

AS Merko Ehitus

Listing and Trading Prospectus

AS MERKO EHITUS (the “Company” or “MERKO EHITUS” and together with its subsidiaries the “Group”), registry code 11520257, a limited liability company incorporated in Estonia, has been established as a result of division of AS Järvevana (former business name AS MERKO EHITUS) (the “Division”). AS Järvevana, registry code 10068022, a limited liability company incorporated in Estonia, is currently listed on the Main List of the Tallinn Stock Exchange. On 30 April 2008 AS Järvevana announced through the Tallinn Stock Exchange the conclusion of a notarized division plan (the “Division Plan”), setting forth the terms and conditions of the Division. The General Meeting of shareholders of AS Järvevana approved the Division Plan on 3 June 2008 and the Division was registered in the Estonian Commercial Register on 1 August 2008, which is also the date of incorporation of the Company. According to the Division Plan, AS Järvevana was divided by separation, such that all of its assets and business, including all movables and property, rights and obligations (the “Business”) were transferred to the Company, except for the obligations arising from the criminal case No 05913000055 (“Criminal Proceedings”), including damages, penalties and other claims along with legal costs and corresponding assets to cover possible obligations related to the criminal case. No assets were transferred to any other party in the course of the Division. For more details on the Division see “Information about the Company - Division of AS Järvevana and Establishment of the Company”.

In connection with the Division the Company has applied for the listing of all its shares (the “Shares”) on the Main List of the Tallinn Stock Exchange (the “Listing”) (for general information on the Tallinn Stock Exchange, see “Estonian Securities Market – Tallinn Stock Exchange and the Estonian Securities Market”). The Listing and Surveillance Committee of the Tallinn Stock Exchange is expected to decide upon the Company’s listing application on or about 5 August 2008, and in case the decision is positive, trading in the Shares is expected to commence on or about 11 August 2008. This listing and trading prospectus (the “Prospectus”) is prepared merely in connection with the Listing of the Shares on the Main List of the Tallinn Stock Exchange. The Prospectus has been prepared by the Company in accordance with the Estonian laws implementing the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the “Prospectus Directive”) and in accordance with the Commission Regulation (EC) 809/2004 of 29 April 2004 implementing the Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (the “Prospectus Regulation”) and its subsequent amendments. This Prospectus and the Listing does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Shares in any jurisdiction to any person by the Company or any of its shareholders.

See “Risk Factors” for a discussion of certain factors that should be considered by prospective investors.

NEITHER THE SHARES NOR THEIR DISTRIBUTION HAS BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES AUTHORITY OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES, AND THE SHARES MAY NOT BE RE-OFFERED OR RE-SOLD WITHIN THE UNITED STATES OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S OF THE U.S. SECURITIES ACT OF 1933) EXCEPT PURSUANT TO REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933 OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF U.S. SECURITIES ACT OF 1933. SEE “SELLING RESTRICTIONS”.

1 August 2008

The information contained in this Prospectus has been provided by the Company and other sources identified herein. It is prohibited to copy or distribute the Prospectus or to reveal or use the information contained therein for any other purpose than for making a decision to conduct trading with Shares on the Tallinn Stock Exchange.

Persons Responsible

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, having taken reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Management Board of AS MERKO EHITUS

Tiit Roben	Veljo Viitmann	Alar Lagus	Andres Agukas	Tõnu Korts
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Legal Notice

The Listing and this Prospectus will be governed by and construed in accordance with Estonian law. Any disputes relating to the Listing and this Prospectus will be settled in a competent court of law, having its jurisdiction in Estonia.

No person has been authorized to give any information or to make any representation in connection with the Listing other than set out in this Prospectus and, if given or made, such information or representation may not be relied upon as having been authorized by the Company.

The distribution of this Prospectus and the offering or sale of the Shares in certain jurisdictions is restricted by law (see “Selling Restrictions”). Persons into whose possession this Prospectus may come are required by the Company to acquaint themselves with and observe such restrictions. Neither the delivery of this Prospectus nor any sale made in connection with the Listing shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that the affairs of the Company have not since changed. The Company will update any information presented in this Prospectus in accordance with the applicable provisions of the Estonian Securities Market Act.

NEITHER THE SHARES NOR THEIR DISTRIBUTION HAS BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES AUTHORITY OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES, AND THE SHARES MAY NOT BE RE-OFFERED OR RE-SOLD WITHIN THE UNITED STATES OR FOR THE ACCOUNT OF U.S. PERSONS (AS DEFINED IN REGULATION S OF THE U.S. SECURITIES ACT OF 1933) EXCEPT PURSUANT TO REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933 OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF U.S. SECURITIES ACT OF 1933.

Each owner or prospective purchaser of Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells the Shares or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Shares under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and the Company shall bear no responsibility for these obligations.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this Prospectus are forward-looking. Such forward-looking statements and information are based on the beliefs of the Company's management (the "Management"), or are assumptions based on information available to the Company. Whenever used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to mark the forward-looking statements. Such forward-looking statements reflect the current views of the Company or the Management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, risks or uncertainties associated with the Company's technological development, growth management, relations with customers and suppliers and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations (including those of the European Union), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail under "Risk Factors".

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected.

The Company does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Prospectus as of the date set forth on the cover page.

