation accounted for 50.3% and 51.2% of net turnover of the hotel in 1998 and 1997, respectively.

Selected Statistics of Hotel Olümpia

	1998	1997	1996
Occupancy	70.6%	70.3%	71.9%
Average daily rate (EEK)	1,055	1,091	914
Number of overnight guests	80,152	72,511	70,245
Number of employees	415	398	380

2 Net turnover according to *Uniform* standard of income statement. Comparison to the respective income statement prepared under Estonian Accounting Standards is described in "AS Hotell Olümpia Profit and Loss Account."

Catering

The largest catering units of the hotel are restaurant *Elysée* and *brasserie Rendez-Vous*. Restaurant *Elysée* is an *a la carte* restaurant for 170 people that also offers catering for receptions and groups. The *a la carte brasserie Rendez-Vous* also serves breakfast for a maximum of 280 hotel guests.

Other Operations

Net turnover of other operations accounted for 8.9% of total net turnover in 1998. The main contributors to net turnover of other operations were as follows:

Conference Centre. The Conference Centre consists of seven rooms equipped with modern technology. The largest room has a capacity for 200 people.

Business Centre. The Business Centre has three separate working places equipped with computers, phones, a fax and a copy machine. The guests may also use courier services.

Health Centre. The Health Centre *Club 26* on the 26th floor of the hotel has a swimming pool, gym, solarium and saunas. The club also sells soft drinks, snacks, sportswear and cosmetics.

Hotel Central

Hotel Central is a three-star hotel in the centre of Tallinn operated by *AS ETK Hotell*. Reval has a 20% ownership in *AS ETK Hotell* and a management agreement with *AS ETK Hotell* to manage Hotel Central.

There are 229 rooms in Hotel Central, including 11 suites and 4 apartments. The hotel restaurant *Primavera* offers Italian food. The hotel has a conference centre, and a restaurant called *Café Kompass* for quick meals on the first floor. Guests also have access to the computer room, travel agency, beauty parlour, flower shop and other services.

In late 1998, the new quality program "More than Just Location" was implemented at Hotel Central. Since January 1, 1999, Hotel Central is also a member of SRS Worldhotel project. Hotel Central represents the *Comfort Collection* level.

In 1997, Hotel Central was characterised by a very high occupancy rate (81%), which was significantly higher than the market average (67% in 1997). In summer 1998, the new part of the hotel was opened, which added approximately 5,200 square metres of area and 105 new rooms to the hotel. The addition of rooms decreased the occupancy rate to 71% in 1998, which still was higher than the market average (67% in 1998). *(Source: the Company and Statistical Office of Estonia)*

Selected Statistics of Hotel Central

	1998	1997	1996
Occupancy rate	71%	81%	80%
Average daily rate (EEK)	645	594	539
Number of overnight guests	45,821	34,717	29,882
Number of employees	138	85	70

Park Hotel & Casino

The Company has signed a management contract with *Kungla Investeeringute AS*, the operator of Park Hotel & Casino building, to operate the hotel part of Park Hotel & Casino. The Company does not have a shareholding in the company.

Renovated in 1997, Park Hotel & Casino represents a unique concept in the Baltics – casino-hotel. There are 120 rooms in Park Hotel, there is a restaurant which seats 100 visitors, and three conference rooms. On the first floor of the hotel, there is a casino that belongs to the biggest Baltic casino chain – Olympic Casino.

Selected Statistics of Park Hotel & Casino

	1998	1997 (6 months)
Occupancy rate	61%	59%
Average daily rate (EEK)	787	740
Number of overnight guests	28,366	14,329

ExpressHotel

The Company has a pre-opening management contract for ExpressHotel, a two-star hotel in the Tallinn Passenger Port area to be opened in June 1999. ExpressHotel is owned by *OÜ Hansa Hotell* where, according to the shareholder's agreement, the Company will have 34% ownership (currently holds 50% of paid-in capital). After the opening of ExpressHotel in June 1999, the pre-management contract with *OÜ Hansa Hotell* will be converted to a management contract.

COMPETITIVE POSITION

According to the Reseach Department of the company, in 1998 there were 2,551 rooms available to guests in Tallinn's accommodation establishments, 754 of these rooms where in the Reval System's hotels. The main competitors of the hotels managed by the Company are Hotel Palace, Hotel Viru, Hotel St. Barbara and the recently opened (January 1999) Grand Hotel Mercure. Similarly to Hotel Olümpia, Hotel Palace is targeted at business travellers, while Hotel Viru, being a main competitor of Park Hotel & Casino and Hotel Central, is aimed at tourists and economy travellers. According to EMOR's hotel market research completed in December 1996, the most well known hotels in Tallinn are Hotel Olümpia and Hotel Viru.

Hotel Viru

Hotel Viru is a three-star hotel built in 1972. Before Estonia regained independence in 1991, Hotel Viru was one of the two *Intourist* hotels in Tallinn, and therefore the most well known hotel among foreign tourists in Tallinn. By now, the hotel's image has changed considerably. Hotel Viru has 434 rooms, of which 70 were recently renovated. The hotel is continuing the renovation of its rooms. There are 4 conference rooms, 3 saunas, a night club, restaurant and a 24-hour cafeteria in the hotel. The Viru Shopping Centre is located on the first floor of the hotel, where representative stores of two famous Finnish department stores Sokos and Seppälä can be found, among others.

Hotel Palace

Hotel Palace is a four-star hotel with 83 rooms. The hotel has a favourable location in the centre of Tallinn. Hotel Palace is the strongest competitor of Hotel Olümpia in the business traveller market. The Hotel Palace was built in 1937 and renovated in 1988. There is a conference room, pizzeria, restaurant and night club in the hotel.

Hotel St. Barbara

Hotel St. Barbara is a modern three-star hotel in the centre of Tallinn. There are 53 rooms, of which two are *luxury* rooms and four are family rooms. A German restaurant – *Baieri Kelder* (Bavarian Cellar) – is located in the hotel's cellar. St. Barbara has the highest occupancy rate among hotels in Tallinn – 88% in 1997 and 87% in 1998, which is explained by its small number of rooms.

Grand Hotel Mercure

In January 1999, the newly renovated four-star hotel was opened in the centre of Tallinn. The hotel is managed by the French hotel chain *Accor*. There are 164 rooms in the hotel, a presidential suite, four junior suites and two suites with saunas. There are also separate rooms for people with allergies and for handicapped people; the third floor is designated for non-smokers. The hotel also has a health club, saunas, two restaurants and a conference centre.

Occupancy Rates of the Largest Hotels in Tallinn

The effectiveness indicator of accommodation sales is occupancy rate of hotels, which is calculated on the basis of room nights sold. To calculate room nights sold for a period of time, room nights sold are added up daily. To calculate occupancy rate, the room nights sold of a period are divided with the multiplier of available room nights and length of the period (in days).

The room nights sold of the hotels managed by the Company accounted for 30.57% of the total room nights sold in Tallinn in 1998 (the demand side). The following six hotels situated in Tallinn held a 56.3% market share.

1998 Accommodation Data of the Largest Hotels in Tallinn

	Palace	Viru	Central	Olümpia	St. Barbara	Park	Average/Total
Occupancy rate, %	57	69	71	71	87	61	67
Room nights sold	16,790	109,135	44,239	99,400	16,790	26,162	555,424*
Turnover (000 EEK)	38,162	170,226	50,135	208,507	20,912	36,171	581,135**

** Total number of room nights sold in Tallinn, according to the Company's Research Department*
*** Total revenue of hotels in Tallinn, according to Union of Estonian Hotels and Restaurants*
Source: Management of the Company, Union of Estonian Hotels and Restaurants

Important Contracts of the Company

Contract with *AS Inn Grupp*

On 18 July 1997, *AS Inn Grupp* and the Company (*AS Hotell Olümpia* upon signing) concluded a contract based on the resolution of the General Meeting of Shareholders of *AS Hotell Olümpia* dated 16 July 1997.

The contract with *AS Inn Grupp* took effect on 1 October 1997. The contract is valid for five years, and is automatically prolonged if the parties do not decide otherwise. The economic objective of the contract is to secure the maximum growth of the market value of the shares of the Company. According to the development agreement, *AS Inn Grupp* and experts hired by *AS Inn Grupp* provide the Company with development services and consultations, mainly in preparation of new business projects.

Restriction on competition

According to the contract, *AS Inn Grupp* is forbidden to operate in the similar business activities of the Company and in the Company's target market (see also "The Company: Future Prospects"). Upon violating the restriction on competition, *AS Inn Grupp* is obliged to pay an EEK 5 million fine and to compensate for damages to the Company.

Payment of the contract

Payment of the contract is made up of three components:

1. Principal payment amounts to EEK 200,000 per month. Every other year the principal payment increases by 10% compared to the previous year. The principal payment is paid monthly.
2. Growth payment amounts to 0.75% of the growth of the market capitalisation of the Company. Growth payment is calculated on the basis of the daily closing price of the Company's shares on Tallinn Stock Exchange compared to the average price of the previous quarter. Growth payment is paid quarterly.
3. Project payment is associated with the opening of new hotels. Project payment is a single payment of USD 1,000 per every new hotel room.

Subsidiaries, Affiliated Companies and Other Shareholdings

As of the date of this Information Memorandum, the Company has holdings in the following companies: *AS Hotell Olümpia*, *Eldikrija SIA*, *AS ETK Hotell* and *OÜ Hansa Hotell*.

000 EEK/LVL	Participation %	Share capital		Net profit for 1997		Net profit for 1998	
Subsidiaries							
AS Hotell Olümpia	100%	EEK	30,000	EEK	8,339[3]	EEK	16,798
Affiliated Companies							
Eldikrija SIA	50%	LVL	88		-	LVL	–2
AS ETK Hotell	20%	EEK	29,400	EEK	9,028	EEK	6,606
OÜ Hansa Hotell[4]	50%	EEK	25,260		-	EEK	-34

AS Hotell Olümpia

Reval Hotel Group purchased the real estate of Hotel Olümpia in October 1998 for EEK 230.1 million.

The main activity of *AS Hotell Olümpia*, the 100% subsidiary of Reval Hotel Group, is rendering accommodation services. *AS Hotell Olümpia* is located at Liivalaia 33, Tallinn. The company was founded and started its operations in 1997. The Chairman of the Council of *AS Hotell Olümpia* is Andres Liinat and members of the Council are Katrin Rasmann and Urmas Pastarus. The Chairman of the Board of the company is Tarmo Sumberg.

Reval Hotel Group invested EEK 400,000 in the share capital of *AS Hotell Olümpia* at its foundation. In accordance with the resolution of the General Meeting of Shareholders of *AS Hotell Olümpia* dated 30 September 1997, the company issued 296,000 new shares with a nominal value of EEK 100 and over par value of EEK 86.90. After the share issue, *AS Hotell Olümpia's* share capital increased to EEK 30,000,000. On 1 October 1997, the Company paid for the shares with in kind contributions.

[3] Profit for the period of 01.10.1997 until 31.12.1997 (from establishment of the subsidiary).

[4] See the description for share capital and ownership structure on page 15.

Eldikrija SIA

On 12 December 1997, the Company acquired a 50% ownership (five shares) in *SIA Eldikrija*, which is located at Bauskas 201-17, LV1076, Riga, the Republic of Latvia. *SIA Eldirkija* is establishing a hotel and office complex in Riga. The shareholding in *SIA Eldikrija* is recorded under equity method.

AS ETK Hotell

AS ETK Hotell is located at Narva mnt. 7, Tallinn. The company operates and owns the buildings of Hotel Central. Due to the expansion of Hotell Central in 1998, the share capital of *AS ETK Hotell* was increased, thus increasing the Reval Hotel Group's shareholding in *AS ETK Hotell* to 15.9%. Subsequently, the Company acquired an additional 4.1%, and increased its ownership to 20%.

OÜ Hansa Hotell

In September 1998, the Company signed an agreement with *E.L.L. Kinnisvara* (E.L.L. Real Estate) on establishing the company *OÜ Hansa Hotell* to build a two-star hotel in the Tallinn Passenger Port area. According to the shareholder's agreement, the capital of *OÜ Hansa Hotell* will be EEK 40 million and the share of Reval will be 34%. As of 1 May 1999, the paid-in capital is EEK 29.8 million and the share of Reval 50%. The capital will be fully paid in and the structure of shareholding settled by the time the hotel is opened in June 1999.

Other Information

Until 1997, the Company did not have any subsidiaries. Since 1997, the subsidiaries' accounts are recorded on the Company's financial statements under line by line consolidation.

Since 6 November 1997, the Company uses the group account, which enables crediting of the companies belonging to the group.

Loans Given by Reval Hotel Group to Affiliated Companies:

Affiliate	Loan amount, EEK	Interest rate	Maturity
AS ETK Hotell	2,000,000	6 mo talibor + 1%, i.e 19%	03.05.1999
SIA Eldikrija	5,198,716	0%	On the first demand

Land and buildings

Reval Hotel Group owns a real estate of Hotel Olümpia on Liivalaia 33 (8,198 m^2) and Liivalaia 33a (2,771 m^2). On Liivalaia 33, there is a building belonging to Hotel Olümpia with a total area of 30,355 m^2.

AS ETK Hotell owns the Hotel Central building at Narva mnt. 7C/9C, Tallinn, which has a total area of 9,485 m^2 and includes 3,054 m^2 of associated land. Reval Hotel Group has 20% ownership in *AS ETK Hotell*.

OÜ Hansa Hotell owns land in Tallinn, Sadama 1 and 11, with a total area of 4,720 m^{2,} including a building with a total area of 5,980 m^2. Currently, the Company has 50% ownership in *OÜ Hansa Hotell*.

Leases

The Company is renting an office building and part of the real estate located at Narva mnt. 30, Tallinn, with a total area of 520 m^2.

Trademarks

Trademarks owned by the Company and trademarks the Company has applied for are considered to be essential to the Company's operating activities.

Certificates of trademark

The Company owns the following certificates of trademark of the Patent Office of the Republic of Estonia:

No. 14861	OLÜMPIA
No. 17567	ELYSEE
No. 17568	TOUCH OF PARADISE
No. 18667	CAFÉ PIANO
No. 18157	KALEVI PUB
No. 19494	BOULEVARD
No. 18489	BONNIE & CLYDE

No. 18499	BRASSERIE RENDEZ-VOUS
No. 19501	Model of Hotell Olümpia
No. 22509	REVAL HOTEL GRUPP
No. 9601862	CLUB 26
No. 9602207	FIRST CLIENT
No. 9602208	SERVICE AS YOU WISH
No. 9702186	CELEBRATING PEOPLE & THE SPIRIT OF CREATIVITY
M-97-1700	REVAL CENTRAL

Reval has applied for registration of the EXPRESSHOTEL trademark in Estonia, Latvia and Lithuania.

Litigation

At present two court cases are pending, where *Reval Hotelligrupi AS* and the Republic of Estonia have been sued to declare the Agreement executed on 20 November 1998 between *Reval Hotelligrupi AS* and the Privatisation Agency for the sale and mortgaging of the buildings and plots of land located at 33 and 33a Liivalaia Street in Tallinn null and void.

Reval Hotelligrupi AS acquired the aforementioned real estates and was on 20 November 1998 entered as the owner of the real estates to the Public Land Register.

According to the argumentation of three private plaintiffs, the procedure of restoration has not been completed, i.e. no decision has been taken by Tallinn City Government either to restore the ownership of the claimed plots of land to plaintiffs or not to restore such ownership but to indemnify the plaintiffs, thus the State was not entitled to dispose of the real estates until the issue of restoration of unlawfully expropriated property will be resolved.

Should the sale agreement be declared null and void and should *Reval Hotelligrupi AS* return the ownership of the real estates to the State, *Reval Hotelligrupi AS* will be returned the purchase price and will have the right to demand from the State compensation for liquidated damages and a penalty of EEK 1,000,000.

