# AS Järvevana

**Annual Report**
(Translation of the Estonian Original)

Beginning of financial year: 01.01.2010
End of financial year: 31.12.2010


| | |
|---|---|
| Commercial Register no.: | 10068022 |
| Address: | Järvevana tee 9G<br>11314 Tallinn |
| Phone: | +372 680 5400 |
| Fax: | +372 680 5401 |
| E-mail: | merko@merko.ee |
| Auditor: | AS PricewaterhouseCoopers |
| Supervisory Board: | Tõnu Toomik, Teet Roopalu, Jaan Mäe |
| Director: | Toomas Annus |

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## MANAGEMENT REPORT

### General information

The company was formed after the demerger from AS Järvevana (former AS Merko Ehitus), as a result of which the complete set of assets related to the business activities of the construction company was separated and transferred to the new AS Merko Ehitus, including all concluded construction contracts, subcontracts and supply contracts, machinery, equipment and employees, all professional know-how and cash flows from uninterrupted, continuous economic activities, except for liabilities arising from the criminal case no. 05913000055, including compensations for damage, penalties and other payables, legal expenses and liquid assets to cover potential liabilities arising from the criminal proceedings in the amount of EUR 16.0 million (EEK 250 million). The company does not have ordinary economic activities and the only objective of its activities is to protect the interests of the company and shareholders in the long-lasting criminal proceedings related to the land swap.

### Operating activities

The company does not have active business operations and its only income is finance income earned on the investment of the company's liquid funds. Between 01.01.2010 and 31.12.2010, AS Järvevana earned finance income in the amount of EUR 0.21 million (EEK 3.3 million). The most significant cost article is the legal costs related to the criminal proceedings of the land swap, which totalled 38% of the administrative expenses in 2010. A claim against AS Merko Ehitus arising from a collaboration agreement totalled EUR 13.4 million (EEK 209 million) of the company's assets (http://www.merko.ee/upload/File/Restruktureerimise%20dokumendid/Koost%F6%F6leping%20ENG.pdf).
As at 31 December 2010, one person was employed by AS Järvevana, its Director Toomas Annus, whose remuneration in 2010 amounted to EUR 0.03 million (EEK 0.49 million).
The Supervisory Board of AS Järvevana has 3 members. In 2010, the members of the Supervisory Board were paid remuneration in the amount of EUR 0.01 million (EEK 0.12 million). No other compensation was paid to management in 2010. Upon premature termination or non-extension of the authority of the members of the Supervisory Board, no severance pay is paid to the members of the Supervisory Board. The company's activities do not have seasonal or cyclical nature.

### Business risks

Credit risk. As the company does not have ordinary economic activities and related receivables, credit risk arising from accounts receivable is insignificant. As at 31.12.2010, the company did not have any overdue receivables.

As at 31.12.2010, the receivable from AS Merko Ehitus in the amount of EUR 13.4 million (EEK 209.6 million) which arose in the demerger represents the largest credit risk for the company. Management estimates that the credit capacity of AS Merko Ehitus is currently good (as at 31.12.2010, the company's equity ratio was 63.8%, the quick ratio was 1.1). The company's cash is mainly held in Swedbank overnight deposits.

Interest risk. Due to the company's capital structure, the company does not have interest bearing liabilities and interest risk for the company represents a possible decline in the return on assets. As at 31.12.2010, AS Järvevana had interest bearing assets in the amount of EUR 9.6 million (EEK 150 million), including short-term bank deposits with maturities of three months or less in the amount of EUR 1.3 million (EEK 20 million) and EUR 1.3 million (EEK 20 million) in 4-12 month deposits and a loan in the amount of EUR 7.0 million (EEK

110 million) to AS Merko Ehitus. As the company does not have any direct operating activities, the amount and regularity of interest income is relevant for it. One of the priorities of the company in 2011 is the attainment of a better return on assets.

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

Foreign exchange risk. In concluding contracts and assuming obligations, the company prefers the Estonian kroon to foreign currencies. From 1 January 2011, Estonia adopted the euro as a national currency which significantly reduced the effect of foreign exchange risk for the company.

Legal risks. Due to different interpretations of contracts, regulations and laws, there is a risk that some buyers, contractors or supervisory authorities deem the company's activities to be in conflict with laws or contracts. Legal risk is one of the largest and most indefinite risks for AS Järvevana's activities. As at 31.12.2010, the company had set up a provision for possible expenses arising from the criminal case related to the land swap in the amount of EUR 1.1 million (EEK 17.5 million).

At 3 April 2009, the Public Prosecutor's Office submitted a statement of charges (dated 31.03.2009) against AS Järvevana and Toomas Annus in criminal case no. 05913000055 concerning the land swap (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=232810).