Presentation of Financial Information and Definition of Terms

As the Company was formed in the course of the Division only recently and lacks itself historical financial information, the annual reports of AS Järvevana for the financial years ended 31 December 2005, 2006 and 2007 and the un-audited condensed consolidated interim financial information for the three months ended 31 March 2008 have been included in this Prospectus. Additionally, the un-audited *pro forma* financial information for the interim period ended 31 March 2008 has been attached to this Prospectus. Such un-audited *pro forma* financial information is intended to give prospective investors a better understanding of what the Company's financial position and results would have been, had the Division taken place and had the Company been registered at the commencement of the period being reported on or at the date reported.

The financial statements of AS Järvevana Group attached to this Prospectus have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

Certain financial information presented in this Prospectus has been obtained directly from the audited financial statements of AS Järvevana Group, while certain other financial information presented herein have been recomputed by the Management from amounts contained in the audited financial statements or have been derived by the Management from un-audited records. Financial information obtained from or recomputed on the basis of the audited financial statements should be viewed only together with the respective audited financial statements as a whole. Certain financial information contained in the audited financial statements attached to this Prospectus have been amended by subsequent financial statements (see Note 1.3. and 1.4. to the financial statement of AS Järvevana for the financial year ended on 31 December 2005). In such cases the amended figures have been used in the Prospectus. Certain financial and other information set forth in a number of

tables in this Prospectus has been rounded off for the readers' convenience. Accordingly, in certain instances, the sum of the numbers in a column may not conform exactly to the total figure given.

All references in this Prospectus to (i) "kroon" or "EEK" refer to the official currency of Estonia, (ii) "LTL" or "litas" refer to the official currency of Lithuania, (iii) "LVL" or "lats" refer to the official currency of Latvia and (iv) "euro" or "EUR" refer to the single currency of the EU Member States participating in the European Monetary Union. Solely for the purpose of convenience, this Prospectus contains translations of certain Estonian kroon amounts into litas at the specified rate of EEK 4.53=LTL 1.00, into lats at the rate of EEK 22.19=LVL 1.00 (official exchange rate of the Central Bank of Estonia as of 1 July 2008) and into euros at the specified rate of EEK 15.65=EUR 1.00.

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SUMMARY

This summary should be read as an introduction to this Prospectus. The summary information set out below is based on, should be read in conjunction with, and is qualified in its entirety by, the full text of this Prospectus, including the financial information presented herein. Any consideration to invest in the Shares should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before an Estonian court, the plaintiff investor might, under Estonian law, have to bear the costs of translating this Prospectus in the course of the legal proceedings or before such proceedings are initiated. The Company assumes civil liability in respect of this summary only if it is misleading, inaccurate or inconsistent when read in concert with the other parts of this Prospectus.

Overview

The Company has been established as a result of the Division of AS Järvevana (formerly AS Merko Ehitus), a company listed in the Tallinn Stock Exchange since 1997.

On 15 October 2007, the Prosecutors' Office launched Criminal Proceedings against AS Järvevana and its Chairman of the Supervisory Board Mr. Toomas Annus, suspected of bribery and misuse of trust. In the opinion of the management of AS Järvevana the substance of suspicions is incomprehensible to the management of AS Järvevana and AS Järvevana has followed the effective laws of the Republic of Estonia and good industry practices. At a joint meeting held on 14 March 2008, the Management Board and the Supervisory Board of AS Järvevana adopted a resolution to restructure the company and separate operating activities from the Criminal Proceedings related to the land swap transactions, as the filing of suspicions may impact the company's competitiveness as well as the competitive position of the Estonian construction market in general. According to the management of AS Järvevana the restructuring of AS Järvevana was the best way to ensure its sustainable development and to protect the interests of shareholders and employees in the long-lasting Criminal Proceedings related to the land swap transactions.

On 30 April 2008 AS Järvevana concluded the notarized Division Plan, setting forth the terms and conditions of the Division of AS Järvevana. The aim of the Division was to transfer all of the assets and business operations, including all movables and property, rights and obligations of AS Järvevana to the Company, except for the assets and obligations set forth in Annex No. 3 to the Division Plan that were to be retained by AS Järvevana. The Division was approved by the resolution of the General Meeting of shareholders of AS Järvevana on 3 June 2008 and registered in the Estonian Commercial Register on 1 August 2008, which is also the date of incorporation of the Company. Each person who was a shareholder of AS Järvevana on 31 July 2008 at 23:59 received upon the registration of the Division and the establishment of the Company in the Estonian Commercial Register one share of the Company per each share of AS Järvevana held by him/her/it as of the time indicated above. For a more detailed description of the Division see "Information about the Company – Division of AS Järvevana and establishment of the Company".

The principal business activities of the Group are general construction (the construction of office buildings, industrial buildings, public service buildings, residential buildings including development thereof), civil engineering and road construction. In the course of these business activities, the Group carries out and renders the services of general construction, civil engineering, road construction, external networks construction, electrical construction and concrete works.

General Construction

The amplitude of the services of general construction is wide and includes everything that covers the keywords "real estate" and "construction". The general construction service starts with mapping the aims and wishes of the client, includes planning and offering the optimum solution for the client and results in designing, building and delivering the project to the client with a warranty. The general

construction services are rendered especially in the course of construction of office buildings, industrial buildings, public service buildings and residential buildings.

The Management and employees of the Group have specialized education and long-term experience, having worked on general construction for more than 15 years.