SUPERVISORY COUNCIL, MANAGEMENT AND EMPLOYEES

General Meeting of Shareholders

The supreme governing power of the Company is the General Meeting of Shareholders. The Regular General Meeting of Shareholders is held annually, not later than six months from the close of the Company's fiscal year. The General Meeting of Shareholders has exclusive competence in amending the Articles of Association, increasing and decreasing the Share Capital, issuing convertible bonds, electing and recalling the members of the Council, appointment of auditor(s), appointment of a special controller, approval of the Annual Report and distribution of profits, deciding to presentf a claim against a member of the Board, the Council or against a Shareholder, and appointment of the Company's representative in such claim, deciding on the merger, termination, division and/or transformation of the Company, and resolving any other issues given to the competence of the General Meeting of Shareholders by Law. The General Meeting of Shareholders is eligible to pass resolutions if at least half of the votes by all shares are represented at the meeting.

Supervisory Council

The Supervisory Council (Council) of the Company plans the activities of the Company, arranges the management and supervises the activities of the Board. The Council, comprised of five to nine members, is elected at the General Meeting of Shareholders for a term of three years. The meetings of the Council are empowered to pass resolutions if attended by more than half of the members of the Council. Resolutions of the Council are taken by a simple majority of votes. Currently, the Council has six members:

Tarmo Sumberg – Chairman of the Council since 20 August 1997. Previously, Mr. Sumberg served as Chairman of the Board of *AS Hotell Olümpia* and, until August 1996, as Vice Director of *AS Hotell Olümpia*. Mr. Sumberg graduated with a degree in Accounting and Analysis from Tallinn Technical University.

Joakim J. Helenius – Member of the Council. Mr. Helenius also serves as Chairman of the Council of AS Hansa Investments and as a Member of the Board of the Baltic Republics Fund. Previously, Mr. Helenius served as Vice President of Goldman Sachs and Executive Director of Merrill Lynch in London. Since 1992, Mr. Helenius has been engaged in investment activities in the Baltic States, Russia and the Czech Republic. Mr. Helenius graduated with BA and MA degrees in Economics from Cambridge University.

Peeter Kross – Member of the Council. Mr. Kross also serves as Chairman of the Board of *AS Mainorfin* and as Chairman of the Board of *Time System Eesti AS*. Formerly, Mr. Kross served as Director of *AS Mainorfin*. Mr. Kross graduated with a degree in Industrial Planning from Tallinn Technical University.

Toomas Leis – Member of the Council. Starting September 1996, Mr. Leis serves as Vice President of *AS Estonian Air*. Formerly, Mr. Leis held positions as the Catering Manager of *AS Hotell Olümpia* and the Marketing Director of Estonian Air. Mr. Leis graduated with a degree in Economics from Tallinn Technical University.

Piret Raudsepp – Member of the Council. Ms. Raudsepp is Managing Director of AS Hansa Investments. Until March 1995, Ms. Raudsepp was employed with AS ERA Pank and AS ERA Invest. Ms. Raudsepp is a student at Concordia International University Estonia.

Toomas Reisenbuk – Member of the Council. Mr. Reisenbuk acts as the Manager of Hansa Investments Research Department since September 1998. Previously, Mr. Reisenbuk served as an analyst with Handelsbanken, Estonia (1997-1998). Until August 1997, he worked as the Managing Director of AS Hansa Investments. Mr. Reisenbuk graduated with a degree in Management and Planning from Tallinn Technical University.

Management Board

The Management Board (Board) of the Company represents and manages the Company. The Board consists of one member (the Chairman of the Board) unless otherwise decided by the Council. At present, the Board has one elected member. The Board is accountable to the Council and to the General Meeting of Shareholders. The Board's responsibilities include organisation of accounting of the Company, preparation and presentation of annual accounts, reports of activity and proposals regarding distribution of profits together with auditors' reports to the General Meeting, arrangement of reporting, and execution of other transactions and deeds pursuant to law, other legal acts, the Articles of Association and lawful decisions and orders of the General Meeting of Shareholders or the Council.

The Council elected Andres Liinat as the Chairman of the Board with the resolution dated of 20 August 1997. The resolution is registered in the Commercial Register. Andres Liinat is authorised to be the Chairman of the Board until 20 August 2000.

Andres Liinat – Chairman of the Board. Formerly, Mr. Liinat served as Member of the Council of *AS Hotell Olümpia* and Chairman of the Board of *AS Inn Grupp*. Until January 1996, Mr. Liinat served as Managing Director of *AS Hotell Olümpia*. Mr. Liinat graduated with a degree in Economics from Tallinn Technical University.

Corporate Management Team

The Corporate Management Team (Management Team) forms the management structure. Members of the Management Team are responsible for management of their branches. The Company's Management Team includes the following managers:

Katrin Rasmann – Financial Manager. Earlier, Ms. Rasmann served as an auditor for KPMG; Financial Manager for *Saksa Auto*; and Financial Manager of AS Velsicol Estonia. In addition, Ms. Rasmann served as a Deputy Department Manager with the State Property Office of the Republic of Estonia. Ms. Rasmann graduated with a degree in Information Technology from Tallinn Technical University, and studied international economics and legal relations in the Estonian School of Diplomacy. She is Certified Auditor since 1993.

Helina Tuvike – Marketing Manager. From 1997-1998 Ms. Helina Tuvike served as Managing Director of Park Hotel & Casino, having previously been the Marketing Manager of Hotel Olümpia. Ms. Tuvike graduated from Tallinn Technical University with a major in Economics.

Urmas Pastarus – Development Manager. From 1995-1998 Mr. Urmas Pastarus served as the Commercial Manager of *Eesti Forekspank*; earlier, he was the Financial Manager of ETK. Mr. Pastarus graduated from Tallinn Technical University with a major in Economics.

Total Salaries and Bonuses of the Council, Board and Management Team (Management)

EEK	1996	1997	1998
Council	645,788	599,000	490,571
Board and Management Team	1,352,227	1,840,659	810,000

Business Interests of Management

Management's Shareholding in the Company

As of 1 May 1999, *AS Inn Grupp*, owned by Andres Liinat and Tarmo Sumberg, owned 690,587 shares of the Company or 16.9% of the share capital. In addition, Tarmo Sumberg Investments owned 102,779 shares of the Company (2.5% of the share capital) and Andres Liinat owned 63,800 shares of the Company (1.6% of the share capital). The Baltic Republics Fund in which Joakim Helenius is a Member of the Board, had 1,769,391 shares or 43.3% of the share capital. Hansa Investment Fund, advised by a subsidiary of AS Hansa Investments, held also 209,000 shares of the Company (5.1% of the share capital). Joakim Helenius has a 50% shareholding in AS Hansa Investments through Trigon Holdings.

Shareholders Associated with Management

Shareholder	Associated Company	Number of Shares
AS Inn Grupp	Owned by Chairman of the Board, Andres Liinat and Chairman of the Council, Tarmo Sumberg	690,587
Hansa Investment Fund	Owned indirectly by council member Joakim Helenius	209,000
Andres Liinat Investments	Owned by Chairman of the Board, Andres Liinat	63,800
Tarmo Sumberg Investments	Owned by Chairman of the Council, Tarmo Sumberg	102,779
Tiina Varamäe-Välja	Managing Director of the affiliated company *OÜ Hansa Hotell*	87

Shareholding of Management in Other Companies (over 10%)

	Shareholding in the Company	Share
Andres Liinat	*AS Inn Grupp*	50%
Tarmo Sumberg	*AS Inn Grupp*	50%
	AS FKSM (formerly *AS Kogeri & Sumbergi Grupp)*	12%
Joakim Helenius	Trigon Holdings Ltd. (50% shareholder in AS Hansa Investments)	100%
Peeter Kross	*AS Mainorfin*	65%
	Time System Eesti AS	70%

Services Provided to the Company

AS Inn Grupp, owned by Andres Liinat and Tarmo Sumberg offered management services to the Company until 30 September 1997. The Company's payments to *AS Inn Grupp* for the management services rendered are enclosed in the table below. *Kogeri & Sumbergi Grupp* (now AS FKSM) carried out construction and renovation works in Hotel Olümpia.

Services provided to the Company by Companies Associated with Management:

	000 EEK	1995	1996	1997	1998	Total
AS Inn Grupp	Purchase	957	4,443	5,215	5,110	15,725
	Sale	57	354	46	0	456
Kogeri & Sumbergi Grupp	Purchase	27,234	4,329	0	0	31,563
(now AS FKSM)	Sale	92	114	64	0	269
Total	Purchase	28,191	8,772	4,815	5,110	41,288
	Sale	148	468	109	0	725

According to the development agreement, *AS Inn Grupp* offers development and consultation services to the Company. The contract is valid for five years, and is automatically prolonged unless parties decide otherwise. The monetary value of the contract depends on the economic results of the Company and therefore cannot be valued in total amount. (See also "The Company: Important Contracts of the Company")

The Company has signed a mandate agreement with Hansa Investments to arrange the Offering.

All of the transactions performed by the previously mentioned parties are made at market prices. Besides the previously mentioned members of the Management, no other member of the Council, Board or Management Team has performed any transaction with the Company in his own interest.

According to the Articles of Association, members of the Board and Management Team cannot participate in voting if approval to conclude a transaction between any of persons mentioned and the Company is being sought. Members of the Council, the Board, and Management Team cannot participate in the voting if it is in regard to the conclusion of a transaction between the Company and a legal entity, who is either a member of the Council, the Board, or Management Team; or if his/her relative or associate has substantial participation in the legal entity.

Employees

As of 31 December 1998, the Company had 434 employees, of which 19 were employed by the parent company and 415 by *AS Hotell Olümpia*. In total, 655 people are employed at the hotels managed by Reval.

According to the management agreement, the Company provides the managed hotels with a Managing Director, who is employed by Reval.

Number of employees of Reval Hotel Group together with *AS Hotell Olümpia* from 1995-1998 (as of the end of the year):

	1995	1996	1997	1998
Accommodation	126	135	134	122
Catering	188	197	196	218
Operating staff and security service	20	21	34	33
Administration	31	30	34	61
Total	365	383	398	434

OWNERSHIP STRUCTURE OF THE COMPANY

As of 1 March 1999 the following shareholders owned over 5% of the shares of the Company: Baltic Republics Fund (custodian - Bank of Bermuda, Guersney), Merita Pank (clients accounts), *AS Inn Grupp* and Hansa Investment Fund.

Shareholder	Number of shares	Participation %
Baltic Republics Fund	1,769,391	43.3
AS Inn Grupp	690,587	16.9
Clients of Merita Bank (Account – Non-Treaty)	386,509	9.5
Clients of Merita Bank (Account – Trading)	366,000	8.9
Hansa Investment Fund	209,000	5.1
Small shareholders	666,955	13.3
Total	4,088,442	100.00

As of 1 May 1999, the Company had 1,089 shareholders. The Company's shares are held at the Estonian Central Depository of Securities.

Shareholders with Large Interest

AS Inn Grupp

AS Inn Grupp has two equal shareholders – Andres Liinat and Tarmo Sumberg – who are authorised representatives of the company. Until September 1997, AS Inn Grupp's main activity was hotel management and catering. Since 1 October 1997, AS Inn Grupp is only involved in rendering management services to the Company. AS Inn Grupp has a 14.49% shareholding in the Company. AS Inn Grupp is located at Mustamäe tee 4, Tallinn.

Baltic Republics Fund

Baltic Republics Fund is located at Bermuda House, St. Julian's Avenue, St. Peter Port, Guernsey GY1 3NF. The representative of Baltic Republics Fund to represent the fund at the General Meeting of Shareholders is determined as occasion requires. Baltic Republics Fund is set up to invest in companies in Estonia, Latvia, and Lithuania.

Hansa Investment Fund

Hansa Investment Fund is located at 12 Eteläranta, 00130 Helsinki. Hansa Investment Fund is an open-ended retail investment fund, which invests in listed Baltic companies. The shares of the fund are listed on the Helsinki Stock Exchange.

SHARE CAPITAL

When the Company was founded in 1991, its share capital was 4,000,000 roubles. As one of the founders, *Tallinna Hotellikoondis* (Tallinn Hotel Association) did not fully pay for the shares; the share capital was decreased to 3,560,000 roubles. After currency reform, the share capital amounted to EEK 356,000 and was comprised of 89 shares with a nominal value of EEK 4,000 per share.

On 13 April 1995, the share capital of the Company was increased by EEK 12,104,000 through a bonus issue. The new share capital of EEK 12,460,000 was comprised of 89 shares with a nominal value of EEK 140,000 per share. On 15 October 1996, the nominal value of the shares was decreased from EEK 140,000 to EEK 10, and the share capital of EEK 12,460,000 comprised 1,246,000 shares with the nominal value of EEK 10.

According to the resolution of the General Meeting of Shareholders on 16 July 1997, the Company arranged a closed issue of 116,814 new shares with the nominal value of EEK 10 to AS Inn Grupp. The Company's share capital increase was registered in the Commercial Register on 14 November 1997.

According to the resolution of the General Meeting of Shareholders on 25 April 1998, the Company increased its share capital by EEK 27,256,280 to EEK 40,884,420 through a bonus issue of 2,725,628 new shares with a nominal value of EEK 10 per share. The new shares are entitled to 1998 dividends. The increase of the share capital was registered in the Commercial Register on 6 July 1998.

On 25 April 1998, Shareholders of the Company authorised the Council to increase the share capital of the Company within one year by EEK 700,000 at the price calculated according to the regulations of Tallinn Stock Exchange.

At present, the Company's registered share capital amounts to EEK 40,884,420, comprised of 4,088,442 common shares with a nominal value of EEK 10 per share. Each share carries one vote at the General Meeting of Shareholders.

On 30 April 1999, Shareholders of the Company decided to give the Council a proxy to increase the share capital. On 7 May 1999 the Council of the Company decided to increase the share capital by EEK 13,000,000 by issuing 1,300,000 shares with a nominal value of EEK 10 per share. After the current share issue, the share capital of the Company will be EEK 53,884,420, comprised of 5,388,442 common shares with a nominal value of EEK 10 per share.

The existing shares of the Company are registered on the Tallinn Stock Exchange. On 10 May 1999, an application was presented to register the Offered Shares on the Tallinn Stock Exchange immediately after the closing of the issue.

Changes in Share capital

Date of the Resolution	Change	Share Capital (EEK)	Number of Shares	Nominal Value (EEK)
At the foundation		RBL 3,560,000	89	RBL 40,000
20.06.1992	10:1 conversion due to currency reform	356,000	89	4,000
13.04.1995	Bonus issue 35:1	12,460,000	89	140,000
15.10.1996	Split 1:14,000	12,460,000	1,246,000	10
16.07.1997	Closed issue of 116,814 shares at EEK 113/share[5]	13,628,140	1,362,814	10
25.04.1998	Bonus issue 2:1	40,884,420	4,088,442	10
May-June 1999	Public issue of 1,300,000 shares at EEK 35-40/share	53,884,420	5,388,442	10

[5] Costs of closed issue amounted to EEK 57,456.

DIVIDENDS AND SHAREHOLDER RIGHTS

Dividends

The Company is permitted to pay dividends once a year on the basis of the annual report approved by the General Meeting of Shareholders. The amount of dividends to be paid is approved by the General Meeting of Shareholders based on the proposal made by the Board and confirmation by the Council.

The Offered Shares will be entitled to share *pro rata* with the Existing Shares in any and all dividends declared by the Company. The Company will declare and pay dividends if and when appropriate. If and when paid, all dividends will be declared and paid in Estonian Kroons.

The Company's ability to pay dividends to its shareholders will depend on its earnings, financial condition and other relevant factors of each year's activity. Moreover, the Board, with the consent of the Council, may decide in any year that the Company's investment opportunities are such that it may be in the best interests of shareholders for the Company to reinvest all of its earnings. Therefore, the Board, with the consent of the Council, may propose to the General Meeting of Shareholders that no dividends be declared for the preceding year.

As of the date of this Information Memorandum, the Company had not paid or declared any dividends.

Shareholder Rights

The Company has only issued one kind of shares with a nominal value of EEK 10 per share. Each share gives the owner one vote per share at any General Meeting of Shareholders of the Company.