At 12 November 2009, the judicial proceedings concerning the land swap case commenced at Harju County Court. An overview of the proceedings is available at: http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100003559&list=3&tab=news&news_id=238437. In the statement of charges, AS Järvevana has been incriminated with five episodes of giving a bribe and the matter has been referred for judicial proceedings to Harju County Court. The subject of proof concerning bribery charges has three elements, the absence of even one of which precludes the necessary elements of criminal offence: (i) promising or giving of a material reward to an official; (ii) illegal act by an official in favour of a person giving a bribe; (iii) equivalence relation between the first and second elements, i.e. giving of a reward to an official for a favourable act. Evidence also needs to be produced against AS Järvevana in the matter that (i) the act was committed by a senior executive of a legal person, and (ii) the act was committed in the interests of the legal person. AS Järvevana has not concluded any land swap transactions described in the statement of charges. These transactions were concluded and hypothetical benefits could have been reaped by independent subsidiaries as legal persons who have not been charged. Even according to the statement of charges, AS Järvevana has never swapped land. It is also evident that the acts could not have been illegal because they had been permitted under § 19 of the Nature Conservation Act which casts doubt on the qualification of bribery.

Till spring 2010, the court had questioned close to 80 prosecutor's witnesses and none of the witnesses has provided evidence of promising or giving of a bribe, or illegal acts. The Prosecutor's Office has not asked any of the prosecutor's witnesses about the subject of proof – whether anyone has been promised or given a bribe. The prosecutor's witnesses have provided exclusively negative answers to this question when asked by the court and the criminal defence counsels. After the summer holiday, the proceedings of criminal case continued at Harju County Court from 5 October 2010. Between October and December, the court had planned 13 sitting days, during the course of which the last prosecutor's witness was questioned. All documentary evidence of the Prosecutor's Office has been published by now. Therefore, the Prosecutor's

Office has concluded presentation of its evidence. We are on the position that none of the pieces of evidence of the Prosecutor's Office has produced evidence of a promise or giving of a bribe or illegal nature of the transactions or the aforementioned equivalence relation. The procedural schedule of the proceedings for the year 2011 has been drawn up until 22 June 2011, during the course of which the witnesses of the criminal defence counsel will be questioned and plenty of documentary evidence will be produced by the criminal defence counsel. The decision of the court of first instance is expected to be adopted during 2011. The proceedings may turn out to be very prolonged, because Estonia has a three-level court system and in addition, the company may apply to the European Court of Human Rights.

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

**Share and shareholders**

The largest shareholders of AS Järvevana as at 31.12.2010

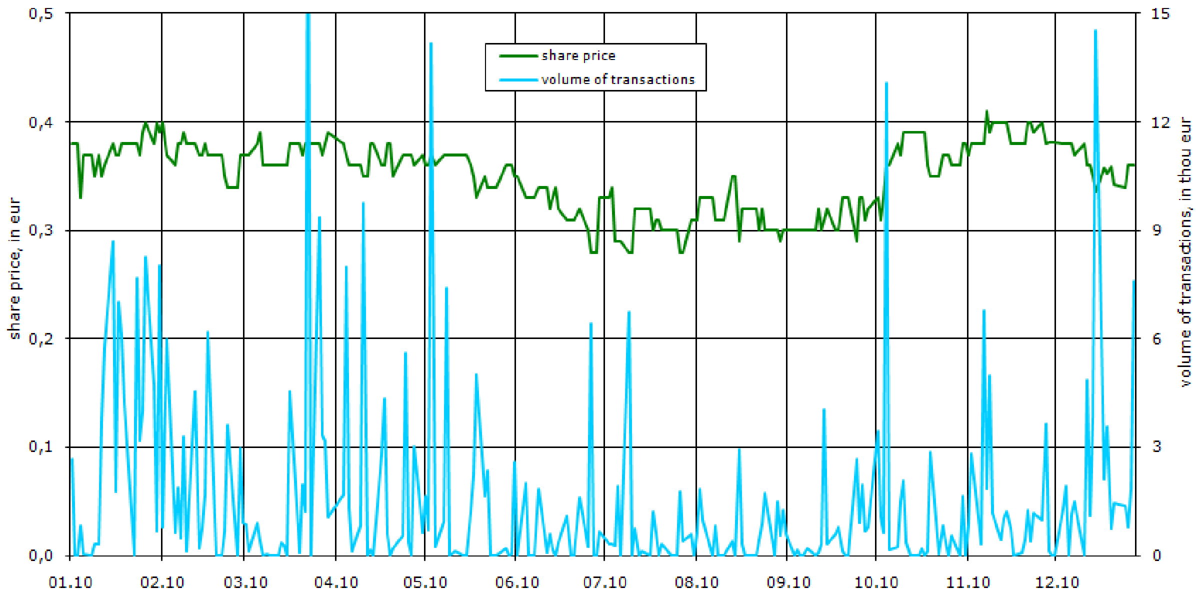
| | Number of shares | % of shares |
|---|---|---|
| AS Riverito | 12,742,686 | 71.99% |
| ING Luxembourg S.A., customers | 963,376 | 5.44% |
| Skandinaviska Enskilda Banken Ab, customers | 605,459 | 3.42% |
| Tenlion OÜ | 208,495 | 1.18% |