Civil Engineering

The civil engineering division builds facilities, if necessary together with designing. The Group builds port structures, landfills, bridges, overpasses, water and sewerage pipelines, water and sewage treatment plants and structures related to environmental protection.

The Group's objective is to maintain high professional level of work and the Management and employees of the Group have long-term experience and professional education. Generally, the projects undertaken by the Group are complicated and unique and require specific skills and knowledge. The Group values cooperation with the contracting entity and the local municipality.

Road Construction

Road construction works are mainly performed by the subsidiary company Tallinna Teede AS, which carries out road maintenance works all over Estonia, both as a project manager and independently. This includes building of road structures, performing road repairs and supervising excavation works and the condition of roads in Tallinn, as well as production of traffic signs and providing machinery repair services.

External Networks Construction

The Company builds external networks of water, sewerage and gas pipelines, installs sewage pumping stations and constructs and renovates storm water systems. The Company carries out works with high quality and in line with the generally recognised building practice; solves water supply and sewerage problems of the clients. External network construction services are rendered in the course of civil engineering activities.

Electrical Construction

The electrical works department of the Company is involved in the design, installation and construction of medium- and high-voltage substations and lines. In addition, subsidiary OÜ Baltic Electricity Engineering is active in planning medium- and high-voltage substations and lines. The Company has an experienced professional project management team.

Concrete Work

The main task of the concrete works department is to offer solutions for buildings and structures made of precast or cast-in-situ concrete, which are built by other units of the Company as well as external contractors. The Company manages, carries out and delivers to the clients the concrete structures of a building.

Development Activities

The development division deals with commercial real estate development activities, including both the preparation of the construction (preparation, planning of detailed plans) and performance of the construction works. The client can order the construction of the required commercial building with the preparation on his property (offices, hotels, trade centres, production buildings etc.), and also to purchase the property in the area developed by the Company, including the planning of the building and construction work on it. With experience in detailed planning and organisation of construction works the objective of the Company is to provide quality service to the clients.

In 2007, the revenue of AS Järvevana Group was EEK 5,510.8 billion, increasing by 24.8% on the previous year. In 2007, Estonia contributed 61.4%, Latvia 25.2% and Lithuania 13.4% to the revenue growth. As compared to 2006, revenue increased by 31.3% in Latvia, 30.9% in Lithuania and 21.2% in Estonia. Engineering construction contributed 10%, residential construction/development 22%, administrative buildings 43%, office buildings 14%, industrial

buildings 2% and road construction 9% to AS Järvevana Group's revenue. Of construction activities, 83% accounted for new structure and 17% for renovation and reconstruction works. In 2007, AS Järvevana Group entered into construction contracts with the total volume of EEK 4,351 million and as at 31 December 2007, the AS Järvevana Group's contract backlog totalled EEK 4,136 million.

AS Järvevana Group's revenue for the 3 months ended 31 March 2008 was EEK 1,119.6 million, which constitutes an annual increase of 10.3% on the respective period in 2007. 55.2% of the revenue originated from Estonia, 26.7% from Latvia and 18.1% from Lithuania. As compared with the respective period in 2007, group's sales in Latvia increased by 94.1%, in Lithuania by 19.7% and decreased in Estonia by 10.7%.

Group Structure

AS Merko Ehitus, a limited liability company incorporated under the laws of the Republic of Estonia, is the operating parent company of the Group.

As at the date of the Prospectus, the Company has 34 subsidiaries. In addition, the Company owned directly or indirectly through its subsidiaries shares in 6 companies. 19 of the subsidiaries are companies incorporated under the laws of the Republic of Estonia and 14 are companies incorporated under the laws of Republic of Latvia. UAB Merko Statyba is the only Lithuanian subsidiary of the Company. Most important subsidiaries of the Company are SIA Merks in Latvia, UAB Merko Statyba in Lithuania and Tallinna Teed AS, AS Merko Tartu, AS Gustaf, Gustaf Tallinn OÜ, OÜ Baltic Electricity Engineering, OÜ Fort Ehitus, OÜ Woody and OÜ Rae Tehnopark in Estonia. For further information about the Group see "Organizational Structure".

Risk Factors

Prospective investors should carefully consider the risks described under "Risk Factors" in addition to the other information contained in this Prospectus. The risks described under "Risk Factors" are not the only risks that the Group and investors in the Shares will face. Additional risks, which are not currently known to the Group or which the Group currently considers immaterial, may also adversely affect its business, financial condition and the results of its operation. The trading price of the Shares could decline due to any of these risks and investors could lose all or part of their investment. For a more detailed description of the risks, see "Risk Factors".

Management and Employees

The control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Board and the Management Board. The current members of the Supervisory Board are Teet Roopalu, Jaan Mäe and Tõnu Toomik. The current members of the Management Board are Tiit Roben, Veljo Viitmann, Alar Lagus, Andres Agukas, Tõnu Korts. For further information about the members of the Management Board and Supervisory Board see "Administrative, Management, and Supervisory Bodies and Senior Management".

As of 31 December 2007, AS Järvevana Group had 1,115 employees compared to 897 employees at 31 December 2006. As compared to 2006, the number of AS Järvevana Group's employees increased by 24.3%. All the employment contracts of AS Järvevana were transferred to the Company in the course of the Division. For further information see "Employees".