Each shareholder has the right to:

- participate in the management of the Company through the General Meeting of Shareholders;
- participate in distribution of profits and distribution of assets remaining upon liquidation of the Company;
- receive dividends *pro rata* of the par value of their shares, and to demand payment of dividends provided with the resolution of the General Meeting of Shareholders;
- be provided equal treatment under similar circumstances;
- subscribe for the new shares in proportion to the total amount of the nominal value of the shares owned by the shareholders as a pre-emptive right, if new shares are to be paid for in cash and if the General Meeting of Shareholders has not decided otherwise;
- be guaranteed the availability of the annual report for review at least two weeks before the General Meeting of Shareholders;
- receive copies of minutes of the General Meeting of Shareholders or excerpts thereof;
- pledge or encumber shares with usufruct. Shareholders' rights under encumbered shares are to be executed by pledgor. The usufructuary of a share that is encumbered with usufruct is entitled to participate in distribution of the Company's profits.
- other rights provided by law, other legal acts and the Articles of Association.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion is based upon, and should be read in conjunction with, the audited financial information of the Company included in this Information Memorandum. All financial information discussed in this section is based on financial statements of the Company prepared in accordance with International Accounting Standards.

Summary

1998 was the first full-length year for Reval Hotel Group to operate as a group in legal terms.

The Company's net profit for 1998 was EEK 23.8 million compared with EEK 28.9 million in 1997.

Compared to 1997, the Company's net turnover in 1998 increased by 2.9% to EEK 210.1 million. About 50% of the Company's 1998 net turnover was generated from hotel room accommodation, and 37% from catering. The respective figures for 1997 were 52% and 36%.

As of the end of 1998, total assets of the Company amounted to EEK 343.2 million, i.e. 1.7 times or EEK 143.1 million increase over 1997.

Owners' equity amounted to EEK 115.4 million as of 31 December 1998 compared to EEK 91.6 million at the end of 1997. The Company's share capital as of 31 December 1998 was EEK 40.9 million.

Results of Operations

Changes in 1998

Revenues and Expenses – The Company's net sales increased by EEK 5.9 million or 2.9% in 1998, and amounted to EEK 210.1 million.

Structure and Growth of Total Revenue

000 EEK	Amount 1997	Structure 1997 (%)	Amount 1998	Structure 1998 (%)	Change over 1997 (%)
Revenues					
Accommodation	106,227	52.02	104,871	49.91	-1.28
Catering	75,784	37.11	77,374	36.82	2.10
Other hotel services	20,572	10.08	21,478	10.23	4.40
Management services (3 months)	1,609	0.79	6,391	3.04	297.20
Total net sales	204,192	100.00	210,114	100.00	2.90

The cost of products sold amounted to EEK 99.4 million in 1998, having increased by EEK 6.2 million or 6.7% during the year. The fairly moderate increase in sales resulted in a decrease in gross profit margin from 54.4% in 1997 to 52.7% in 1998. The increase in cost of products sold is mainly due to expenditures related to local inflation. (Growth in labour cost was EEK 3.4 million, and growth in expense of external services and supplies was EEK 2.1 million.) At the same time, the price level in sales of accommodation services is internationally determined and quite stable. The increase in marketing and administration expenses (respectively 11.6% or EEK 0.8 million and 11.7% or EEK 7.5 million) is mainly attributed to focused efforts at expanding business operations.

Structure and Growth of Expenses

000 EEK	Amount 1997	Structure 1997 (%)	Amount 1998	Structure 1998 (%)	Change over 1997 (%)
Cost of sales	93,165	100.00	99,388	100.00	6.68
Labour cost	27,577	29.60	30,947	31.14	12.22
Cost of merchandise	29,142	31.28	28,031	28.20	-3.81
Depreciation	15,758	16.91	17,593	17.70	11.64
External services and supplies	20,688	22.21	22,817	22.96	10.29
Administration and general expenses	64,495	100.00	72,038	100.00	11.70
Labour cost	12,977	20.12	16,918	23.48	30.37
External services and supplies	12,620	19.57	14,550	20.20	15.29
Security	2,619	4.06	2,301	3.19	-12.14
Property operation and maintenance	4,139	6.42	3,309	4.59	-20.05
Utilities	8,071	12.51	8,318	11.55	3.06
Rentals	20,972	32.52	20,817	28.90	-0.74
Depreciation	3,097	4.80	5,825	8.09	88.09
Marketing expenses	6,993	100.00	7,807	100.00	11.64
Labour cost	1,555	22.24	1,579	20.23	1.54
External services and supplies	5,438	77.76	6,228	79.77	14.53

Other income and expenses – Other income for the company increased by EEK 1.0 million to EEK 4.1 million in 1998. Other expenses increased by EEK 0.6 million to EEK 1.7 million in 1998.

Other income and expenses include rentals, fines, income from the sale of fixed assets, sponsorship, loss from sale or disposal of fixed assets, foreign exchange gain and loss from trade accounts.

Financial income and expenses – Financial income of the Company increased by EEK 5.3 million to EEK 10 million in 1998. The main contributor to the financial income increase was interest income in the amount of EEK 6.5 million.

The Company's financial expenses amounted to EEK 10.9 million in 1998, a 55.9% increase over 1997. EEK 7.7 million of the financial expenses were interests from bank loans and capital lease.

Assets – As of 31 December 1998, the Company's total assets amounted to EEK 343.2 million, an increase of EEK 142.2 million, or 71.1%, compared to the end of 1997. Current assets of the Company decreased by 43.2% over the year, and amounted to EEK 37.4 million. Fixed assets increased by EEK 171.1 million to EEK 305.3 million, due to the purchase of the real estate of Hotel Olümpia.

The decrease in current assets was caused by the purchase of the properties of Hotel Olümpia, since the value of the investments made into the improvement of the hotel building, which has previously been settled against the rental payments, was transferred to the acquisition cost of the property.

Liabilities – Total liabilities of the Company increased by 76.3% or EEK 66.8 million during 1998, and amounted to EEK 154.4 million as of the end of the year. Current liabilities increased by EEK 52.5 million to EEK 73.4 million as of the end of the year. Long-term liabilities increased by 76.3% to EEK 154.4 million at the end of 1998.

The acquisition of the properties was financed with loan capital, resulting an increase in debt ratio. The constantly high operating cash flow of Hotel Olümpia allowed to plan the financing of the acquisition during a shorter period than is usual in international practice.

Owners' equity – The shareholders' equity of the Company increased by EEK 23.8 million in 1998, and amounted to EEK 115.4 million as of the end of 1998. The main contributor to the increase in owners' equity was the issue of stock dividends in May 1998, the share capital rose by EEK 27.3 million, reaching EEK 40.9 million.

Changes in the First Quarter of 1999

The consolidated revenues for Reval Hotel Group in the first quarter of 1999 totalled EEK 39.6 million, which was divided between the members of the group as follows:

- Reval Hotel Group's revenues from management and consulting services, EEK 1 million (compared to EEK 0.5 million in the first quarter of 1998);
- *AS Hotell Olümpia* revenues from accommodation services, EEK 38.6 million (compared to EEK 42.2 million in the first quarter of 1998).

AS Hotell Olümpia lost revenues from its accommodation services in the first quarter of 1999 due to increasing competition in Hotel Olümpia's market segment. While the number of hotel rooms available in the segment increased significantly compared to 1998 (with the opening of Hotel Grand Mercure in January 1999), the increase on the demand side was minimal. The goal for 1999 is to maintain the level of room nights sold in 1998.

Reval Hotel Group's consolidated operating profit for the first quarter was EEK 3.6 million (compared to EEK 1.1 million in the first quarter of 1998) and consolidated net loss was EEK 3.3 million (compared to EEK 1.5 million profit in the first quarter of 1998). As a result of the purchase of the Hotel Olümpia real estate in Autumn 1998, significant changes in the structure of profit formulation have taken place. General expenses have decreased after the acquisition of the building, due to the replacement of rental expenses with depreciation expenses. (Rental expense in the first quarter of 1998 was EEK 5.5 million, depreciation expense in the first quarter of 1999 was EEK 1.2 million.) At the same time, the purchase transaction increased the debt burden of the group, and the financial expenses for the first quarter of 1999 amounted to EEK 4.7 million, compared to EEK 1.6 million in the first quarter of 1998.

The following one-time factors influenced the financial results of Reval Hotel Group in the first quarter of 1999:

- Expenses totalling EEK 571 thousand were incurred in preparing the long-term loan contract, which occurred during the course of capital restructuring;
- Un-realised loss in the amount of EEK 1.3 million from the change in exchange rate of EVPs (privatisation vouchers).

FOREIGN INVESTMENT AND EXCHANGE CONTROL

The Company is established under the laws of Estonia, and dividends and other distributions on the shares will be paid in Estonia. Any payment of dividends or other distributions on the shares to investors outside of Estonia will be subject to Estonian foreign investment and exchange control regulations in effect at the time of payment.

The following is a summary of certain Estonian foreign investment and exchange controls affecting the purchase, ownership, and disposition of Shares and does not purport to be a complete analysis of such foreign investment and exchange controls. This summary is based on Estonian foreign investment and exchange regulations in force as of the date of this Information Memorandum and is subject to changes in Estonian regulations.

Foreign Investments

The Foreign Investments Act (September 11, 1991) established a legal platform for foreign investors, and guarantees to protect foreign investment in Estonia. The property of a foreign investor cannot be nationalised, expropriated or confiscated, unless so provided by law. In any such case, the foreign investor has the right to full compensation of property in the same currency in which the initial investment was made, or in another currency acceptable to the foreign investor. Generally, no restrictions apply to foreign investors acquiring a company or equity interest in Estonia. All restrictions and rights applying to the Estonian companies shall generally apply to foreign-owned companies on an equal basis. In certain industries, however, a licence to establish and run a business is required. These areas include, *inter alia*: mining, water supply, energy and gas supply, key transport areas (ports, airlines and railways), as well as telecommunications and pharmaceuticals, etc.

A foreign investor has the right to repatriate profits and other income received from Estonia in foreign currency.

Foreign Exchange

Importation of most goods does not require permission from any Estonian authority. However, exports of some goods that are considered to be an important national resource (oil shale, gravel, clay) are regulated. The import and export of guns, explosives, drugs, precious stones and metals, goods of historic or cultural value are generally prohibited (special permission is always needed). Also, imports and exports of alcohol and tobacco products are regulated.

Non-residents can execute foreign currency transactions without any limitations and repatriate income in the form of dividends, interest, and capital gains without any restrictions, subject to taxes payable under Estonian Law. (See "Taxation" below.)

Estonian companies are allowed to open foreign currency denominated accounts in Estonian banks without any restrictions.

TAXATION

The following summary of certain Estonian tax consequences of the purchase, ownership and disposition of Shares is based upon laws in force and as interpreted by the relevant taxation authorities as of the date of this Information Memorandum. Legislative, juridical or administrative changes or interpretations could, however, alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences of a holding of the Shares. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a decision to purchase, own or dispose of the Shares.

Each prospective investor is urged to consult his, her or its tax advisor as to the particular tax consequences to the investor of the purchase, ownership and disposition of the Shares, including the applicability and effect of any applicable tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Information Memorandum and of any actual changes in applicable tax laws after such date.

Income Tax

The current Estonian Income Tax Law, in effect since 1 January 1994, as amended, treats all income received by individuals and companies on an equal basis subject to income tax at the uniform rate of 26 per cent (Article 7).

Taxation of Dividends

According to the Estonian Income Tax Law Article 32, upon the payment of a dividend by an Estonian company, income tax in the amount of 26/74 of the aggregate amount of the dividend must be paid. This amount is treated as income tax paid in advance, i.e. it is credited against income tax payable by the company at a later time.

Pursuant to Article 9(2).6. of the Income Tax Law, dividends paid to Estonian residents are currently not subject to further taxation. Dividends paid by an Estonian company to non-residents who own less than 25% of the company, however, are subject to income tax in the amount of 26 per cent (Article 10(1).2). The amount of 26/74 of the aggregate amount of dividends paid by the Estonian company as advance tax payment is not regarded as withholding of income tax of the recipient of dividends. Therefore, pursuant to the requirements of Article 10(1).2. as discussed above, non-resident recipients of dividends from Estonian companies, in which they own less than 25%, are required to file their tax reports with the Estonian Tax Board accordingly and pay 26 per cent income tax on the amounts received as dividends from the Estonian company (Article 26(3).1).

The Estonian company, after having paid an amount equal to 26/74 of the aggregate dividend amount as discussed above, has no obligation to make any further withholdings from the amount paid by way of dividends (Article 26(2)).

Capital Gains

Realised capital gains are regarded for the purposes of the Income Tax Law as income and are taxed accordingly (Article 9(1) and Article 10). Shareholders who are not residents of Estonia will be subject to Estonian income tax on capital gains realised on the transfer of shares (Article 10(1)).

Stamp Duty

No stamp duty or VAT is applicable upon the transfer of shares in Estonia.

SUBSCRIPTION AND SALE

Although an Estonian Prospectus has been prepared for use in connection with the Offering, the Information Memorandum has not been registered with, or approved by, the Securities Commission of Estonia and may not be used in connection with any offer or sale of shares in Estonia.

The Offered Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exception from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Company has stated that:

(i) it has not offered or sold and will not offer or sell in the United Kingdom any Offered Shares other than to persons whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Offered Shares in, from or otherwise involving the United Kingdom; and

(iii) it has only issued or passed on, and will only issue and pass on, in the United Kingdom any document received by it in connection with the issue of the Offered Shares to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements – Exemptions) Order 1996, as amended, or is a person to whom the document may otherwise lawfully be issued or passed on.

Except for the Republic of Estonia, no action has been taken or will be taken in any jurisdiction by the Company that would permit a public offering of the Offered Shares, or possession or distribution of any offering document, any amendment or supplement thereto, or any other offering or publicity material relating to the Offered Shares, where action for that purpose is required.

This Information Memorandum (in draft, preliminary or final form) is being furnished solely for the purpose of assisting in evaluating the investment described herein and may not be reproduced or used in whole or in part for any other purpose or distributed to anyone other than the recipient. Accordingly, neither the Bank nor the Managers shall have any responsibility with respect to any offer or sale of Offered Shares by any other person or any distribution of this Information Memorandum (in draft, preliminary or final form) or any other offering material relating to the Offered Shares by any other person in any jurisdiction.

THE REPUBLIC OF ESTONIA

Estonia is the smallest of the three Baltic republics with a surface area of 45,200 square kilometres. The coastline of Estonia is approximately 3,800 kilometres long, with a total of over 1,500 islands. The population is approximately 1.5 million, 64.2% of which is Estonian. Estonia's major cities and their approximate populations are: Tallinn (427,100), Tartu (103,400), Narva (76,400) and Kohtla-Järve (69,900).

History, Political and Governmental System

Estonia was under Russian Imperial rule from 1721 until 1918 and enjoyed a period of independence between the world wars, as did the other Baltic republics. As a result of the Molotov-Ribbentrop pact, Estonia was placed in the Soviet sphere of influence. A Soviet-Estonian assistance pact was signed on September 28, 1939, forcing Estonia to accommodate Soviet troops on its territory. On June 17,1940 Estonia was occupied by the Soviet Union. Estonia became part of the USSR as a Soviet republic on August 6, 1940.

The economic development in Estonia was similar to that of the other Baltic republics. There was a market shift towards heavy industry, which involved a massive influx of labour recruited from Russia. Estonian agriculture was rapidly collectivised in the spring of 1949, after 60,000 peasants had been deported. During the 1970s and 1980s, the economic administration of Estonia was relatively innovative. A number of institutional reforms and experiments were carried out in Estonia and, in the process, Estonian enterprises achieved a degree of autonomy from Moscow's control – unusual in the Soviet Union.

Before 1987, there was very little open political activity in support of democracy and Estonian independence. During that year, two developments signalled the beginning of open protest against the Soviet rule, and led to the gradual process of restoring a democratic society. The first was the wave of opposition to the plans of the all-union mineral fertilisers ministry to undertake a huge, potentially environmentally disastrous phosphoric mine in north-eastern Estonia. The second was a rally in Tallinn organised by former political prisoners on August 23, the anniversary of the Molotov-Ribbentrop Pact, demanding the publication of the pact and its secret protocols.