Structure of shareholders as at 31.12.2010

| Number of shares | Number of shareholders | % of shareholders | Number of shares | % of shares |
|---|---|---|---|---|
| 1-100 | 266 | 31.08% | 12,889 | 0.08% |
| 101-1,000 | 324 | 37.85% | 141,689 | 0.80% |
| 1,001-10,000 | 194 | 22.66% | 681,739 | 3.85% |
| 10,001 – 100,000 | 65 | 7.59% | 1,942,144 | 10.97% |
| 100,001 – 1,000,000 | 6 | 0.70% | 2,178,853 | 12.31% |
| 1,000,001 - … | 1 | 0.12% | 12,742,686 | 71.99% |
| Total | 856 | 100% | 17,700,000 | 100% |

From 15.09.2009, the shares of AS Järvevana are included in the secondary list of NASDAQ OMX Tallinn Stock Exchange. During the demerger of AS Merko Ehitus, the company's business name was changed to AS Järvevana and from 04.08.2008, the shares of AS Järvevana are traded under the symbol of JRV1T. In 2010, 716 transactions were performed with the shares of AS Järvevana in the course of which 1.1 million shares were traded and the total monetary value of transactions was EUR 0.4 million (EEK 6.4 million). The lowest transaction price was EUR 0.28 (EEK 4.38) and the highest transaction price was EUR 0.41 (EEK 6.42) per share. The closing price of the shares as at 30.12.2010 was EUR 0.36 (EEK 5.63).

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




## Corporate Governance Code (CGC)

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

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

### I General Meeting of Shareholders

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

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

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

**II Management Board**

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

**III Supervisory Board**

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

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

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

**V Disclosure of information**

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

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

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

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

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

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

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

## Audit committee

The responsibility of the audit committee is advising the Supervisory Board in supervision related issues. The Committee executes supervision in the areas of : a) accounting procedures, b) preparation and approval of the financial budget and reports, c) management of financial risks, d) performance of external audit, e) functioning of an internal control system and f) legality of the activities.

The Company's Supervisory Board has set up a 3-member audit committee and appointed Aire Ojandu and Alar Lagus as its members and Teet Roopalu as its Chairman. A member of the committee is elected for a term of three years, but at the decision of the Supervisory Board, a member of the committee may be removed before the expiration of his term of office.

The meetings of the audit committee are held not less frequently than once every three months.

**The Management Board of AS Järvevana acknowledges and confirms that to the best of management's knowledge, the management report for the 2010 financial year presents a true and fair view of the business development and results, and the financial position of the Issuer and it includes a description of the main risks and uncertainties.**

Toomas Annus Member of the Management Board 25.04.2011

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME

| *in thousands of* | | EEK | | EUR | |
|---|---|---|---|---|---|
| | Note | **2010** | **2009** | **2010** | **2009** |
| General and administrative expenses | 2 | (3,561) | (9,273) | (228) | (593) |
| Other operating expenses | 3 | (3) | - | (0) | - |
| **Operating profit (loss)** | | (3,564) | (9,273) | (228) | (593) |
| Finance income and costs | 4 | 3,270 | 7,171 | 209 | 459 |
| incl. other finance income | | 3,270 | 7,174 | 209 | 459 |
| incl. other finance costs | | - | (3) | - | (0) |
| **Net loss for financial year** | | (294) | (2,102) | (19) | (134) |
| incl. net loss attributable to equity holders of the parent | | (294) | (2,102) | (19) | (134) |
| **Comprehensive loss for the period** | | (294) | (2,102) | (19) | (134) |
| incl. comrehensive loss attributable to equity holders of the parent | | (294) | (2,102) | (19) | (134) |
| Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EEK/ EUR) | 5 | (0.02) | (0.12) | (0.00) | (0.01) |

The notes set out on pages 13-25 are an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

| *in thousands of* | | EEK | | EUR | |
|---|---|---|---|---|---|
| | Note | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 6 | 19,809 | 30,425 | 1,266 | 1,944 |
| Short-term deposits | 7 | 20,341 | 10,000 | 1,300 | 639 |
| Trade and other receivables | 8 | 209,696 | 209,890 | 13,402 | 13,415 |
| **Total current assets** | | 249,846 | 250,315 | 15,968 | 15,998 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 | 23 | 40 | 1 | 2 |
| **Total non-current assets** | | 23 | 40 | 1 | 2 |
| **TOTAL ASSETS** | | 249,869 | 250,355 | 15,969 | 16,000 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | 338 | 530 | 22 | 34 |
| Short-term provisions | 12 | 17,500 | 17,500 | 1,118 | 1,118 |
| **Total current liabilities** | | 17,838 | 18,030 | 1,140 | 1,152 |
| **TOTAL LIABILITIES** | | 17,838 | 18,030 | 1,140 | 1,152 |
| **EQUITY** | | | | | |
| Share capital | 13 | 177,000 | 177,000 | 11,312 | 11,312 |
| Statutory reserve capital | | 17,700 | 17,700 | 1,131 | 1,131 |
| Retained earnings | | 37,331 | 37,625 | 2,386 | 2,405 |
| **TOTAL EQUITY** | | 232,031 | 232,325 | 14,829 | 14,848 |
| **TOTAL LIABILITIES AND EQUITY** | | 249,869 | 250,355 | 15,969 | 16,000 |