Articles of Association and Share Capital

The Articles of Association of the Company are in all material aspects in accordance with the requirements of the Estonian law. The Articles of Association were appended to the Division Plan of AS Järvevana (formerly AS Merko Ehitus) signed on 30 April 2008 and were approved as a part of the Division Plan by the General Meeting of shareholders of AS Järvevana on 3 June 2008.

As of the date of this Prospectus, the share capital of the Company is EEK 177,000,000 divided into 17,700,000 ordinary shares with a par value of EEK 10. Each Share entitles its holder to one vote at the General Meeting of Shareholders. The Company has only one class of shares and all the existing Shares rank *pari passu* in all respects. See "Additional Information".

Shareholders and Related Party Transactions

As of the date of this Prospectus, the controlling shareholder of the Company is, according to the share register of the Company maintained at the ECSD, AS Merko Grupp with 71.99% shares of the Company. Other major shareholders with more than 5% shareholdings in the Company as of 1 August 2008 are the clients of Skandinaviska Enskilda Banken Ab (5.88%) and the clients of ING Luxembourg S.A. (5.44%).

AS Merko Grupp is a public limited company registered in the Estonian Commercial Register under registry code 10068039. With the proportion of 65.32% of the holdings of AS Merko Grupp, the ultimate controlling party of the Company is Mr. Toomas Annus. Other shares of AS Merko Grupp are ultimately controlled by Mr. Tõnu Toomik, member of the Supervisory Board of the Company, who controls 12.61% of the shares of AS Merko Grupp; Mr. Viktor Mõisja, who controls 8.56% of the shares of AS Merko Grupp; Mr. Ott Kikkas, who controls 7.2% of the shares of AS Merko Grupp and Mr. Ülo Metsaots, who controls 6.31% of the shares of AS Merko Grupp.

The Group companies have entered into certain agreements with related parties. For the most relevant and material of the recent and on-going agreements see "Related Party Transactions".

Dividends

The shares of the Company will grant the right to a share of profit of the Company as of entry of the Division in the commercial register of the seat of the Company, and for subsequent periods. See "Financial Information Concerning the Issuer's Assets and Liabilities, Financial Position and Profit and Losses – Dividends and Dividend Policy".

Listing and Trading

In connection with the Division, the Company has applied for listing of its Shares on the Main List of the Tallinn Stock Exchange. The Listing and Surveillance Committee of the Tallinn Stock Exchange is expected to decide upon the Company's listing application on or about 5 August 2008, and in case the decision is positive, trading in the Shares is expected to commence on or about 11 August 2008.

The international securities identification number (ISIN) for the Shares is EE3100098328, the trading code in the Tallinn Stock Exchange trading system is expected to be MRK.

Capitalization and Indebtedness

For information on capitalization and indebtedness of the Company, see "Capitalization and Indebtedness".

Auditors and Legal Advisors

The Company's auditor for the financial year 2008 is AS PricewaterhouseCoopers, address Pärnu mnt 15, Tallinn 10141, Estonia. The consolidated financial statements of AS Järvevana for the financial years ended 31 December 2005, 2006 and 2007 included in this Prospectus have been audited by AS PricewaterhouseCoopers.

The legal advisor to the Company is AS Advokaadibüroo Tark & Ko, address Roosikrantsi 2, Tallinn 10119, Estonia.

Information Available for Inspection

For the period of validity of this Prospectus, the annual reports of AS Järvevana (formerly AS Merko Ehitus) for the financial years ended 31 December 2005, 2006 and 2007; the un-audited consolidated condensed interim financial information of AS Järvevana for the three month period ended 31 March 2008 and the Articles of Association of the Company are available at its head office located at Järvevana tee 9G, Tallinn, Estonia and on the Company's website (www.merko.ee). Any interested party may obtain a copy of these items from the Company without charge. References to the Company's website in this Prospectus should not be deemed to incorporate the information on the Company's website by reference.

Summary of the Consolidated Financial Statements

As the Company was established only recently and therefore lacks historical financial information, the following tables set forth certain selected financial data in regard to AS Järvevana. As the Company was formed in the course of the Division of AS Järvevana and on the basis of the Business operated previously by AS Järvevana and transferred from AS Järvevana to the Company, the below financial information also illustrates the business and financial condition of the Company. For the effects of the Division on the financial information, see the un-audited pro forma financial information included elsewhere in this Prospectus.

The financial information presented below has been extracted or calculated based on the audited consolidated financial statements of AS Järvevana for the financial years ended 31 December 2005, 2006, 2007, prepared in accordance with IFRS and from the un-audited consolidated condensed interim financial information of AS Järvevana for the three months ended 31 March 2008, prepared in accordance with the IAS 34 Interim Financial Reporting, included elsewhere in this Prospectus.