The early initiative was almost fully carried out by true dissidents. The resulting polarisation with the ruling Communists left room in the centre for a "loyal opposition," which would seek change from within the system. This emerged in April 1988, when the Estonian Popular Front was organised at the initiative of the Prime Minister, Edgar Savisaar.

On November 16, 1988, the Estonian Supreme Soviet adopted a declaration of sovereignty of the Estonian SSR, which meant that Estonian laws would take precedence over Soviet laws on Estonian territory. Despite a harsh initial response, Moscow eventually accepted Estonia's position and confirmed negotiations on devolution of economic power. However, by that time Moscow's response had been prepared and the Law on Economic Independence had been adopted.

Estonia went through a series of extraordinary political manifestations and by the end of the year 1989, confederation and economic independence were being replaced on the Estonian political agenda with complete political independence. The election on March 18, 1990 led to the creation of an independence-minded Supreme Council, whose first act was to declare a transitional period for restoring the independent Republic of Estonia, during which the necessary institutions of an independent state would be created and the necessary settlements with Moscow and the other republics negotiated. In reaction, Moscow halted further discussion on sovereignty within the federation. Moscow's position had further strengthened Estonian resolve to seek full independence. As a consequence of the political turbulence in Moscow in August 1991, Estonia seized the opportunity to declare independence on August 21, 1991. Among the first nations recognising the independence of Estonia were Iceland and Russia, and on September 17, 1991 Estonia was admitted to the United Nations. Since then the development has been very fast in every sector of the new economy. The new constitution of Estonia came into effect on July 3, 1992.

The highest legislative authority is the *Riigikogu*, a unicameral assembly with 101 members. All members are directly elected but parties need a minimum of 5% of the votes to enter the *Riigikogu*. Members can sit as independents. The *Riigikogu*'s term is four years; the last general elections took place on March 7, 1999. There is universal suffrage for Estonian citizens (as defined by the reinstated 1938 citizenship law) over 18 years of age residing in Estonia or abroad. Other residents cannot vote in general elections, but are able to vote in municipal elections.

According to the new constitution, the President of the Republic is the Head of the State and Commander-in-Chief of the Estonian Defence Forces. The President's assent is required for laws passed by the Riigikogu. The President is elected for a term of five years by the *Riigikogu;* no person can be elected to the office of the President of the Republic for more than two consecutive terms. Currently, the President of the Republic is Lennart Meri. The next presidential elections will take place in 2001.

Executive power is vested in the Government, currently a right wing government led by Mart Laar, consisting of the Pro Patria Union, Reform Party and Moderates which together have 53 seats in the 101-seat *Riigikogu*.

The main political parties in the current *Riigikogu* are: Centrist Party (28 seats in parliament), Pro-Patria Union (*Isamaaliit*, 19 seats), Reform Party (18 seats), Moderates (*Mõõdukad*, 16 seats), Coalition Party (7 seats), Estonian Rural People's Union (7 seats), and United People's Party (primarily represents Russian community, 6 seats).

General Economic Background

The evolution of the Estonian independence process has been clearly related to the development of proposals for economic autonomy. As a result, development has focused on detailed economic reform programme, which consists of a number of legal, political and economic reforms. Currency reform made Estonia the first Soviet republic to leave the rouble zone and to establish a fully independent national currency, with the aim of escaping the inflationary consequences of Russia's budget deficit. Legal background has been built up to support the liberal market oriented economy and create an adequate framework for businesses. Estonia has achieved independence from Russian and CIS cheap imports, and to a large extent has reoriented its exports towards quality products of Western Europe and Scandinavia.

Economic Indicators	1993	1994	1995	1996	1997	1998
GDP (in market prices, billions of EEK)	22.1	30.1	40.1	52.3	65.1	75.0*
Real GDP (% change)	-8.5	-2.7	3.0	4.0	11.4	4.0*
Imports (billions of EEK)	11.8	21.5	29.1	38.6	61.3	67.4
Exports (billions of EEK)	10.6	16.9	21.1	25.0	40.4	45.6
Unemployment (% of labour force)	1.9	1.8	2.2	2.2	2.1	3.1
Consumer price index (% change)	35	41.7	29.0	23.3	11.2	8.2
Average wage per month (in USD)	83	149.6	204.7	239.9	251.7	302.7
Balance of payments (% of GDP)	8.8	2.3	3.7	1.9	4.3	

** preliminary estimates*
Sources: The Institute of Economics of Estonian Academy of Sciences; Statistical Office of Estonia; The Bank of Estonia

Economic Growth

Due to inefficiencies in the old economic system and growing difficulties in exports to Russia, the Estonian economy experienced a severe recession in 1991 and 1992. The GDP decreased by 12.6% in 1991 and by 14.2% in 1992. The drop in GDP slowed down in 1993; and in 1995, for the first time in several years, the real growth of the economy was 3%.

An indication of the structural metamorphosis of the economy was the sharp fall in industrial output which accounted for 36% of the GDP in 1992 but only 30% one year later. Meanwhile, the share of the service sector in GDP increased from 34% to 43%.

Since the end of 1996 growth of the gross domestic product has increased remarkably. Regardless of the potential impact of the somewhat changed economic environment in the fourth quarter of 1997, it is estimated that the real GDP growth reached 10%. While increasing exports have still contributed the most to economic growth, the growth in earnings, reduced liquidity restrictions and optimistic expectations have increased domestic demand, as well.

The year 1998 cooled down the rapid growth of economy. Restructuring in the financial sector and collapse of the Russian export market impacted the main industries. The real change in the GDP, based on preliminary estimates, was 4.0% in 1998.

Monetary Policy

One of the cornerstones of the economic transformation and macroeconomic stability in Estonia has been the currency reform of June 1992, which replaced the Russian rouble with the Estonian Kroon (EEK). The Kroon's fixed exchange rate, pegged to the German mark at a fixed rate of 8 EEK = 1 DEM, and the introduction of the currency board system, provided a proper anchor for further restructuring and development of the economy. Its impact was soon evident in stabilising price levels and falling interest rates. Considering the rapid economic development and the unique characteristics of a transition economy, the inflation rate in Estonia is at an acceptable level from a monetary point of view and is adequate to cover the inevitable price structure adaptation and adjustments of the real exchange rate. Due to the reliable monetary policy, the full convertibility of the Kroon and liberal foreign exchange regulations, the interest rate level in Estonia has remained low among countries in transition, even after taking into account the adjustments made over the recent months.

Under the currency board system the money in circulation is fully backed by the gold and hard currency reserves of the Bank of Estonia. The latter guarantees full current account convertibility and is authorised to issue money only when corresponding to an increase in the foreign currency reserves.

Fiscal Policy

Since the restoration of an independent state budget, Estonia has pursued the policy of balancing revenue and expenditures. The balanced State Budget requirement established with the State Budget Law in 1993, has been firmly observed, with 1998 being the sixth consecutive year with a balanced budget. In 1997, the main source of income for EEK 12.5 billion state budget was value added tax, which constituted 46.2% of the budget. Excise taxes on alcohol, tobacco, fuel and motor vehicles are the second largest source of income. Individual income tax and corporate income tax accounted for 18% and 8.8% of the income. *(Source: The Ministry of Finance)*

As of the end of 1997, Estonia's net foreign debt amounted to EEK 9.7 billion, and accounted for 15% of the GDP. In 1997, the central government's foreign debt decreased compared to 1996, and accounted for 3.5% of the GDP as of the end of the year. Under the law on foreign loans and state guarantees to contracted loans, which entered into force on May 1, 1995, the total amount of external loans taken by the state in a current fiscal year must not exceed 15% of the budget revenues planned for that year. *(Source: The Ministry of Finance)*

The slowing economic growth, which may even be negative in the last month of 1998, was reflected in the collection of budget revenues. While in the IV quarter of 1997 the tax income comprised 28.2% of the whole year's tax income, then in the IV quarter of 1998, the share was only 25.5%. At the same time, several obligations from the past increased the expenses in the IV quarter of 1998 and created a budget deficit of 1.3% in the IV quarter 1998 (0.3% for the year 1998) from estimated GDP. *(Source: The Ministry of Finance)*

Prices and Inflation

Estonia's transition to a market economy initially resulted in high rates of inflation. In 1992, the consumer price index (CPI) grew by 953%. This hyper-inflation was mainly due to the liberalisation of domestic prices, reduction of subsidies and price increases in imported goods (mainly raw materials and energy from Russia). After the introduction of the Kroon in the summer of 1992, the growth rate of the CPI gradually started to stabilise, reaching 23% in 1996. *(Source: The Bank of Estonia)*

Inflation continued to fall in 1997, amounting to 11% at the end of the year. The key factor in determining the inflation trend was the price convergence process characteristic of transition economies and the relatively rapid growth of productivity. It was also characteristic of 1997 that there were several factors preventing a faster decline in inflation, like the relative weakness of the German mark to the US dollar. Some indicators, e.g. high domestic demand, gave ground to thoughts about the need for broader economic policy interference. The appreciation of the real effective exchange rate of the kroon slowed down mainly due to the lower inflation and weaker nominal exchange rate of the kroon. *(Source: The Bank of Estonia)*

The estimated total change in the prices of goods and services in 1998 was 10.5%, which reflects the change in the prices of goods (7.5%) and the change in the prices of services (14.6%). Due to the change in consumption habits, the Statistical Office of Estonia changed the content of the basket for calculating the price index starting January 1998, taking the year 1997 as a base. The change in the basket caused the average estimates to decrease, and therefore the overall base figures used for estimating the changes in price were altered. The price changes in the first half of the year were mainly caused by the increase in the price of electricity; the price increase in the second half of the year was minimal compared to that of previous years. The decrease in foreign demand was the main reason for the change in the proportion of total demand and supply. Due to the decrease in foreign demandhe price increase for goods and services was minimimalal, and in turn also stopped the increase of salaries and profits. *(Source: The Ministry of Finance)*

Income and Consumption

In 1997, the growth of the major component of the domestic demand—private consumption—was influenced both by the increase in real income and by the decrease in consumers' liquidity constraints. The improvement of living standards and purchasing power are manifested in the 8.3% increase in real wages in the fourth quarter of 1997 compared to 1996, the reduced share of food and other necessary goods in the consumer basket and the increase in the share of transport, leisure spending, and other goods and services. *(Source: The Bank of Estonia)*

Although together with the deepening macroeconomic stability and increasing real income, the household propensity to save could have increased as well, the rough estimates show a relative decrease in household savings. The latter could be explained by fast economic growth and good development outlooks. The expectation to earn significantly more in the future might have reduced current saving and increase consumption.

The inflow of long-term foreign capital, tighter inter-bank competition and the focus of banks on private customers reduced the liquidity constraints for people with higher than average income. Presumably the decrease of financing constraints has promoted private consumption and decreased the saving trends among these population groups.

	Average Gross Wages and Salaries (EEK)	Index of Salaries	Consumer Price Index
4th quarter 1991	115	100	100
1st quarter 1992	254	222	403
2nd quarter 1992	416	363	636
3rd quarter 1992	698	609	1,001
4th quarter 1992	802	700	1,241
1st quarter 1993	898	784	1,380
2nd quarter 1993	1,087	949	1,476
3rd quarter 1993	1,126	983	1,559
4th quarter 1993	1,165	1,017	1,700
1st quarter 1994	1,410	1,230	1,988
2nd quarter 1994	1,741	1,519	2,225
3rd quarter 1994	1,723	1,498	2,347
4th quarter 1994	2,096	1,823	2,469
1st quarter 1995	2,086	1,814	2,664
2nd quarter 1995	2,395	2,083	2,830
3rd quarter 1995	2,363	2,055	2,980
4th quarter 1995	2,697	2,345	3,172
1st quarter 1996	2,649	2,303	3,433
2nd quarter 1996	3,004	2,612	3,590
3rd quarter 1996	2,980	2,591	3,626
4th quarter 1996	3,310	2,878	3,683
1st quarter 1997	3,136	2,727	3,794
2nd quarter 1997	3,659	3,182	3,959
3rd quarter 1997	3,463	3,011	4,043
4th quarter 1997	4,027	3,502	4,138
1st quarter 1998	3,743	3,254	4,244
2nd quarter 1998	4,255	3,700	4,311
3rd quarter 1998	4,011	3,488	4,341
4th quarter 1998	4,389	3,817	4,346

Source: Statistical Office of Estonia

Balance of Payments

In 1997, the Estonian Government tightened the country's fiscal stance due to the increasing current account deficit, which reached 9.5% in 1997. At the end of 1997, the Estonian government established a fiscal stabilisation fund by withdrawing EEK 700 million of its deposits in commercial banks. Further withdrawals are planned in 1998 until the fund reaches EEK 1.9 billion. *(Source: The Ministry of Finance)* The tight economical situation in 1998 did not enable the increase of the stabilisation fund, some payments from the fund were made instead and at the end of the year, the fund totalled EEK 441.4 million (EURO 28.2 million).

In addition, in view of the fast growth in credit expansion, including lending to non-bank financial institutions, the Government decided to tighten bank prudential regulations. In November 1997, the banks' minimum capital adequacy ratio was increased from 8% to 10%, with possibly an additional increase to 12% at a future date.

Balance of Payments (in millions of kroons)	1993	1994	1995	1996	1997	1998
Current account	279.0	-2,127.6	-1,899.0	-5,108.5	-8,452.1	-6,332.0
Trade account	-1,925.0	-4,597.9	-7.703,9	-12,589.8	-16,470.8	-15,723.9
Services account	997.1	1,362.7	4,330.3	6,245.0	8,465.9	8,653.6
Investment income	-185.4	-378.0	-62.4	26.2	-2,046.7	-1,342.5
Transfers and others	1,392.3	1,485.6	1,446.4	1,210.1	1,599.5	2,080.8
Capital account	2,908.5	2,221.4	2,836.1	6,596.4	11,477.0	6,778.3
Direct investments	2,070.8	2,789.4	2,283.8	1,329.9	1,812.9	7,871.1
Portfolio investments	-3.0	-183.4	-255.1	1,784.4	3,663.3	21.6
Others	840.7	-376.5	816.5	3,489.9	6,002.8	-1,139.6
Reserves	-2,575.7	-395.6	-1,200.4	-1,228.4	-2,771.3	-126.4

Source: The Bank of Estonia

Credit Rating

Considering the continuous integration of Estonia with international financial markets, the Bank of Estonia ordered the country rating from one of the most well-known credit agencies in the world, Moody's Investors Service, in Spring 1997. In addition, the leading European credit rating agency IBCA and Standard & Poor's prepared their ratings.

Credit ratings issued to Estonia are all investment grades. However, both the ratings as well as the agencies' comments, refer to various potential risks associated with the current economic developments in Estonia. The assigned ratings were relatively high among other countries in transition, comparable to Poland and Hungary and the highest among the FSU countries.

Long-term Foreign Currency Credit Ratings Assigned to Estonia by Rating Agencies as of December 1998

Agency	Rating	Estimate	Comparison
Moody's Investors Service	Baa1	An investment grade. Estonia has adequate potential to meet its obligations to investors. The grade also refers to a lack of certain security – assuring long-term guarantees that the economic policy considerations will not change.	Germany – Aaa Finland – Aa1 Slovenia, Hong Kong – A3 Czech Republic, Greece – Baa1 Latvia – Baa2 Hungary, Poland – Baa3 Lithuania – Ba1 Russia – Ba2
Standard & Poor's	BBB+	An investment grade. The same level as Moody's rating.	Hong Kong – A+ Czech Republic, Slovenia – A Latvia – BBB Lithuania – BBB- Russia – BB-
IBCA	BBB	An investment grade. It means a low investment risk for the investor in Estonia. However, the unfavourable development of economic or financial conditions in Estonia could bring along a higher investment risk.	Hong Kong – A+ Czech Republic – BBB+ Poland, Hungary – BBB Russia, Lithuania – BB-

Source: The Bank of Estonia

Foreign Trade

With minimal import duties, Estonia is following a more liberal trade policy than the one negotiated in the WTO. Estonia has free trade agreements with EFTA, the EU and several other countries, such as Latvia, Lithuania, Sweden, Norway, Switzerland, etc.