The notes set out on pages 13-25 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

*in thousands of* ***EEK***

| | Equity attributable to equity holders of the parent | | | |
|---|---|---|---|---|
| | **Share capital** | **Statutory reserve capital** | **Retained earnings** | **Total** |
| **Balance as at 31.12.2008** | 177,000 | 17,700 | 39,727 | 234,427 |
| Comprehensive loss for the period | - | - | (2,102) | (2,102) |
| **Balance as at 31.12.2009** | 177,000 | 17,700 | 37,625 | 232,325 |
| Comprehensive loss for the period | - | - | (294) | (294) |
| **Balance as at 31.12.2010** | 177,000 | 17,700 | 37,331 | 232,031 |

*in thousands of* ***EUR***

| | Equity attributable to equity holders of the parent | | | |
|---|---|---|---|---|
| | **Share capital** | **Statutory reserve capital** | **Retained earnings** | **Total** |
| **Balance as at 31.12.2008** | 11,312 | 1,131 | 2,539 | 14,982 |
| Comprehensive loss for the period | - | - | (134) | (134) |
| **Balance as at 31.12.2009** | 11,312 | 1,131 | 2,405 | 14,848 |
| Comprehensive loss for the period | - | - | (19) | (19) |
| **Balance as at 31.12.2010** | 11,312 | 1,131 | 2,386 | 14,829 |

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

The notes set out on pages 13-25 are an integral part of these financial statements.

## CASH FLOW STATEMENT

| *in thousands of* | | EEK | | EUR | |
|---|---|---|---|---|---|
| | Note | **2010** | **2009** | **2010** | **2009** |
| **Cash flows from operating activities** | | | | | |
| Operating profit | | (3,564) | (9,273) | (228) | (593) |
| Adjustments: | | | | | |
| depreciation and impairment charge | 10 | 17 | 13 | 1 | 1 |
| change in holiday pay liability | | 20 | (17) | 1 | (1) |
| Change in trade and other receivables related to operating activities | | 188 | 87 | 12 | 6 |
| Change in trade and other payables related to operating activities | | (211) | 305 | (13) | 19 |
| Other finance costs (income) | | - | (2) | - | (0) |
| **Total cash flows from operating activities** | | (3,550) | (8,887) | (227) | (568) |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Purchase of short-term deposits | 7 | (40,341) | (10,000) | (2,578) | (639) |
| Proceeds from sale of short-term deposits | 7 | 30,000 | - | 1,917 | - |
| Purchase of property, plant and equipment | 10 | - | (53) | - | (3) |
| Loan repayments received | 9 | - | 15,647 | - | 1,000 |
| Interest received | | 3,275 | 7,476 | 210 | 477 |
| **Total cash flows from investing activities** | | (7,066) | 13,070 | (451) | 835 |
| | | | | | |
| **Net increase/decrease in cash and cash equivalents** | | (10,616) | 4,183 | (678) | 267 |
| Cash and cash equivalents at beginning of the period | | 30,425 | 26,242 | 1,944 | 1,677 |
| **Cash and cash equivalents at end of the period** | 6 | 19,809 | 30,425 | 1,266 | 1,944 |

The notes set out on pages 13-25 are an integral part of these financial statements.

# NOTES

## Note 1 Summary of significant accounting policies

### 1.1. General information

The financial statements of AS Järvevana for the year ended 31 December 2010 were signed by the Management Board at 25 April 2011.

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

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

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

### 1.2. Basis of preparation

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

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

Several financial figures are based on management's estimates, including estimates of impairment losses of receivables and provisions. Management's estimates have been made to the best of its knowledge, but they may not be accurate. The effect of changes in accounting estimates is reported in the financial statements in the period in which the change occurred.

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

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

The financial statements are presented in Estonian kroons. The primary financial statements and notes are presented in thousands of kroons. Pursuant to the requirements of NASDAQ OMX Tallinn Stock Exchange, the primary financial statements are also presented in thousands of euros. As the Estonian kroon is pegged to the Euro (EUR 1=EEK 15.6466), no exchange rate differences arise in the translation of the financial statements.

### 1.3. New International Financial Reporting Standards, amendments to published standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

a) *Standards, amendments to standards and interpretations which became effective in 2010 but which are not relevant to the company's operations.*

**IFRIC 12, Service Concession Arrangements**

**IFRIC 15, Agreements for the Construction of Real Estate**

**Eligible Hedged Items—Amendment to IAS 39**

**Improvements to International Financial Reporting Standards, issued in April 2009**

**Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009**

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation**

**IFRIC 17, Distributions of Non-Cash Assets to Owners**

**IFRIC 18, Transfers of Assets from Customers**

**IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008**

**Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2**

**Additional Exemptions for First-time Adopters - Amendments to IFRS 1**

**Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)**

*b) New standards, amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2011 and which the company has not early adopted.*

By the time of preparing these financial statements, new International Financial Reporting Standards and their interpretations have been issued which are effective for the company's annual periods beginning on or after 1 January 2011 but that the company has not adopted early. Below is an estimate of the company's management on the potential effect of new standards and interpretations to the financial statements in the period of their first-time adoption:

**Amendment to IAS 24, Related Party Disclosures**, (issued in November 2009, effective for annual periods beginning on or after 1 January 2011). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The company is currently assessing the impact of the amended standard on disclosures in its financial statements.