CONSOLIDATED INCOME STATEMENT DATA

<i>In thousands of EEK</i>	Three months ended 31 March (un-audited)		Year ended 31 December (audited)		
	2008	2007	2007	2006	2005
Revenue	1,119,572	1,014,864	5,510,760	4,414,361	3,232,392
Costs of goods sold	(884,377)	(886,352)	(4,731,752)	(3,727,561)	(2,738,714)
Gross profit	235,195	128,512	779,008	686,800	493,678
Marketing expenses	(7,888)	(5,605)	(32,472)	(23,390)	(22,595)
Administrative and general expenses	(49,373)	(35,610)	(213,806)	(148,792)	(127,632)
Other operating income	1,704	2,102	6,424	148,205	185,052
Other operating expenses	(1,738)	(1,038)	(18,109)	(29,952)	(93,452)
Operating profit	177,900	88,361	521,045	632,871	435,051
Financial income and expenses	(1,762)	3,907	69,694	7,737	28,673
Profit before tax	176,138	92,268	590,739	640,608	463,724
Corporate income tax expense	(20,138)	(881)	(30,830)	(49,917)	(18,437)
Net profit for financial period	156,000	91,387	559,909	590,691	445,287
Incl. net profit attributable to equity holders of the parent company	154,881	88,450	545,049	581,738	438,638
Minority interest	1,119	2,937	14,860	8,953	6,649

CONSOLIDATED BALANCE SHEET DATA

<i>In thousands of EEK</i>	31.03.2008 (un-audited)	31.03.2007 (un-audited)	31.12.2007 (audited)	31.12.2006 (audited)	31.12.2005 (audited)
ASSETS					
Current assets					
Cash and cash equivalents	356,863	321,903	205,564	676,143	268,446
Trade and other receivables	1,003,458	1,150,910	1,199,566	854,103	542,110
Prepaid corporate income tax	941	1,433	2,376	6,428	2,471

Inventories	2,047,829	1,480,273	2,025,426	1,356,734	964,088
Assets held for sale	-	-	-	733	-
	3,409,091	2,954,519	3,432,932	2,894,141	1,777,115
Non-current assets					
Investments in associates and joint ventures	275,983	204,979	272,964	200,798	179,609
Other long-term loans and receivables	24,214	8,666	14,492	8,476	8,524
Deferred income tax assets	3,392	6,547	3,396	6,592	8,753
Investment property	12,946	3,840	7,361	3,900	42,506
Property, plant and equipment	172,134	99,795	172,912	90,445	199,004
Intangible assets	12,675	10,901	12,574	10,177	4,365
	501,344	334,728	483,699	320,388	442,761
TOTAL ASSETS	3,910,435	3,289,247	3,916,631	3,214,529	2,219,876
LIABILITIES					
Current liabilities					
Borrowings	192,924	223,605	304,879	283,792	114,841
Trade and other payables	939,593	1,076,977	1,015,492	1,081,396	711,236
Corporate and other income tax liability	36,159	19,423	16,718	18,868	950
Government grants	1,498	1,472	1,498	1,498	22,225
Short-term provisions	81,495	80,580	73,212	33,517	21,741
	1,251,669	1,402,057	1,411,799	1,419,071	870,993
Non-current liabilities					
Long-term borrowings	399,165	149,814	397,713	159,335	202,824
Other long-term trade payables and prepayments	54,796	39,470	57,423	23,277	22,726
Deferred income tax liabilities	-	-	-	-	11,385
	453,961	189,284	455,136	182,612	236,935
TOTAL LIABILITIES	1,705,630	1,591,341	1,866,935	1,601,683	1,107,928
EQUITY					
Minority interest	35,058	21,840	33,939	18,904	10,552
Equity attributable to equity holders of the parent company					
Share capital	177,000	177,000	177,000	177,000	177,000
Statutory reserve capital	17,700	17,700	17,700	17,700	8,850
Currency translation differences	(5,976)	(12,077)	(5,085)	(5,751)	(5,059)
Retained earnings	1,981,023	1,493,443	1,826,142	1,404,993	920,605
	2,169,747	1,676,066	2,015,757	1,593,942	1,101,396
TOTAL EQUITY	2,204,805	1,697,906	2,049,696	1,612,846	1,111,948
TOTAL LIABILITIES AND EQUITY	3,910,435	3,289,247	3,916,631	3,214,529	2,219,876

CONSOLIDATED CASH FLOW STATEMENT DATA

<i>In thousands of EEK</i>	Three months ended		Year ended 31 December		
	31 March		(audited)		
	2008	2007	2007	2006	2005
Cash flows from operating activities	276,498	(193,310)	(488,904)	155,687	264,667
Cash flows from investing activities	(10,840)	(90,276)	(73,366)	234,394	(378,115)
Cash flows from financing activities	(113,001)	(68,692)	93,319	21,646	243,108

Change in cash and cash equivalents	152,657	(352,278)	(468,951)	411,727	129,660
Cash and cash equivalents at end of the period	356,863	321,903	205,564	676,143	268,446

THE FINANCIAL RATIOS DESCRIBING THE COMPANY'S MAIN OPERATIONS*:

	Three months ended 31 March (un-audited)		Year ended 31 December (un-audited)		
	2008	2007	2007	2006	2005
Net profit margin	13.8%	8.7%	9.9%	13.2%	13.6%
Profit before tax margin	15.7%	9.1%	10.7%	14.5%	14.3%
Operating profit margin	15.9%	8.7%	9.5%	14.3%	13.5%
Return on equity per annum	29.6%	21.6%	30.2%	43.2%	48.2%
Return on assets per annum	15.8%	10.9%	15.3%	21.4%	24.9%
Equity ratio	55.5%	51.0%	51.5%	49.6%	49.6%
Current ratio	2.7	2.1	2.4	2.0	2.0
General expense ratio	5.1%	4.1%	4.5%	3.9%	4.6%
Personnel expense ratio	10.9%	12.8%	9.3%	8.0%	7.3%
Debt to equity ratio	27.3%	22.3%	34.9%	27.8%	28.8%
Debt to assets ratio	15.1%	11.4%	17.9%	13.8%	14.3%
Accounts receivable turnover (in days)	60	68	59	46	33
Accounts payable turnover (in days)	40	46	41	45	38
Sales revenue per employee (in million EEK)	1.036	1.119	5.376	5.193	4.651
Average number of full-time employees	1081	907	1025	850	695
Number of shares, thousands	17,700	17,700	17,700	17,700	17,700
Earnings per share, in EEK	8.75	5.00	30.79	32.87	24.78

* See "Selected Financial Information" for the explanation of the formulas used.