Estonia' trade was directed by the central government of the former Soviet Union until the end of 1991; the share of the former Soviet republics in trade in 1991 amounted to 95% of exports and to 85% of imports. The structure of foreign trade has changed significantly since the restoration of independence. The main trade partners are EFTA and EU countries, which accounted for 44% of the total export in 1992.

In the years 1994-1997 the value of foreign trade, both exports and imports, has increased at about 1.2 to 1.3 times a year. Exceptionally large growth in foreign trade took place in 1997, being 1.6 times that of1996. In 1997, the value of foreign trade according to General Trade System amounted to EEK 101.7 billion, of which exports formed 40% and imports 60%. *(Source: The Statistical Office of Estonia)*

The foreign trade deficit increased by one third in 1997, compared to 1996, and amounted to EEK 21 billion. At the same time, the ratio of foreign trade deficit in 1997 to exports was smaller than in 1996, both by quarters and annually. In 1995 and 1996 imports grew more rapidly than exports, while the situation in 1997 was vice versa. The trade deficit was the largest with Finland, Japan and the United States, and the trade surplus with Latvia, Lithuania and the Ukraine.

In 1997, Estonia exported goods to 136 countries and imported from 171 countries. Estonian exports to CIS countries accounted for 26.3% of total exports, while exports to the European countries for 68.4%. In imports, machinery and appliances took the greatest share and accounted for 22% of total imports. At the same time, re-exports accounted for 45% of total exports. *(Source: The Statistical Office of Estonia)*

Total turnover of foreign trade in 1998 was EEK 92.7 billion, which indicates a 15.1% increase compared to 1997. Major export partners for Estonia in 1998 were still Finland (22%), Sweden (19.5%), Russia (12.3%) and Latvia (8.3%). The majority of imports came from Finland (37.2%), Germany (10.4%) and Sweden (10.1%). In exports, machinery and appliances made up 22.2% of total exports, wood and paper products made 17.1% of total exports, and wardrobe products 16.0%. Machinery and appliances also held the biggest share (30%) in imports. Other big import articles were chemistry products (10.6%), food products (10.3%), and wardrobe products (10.0%). *(Source: The Ministry of Finance)*

Privatisation

The Law on the Basis of Property Reform laid the basis for the privatisation of state property in June 1991. The Law was followed by acts regulating small-scale privatisation. Legal grounds for the privatisation of large companies were established in 1992. The companies were offered for sale through public tender offerings, the first of which was published in late 1992.

After a slow start, the privatisation process has been accelerated. In 1996, 43 enterprises or their structural units were sold through tender with preliminary negotiations, compared to 18 enterprises in 1997. As of the end of 1997, the ownership of 472 enterprises and structural units sold from 1993 to 1997 for the total purchase price of EEK 4.4 billion have been transferred, and investments worth EEK 4.3 billion and jobs for 56,154 people have been guaranteed. From 1991 to 1997, 1,348 objects were sold at auction for the total purchase price of EEK 605 million. In 1996-1997 the first big infrastructure enterprises - national air carrier Estonian Air, ESCO (Estonian Shipping Company), Estonian oil shale company *Kiviter* and rare-earth metals processing company *Silmet* were sold. Other soon-to-be privatised infrastructure enterprises include Estonian Energy, Tallinn Water and Estonian Railways. *(Source: The Privatisation Agency)*

In 1998, the Privatisation Agency of Estonia sold 28 objects, of which 12 were companies. Of the 13 signed sales agreements, eight foresee payment in EVP (privatisation vouchers) of up to 47.7% of the sales price, while five agreements were signed for 100% cash payment. Also, six hire-purchase agreements were signed. The total sales value of the privatised objects was EEK 605.5 million. Three out of 12 privatised companies were fully privatised. Only two of the privatised companies were sold on a basis of total assets; other agreements were signed for the shares in the company. *(Source: The Ministry of Finance)*

The main objects to be privatised in 1999 are the distillery *AS Liviko*, the electricity distributor and the owner of a local power grid *AS Narva Elektrivõrk*, and the passenger rail operator *AS Edelaraudtee*. In February 1999, Estonian Telecom was privatised by public share issue;the total amount received from the sales of Estonian Telecom shares reached EEK 3.022 billion, which makes it the biggest privatisation deal of the Republic of Estonia. *(Source: The Privatisation Agency)*

Investments

The Estonian economy is characterised by high investment demand originating from the need to restructure production. In the period from January to June 1997, total capital investment in fixed assets was over 25% of the GDP. In earlier years, investments in the public sector increased, while in 1997 companies became particularly active. Government investments decreased to 4% due to decreased investments by local governments. *(Source: The Bank of Estonia)*

In 1997, foreign direct investments into Estonia totalled EEK 3.6 billion compared to EEK 1.8 billion in 1996. According to the Bank of Estonia, the majority of direct investments to Estonia were made by investors in Finland, Norway and Sweden. The majority of the direct investments were channelled into industry (35%), transport and communication (25%) and the financial sector (9%). In addition to direct investments, Estonia received EEK 3.7 billion worth of portfolio investments in 1997. As of 30 September

1997, the sum total of all direct investments into Estonia amounted to EEK 16.7 billion, with Sweden and Finland as the biggest investors.

In 1998, the foreign direct investments into Estonia continued to grow rapidly. In the first three quarters of 1998, total foreign direct investments reached EEK 5.2 billion. 90% of foreign direct investments came from Nordic countries and was placed into the financial and industrial sector. *(Source: The Ministry of Finance)*

As of September 1998, foreign capital investments in the Estonian economy totalled EEK 21.7 billion since 1992, which at the rate of USD = EEK 14.62 makes 1,024 USD per capita. This is one of the highest rates in Eastern Europe. Foreign investors, sharing the same legal rights as local businesses, are allowed to purchase and own land and real estate and enjoy unrestricted profit repatriation as well as investment protection. *(Source: The Ministry of Finance)*

In 1998., the foreign direct investments by Estonian companies decreased for the first time since 1995The decrease was most likely caused by the repayment of loans of the subsidiaries in Latvia and Lithuania. Taking into account the slowing down of investments made by companies, the investments abroad are also expected to decrease. *(Source. The Ministry of Finance)*

Public sector investments in 1998 totalled EEK 3.2 billion, of which 52% was from the state budget, 45% from local government budgets and 3% from non-budgeted resources. Private sector investments into fixed assets increased significantly in 1998. According to preliminary data, the amount invested into fixed assets in 1998 reached EEK 15.9 billion, which is 42% more than in 1997. The distribution of investments into fixed assets remained practically unchanged compared to 1997. 33% of the investments into fixed assets were made into construction and the purchase of buildings, 42% went toward equipment and vehicles, 23% for repair of fixed assets and 2% toward land purchases *(Source: The Ministry of Finance)*

Estonian companies are financing most of the investments out of their own funds. During the course of 1997 the current earnings of companies more than doubled simplified the financing in 1998. investment The general business environment was not as expansive in 1998 as it was in 1997. The minimal profits from 1998 do not enable the companies to continue making investments of the same size. However, currently falling interest rates and availability of loan capital can support a stable increase. *(Source: The Bank of Estonia)*

APPENDIX 1 – AUDITED FINANCIAL STATEMENTS

Consolidated Audited Profit and Loss Account for the Years Ended 31 December 1996, 1997, and 1998

EEK	Notes	1998	1997	1996
Net sales	1	210,113,937	204,192,197	174,011,810
Cost of sales	2	99,388,242	93,164,921	82,296,316
Gross profit		110,725,696	111,027,276	91,715,494
Marketing expenses	2	7,807,477	6,993,489	4,924,620
Administration and general expenses	2	72,038,380	64,494,546	57,218,039
Other income	3	4,085,367	3,091,744	3,067,312
Other expenses	4	1,722,120	1,084,970	1,812,883
Operating profit		33,243,086	41,546,015	30,827,264
Financial income				
Income from the disposal of a subsidiary		410,413	0	0
Income from associates		775,833	0	0
Income from financial investments		111,600	0	0
Foreign exchange gain		2,164,148	2,280,407	2,234,196
Interest income		6,514,687	2,426,625	304,722
Total financial income		9,976,681	4,707,032	2,538,917
Financial expenses				
Financial expenses from financial investments		1,313,789	525,510	0
Foreign exchange loss		449,731	322,992	260,252
Interest expense		7,656,550	6,148,070	6,622,464
Other financial expenses	20	1,484,514	0	0
Total financial expenses		10,904,584	6,996,572	6,882,716
Profit before taxes and minority share		32,315,183	39,256,475	26,483,466
Income tax	5	8,559,322	10,351,193	6,965,011
Minority interest		-18,732	-17,935	0
Net profit		23,774,593	28,922,917	19,518,455

Consolidated Audited Balance Sheets as at 31 December 1996, 1997, and 1998

EEK	Notes	31.12.1998	31.12.1997	31.12.1996
Assets				
Current assets				
Cash and cash equivalents	6	21,473,550	31,220,934	23,164,474
Accounts receivable	7	6,525,445	8,444,813	10,490,264
Other receivables	21	2,567,948	18,720,148	33,184
Accrued income	8	1,633,744	1,333,492	215,431
Prepaid expenses	9	1,355,478	2,932,270	1,866,187
Inventories	10	3,891,402	3,231,997	3,457,731
Total current assets		37,447,567	65,883,654	39,227,271
Fixed assets				
Long-term financial assets[6]	11,18	21,967,243	36,811,338	103,584
Property, plant and equipment	12	276,179,765	84,098,254	81,840,391
Intangible assets	13	7,110,643	10,341,102	
Prepayments for fixed assets		3,600	2,921,852	597,377
Total fixed assets		305,261,251	134,172,546	82,541,352
Deferred tax asset		482,159		
Total assets		343,190,977	200,056,200	121,768,623
Liabilities and owners' equity				
Liabilities				
Current liabilities				
Current payments of long-term loans and leases		45,896,863	705,692	11,835,004
Customer prepayments		530,839	280,548	1,340,511
Accounts payable		6,179,328	5,776,426	13,430,514
Other payables		576,677	86,156	99,646
Accrued expenses	15	7,030,350	6,169,257	4,631,964
Tax liabilities	14	13,183,654	7,866,228	4,030,129
Total current liabilities		73,397,711	20,884,307	35,367,768
Long-term liabilities				
Secured loans and capital lease	16, 19-22	148,602,152	80,963,733	34,428,439
Deferred income tax liability	5	5,839,916	6,632,472	2,518,710
Total long-term liabilities		154,442,068	87,596,205	36,947,149
Minority interest		0	-917	0
Owners' equity				
Paid-in capital and reserves		54,279,076	26,905,982	13,144,124
Retained earnings[7]		37,297,529	35,747,706	16,791,126
Net profit for the period		23,774,593	28,922,917	19,518,456
Total owners' equity	17	115,351,198	91,576,605	49,453,706
Total liabilities and owners' equity		343,190,977	200,056,200	121,768,623

[6] According to the lease agreement for the building of Hotell Olümpia, the lessee was entitled to make improvements and repairs to the leased property, if it was agreed with the lessor. These expenditures were considered to be the lessee's payments on behalf of the lessor and were settled against the lease fee. The portion of the lessee's payments on behalf of the lessor that was not settled yet was represented on the balance sheet as a receivable from the lessor. The total amount of the receivable as at 31.12.97 was EEK 54.3 million, from which EEK 18.6 million was recognised as a short-term receivable (budgeted lease fee for 1998) and EEK 35.7 million as long-term receivable. In the consolidated cash flow statement, the transactions related to the lease agreement are presented separately.

[7] Adjustments have made to the balance sheet of 31.12.96 because of the change in Accounting Policy of the Tax Effects. As a result of these adjustments, the Deferred Income Tax is increased by the amount of EEK 1.6 million against the decrease of the Retained Earnings and net profit for 1996.

Consolidated Audited Cash Flow Statements for the Years Ended 31 December 1996, 1997, and 1998

EEK	1998	1997	1996
Net earnings	23,774,593	28,922,917	19,518,456
Depreciation	23,417,582	18,855,323	15,600,485
Profit/loss from sale and disposal of equipment	632,574	88,140	308,238
Non-cash settlements according to lease agreement	24,581,179	13,648,529	
Profit/loss from associates	156,861	507,575	
Income tax expense	8,559,322	10,351,493	6,965,011
Interest income/expense	1,086,483	4,948,922	
Change in current assets	-224,807	501,101	-532,837
Change in current liabilities other than loans and leases	1,805,635	-2,514,449	7,755,716
Cash flow from operations before income tax payments	83,789,421	75,622,503	49,615,069
Income tax payments	-4,771,331	-3,199,292	-3,030,200
Received interest	1,750,426	1,414,579	0
Paid interest	-6,229,900	-6,461,022	0
Cash flow from operating activities	74,538,615	67,376,768	46,584,869
Proceeds from sale of equipment	899,471	176,373	569,522
Purchase of property, plant and equipment	-91,217,741	-18,799,725	-24,306,611
Acquisition of subsidiary	-36,015	61,532	0
Dividends	111,600	0	0
Change in financial investments	-19,853,648	-877,062	0
Payments for lessor's investments	-15,194,792	-74,413,200	0
Cash flow from investing activities	-125,291,125	-92,852,081	-23,737,089
Payment of loans	0	-46,468,228	-9,826,621
Proceeds from long-term loans	41,005,126	80,000,000	0
Cash flows from financing activities	41,005,126	33,531,772	-9,826,621
Net cash flows	-9,747,384	8,056,460	13,021,159
Cash and cash equivalents at the beginning of the period	31,220,934	23,164,474	10,143,315
Cash and cash equivalents at the end of the period	21,473,550	31,220,934	23,164,474

Accounting Principles

The Company's financial statements are prepared in accordance with International Accounting Standards (IAS). The financial statements of the companies belonging to the group are prepared in accordance with the Estonian Accounting Law. Because the Estonian Accounting Law mostly conforms to IAS, there was no need to correct the concern's members' financial statements to bring them in line with IAS.

As the Company did not start as a group until 1997, the parent's 1996 accounts are used as figures for the previous period.

The preparation of the consolidated financial statements is based on the financial statement structure used by the parent company. Should the subsidiaries' income statements be prepared using a different structure, they are adjusted to become compatible for the consolidation. Corrections did not affect subsidiaries' net profit or net sales.

In preparing the financial statements, the principles of consistency and comparability are considered. Changes in methodology and their effect are explained in the corresponding notes.

Consolidation Principles

Consolidated statements (shareholding exceeding 50%) are prepared using the line-by-line method. Internal claims and debts, property and internal business transactions are eliminated. In full consolidation, the equivalent accounts on the parent company's and subsidiaries' income statements and balance sheets are added, while internal receivables and liabilities, as well as internal transactions, are eliminated.

The consolidation of associated companies (shareholding up to 50%) are prepared according to the equity method; the book value of the investment is adjusted by the associated companies' share of the profit/loss.

Financial statements relating to the parent company's investments into subsidiaries and associated companies were accounted for by the equity method.

Foreign Currencies

Foreign currency based transactions are stated in EEK using the official daily rates of the Bank of Estonia as of the date of transaction.

Assets and liabilities in foreign currencies are stated in EEK using the closing exchange rates of the Bank of Estonia as of December 31, 1997.

Gains and losses from the revaluation of assets and liabilities are stated in the financial income/expenses section in case value of cash and financial instruments has changed or in the section of other operating income/expenses (in case the value of accounts receivable/payable has changed).

Assets and Liabilities

Assets and liabilities are stated according to the principle of acquisition cost, which means that assets are recorded at their actual acquisition cost and expenditures are recorded as they were incurred at the time.

Should the assets' realisation value be lower than their acquisition value, assets will be valued lower, accordingly.

Assets with a useful life of over a year and with an acquisition cost more than EEK 3,000 are stated in the balance sheet as fixed assets, as are repairs to rented buildings.

Building repairs are depreciated at ten per cent per year. Other tangible assets are depreciated at 20 - 40 per cent per year.