*c) New standards, amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2011 that the company has not adopted early and that are not relevant to the company's operations:*

**Improvements to International Financial Reporting Standards, issued in May 2010** (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011).

**Disclosures—Transfers of Financial Assets – Amendment to IFRS 7** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments** (effective for annual periods beginning on or after 1 July 2010).

**IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009** (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU).

**Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14** (effective for annual periods beginning on or after 1 January 2011).

**Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters - Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2010).

**Classification of Rights Issues - Amendment to IAS 32,** issued in October 2009 (effective for annual periods beginning on or after 1 February 2010).

**Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12** (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

**Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

**1.4. Management estimates**

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge, actual results ultimately may differ from those estimates. However it can be confirmed that seasonality and cyclicality has no significant impact on business activities in the course of a year. The areas involving a higher degree of management judgement or estimates, and where these have impact on the financial statements of AS Järvevana, are disclosed below. Changes in management's estimates are reported in the income statement of the period of the change.

The key management estimates include:

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

*Formation of provisions*
See section 1.14

**1.5. Foreign currency**

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

**1.6. Financial assets**

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

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

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

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

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

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

### 1.7. Impairment of assets

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

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

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

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

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

### 1.8. Property, plant and equipment

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

An item of property, plant and equipment is carried in the statement of financial position at its cost less any accumulated depreciation. Subsequent expenditure incurred for items of property, plant and equipment is recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred.

Depreciation is calculated on a straight-line basis over the following useful lives:

- machinery and equipment 2.5-4 years:
- other items of property, plant and equipment 2.5-5 years.

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

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

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

**1.9. Finance and operating leases**

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

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

**1.10. Financial liabilities**

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

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

**1.11. Corporate income tax**

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not related to business operations. Thus there are no differences between the tax bases and the carrying amounts of assets which would give rise to a deferred income tax asset or liability. In 2010, the tax rate on dividends payable is 21/79 (in 2009 and 2008: 21/79) of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as a liability and an income tax expense in the period when dividends are announced.

**1.12. Revenue**

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

Revenue arising from interest is recognised according to the effective interest method.

**1.13. Cash and cash equivalents**

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

**1.14. Provisions and contingent liabilities**

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

Provisions are recognised in the statement of financial position based on the best estimate of the management board at the present value of the expenditure expected to be sufficient to settle the obligation. A pre-tax rate of discount is used, which reflects current market valuations of the time value of money and the risks associated with liabilities that are not already included in the best estimate of the related expenses.

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

**1.15. Statutory reserve capital**

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

**1.16. Events after the balance sheet date**

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

At 1 January 2011, the Republic of Estonia joined the euro area and adopted the euro as the national currency, replacing the Estonian kroon. Consequently, the functional currency of AS Järvevana is the euro from 2011 and the annual reports for 2011 and subsequent years to be submitted to the Commercial Register will be presented in euros. Comparative figures will be recalculated to euros using the conversion rate of EUR 1 = EEK 15.6466, which is the fixed exchange rate that was applicable also in earlier periods.

**1.17. Dividends**

The distribution of dividends to the company’s shareholders is recognised as a liability in the financial statements in the period in which the payment of dividends is approved by the company’s shareholders.
According to the profit allocation proposal, dividends will not be paid in 2011. No dividends were paid in 2010.

## Note 2 General and administrative expenses

*in thousands of kroons*

| | 2010 | 2009 |
|---|---|---|
| Staff costs | 869 | 927 |
| Legal advisory and information services | 1,759 | 7,158 |
| Office expenses, communication services | 230 | 514 |
| Depreciation and impairment charge | 17 | 13 |
| Transport | 462 | 448 |
| Other expenses | 224 | 213 |
| **Total general and administrative expenses** | 3,561 | 9,273 |

## Note 3 Other operating expenses

*in thousands of kroons*

| | 2010 | 2009 |
|---|---|---|
| Gifts, donations | 3 | - |
| **Total other operating expenses** | 3 | - |

## Note 4 Finance income and costs

*in thousands of kroons*

| | 2010 | 2009 |
|---|---|---|
| Interest income | 3,270 | 7,174 |
| Other finance costs | - | (3) |
| **Total finance income** | 3,270 | 7,171 |

## Note 5 Earnings per share

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

| | 2010 | 2009 |
|---|---|---|
| Net profit attributable to shareholders *(in thousands of kroons)* | (294) | (2,102) |
| Weighted average number of ordinary shares *(thousand pcs)* | 17,700 | 17,700 |
| **Earnings per share** (*in kroons*) | (0.02) | (0.12) |

In 2009 and 2010, the company did not have any potential ordinary shares to be issued; therefore the diluted earnings per share equal the basic earnings per share.