RISK FACTORS

Prospective investors should carefully consider the following risk factors in addition to the other information contained in this Prospectus. Any of the risks described below could have material adverse effect on the Company's business, financial condition and results of operations, in which case the trading price of the Shares could decline, resulting in the loss of all or part of their investment in the Shares.

Prospective investors should note that the risks described below are not the only risks associated with the investment in the Shares. Additional risks not currently known to the Company or that the Company currently believes are immaterial may also have the effect set forth above.

Risks Related to the Company's Business

Growth Management

The Company's operations have grown significantly over the recent years, which has exerted pressure on management capacity. Management expects that in the mid-term it will continue growing, both through organic expansion of its business and through potential acquisitions. The Company needs to continually improve its financial and management controls, reporting systems and procedures, implement new systems when necessary and support, train and manage its personnel.

If the Company fails to control its growth and development successfully, this may have an adverse effect on its profits and financial position. The continuing growth requires investments in non-current assets and additional working capital. The availability of additional financing on advantageous terms cannot be assured.

High Working Capital Requirements

Certain business segments, such as road construction, real estate development and construction of environmental structures, require significant working capital. The Company needs to invest in large amounts of working capital to purchase materials and perform engineering, construction and other work on projects before payment is received from the customers. According to the Management, the most working capital intensive projects of the Group are the ones financed by EU related funds where the Company has in the past been forced to accept lengthy payment terms and has effectively funded to greater or lesser extent the working capital requirements of the projects. Management envisages that lengthy payment terms in such projects will be necessary also in the future, and that the Company may need to incur additional indebtedness to satisfy its working capital requirements.

Shortage in working capital may increase the Company's receivables and short-term borrowings. Sustained increase in working capital requirements may have an adverse effect on the Company's financial condition and results of operations.

Management expects the ongoing economic slowdown to negatively impact the construction industry in the short-term. This may intensify the competition and result in more favourable contract terms for the customers including lengthier payment terms, which might further increase the Company's working capital needs.

Increasing Cost of Labour

The rapid economic growth and accession to the European Union have created tensions in the Baltic labour market. Rising demand has created an incentive to increase production, but there is a shortage of labour, which has put pressure on wage rates. Accession to the European Union has increased competition among employers. A large number of construction workers have chosen to work in

other member countries where income level is higher. As a consequence, local construction companies have been forced to raise wages and salaries in order to attract qualified workforce and maintain growth. Therefore, the Company may experience rising labour costs and shortage of workers, which can lead to lower profitability and difficulties in meeting deadlines.

Dependence on Key Personnel

The Company relies heavily on the highly qualified engineering, technical and management level personnel. The leaving of several project managers, technicians or business personnel may cause serious damage to Company's business. The future of the Company is dependent on the ability to hire, train and retain such personnel in the future. Should the Company lose one or more key personnel and fail to find a replacement quickly enough, or should such key personnel join a competing business, this could also affect the business and results of operations of the Company. Loss of key personnel may also result in increased risk of unauthorised disclosure or use of the Company's procedures, practices, customer lists and other confidential information.

Under Estonian law, confidentiality and non-competition covenants are enforceable after termination of the contract only when employee has received a special remuneration or other compensation to that effect. In accordance with the Estonian Penal Code it is prohibited and punishable to disclose or use a business secret of which the person became aware in connection with his or her official duties without the permission of the relevant undertaking, for commercial purposes or with the aim to cause damage.

The employment contracts of the Company do not include the confidentiality and non-competition covenants applicable beyond the term of the contract. With a view to the limitations to the enforceability of confidentiality covenants and non-competition covenants, the Company relies largely on other measures designed to encourage loyalty of the workforce, such as competitive compensation and benefits packages.

Dependence on Suppliers and Subcontractors

The Company is not directly dependent on any one of its subcontractors. The main risks associated with suppliers and subcontractors are present on the individual project level. The replacement process of a key subcontractor in a particular project may not be cost-efficient and may result in delays, which in turn may negatively impact the overall profitability and reputation of the Company.

Dependence on Cost of Equipment, Materials and Fuel

The cost of materials make up a large part of the Company's operating expenses. Depending on particular contracts, a significant rise in the price of materials cannot always be passed to the customers, which creates additional risk for the Company. The Company needs various types of construction equipment to carry out its operations. If the prices of the equipment (rent) or the fuel for operating the machinery rises significantly, the Company may experience a notable increase in operating expenses, which may result in lower profitability and worsened financial condition.

Real Estate Development

Residential real estate has been an important source of revenues over the past three years, but it is also the most vulnerable to economic cycles. The management expects the revenues of this segment to decline in the short term. The Company has invested significant amounts in acquiring land plots without a guarantee that it can develop these plots successfully and profitably. Some plots lack detailed planning and no assurance can be given that detailed plans suitable for development can be obtained.