Capitalised development expenditures, patents, licenses, and other contractual rights to incurred expenditures and goodwill are recorded on the balance sheet as intangible assets.

Depreciation of intangible assets is calculated over five years or, if appropriate, over the period of the agreement if it is less than five years.

Highly Liquid Securities

Securities which can be converted into cash at any time are listed in the statements as cash equivalents.

Income Tax

Income tax payable by the members of the concern is stated as income tax payable according to 1998 income tax return, as well as deferred income tax. Deferred income tax is stated in the balance sheet as long-term provision.

Notes to the Financial Statements

Note 1: Net Sales

000 EEK	1998	1997	1996
Hotel accommodation turnover	104,871	106,227	91,153
Catering turnover	77,374	75,784	65,855
Other hotel services	21,478	20,572	17,004
Turnover of the management services (3 months)	6,391	1,609	
Total	210,114	204,192	174,012

Note 2: Cost details

000 EEK	1998	1997	1996
Cost of sales	99,388	93,165	82,296,316
Labour cost	30,947	27,577	
Cost of merchandise	28,031	29,142	
Depreciation	17,593	15,758	
External services and supplies	22,817	20,688	
Administration and general expenses	72,038	64,495	57,218,039
Labour cost	16,918	12,977	
External services and supplies	14,550	12,620	
Security	2,301	2,619	
Property operation and maintenance	3,309	4,139	
Utilities	8,318	8,071	
Rentals	20,817	20,972	
Depreciation	5,825	3,097	
Marketing expenses	7,807	6,993	4,924,620
Labour cost	1,579	1,555	
External services and supplies	6,228	5,438	

Note 3: Other Income

000 EEK	1998	1997	1996
Foreign exchange gain from trade accounts	49	109	
Rentals	1,308	1,426	
Fines	847	548	
Income from sale of fixed assets	39	176	
Other income	1,842	833	
Total	4,085	3,092	3,067

Note 4: Other Expense

000 EEK	1998	1997	1996
Sponsorship	484	431	
Loss from sale of disposal of fixed assets	201	243	
Foreign exchange loss from trade accounts	58	162	
Other expenses	979	249	
Total	1,722	1,085	1,813

Note 5: Income Tax

The Corporate Income Tax according to the "Income Tax Law" is 26% of taxable income. The Company's taxable income and income tax for the year 1998 are calculated as follows:

000 EEK	
Pre-tax accounting income	32,315
Adjustment for differences between financial year and taxation period	11,263
Adjustment for minority interest	19
Pre-tax income from tax return	43,597
Adjustment for tax depreciation	727
Non taxable income according to the Income Tax Law	-12,387
Non-deductible expenses according to the Income Tax Law	5,886
Taxable income	37,823
Income tax according to the tax return for 1998	9,834
Tax income from changes in deferred tax liability	792
Tax income from changes in deferred tax asset	482
Tax expense for Income Statement	8,560

Deferred tax liability from tax depreciation was accounted for the first time in 1996, based on the difference between tax depreciation indicated in the income tax return and the book value of the depreciation.

Since 1997, deferred tax liability from tax depreciation has been accounted based on the difference between book value and tax base of fixed assets (concept of Income Tax Law).

Note 6: Cash and Cash Equivalents

000 EEK	31.12.98	31.12.97	31.12.96
Cash on bank accounts	1,077	13,150	21,887
Short-term investments	18,811	16,692	0
Cash	1,586	1,379	1,277
Total	21,474	31,221	23,164

Note 7: Accounts Receivable

000 EEK	31.12.98	31.12.97	31.12.96
Accounts receivable from the customers	5,708	6,924	6,939
Receivables from credit card settlements	1,519	2,548	4,217
Doubtful accounts	-702	-1,027	-666
Total	6,525	8,445	10,490

Note 8: Accrued Income

000 EEK	31.12.98	31.12.97	31.12.96
Management fee[8]	1,413	1,333	
Interest	221		215
Total	1,634	1,333	215

Note 9: Prepaid expenses

000 EEK	31.12.97	31.12.97	31.12.96
Prepaid taxes	148	817	763
Other prepaid expenses	1,207	2,115	1,103
Total	1,355	2,932	1,866

[8] Accrued income includes an extra management fee for the financial year, to be collected after the owners have approved the Annual Financial Statements.

Note 10: Inventories

000 EEK	31.12.98	31.12.97	31.12.96
Raw material	1,476	1,056	1,347
Goods	2,396	2,123	1,976
Prepayments to suppliers	19	53	135
Total	3,891	3,232	3,458

Note 11: Long-term Financial Assets

000 EEK	31.12.98	31.12.97	31.12.96
Investments in associates[9]	16,768	600	
Long-term receivables from associates	5,199	400	
Receivable from Lessor[10]	0	35,735	
Loan given to employee	0	77	104
Total	21,967	36,811	104

Note 12: Tangible Assets

000 EEK	Balance 31.12.97	Internal transactions[11]		Acquisition	Sale	Removal	Depre-ciation	Balance 31.12.98
		Out	In					
Land & buildings								
Acquisition cost	68,925	68,698	54,564	208,907	0	0		263,698
Net book value	54,785	54,564	54,564	208,907	0	0	7,957	255,735
Machinery and equipment								
Acquisition cost	19,211	18,280	7,393	2,717	33	35		10,973
Net book value	8,284	7,939	7,393	2,717	29	20	3,992	6,956
Other fixtures								
Acquisition cost	42,449	37,047	16,555	3,168	3,221	105,		21,798
Net book value	21,030	16,555	16,555	3,168	2,127	62	8,521	13,488
Total								
Acquisition cost	130,585	124,025	78,511	214,792	3,254	140		296,469
Net book value	84,098	78,511	78,511	214,792	2,156	82	20,473	276,180

[9] The value of investments to associates includes the positive goodwill in the amount of EEK 1.5 million; in accordance with Estonian accounting principles goodwill is not separately represented on the balance sheet, and the financial investments are recognized at cost. The value of goodwill is written off on straight-line-basis over a period not exceeding five years under the equity method. The book value of financial investments is reduced accordingly.

[10] See Note 20 "Acquisition of Estate Properties."

[11] 01.01.98 during the restructuring process, the group's parent company, Reval Hotelligrupi AS, sold the fixed assets previously used by AS Hotell Olümpia according to the leasing contract to AS Hotell Olümpia. The selling price was fixed, based on the book value of fixed assets as at 31.12.97. The fixed assets were recorded in AS Hotell Olümpia's books with acquisition value based on contract price (meaning residual value as at 31.12.97), which resulted in a decrease of acquisition value of fixed assets on the consolidated balance sheet in the amount of EEK 45.5 million. There was no impact on residual value of fixed assets on the consolidated balance sheet. In evaluation of the lifetime of fixed assets acquired from the parent, the initial depreciation period was taken as a basis and, as a result of this, substantially higher annual depreciation rates than usual were fixed in the hospitality industry (improvements to the building 12% per year, machinery and equipment 42%, and fixtures 40%, on average).

Note 13: Intangible Assets

000 EEK	Balance 31.12.97	Internal transactions Out	Internal transactions In	Acquisition	Sale	Removal	Depre-ciation	Balance 31.12.98
Development costs								
Acquisition cost	578	0	0	0	0	241	0	337
Net book value	295	0	0	0	0	0	169	126
Computer SW licenses								
Acquisition cost	2,063	1,963	1,449	30	0	0	0	1,578
Net book value	1,545	1,449	1,449	30	0	0	573	1,002
Acquisition cost of management contracts								
Acquisition cost	8,701	0	0	0	0	0	0	8,701
Net book value	8,155	0	0	0	0	0	2,183	5,972
Trademarks								
Acquisition cost	17	0	0	0	4	0	0	13
Net book value	16	0	0	0	4	0	3	10
Goodwill[12]								
Acquisition cost	347	0	0	0	347	0	0	0
Net book value	329	0	0	0	312	0	17	0
Total								
Acquisition cost	11,706	1,963	1,449	30	351	241	0	10,630
Net book value	10,341	1,449	1,449	30	316	0	2,945	7,111

Note 14: Tax Liabilities

000 EEK	31.12.87	31.12.97	31.12.96
Employee income tax	816	699	546
Social tax	1,102	1,192	793
VAT	1,432	1,200	1,040
Corporate income tax	9,834	4,771	1,651
Tax interests	0	4	0
Total	13,184	7,866	4,030

Note 15: Accrued Expenses

000 EEK	31.12.98	31.12.97	31.12.96
Liabilities to employees	4,985	5,485	3,635
Interest payable	2,045	684	997
Total	7,030	6,169	4,632

[12] The positive goodwill in the amount of EEK 1.5 million is included in the value of the investments in associates; in accordance with Estonian accounting principles, goodwill is not represented on the balance sheet, and the financial investments are recognized at cost. The value of goodwill is written off on straight-line-basis over a period not exceeding five years under the equity method. The book value of financial investments is reduced accordingly.

Note 16: Loans from Financial Institutions

Lender	Credit Limit	Currency	Maturity	Interest Rate	Balance 31.12.98
Bank syndicate[13]	10,000,000	DEM	20.07.2001	DEM 6 mo Libor + 3.75%	10,000,000
Hansapank	7,104,500	DEM	30.12.2003	DEM 6 mo Libor + 7%	5,125,000

Note 17: Owners' Equity

000 EEK	31.12.97	Stock Dividend Issue	Increase of Reserve	Increase of Retained Earnings	Net Profit 1998	31.12.98
Share capital[14]	13,628	27,256				40,884
Paid-in surplus[15]	12,032					12,032
Mandatory reserve	1,246		117			1,363
Retained earnings	35,748			1,550		37,298
Net profit for the year	28,923	-27,256	-117	-1550	23,775	23,775
Total	91,577					115,351

Note 18: Parent company's investments in subsidiaries and associates as at 31.12.98

AS Hotell Olümpia – located Liivalaia 33, Tallinn *AS ETK Hotell* – located Narva mnt 7c, Tallinn*Hansa Hotelli OÜ* – located Sadama 1, Tallinn*SIA Edikrija* – limited company registered in Latvia, located on Republicas Laukums 2, Riga

Note 19: Transactions with tradable securities

60 million rivatisation vouchers[16] (EVP) were bought during 1998 with acquisition proce 0.29 EEK per piece, with total value of 17.4 million EEK. The aim of the purchase of the EVPs was to use them for non-cash settlements according to the purchase contract of the estate properties (see Note 20 "Acquisition of estate properties"). all acquired EVPs were settled against debt to the Privatisation Agency in 1998.

Note 20: Acquisition of real estate

On 20.11.98, Estonian Privatisation Agency, Reval Hotel Group Ltd, and Hansapank Ltd. concluded the "Agreement on Purchase and Sales of Real Estate Properties and Establishment of Mortgage" by which Reval Hotel Group Ltd. acquired the property at Liivalaia 33, Tallinn, with the main building of hotel Olümpia on it and the property at Liivalaia 33a, Tallinn, with annex of hotel Olümpia on it. Along with acquiring the ownership of the properties Reval Hotel Group Ltd. also acquired the obligations and liability of the lessor arising from the Lease Agreement of 23.11.1994 between the Ministry of Finance of the Republic of Estonia and AS Hotell Olümpia and earlier lease relations, including the obligation to compensate the lessee for the cost of improvements, repairs and reconstruction in the amount of 46,789,130.83 EEK.

By the above agreement, the property located at Liivalaia 33, Tallinn, was encumbered with the mortgage of the first ranking in the amount of 58 million EEK with annual interest rate of 15% and guaranteeing collateral claims in the amount of 5.8 million EEK and the mortgage of the second ranking in the amount of 15.5 million EEK with an annual interest rate of 8% and guaranteeing collateral claims in the amount of 3 million EEK.

[13] The syndicate is led by Hansapank as the lead manager; the other members are Optiva Pank (as legal successor of Eesti Forekspank), Hansapank Latvia and Latvian Investment Bank.

[14] Number of shares: 4,088,442 (all share capital is paid in). Nominal value EEK 10.00. On 25 April 1998, the General Meeting decided to arrange a stock dividend issue, giving shareholders two extra shares for every existing share, to carry 116,814 kroons to the mandatory legal reserve and to carry 1,549,823 kroons to retained earnings.

[15] Paid-in surplus: 12,031,842. On 16 July 1997, the Shareholders' General Meeting decided to issue 116,814 new shares (equal to 350,442 shares after the stock dividend issue) with premium par 103 kroons per share (equal to 34.33 kroons per share after the stock dividend issue). Non-cash payment was made for the 116,814 shares with total assets valued at 13,199,982 kroons.

[16] Securities issued by the State, which can be used for settlements in privatisation of state property, tradable on Tallinn Stock Exchange on free market.

The terms of the Agreement on Purchase and Sale were as follows:

- price of the properties 230,111,111 EEK
- up to 50% of the price of the properties can be settled in Privatisation Vouchers
- 50% of the price of the properties (inc. 50% of this amount in Privatisation Vouchers) was paid upon signing the Agreement
- the remaining 50% of the price of the properties is payable by instalments over three years after the date of concluding the Agreement.

Based on the business plan of Reval Hotel Group Ltd., according to which it will exercise the right to settle 50% of the purchase price in Privatisation Vouchers, the part of the price of the properties payable in Privatisation Vouchers is treated as a barter transaction. Proceeding from the above, the acquisition cost of the properties is based on the average market price of Privatisation Vouchers on the day of the ownership transfer (the average market price of the Privatisation Voucher as of 20.11.98 as quoted the Tallinn Stock Exchange was 0.29 EEK). Accordingly, the part of instalments to be made in Privatisation Vouchers is valued in the balance sheet under liabilities based on the average price of the security.

The liabilities of Reval Hotel Group Ltd. to the Estonian Privatisation Agency as of 31.12.98:

EEK	Nominal value of the liability	Monetary value of the liability	Payable in 1999
Payable in money	57,527,777	57,527,777	19,175,926
Payable in EVP	55,055,556	15,966,111	5,561,017

In conformity with the Agreement, the nominal value of the debt payable by instalments carries an annual interest rate of 8%.

The Group had financial expenses directly related to the acquisition of the properties and financing of the transaction in an amount of 1.3 million EEK.

Note 21: Leasing contract of the building

AS Hotell Olümpia is a part of the leasing contract for the buildings with location on Liivalaia 33 in Tallinn as the Lessee. Until the conclusion of the contract of the purchase of the buildings between Estonian Privatisation Agency and Reval Hotel Group 20.11.98 the Lessor was Estonian Ministry of Finance, since the transfer of the ownership of the property to the buyer Reval Hotel Group is the Lessor and accordingly the leasing contract is internal for the group.

During 1998 the lease payments to the outside Lessor amounted to 20 million EEK. The lease payments were in total amount settled against investments in improvements of the building.

As a result of the acquisition of the properties by parent company, the value of the investments made into the improvements to the building by *AS Hotell Olümpia*, which was not settled in balance sheet a receivable, but it is transferred to the acquisition cost of the property (accordingly the other receivables decreased in an amount of 16.6 million EEK and the long-term financial investments decreased in an amount of 28.2 million EEK).

Note 22: Debt contract details

The debt maturity

	1999	2000	2001	2002	2003
Bank syndicate loan (DEM)	2,500,000	2,500,000	2,500,000	2,500,000	
Hansapank loan (DEM)[17]	155,990	1,739,880	1,739,880	1,739,880	1,739,880
EEA (settled in EVP)[18]	5,561,017	5,561,019	4,844,075		
EEA (settled in cash)	19,175,926	19,175,926	19,175,926		
Total in EEK	45,901,990	58,655,985	57,939,041	33,919,040	13,918,959

[17] The payment schedule includes the portion of the loan which was not used as of balance sheet date.