## Note 6 Cash and cash equivalents

*in thousands of kroons*

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Short-term bank deposits (with a term of 1-3 months) | 19,809 | 30,425 |
| **Total cash and cash equivalents** | 19,809 | 30,425 |

As at 31.12.2010, the average interest on overnight deposits was 0.15% (31.12.2009: 1.30%) and the interest on bank deposits of maturities of 3 months or less was 1.17% (2009: 5.00%).

## Note 7 Short-term deposits

*in thousands of kroons*

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Short-term bank deposits (with maturities of 4-12 months) | 20,341 | 10,000 |
| **Total cash and cash equivalents** | 20,341 | 10,000 |

As at 31.12.2010, the interest on 6-month bank deposits included within short-term bank deposits was 1.55% and the interest on 9-month bank deposits 1.7% (31.12.2009: the interest on 4-month bank deposits was 5.30%).

## Note 8 Trade and other receivables

*in thousands of kroons*

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Tax prepayments excluding corporate income tax | | |
| value-added tax | 79 | 162 |
| | 79 | 162 |
| Other short-term receivables | | |
| short-term loans (Notes 9, 14) * | 109,354 | 109,354 |
| interest receivables | 231 | 343 |
| incl. from entities of parent's consolidation group (Note 14) | 227 | 233 |
| other short-term receivables (Note 14) ** | 100,007 | 100,007 |
| | 209,592 | 209,704 |
| Prepayments for services | | |
| prepaid insurance | 25 | 24 |
| | 25 | 24 |
| **Total trade and other receivables** | 209,696 | 209,890 |

* According to the demerger agreement between AS Järvevana and AS Merko Ehitus, the company granted a loan to AS Merko Ehitus in amount of EUR 7,989 thousand with the interest rate of 12 month Euribor + 1% per annum. The loan balance as at 31.12.2010 was EUR 6,989 thousand and the interest rate from 1.08.2010 is 2.417% per annum.

** In the demerger agreement AS Järvevana and AS Merko Ehitus agreed that AS Järvevana has the right to sell and AS Merko Ehitus the obligation to purchase 5 registered immovables with total transaction price of EEK 100 000 thousand. The respective right is recognised in the statement of financial position of AS Järvevana as a short-term receivable.

## Note 9 Loans granted

*in thousands of kroons*

| | 2010 | 2009 |
|---|---|---|
| Loans granted to entities of parent's consolidation group | | |
| Loan balance at the beginning of the year (Notes 8, 14) | 109,354 | 125,001 |
| Collected | - | (15,647) |
| | | |
| Loan balance at the end of the year | 109,354 | 109,354 |
| incl. current portion (Notes 8, 14) | 109,354 | 109,354 |

Average effective interest rate 2.38% (2009: 4.48%).

## Note 10 Property, plant and equipment

*in thousands of kroons*

| | Machinery and equipment |
|---|---|
| **Carrying amount at 31.12.2008** | **-** |
| Acquisition | 53 |
| Depreciation | (13) |
| **Carrying amount at 31.12.2009** | **40** |
| Depreciation | (17) |
| **Carrying amount at 31.12.2010** | **23** |

## Note 11 Trade and other payables

*in thousands of kroons*

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| Trade payables | 210 | 422 |
| Payables to employees | 80 | 60 |
| wages and salaries payable | 60 | 60 |
| holiday pay liability | 20 | - |
| Tax liabilities, except for corporate income tax | | |
| personal income tax | 10 | 10 |
| social security tax | 37 | 37 |
| other taxes | 1 | 1 |
| | 48 | 48 |
| | | |
| **Total trade and other payables** | 338 | 530 |

## Note 12 Short-term provisions

*in thousands of kroons*

| | 2010 | 2009 |
|---|---|---|
| Provision for costs associated with judicial proceedings | | |
| Residual value at beginning of the year | 17,500 | 17,500 |
| Balance at end of the year (Note 16) | 17,500 | 17,500 |
| | | |
| **Total short-term provisions** | 17,500 | 17,500 |

## Note 13 Share capital

As at 31.12.2010, the share capital in the amount of EEK 177,000 thousand consisted of EEK 17,700 thousand registered shares with the nominal value of 10 kroons each.

Additional information is disclosed in Note 16 under *Capital management*.

## Note 14 Related party transactions

*in thousands of kroons*

In the financial statements, the following entities have been considered as related parties:
- parent AS Riverito;
- shareholders of AS Riverito with significant influence over AS Järvevana through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito, entities of parent's consolidation group associates and joint ventures;
- key managers and their close relatives;
- entities sharing key personnel with AS Järvevana.

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

The parent of AS Järvevana is AS Riverito. As at 31.12.2010 and 31.12.2009, AS Riverito owned 72% of the shares of AS Järvevana. The ultimate controlling party of the group is Mr Toomas Annus.