Competition

The Baltic construction market is fragmented and highly competitive. The Company faces competition from both local and international companies, some of which are significantly larger. Some of the largest competitors in the Baltic States are Skanska EMV AS, AS YIT Ehitus, Panevežio statybos trestas SC, Skonto buve Ltd, SIA PBLC and Ranga Group, AS Eesti Ehitus.

The price is the main factor deciding most tenders. Other factors, such as references, technological expertise, personnel, health and safety records and reputation are important for being accepted as a bidder, but generally do not decide the contractor. Intense price competition favours companies that achieve economies of scale and/or other operating efficiencies. Competitors, some of which are affiliated with large international companies, may benefit from such efficiencies. They may also have more financial resources and marketing capabilities that help them to counterbalance the effects of economic cycles. If the Company fails to survive such price competition and is forced to accept unprofitable projects, it may face difficulties in increasing or maintaining the level of operating revenues.

Dependence on Government Entities or Municipalities as Customers

In the years 2005-2007, customers in the public sector accounted for approximately 30 % of the revenue of AS Järvevana Group. Such projects are often related to European Union initiatives and financed through the European Union structural and other funds subject to extensive bureaucratic requirements. Complications in these projects can delay their completion or result in delays in collection of receivables from the customer. Certain operations of the Company require significant working capital and delayed collection of receivables could significantly adversely affect the Company's liquidity and results of operations. The general consumption slowdown is expected to cut the revenue base of the public sector, weaken the budgets of central and local governments and significantly impair their investment capacities.

Financing and Loan Agreements

The loan and lease agreements entered into by the Company may include several restrictive covenants and requirements to obtain the lender's consent for, among other things, further financing, changes in the Company's corporate structure or the nature of its business, and consolidating or merging with another corporation.

Some of the Company's loan agreements with financial institutions contain customary events of default, including cross-default provisions. These cross-default clauses expose the Company to default risks based on performance under other agreements with the financial institutions in question or other creditors.

Majority of the Company's financial agreements have floating interest rates. Changes in applicable interest rates affect the Company's interest expenses. No financial instruments are used to hedge interest rate risks.

Operations Outside Estonia

In addition to Estonia, the Company operates in Latvia and Lithuania. Due to smaller market share in these countries as compared to Estonia, the Company experiences more competition and is more vulnerable to business cycles. In order to expand its operations and capture market share in Latvia and Lithuania the Company may need to use a significant amount of financial resources. These actions may reflect in the Company's operating results and financial position in the following years.

Contractual Risks

A dispute may arise between the Company and its contractual counterparties on the interpretation or the validity of a contract or fulfilling of contractual obligations, which can lead to arbitration or litigation with an unfavorable outcome for the Company. Contractual claims and other demands may have an adverse effect on the Company's profits and financial position. Most of the contracts

concluded in Latvia and Lithuania are governed by the local law and subject to the jurisdiction of local courts, which may impose a risk of foreign law. The Company seeks to cover its exposure for contractual risks mainly through creating provisions for potential claims and legal costs. However, this measure may not always be sufficient.

Credit Risk

The potential inability of customers and suppliers to satisfy their obligations opens the Company to credit risk. Despite the efforts to monitor the financial condition of Company's debtors, defaults may occur. Such events, especially when involving some major partner, may have serious consequences to the Company's financial condition and operating results as well as increase many other risks.

Construction Liability

The Company's construction business inherently exposes itself to potential liability for defects in design, construction, materials or workmanship. The Company may be subject to claims resulting from defects arising out of construction services within the warranty period. Under Estonian law, the construction contractor is subject to a statutory warranty obligation for a period of two years, commencing from the completion of construction, for the conformity of the workmanship to the contract and to the anticipated use of the construction, as well as for the safety of the completed construction. The statutory warranty cannot be reduced by contract. Claims can be made under the general rules of the statute of limitations for 5-10 years unless the parties have agreed on a shorter claims period in the construction contract. Accordingly, most of the Company's construction contracts provide for a warranty that covers defects appearing within two years from the delivery of the works to the customer. Due to competitive pressure, the Group has occasionally extended the statutory warranty coverage.

The Company seeks to cover its exposure for warranty claims mainly through creating provisions and also through limited insurance. However, these measures need not always suffice. The Company passes the warranty liability on to its subcontractors, but they may not have adequate resources to fully indemnify the Company. Losses may arise from risks not addressed in the Company's indemnity agreements or insurance policies, or it may no longer be possible to obtain adequate insurance coverage against some risks on reasonable commercial terms. Failure to effectively cover the Company's exposure to risk arising from engineering and construction liabilities could expose the Company to substantial costs and potentially lead to substantial losses. Additionally, liabilities relating to defects in engineering and construction may also adversely affect public perception about the operations of the Company and the perception of customers, suppliers and employees, leading to an adverse effect on the Company's business, results of operations and financial condition.

Environmental Issues

The Company's activities are and will continue to be subject to laws and regulations relating to environmental protection. Such laws and regulations typically cover a wide range of matters, including, among other things, waste handling, protection of ambient air and use of water. Management believes that the Company complies in all material aspects with the Estonian environmental legislation currently in force. However, as Estonia is a Member State of the European Union, there is a risk that the laws and regulations applicable to construction companies may become more stringent and require an increased level of investment by the Company to comply with such standards of environmental safety.