[18] See Note 20 "Acquisition of the estate properties"

Mortgages and pledges

1. the estate property on Liivalaia 33 in Tallinn is mortgaged with the first ranking mortgage in an amount of 58 million EEK with annual interest rate of 15% and with guarantee for the contingent claims in an amount of 5.8 million EEK, in favour of Hansapank, and the second ranking mortgage in an amount of 115.5 million EEK with an annual interest rate of 8% and with guarantee for the contingent claims in an amount of 3 million EEK in favour of Estonian Privatisation Agency.
2. the movable assets of *AS Hotell Olümpia*, including the assets and liabilities raising from Leasing Contract, are covered with Commercial Pledge in favour of Syndicated loan in an amount of 100 million EEK.

Note 23: Employees and payroll

Average number of employees in 1998	377
Total amount of salaries in 1998	35,640,650
Compensations to the members of the Council	490,571
Compensation to the Chief Executives	866,575

Note 24: Transactions with related parties.

AS Inn Grupp is a limited company belonging to the Chairman of the Council of Reval Hotel Group Tarmo Sumberg and to the Chairman of the Board Andres Liinas. As of 31.12.98 *AS Inn Grupp* owned 690,587 shares (16.89%) of Reval Hotel Group.

During the financial year of 1998 there have been transactions between Reval Hotel Group and *AS Inn Grupp* according to the contract from 18.08.97. The aim of the contract is to guarantee the strategic management of the group. The total amount of the settlements in 1998 was 5,110 thousand EEK, the Reval Hotel Group payable from *AS Inn Gupp* is 260 thousand EEK as of 31.12.98.

The expenses incurred by the contract mentioned above are included in "Administration and general expenses" in the Consolidated Income Statement.

Note 25: Shareholders related with management as of December 31, 1998

Shareholder	Relation with Reval Hotel Group	No of shares	% of Shares
AS Inn Grupp	owned by Chairman of the Council Tarmo Sumberg and CEO Andres Liinat	690,587	16.89%
Tarmo Sumberg Investments	owned by Chairman of the Council Tarmo Sumberg	83,479	2.04%
Andres Liinat	CEO	67,800	1.66%
Valdo Herzmann	Till Jan 31, 1999 CEO of affiliated company *AS ETK Hotell*	1,035	0.03%
Tiina Varamäe-Välja	General Manager of affiliated company *Hansa Hotelli OÜ*	87	less than 0.01%
Total		842,988	20.62%

Note 26: Financial instruments

Financial assets of the Company include cash, marketable securities and trade receivables. Financial liabilities include loans and borrowings and trade payables.

Interest rate risk

The interest rates and terms of repayments of the Company are disclosed in Notes 16, 20, and 22.

Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted. The group does not have significant exposure to any individual customer or counterpart. To reduce exposure to credit risk, the Company performs ongoing customer performance evaluations. The management does not expect the counterparty to fail to meet its obligations.

Fair value

The fair values of cash, trade payables, loans and borrowings are not materially different from their carrying amounts.

Note 27: Contingencies

A court case has been instituted against Republic of Estonia and Reval Hotel Group regarding the invalidation of the "Agreement on purchase and Sale of Real Estate Properties and Establishment of Mortgage" concluded on 20.11.98.

The plaintiffs have applied for the matter that for a part of the plot of the land located at Liivalaia 33 and 33a (2,681.12 sq. meters or 24.4%) there is no decision made by Tallinn City Government either to restore the ownership of the claimed plots of land to plaintiffs or not to restore such ownership but to indemnify the plaintiffs, and the State had no right to sell the estate properties.

Should the agreement be declared null and void and should Reval Hotel Group return the ownership of the estate properties to the State, the purchase price paid for the properties should be returned to Reval Hotel Group and under the agreement Revel Hotel Group will have right to claim the penalty.

The management believes that the claim of the plaintiffs is not legitimate.

AUDITOR'S STATEMENT

KPMG Estonia

Ahtri 10A

10151 Tallinn

Estonia

Auditor's report to the shareholders of Reval Hotelligrupi AS

(translation from Estonian)

We have audited the consolidated financial statements of Reval Hotelligrupi AS as of December 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Estonian Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Without qualifying our opinion in regard to overall financial statement presentation we draw attention to Note 11 to the financial statements. On acquisition of associates, the difference between the cost of acquisition and the investor's share of the fair values of the net identifiable assets has not been recognised as a separate asset in accordance with International Accounting Standards. Instead, goodwill in the amount of EEK 1.5 million as of 31 December 1998 is included in the carrying amount of long-term financial assets.

In our opinion, the financial statements, prepared in accordance with International Accounting Standards, give a true and fair view of the consolidated results of Reval Hotelligrupi AS operations for the financial year, a profit of EEK 23,774,594, and its consolidated financial position as of 31 December 1998, showing the balance sheet total of EEK 343,190,997.

This translation is based on the auditor's report issued on the original financial statements prepared in Estonian language.

Tallinn 5 April 1999

KPMG Estonia

(signed)

Andres Root

Authorised Public Accountant

APPENDIX 2 – UNAUDITED FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 1999

Consolidated Unaudited Profit and Loss Account for the first quarter of 1999

'000 EEK	first quarter 1999
Net turnover	39,560
Cost of goods sold	21,186
Gross profit	**18,373**
Marketing expenses	2,275
General expenses	12,965
Other business income	764
Other business expenses	563
Operating profit	**3,334**
Financial income	**607**
Income from sale of subsidiary	
Foreign exchange gain	383
Interest income	224
Financial expenses	**7,545**
Financial expenses from shares of subsidiaries	
Foreign exchange loss	961
Change in the value of financial assets	1,350
Interest expenses	4,663
Other financial expense	571
Income before taxes	**-3,604**
Income tax	
Minority ownership	
Net profit	**-3,604**

Consolidated Unaudited Balance Sheet as of 31 March 1999

'000 EEK	31.03.99
Assets	
Current assets	
Cash and cash equivalents	10,309
Accounts receivable	5,526
Other receivables	4,579
Prepaid expenses	3,571
Inventories	3,642
Total current assets	**60,987**
Fixed assets	
Long-term financial investments	25,994
Tangible assets	270,899
Intangible assets	6,606
Prepayments for fixed assets	146
Total fixed assets	**303,645**
Deferred tax asset	482
Total assets	**331,755**
Liabilities and owners' equity	
Liabilities	
Current liabilities	
Short term share of long term liabilities	35,943
Prepayments from customers	339
Accounts payable to suppliers	5,100
Other payables	332
Taxes payable	13,019
Accrued expenses	10,832
Total current liabilities	**65,565**
Long-term liabilities	
Secured loan and capital lease	148,602
Deferred income tax liability	5,840
Total long-term liabilities	**154,442**
Minority ownership	
Owners' equity	
Share capital	40,884
Paid-in capital over par	12,032
Reserve capital	1,363
Retained earnings	61,072
Net profit for the period	-3,604
Total owners' equity	**111,747**
Total liabilities and owners' equity	**331,755**

APPENDIX 3 – AS HOTELL OLÜMPIA PROFIT AND LOSS ACCOUNT

AS Hotell Olümpia Profit and Loss Account for the Years Ended 31 December 1995, 1996 and 1997 (*UNIFORM* STANDARD)

000 EEK	1998	1997	1996	1995
Net revenue				
Rooms	108,871	106,279	91,153	71,869
Food and beverage	75,622	73,670	64,278	50,075
Telephone	3,162	3,257	3,951	4,541
Other operated departments	18,457	17,321	14,686	10,728
Rentals and other	6,396	7,046	4,982	5,201
Total net revenue	208,507	207,574	179,049	142,414
Departmental expenses				
Rooms	15,199	13,693	11,636	7,710
Food & beverages	50,477	49,356	45,530	34,673
Telephone	1,726	1,655	2,433	2,849
Other operated departments	8,841	7,425	7,161	4,807
Total departmental expenses	76,209	72,128	66,760	50,039
Profit from departments		135,446	112,288	92,375
Undistributed operating expenses				
Administrative and general expenses	17,440	18,353	16,273	17,954
Marketing and booking expenses	6,777	6,782	4,925	3,382
Property operation and maintenance	6,847	7,225	8,667	9,149
Energy	8,328	8,071	7,490	7,120
Total undistributed operating expenses	39,392	40,432	37,354	37,605
Income before fixed charges	92,906	95,014	74,934	54,770
Management fee	12,000	3,802	4,250	981
Fixed charges				
Total fixed charges	58,104	47,229	43,959	37,269
Profit from operations	22,802	43,983	26,725	16,521
Sale/Disposal of fixed assets (net)	0	-20	-241	-1,372
Profit before income tax	22,802	43,961	26,484	15,149

The above profit and loss account outline based on the *Uniform System of Accounts for Hotels* is widely used in hotel management. The *Uniform* standard was designed by *American Hotel and Motel Association,* and it enables valuation of contributions of different departments on profitability of a hotel. The main difference between the income statement standard of the Estonian Accounting Law and the *Uniform* standard lies in calculation of net turnover. The *Uniform* standard includes business income and financial income in net turnover. The net profit of the hotel is the same under both standards.

APPENDIX 4 – ADDITIONAL FINANCIAL INFORMATION

Investments

Investments in 1995

000 EEK	1995
Hotel rooms	30,874.4
Restaurant and conference halls	22,716.5
Night club	6,331.7
Other	2,824.1
Total	62,746.6

In 1995, EEK 45.9 million from the investments was financed with a long-term loan and EEK 16.8 million from owners' equity.

Investments in 1996

000 EEK	1996
Health club	14,041.6
Confectionery shop	5,336.7
Hotel rooms	3,429.6
Other	2,000.3
Total	24,808.2

The Company's investments in 1996 were financed from owners' equity.

Other investments in 1995-1996 embody expenses on small cost fixed assets (furniture, kitchen inventory).

Investments in 1997

000 EEK	1997
Conference halls	5,886.1
Rooms	5,527.2
Information technology	4,042.4
Catering equipment and inventory	1,905.0
Business centre, management, health club, purchasing department, security service, financial department, building	709
Office of the Company	1,292.6
Total	19,362.2

1997 investments were mainly financed from owners' equity.

Investment in rooms is comprised of investments for accommodation, such as replacement of doors. Unlike earlier years, 1997 investments in rooms do not include project management but are limited to refurbishment or replacement of single room fixtures.

Investments in 1998

000 EEK	1998
Property purchases, Liivalaia 33 and 33a	198,324
Head office furniture and equipment	835
Hotel Olümpia, including:	15,664
Air conditioning for the rooms	8,151
Enlargement of the cafeteria *Brasserie*	4,622
Renovation of public area	2,286
Information technology and office equipment	605
Total	214,822

The property was 40% hire-purchased, and the remainder was financed with a bank loan (see Appendix 1 – "Financial Statements," Note 16). Other investments in 1998 were financed from owners' equity.

APPENDIX 5 – ARTICLES OF ASSOCIATION

1. TRADE NAME AND DOMICILE

1.1. Trade Name

The trade name of this joint-stock company (hereinafter the "Company") shall be Reval Hotelligrupi AS.

1.2. Domicile

The domicile of the Company shall be Tallinn.

2. LEGAL STATUS OF THE COMPANY

2.1. Legal Capacity

The Company shall be a legal entity. The Company shall acquire its legal status through registration of its business status in the register as provided under the law and such legal status shall terminate upon exclusion of the Company from the register.

2.2. Legal Competence

The company shall have the authority to execute any transaction and carry out any deeds that are not forbidden by the law.

2.3. Liability of the Company

The Company shall be liable for its obligations with its assets.

3. FIELDS OF ACTIVITY

3.1. The Main Fields of Activity

1. Investment and financing activities;
2. Arrangement of hotel and restaurant businesses;
3. Rendering management and development services;
4. Arrangement of commercial and mediation activities;
5. Acquisition, lease and disposition of real estate, real estate development;
6. Hotel operations, catering and any activities related thereof;
7. Arrangements of expositions, conferences and congresses and entertainment undertakings;
8. Advertising activities;
9. Transportation activities within the republic.

4. SHARE CAPITAL

4.1. Share Capital

The minimum share capital of the Company shall be 12,460,000 (twelve million and four hundred sixty thousand) kroons and the maximum share capital of the Company shall be 49,840,000 (forty nine million and eight hundred forty thousand) kroons. The amount of the share capital of the Company may be increased and decreased within the limits of the minimum and maximum share capital without amending these Articles of Association (hereinafter the "Articles of Association").

4.2. Increase of Share Capital

4.2.1. Share capital may be increased without additional payments (scrip issue) or with additional payments to share capital.

4.2.2. If the increase of share capital requires amendment of the Articles of Association, then the shareholders of the Company (hereinafter, the "Shareholders") shall decide the issue of such amendment prior to the increase of the share capital.

4.2.3. Share capital shall be considered increased as of the registration of the increase with the Commercial Registry.

4.2.4. The Council of the Company shall be entitled to increase the share capital in accordance with the provisions of law and to decide on the terms of payment for the issued shares by cash or in-kind contributions.

4.2.5. Upon the resolution of the General Meeting, the Company shall be entitled to issue convertible bonds which entitle the owner of such bonds to convert the bonds into shares of the Company pursuant to the terms and conditions set forth in such bonds.

4.3. Decrease of the Share Capital

4.3.1. Share capital of the Company may be decreased by reduction of the par value of shares or cancellation of the shares.

4.3.2. Share capital shall be considered to be decreased from the registration of decrease with the commercial register.

4.3.3. If the Articles of Association need to be amended due to a decrease of the share capital, such amendment shall be decided prior to the decrease of the share capital.

4.3.4. The share capital may be reduced on the account of preferential shares only if the dividend has been paid in full to the owners of such shares.

4.3.5. Within fifteen (15) days of the date of the resolution to decrease the Share Capital the Board shall send a written notice which shall set forth the adjusted amount of the share capital to the creditors of the Company whom the Company knows, have claims against the Company that arose before the adoption of the resolution to decrease the share capital. The Board shall also publish two notices with an interval of at least 15 days between the notices, in a national newspaper setting forth the decrease of the share capital and requesting the creditors to submit their claims within two (2) months of publication of the final newspaper notice.

4.3.6. If the Company's reserve funds are insufficient to cover a loss and the Company has no other reserves, the Company's share capital may be reduced by engaging simplified procedures provided for in law in order to cover such loss.

5. SHARE

5.1. Definition

The Share Capital of the Company shall be divided into shares. The Share is indivisible.

5.2. Classes of Shares

5.2.1. The Company shall have registered common shares with the nominal value of ten (10) kroons and each share shall carry one vote at the Company's General Meeting of Shareholders. Each Share shall entitle the Shareholder to participate in the management of the Company and in distribution of profits and distribution of assets remaining upon liquidation of the Company, as well as other rights provided by the law and these Articles of Association.

5.2.2. The Company shall be entitled to issue the shares of the other classes by the decision of the Company's General Meeting of Shareholders and the respective amendments shall be made in the Articles of Association.

5.3. Share Certificate

The Shareholder shall have no right to demand for issue of the Share Certificate. The Shareholder shall have no right to demand the changing of the bearer's share to registered share and vice versa.

5.4. Subscription for the Shares

5.4.1. By subscribing for the share the subscriber becomes entitled to such share and undertakes the obligation to pay for such share. Subscription shall take effect by making the appropriate entry in the subscription list.

5.4.2. If new shares are to be paid for in money, the Shareholder shall have a pre-emptive right to subscribe for the new share in proportion to the aggregate amount of par value of his Shares.

5.4.3. In the event that the Company has different classes of shares and the new issue concerns several classes of shares or only certain classes of shares, the owners of such classes of shares have the right of first refusal ahead of the other Shareholders to subscribe for such shares.

5.4.4. Shareholder's right of refusal can be excluded by the decision of the Shareholders' General Meeting by 3/4 of the votes represented at the General Meeting.

5.5. Payment for the Shares

5.5.1. Shares shall be paid for in cash or by in-kind contribution.

5.5.2. A subscriber who has failed to pay for the subscribed share in due time shall pay overdue interest in the amount of zero point one (0.1)% of the outstanding amount for each day of the delay.

5.5.3. If subscribed shares have not been fully paid within one (1) month from the due payment date, such subscriber shall lose the right to the subscribed shares, as well as to the amount already paid by him, which shall not, however, exceed 1/5 of the aggregate par value of the shares subscribed by the person. This amount shall be transferred to the capital reserve of the Company, and the remaining amount shall be refunded to the subscriber of the shares.