### Goods and services

| | 2010 | 2009 |
|---|---|---|
| **Purchased services** | | |
| Entities of parent's consolidation group | 219 | 572 |
| **Total purchased services** | 219 | 572 |
| **Interest income from loans granted** | | |
| Entities of parent's consolidation group | 2,640 | 5,589 |
| **Total interest income from loans granted** | 2,640 | 5,589 |

### Balances with the related parties

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Trade and other receivables** | | |
| Short-term loans | | |
| Entities of parent's consolidation group (Notes 8, 9) | 109,354 | 109,354 |
| Interest receivables | | |
| Entities of parent's consolidation group (Note 8) | 227 | 233 |
| Other short-term receivables | | |
| Entities of parent's consolidation group (Note 8) | 100,007 | 100,007 |

No allowances for impairment losses have been set up for receivables from related parties in 2010. Related party transactions have been concluded on an arm's length basis.

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

In 2010, the members of the Supervisory and Management Boards as well as senior executives of AS Järvevana were paid remuneration totalling EEK 609 thousand (2009: EEK 559 thousand). No other compensation was paid to management in 2010.

### Termination benefits of members of the Supervisory and Management Boards

Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, if a new agreement is not concluded, the company has the obligation to pay compensation totalling EEK 1,200 thousand.

## Note 15 Contingent liabilities

As at 31.12.2010, it is possible to pay out dividends to shareholders from retained earnings in the amount of EEK 29,491 thousand and the corresponding income tax would amount to EEK 7,840 thousand. As at 31.12.2009, it would have been possible to pay out dividends to shareholders from retained earnings in the amount of EEK 29,724 thousand and the corresponding income tax would have amounted to EEK 7,901 thousand.

For contingent liabilities related to the criminal proceedings, please refer to subsection on legal risks in Note 16.

## Note 16 Risks

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

| **Financial assets** | Allocation by due dates | | Carrying |
|---|---|---|---|
| *in thousands of kroons* | 1-12 months | 2-5 years | amount |
| **31.12.2010** | | | |
| Cash and overnight deposits (Note 6) | 19,809 | - | 19,809 |
| Short-term deposits (Note 7) | 20,341 | | 20,341 |
| Other short-term receivables (Note 8) | 100,007 | - | 100,007 |
| Loans granted (Note 9) | 109,354 | - | 109,354 |
| Interest receivable (Note 8) | 231 | | 231 |
| **Total** | **249,742** | **-** | **249,742** |
| | | | |
| **31.12.2009** | | | |
| Cash and overnight deposits (Note 6) | 30,425 | - | 30,425 |
| Short-term deposits (Note 7) | 10,000 | | 10,000 |
| Other short-term receivables (Note 8) | 100,007 | - | 100,007 |
| Loans granted (Note 9) | 109,354 | - | 109,354 |
| Interest receivable (Note 8) | 343 | | 343 |
| **Total** | **250,129** | **-** | **250,129** |

Of the loans granted, EEK 109,4 million (31.12.2009: EEK 109,4 million) and of the receivables EEK 100 millon (31.12.2009: EEK 100 million) are made up of loans to entities belonging to parent's consolidation group, of whose economic activities the company has a good overview and therefore, no additional collateral has been required.

**Interest risk**
Due to the company's capital structure, the company does not have interest bearing liabilities and interest risk for the company represents a possible decline in the return on assets. As at 31.12.2010, AS Järvevana had interest bearing assets in the amount of EEK 150 million, including short-term bank deposits with maturities of three months or less in the amount of EEK 20 million and EEK 20 million in 4-12 month deposits and a loan in the amount of EEK 110 million to AS Merko Ehitus. As the company does not have any direct operating activities, the amount and regularity of interest income is relevant for it. One of the priorities of the company in 2011 is attainment of a better return on assets.

**Foreign exchange risk**
Until 31.12.2010, the company's functional currency was the Estonian kroon, which was pegged to the euro. Company's financial assets and financial liabilities are nominated in Estonian kroons or in euros. Therefore, the company does not have significant foreign exchange risk. From 1 January 2011, Estonia adopted the euro as the national currency.

**Liquidity risk**
The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2010, the company's current ratio was 14.0 (31.12.2009: 13.9) and the quick ratio was also 14.0 (31.12. 2009: 13.9), because the company holds no inventory.

| **Financial liabilities** | Allocation by due dates | | Total | Carrying amount |
|---|---|---|---|---|
| *in thousands of kroons* | 1-3 months | 4-12 months | | |
| **31.12.2010** | | | | |
| **Liabilities** | | | | |
| Trade payables (Note 11) | 210 | - | 210 | 210 |
| Payables to employees (Note 11) | 80 | - | 80 | 80 |
| **Total** | **290** | **-** | **290** | **290** |
| **31.12.2009** | | | | |
| **Liabilities** | | | | |
| Trade payables (Note 11) | 422 | - | 422 | 422 |
| Payables to employees (Note 11) | 60 | - | 60 | 60 |
| **Total** | **482** | **-** | **482** | **482** |

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

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

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

According to the current articles of association of AS Järvevana, the company's share capital consists of 17,700 thousand ordinary shares with the nominal value of 10 kroons each and without amending the articles of association of the public limited company, changes can be made to the company's share capital within the range of EEK 85,000 – 340,000 thousand. As at 31.12.2010, the share capital of AS Järvevana was EEK 177,000 thousand (31.12.2009: 177,000 thousand) and the net assets were EEK 232,031 thousand (31.12.2009: 232,325 thousand) and therefore, the company's share capital and equity were in compliance with the requirements established in the Republic of Estonia.