5.6. In-kind Contribution

5.6.1. An in-kind contribution may be of any property or proprietary right that can be appraised and transferred to the Company and that may be attached.

5.6.2. The value of in-kind contribution shall be appraised by an independent expert appointed by the Council. Evaluation of the in-kind contribution shall be verified by an auditor.

5.7. Share Ledger

The Board of the Company shall arrange for keeping the share ledger in order provided by the Council of the Company.

5.8. Transfer of Shares

5.8.1. The Share is freely transferable.

5.9. Encumbrance of the Share

Share may be pledged or encumbered with usufruct. The respective notice of pledge or encumbrance of the share shall be made into the share ledger. The Share shall be considered pledged or encumbered with usufruct as of the entry of the respective notice to the share ledger. Shareholder's rights under encumbered share shall be executed by pledgor. The usufructuary of a share which is encumbered with usufruct shall be entitled to participate in distribution of the Company's profits.

6. RIGHTS AND DUTIES OF SHAREHOLDERS

6.1. Rights of Shareholders

6.1.1. Shareholders shall be provided equal treatment under similar circumstances.

6.1.2. Shareholder shall have all rights provided by laws and other legal acts and the Articles of Association.

6.2. Obligations of Shareholders

6.2.1. Shareholders shall obey the provisions of the Articles of Association.

6.2.2. Shareholders registered in the share ledger shall be obliged to inform the Board of the Company of any change in their name or address.

7. MANAGEMENT OF THE COMPANY

7.1. Management Bodies

The Company shall have the following management bodies:

7.1.1. General Meeting of the Shareholders of the Company (the "General Meeting");

7.1.2. Council of the Company (the "Council");

7.1.3. Management Board of the Company (the "Board").

7.2. General Meeting

7.2.1. The General Meeting shall be the superior governing body of the Company. General Meetings shall be regular and extraordinary.

7.2.2. The Regular General Meeting shall take place once a year within six (6) months from the end of the business year at a date and venue decided by the Board.

7.2.3. The Board shall summon the General Meeting on the following occasions:

(1) In the event the Company's net assets are below the level required by the law; or

(2) Such a meeting is required by Shareholders whose Shares represent at least 1/10 of the Share Capital; or

(3) Such a meeting is required by the Council.

7.2.4. Should the Board fail to summon the General Meeting within one (1) month from the receipt of a request from Shareholders or the Council, the Shareholders or the Council shall be entitled to summon the General Meeting themselves in accordance with the provisions of the Articles of Association and the law.

7.2.5. The Board shall publish a notice in a newspaper announcing the Regular General Meeting not less than four (4) weeks prior to such a meeting and the Extraordinary Meeting not less than one (1) week prior to such a meeting. Such notice shall stipulate the date, venue and agenda of the General Meeting, state whether the meeting is regular or extraordinary, as well as announce other substantial matters related to the General Meeting. The notice of the Regular General Meeting shall also stipulate the venue where the annual report may be examined.

7.2.6. The General Meeting is empowered to pass resolutions if at least half of the votes by all Shares are represented at the meeting. A list of all Shareholders participating at the General Meeting shall be prepared, stipulating the names of the participating Shareholders, number of votes by their Shares and names of their proxies. The list shall be signed by the chairman and secretary of the meeting.

7.2.7. The General Meeting shall have the exclusive competence to:

(1) Amend the Articles of Association;

(2) Increase and decrease the Share Capital;

(3) Issue convertible bonds;

(4) Elect and recall the members of the Council;

(5) Appoint auditor(s);

(6) Appoint a special controller;

(7) Approve the annual report and distribution of profits;

(8) Decide on presentation of a claim against a member of the Board, the Council or against a Shareholder and appointment of the Company's representative in such claim;

(9) Decide on the merger, termination, division and/or transformation of the Company;

(10) Resolve any other issues given to the competence of the General Meeting by law.

7.2.8. The General Meeting shall have the authority to pass decisions on other issues related to the activities of the Company only upon request of the Board or the Council.

7.2.9. The resolution of the General Meeting shall be deemed duly passed when at least half of the votes represented at the General Meeting are cast for such a resolution, except resolving issues stipulated by subsections 7.2.7.(1); 7.2.7.(2); 7.2.7.(7) and 7.2.7.(9) of the Articles of Association, which require a 2/3 majority of votes to be represented at the General Meeting, as well as in other cases if explicitly so required by law.

7.2.10. At General Meeting elections, the candidate who has received the most votes shall be deemed elected for the given position.

7.2.11. Decisions of the General Meeting shall be recorded in Minutes of the Meeting.

7.2.12. Minutes of a General Meeting shall be available to Shareholders after seven (7) days from the adjournment of the General Meeting.

7.2.13. Shareholders shall be entitled to receive copies of Minutes of the General Meeting or excerpts thereof.

7.3. The Council

7.3.1. The Council shall plan the activities of the Company, arrange the management of the Company and supervise the activities of the Board.

7.3.2. The Council shall have five (5) to nine (9) members. The number of council members shall be determined by decision of the General Meeting. The members of the Council shall be elected by the General Meeting for a term of three (3) years.

7.3.3. The members of the Council can be recalled by decision of the General Meeting at the discretion of the General Meeting. A decision about early recall of a member of the Council shall be passed with a majority of 2/3 of the votes represented at the General Meeting.

7.3.4. Members of the Board, the Procuror of the Company, and any person who has been declared bankrupt, as well as other persons who by virtue of law have been deprived of the right to be engaged in business as entrepreneurs, shall not be members of the Council.

7.3.5. The Council shall appoint and recall a Procuror.

7.3.6. The Council shall represent the Company in transactions and disputes with members of the Board.

7.3.7. The consent of the Council shall be required for the execution of the following types of transactions:

(1) Acquisition and termination of participation in other entities, exceeding 1/3 or 1/2 or 2/3 of the capital of such entity;

(2) Acquisition, transfer or termination of a company;

(3) Establishment and termination of branches abroad;

(4) Investments in excess of the amounts determined by the budget set up by the Council for the respective business year;

(5) Taking of loans and incurring of debts in excess of amounts allocated for the respective business year;

(6) Lending and securing debts if its beyond the day-to-day business of the Company.

7.3.8. The Chairman of the Council shall be elected by the members of the Council amongst themselves, who shall organise the work of the Council and preside over the meetings of the Council. In the absence of the Chairman, the members of the Council may elect a deputy of the Chairman from amongst themselves.

7.3.9. Meetings of the Council shall take place according to necessity but not less than once within every three (3) months. Meetings of the Council shall be convened by the Council Chairman or the member of the Council substituting the Chairman.

7.3.10. The meetings of the Council shall be empowered to pass resolutions if attended by more than half of the members of the Council. Resolutions of the Council shall be taken by a simple majority of votes. Each member of the Council shall have one vote.

7.3.11. Meetings of the Council shall be recorded in writing. The minutes shall be signed by all members of the Council present at such meeting.

7.3.12. The Council shall be entitled to pass resolutions without summoning the meeting of the Council. The Chairman of the Council shall deliver a draft of decision to all members of the Council by facsimile and shall designate a time, which shall be at least 72 (seventy two) hours from the notice, for submission of responses. A failure to respond shall be deemed a vote against the decision. The Board shall immediately inform all members of the Council in writing about the results of the vote. If all members of the Council sign a decision, the given decision shall be considered valid even if the requirements of the Articles of Association regarding the procedures of its adoption were not followed.

7.3.13. A resolution of the Council shall be adopted if more than one-half of the members of the Council vote in favour.

7.4. The Board

7.4.1. The Board is the managerial body of the Company that represents and manages the Company. The transactions stipulated in the Articles of Association shall be executed by the consent of the Council. The Board shall consist of one (1) member (a director) unless otherwise decided by the Council.

7.4.2. The Board shall be accountable to the Council and to the General Meeting. The Board shall provide the Council an overview of the economic activities and economic situation of the company at least once every three (3) months, and inform the Council immediately about any material deterioration of the economic situation of the Company and about any other material circumstances regarding the Company's activities. Upon completion of annual accounts and annual reports, the Board shall submit them without delay to the Company's auditor.

7.4.3. The competence of the Board shall include:

(1) Organisation of accounting of the Company;

(2) Preparation and presentation of annual accounts, reports of activity and proposals regarding distribution of profits together with auditors' reports to the General Meeting in accordance with the requirements of law;

(3) Arrangement of reporting;

(4) Execution of other transactions and deeds pursuant to law, other legal acts, the Articles of Association and lawful decisions and orders of General Meeting or the Council.

7.4.4. The members of the Board shall be elected by the Council for a term of three (3) years. If the Board shall consist of only one member, the manager shall act as managing director (general director) of the Company.

7.4.5. A member of the Council of the Company, the Procuror, and any person who has been declared bankrupt, as well as other persons who by virtue of law have been deprived of the right to be engaged in business as entrepreneurs, shall not be members of the Board.

7.4.6. In case there will be more than one member of the Board, the members of the Board shall elect from amongst themselves a Chairman of the Board, who shall arrange the work of the Board.

7.5. Requirements for Management of Bodies

7.5.1 Members of the Board and Management shall not participate in voting if the decision in question is in regard to approval of the conclusion of a transaction between any of persons mentioned and the Company is being decided. Members of the Council, the Board, and Management Team cannot participate in the voting if it is in regard to the conclusion of a transaction between the Company and a legal entity, who is either a member of the Council, the Board, or Management Team; or if his/her relative or associate has substantial participation in the legal entity.

7.5.2. Relatives or associates to members of the Council, the Board and Management include spouses and relatives, who under the law of inheritance have the right as a primary or secondary beneficiary, as well as any commercial undertaking controlled by the persons mentioned. Such a relative or associate has bearing on the commercial undertaking, when the person:

(1) Owns the majority of votes amongst the shareholders;

(2) Has the right to appoint and recall majority of members of the Council, the Board and Management, being the shareholder of the commercial undertaking at the same time;

(3) Controls the majority of the votes of shareholders in accordance with relative agreement with other shareholders, being the shareholder of the commercial undertaking at the same time.

7.5.3. If a person participates with more than 10% of votes presented by shares, it is considered substantial participation in commercial undertaking. For voting rights, the following votes are considered to belong to the Person (hereinafter the "Person").

(1) Votes of shares the Person owns, *inter alia* votes of shares pledged by such Person;

(2) Votes of shares owned by other persons, if the Person votes on behalf of such other persons;

(3) Votes of shares owned by the commercial undertaking controlled by the Person;

(4) Votes of shares owned by third persons with whom the Person has a written agreement obligating the parties to apply united policy for the management of the commercial undertaking due to concordant voting.

(5) Votes of shares owned by third persons, but that require a written agreement between the Person or the controllable commercial undertaking assigned temporarily to the Person.

8. SIGNATORY RIGHTS

Each member of the Board and the Procurers shall be authorised to represent the Company in any and all deeds and undertakings. The member of the Board shall not be allowed to assign signatory rights further, unless otherwise decided by the Council.

9. AUDITOR

The auditor(s) shall be appointed and a number of auditors shall be determined by the General Meeting for a single audit or for a specified term. The Board shall submit the name(s) of the auditor(s) of the Company for the Commercial Register. In case of a change of auditor(s) of the Company the Board shall within five (5) days submit the name(s) of the new auditor(s) to the Commercial Register.

10. REPORTING AND DISTRIBUTION OF PROFITS

10.1. Business Year

The business year of the Company shall be the calendar year.

10.2. Preparation, Presentation and Approval of the Annual Report

10.2.1. Upon the completion of the business year, the Board shall prepare annual accounts and activity reports as required by law and shall submit them to the auditor(s). The annual report, together with the opinion of auditor(s), shall be approved by a resolution of the General Meeting.

10.2.2. The Board shall guarantee the availability of the annual report for review by Shareholders at least two (2) weeks before the General Meeting.

10.2.3. The Council shall review the annual report and shall prepare a written report that shall be submitted to the General Meeting. In the report the Council shall indicate whether or not it approves the annual report prepared by the Board.

10.2.4. The annual report shall be approved by the General Meeting. The Board shall submit the annual report approved by General Meeting to the Commercial Register no later than six (6) months from the end of the previous business year.

10.3. Distribution of Profit

Resolution regarding distribution of profit shall be adopted by the General Meeting on the basis of approved annual reports and by indication of the amount of net profit, allocations to capital reserve and to other reserves, amount of dividends payable to the Shareholders and allocation of profit for other purposes.

10.4. Capital Reserve

10.4.1. The capital reserve shall be formed of the yearly allocations of net profit, as well as other allocations pursuant to the requirements of the law and the Articles of Association. The amount of the capital reserve shall be 1/10 of the Share Capital. The amount to be allocated to the capital reserve shall be decided by the General Meeting.

10.4.2. The reserve fund may upon the decision of the General Meeting be used for covering the loss of the Company in the case it is impossible to cover the loss from the share equity of the Company. The capital reserve shall not be used for payments to the Shareholders.

10.5. Dividends

10.5.1. Dividends are allowed to be paid once a year on the basis of the annual report approved by General Meeting. The order of distribution of dividends shall be determined by decision of the General Meeting. The amount of dividends shall be approved by the General Meeting on the basis of proposal made by the Board and confirmation with the Council.

10.5.2. Shareholders shall receive dividends *pro rata* of the par value of their Shares. The Shareholder has the right to demand payment of dividends as provided with the resolution of the General Meeting.

11. MERGER, DIVISION, TRANSFORMATION AND TERMINATION

11.1. Merger, Division, Transformation

Mergers, divisions and transformations of the Company shall be executed in accordance with the requirements of law.

11.2. Grounds of Termination

11.2.1. The Company may be terminated:

(1) By the resolution of the General Meeting;

(2) By court;

(3) If the net asset of the Company falls below the required share capital provided by law;

(4) On other bases as prescribed by law.

11.3. Compulsory Dissolution

11.3.1. The Company shall be dissolved by court decision, if:

(1) The General Meeting does not adopt a dissolution resolution if its adoption is obligatory pursuant to law or the Articles of Association.

(2) The General Meeting has not been held during the last 2 (two) financial years;

(3) The term of the Board's authority expired more than 2 (two) years ago without a new Board being elected;

(4) In other cases provided by law.

11.4. Liquidation

11.4.1. The Company shall be liquidated upon the termination of its activities, unless otherwise prescribed by the law.

11.4.2. The members of the Board shall be the liquidators of the Company, unless otherwise stipulated by the decision of the General Meeting or court order. The liquidator shall be a legally competent physical person. At least one of the liquidators shall be an Estonian resident. The court shall appoint liquidators upon mandatory liquidation, as well as in cases so requested by the Shareholders representing at least 1/10 of the Share Capital. The court shall also stipulate the procedure for and the amount of the remuneration for the liquidators.

11.4.3. Liquidators shall publish the notice of liquidation as required by the law. The liquidation notice shall stipulate that the creditors must present their claims against the Company within four (4) months of the last notice, stipulating the contents, grounds and amount of their claims, which will be appended with documents supporting their claims.

11.4.4. The trade name of the Company shall be appended with notice "under liquidation" throughout the liquidation process.

11.4.5. The liquidators shall be authorised to execute only those actions that are required by the law.

11.4.6. If the Company has more than one liquidator, the liquidators shall only have the authority to represent the Company jointly. The liquidators shall be entitled to authorise one or several persons from among themselves to execute certain transactions or deeds.

11.4.7. The liquidators and members of the Board are responsible for the created damages.

12. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

To carry out amendments to the Articles of Association, a minimum of 2/3 majority of votes represented at the General Meeting must vote in favour of the given resolution. Amendments to the Articles of Association take effect upon registration, as foreseen by legal acts.

The Articles of Association of the Company approved by the General Meeting of Shareholders on 19 August 1997 has registered in the Commercial Register.

AFFIDAVIT

Herein the signatories attest to the validity and accuracy of information presented in this Information Memorandum. While this Information Memorandum does not purport to be a legal opinion or to address all aspects of investment consideration, any information that would have bearing on the context or meaning of this Information Memorandum has not been omitted.

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