**Legal risk**
At 3 April 2009, the Prosecutor's Office submitted a statement of charges (dated 31.03.2009) against AS Järvevana and Toomas Annus in criminal case no. 05913000055.

At 12 November 2009, the judicial proceedings concerning the land swap case commenced at Harju County Court. In the statement of charges, AS Järvevana has been incriminated with five episodes of giving a bribe and the matter has been referred for judicial proceedings to Harju County Court. The subject of proof concerning the bribery charges has three elements, the absence of even one of which precludes the necessary elements of the criminal offence: (i) promising or giving of a material reward to an official; (ii) illegal act by an official in favour of a person giving a bribe; (iii) equivalence relation between the first and second elements, i.e. giving of a reward to an official for a favourable act. Evidence also needs to be produced against AS Järvevana in the matter that (i) the act was committed by a senior executive of a legal person, and (ii) the act was committed in the interests of the legal person. AS Järvevana has not concluded any land swap transactions described in the statement of charges. These transactions were concluded and hypothetical benefits could have been reaped by independent subsidiaries as legal persons who have not been charged. Even according to the statement of charges, AS Järvevana has never swapped land. It is also evident that the acts could not have been illegal because they had been permitted under § 19 of the Nature Conservation Act which casts doubt on the qualification of bribery.

Till spring 2010, the court had questioned close to 80 prosecutor's witnesses and none of the witnesses has provided evidence of promising or giving of a bribe, or illegal acts. The Prosecutor's Office has not asked any of the prosecutor's witnesses about the subject of proof – whether anyone has been promised or given a bribe. The prosecutor's witnesses have provided exclusively negative answers to this question when asked by the court and the criminal defence counsels. After the summer holiday, the proceedings of criminal case continued at Harju County Court from 5 October 2010. Between October and December, the court had planned 13 sitting days, during the course of which the last prosecutor's witness was questioned. All documentary evidence of the Prosecutor's Office has been published by now. Therefore, the Prosecutor's Office has concluded presentation of its own evidence. We are on the position that none of the pieces of evidence of the Prosecutor's Office has produced evidence of a promise or giving of a bribe or illegal nature of the transactions or the aforementioned equivalence relation. The procedural schedule of the court case for the year 2011 has been drawn up until 22 June 2011, during the course of which the witnesses of the criminal defence counsel will be questioned and plenty of documentary evidence will be produced by the criminal defence counsel. The decision of the court of first instance is expected to be adopted during 2011. The process may turn out to be very prolonged, because Estonia has a three-level court system and in addition, the company has recourse to the European Court of Human Rights.

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

As at 31.12.2010, a provision has been set up for possible costs arising from legal disputes in the amount of EEK 17,500 thousand (31.12.2009: EEK 17,500 thousand), (Note 12).

**Fair value**
The carrying amounts of financial assets and financial liabilities do not significantly differ from their fair values.

## Note 17 Number of shares owned by the members of the Supervisory and Management Board and their close relatives

As at 31.12.2010, neither members of the Supervisory Board and Management Board of AS Järvevana nor their close relatives owned any shares of AS Järvevana, except for Toomas Annus and Tõnu Toomik through AS Riverito.

## Note 18 Shareholders with more than 5% ownership

| | Shares | Ownership % |
|---|---|---|
| AS Riverito | 12,742,686 | 71.99 |
| ING Luxembourg S.A. customers | 963,376 | 5.44 |

## SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2010 ANNUAL REPORT

The Management Board of AS Järvevana has prepared the management report, financial statements and the profit allocation proposal for 2010.

| | | |
|---|---|---|
| Toomas Annus | Member of the Management Board | 25.04.2011 |

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

| | | |
|---|---|---|
| Tõnu Toomik | Member of the Supervisory Board | 27.04.2011 |
| Teet Roopalu | Member of the Supervisory Board | 27.04.2011 |
| Jaan Mäe | Member of the Supervisory Board | 27.04.2011 |

**INDEPENDENT AUDITOR´S REPORT**

(Translation of the Estonian original)*

To the Shareholders of AS Järvevana

We have audited the accompanying financial statements of AS Järvevana (the Company), which comprise the statement of financial position as of 31 December 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management Board's Responsibility for the Financial Statements**

Management Board is responsible for the preparation, and true and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Tiit Raimla
Auditor’s Certificate No.287

Märten Padu
Auditor’s Certificate No.513

26 April 2011

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

**PROFIT ALLOCATION PROPOSAL**
*in kroons*

**Total retained earnings as at 31.12.2010** **EEK 37,330,387**

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

Toomas Annus Member of the Management Board 25.04.2011