The Company has been involved in the construction of complex infrastructure projects which generally are subject to numerous, extensive and evolving laws, regulations and permits, including those related to the environmental protection. The Company's construction contracts with its customers also contain terms and conditions related to the environmental matters. Failure to comply with these laws, regulations, permits and contractual terms and conditions could result in substantial

cost and liabilities, which could have an adverse effect on the Company's business, its financial condition and results of operations.

The Company, from time to time, acquires land which has been found substantially contaminated. Such land must be cleaned up before the construction can commence. Environmental laws often impose liability on the current property owner whether or not the owner knew of, or was responsible for, the presence of such contamination. On purchase of the land the Company usually requires the seller to warrant that there is no contamination on the land. However, no assurance can be given that the Company can always detect contamination prior to the acquisition of the land, in which case it may have to incur unexpected clean-up costs.

The cost of complying with environmental regulations or of decontamination of any land by the Company or the costs associated with a successful claim for damages could have material adverse effect on the Company's financial conditions and results of operations.

Health and Safety

The construction industry generally engages in inherently hazardous operations, which may result in work accidents, equipment failures, fires or explosions, including hazards that may cause injury and loss of life, severe damage to and destruction of property and equipment and environmental damage. On the average five to ten incidents per year have occurred with the employees of AS Järvevana. The Company has adopted appropriate health and safety regulations which are assessed on an on-going basis on all of its construction sites. However, no assurance can be given that employees or former employees would not file claims against the Company in the future in respect of injury or illness suffered as a result of working conditions. Such claims, if successful, could have an adverse effect on the Company's business and results of its operations. In order to protect itself against this risk the Company has concluded a liability insurance contract covering its operations in Estonia.

Inability to Keep Up with Technical and Technological Developments in Engineering Construction Industry

Pre-qualification is the key for the Company's winning major civil engineering projects. The Company's ability to bid for and win large engineering construction projects is dependent on gaining experience from large engineering, procurement and construction contracts and technically complex integrated projects.

Most of the large international competitors are pre-qualified contractors with strong technical background. If the Company fails to keep up with major developments in engineering construction industry, it may eventually lack qualifications and efficiency to undertake major projects.

Government Regulations May Lead to Increasing Compliance Costs

The cost of complying with government regulations can be substantial. Governmental authorities in the European Union regulate various aspects of the Company's business and operations. The regulations applicable to the Company's existing and future services may change and/or increase substantially. In addition, no assurance can be given that the governments of the Company's core markets would not implement regulations or fiscal or monetary policies, including regulations or policies relating to or affecting taxation, the environment, health and safety, public procurement, or exchange controls. Any significant amendment to the existing regulations or a new regulation could result in significant additional costs which it may be unable to pass on to third parties, or impose restrictions on the operations of the Company, which could have material adverse effect on the Company's business, results of its operations and financial condition.

Ability to Qualify for, Win and Execute Large Engineering Construction Projects

In selecting contractors for major projects, customers usually only accept tenders from pre-qualified contractors. The selection among pre-qualified contractors relies mainly on price. The Company

must keep up with technical and technological developments in the engineering construction industry to qualify for tenders. Furthermore, the Company has to improve its efficiency to be competitive in bidding. If the Company fails to achieve these targets, it may not be able to participate in major projects, which has adverse effect on its market position and, ultimately, on the operating results.

Relationship with the Principal Shareholder

AS Merko Grupp owns and controls 71.99 % of the Shares. As a result, AS Merko Grupp will be able to exercise significant control over most matters requiring shareholder approval, including the election of members of the Supervisory Board and approval of significant corporate transactions, amending the Articles of Association and making changes to the share capital, which could delay or prevent a third party from acquiring control of the Company. The ability of a major shareholder to prevent or delay such transactions could cause a decline in the price of the Shares.

Currency Exchange Risks

The Company is active in Estonia, Latvia and Lithuania where the local currencies are pegged to the euro. There is no guarantee that the central banks of these countries will maintain the current exchange rate in the future. Any devaluation or revaluation of local currencies (EEK, LVL, LTL) may have negative effects on the economy as a whole and on the Company's financial condition and operating results. The Company has covered the local currency and euro risk in the contracts, but this may not prove sufficient in case of devaluation when customers are not able to honor their commitments (currency exchange risk becomes credit risk).

Risks relating to the Division of AS Järvevana

On 15 October 2007, the Prosecutors' Office launched Criminal Proceedings against AS Järvevana and its Chairman of the Supervisory Board Mr. Toomas Annus, suspected of bribery and misuse of trust. In the opinion of the management of AS Järvevana the substance of suspicions is incomprehensible to the management of AS Järvevana and AS Järvevana has followed the effective laws of the Republic of Estonia and good industry practices.

At a joint meeting held on 14 March 2008, the Management Board and the Supervisory Board of AS Järvevana adopted a resolution to restructure the company and separate operating activities from the Criminal Proceedings related to the land swap transactions, as the filing of suspicions may impact the company's competitiveness and the competitive position of the Estonian construction market in general. The delay in the process of Criminal Proceedings related to the land swap transactions launched in 2005 and the accompanying ambiguity and speculation in the media have started to take a toll on the operations of AS Järvevana and thus, harming the interests of AS Järvevana and its shareholders.

The management of AS Järvevana estimated that the restructuring of AS Järvevana was the best way to ensure its sustainable development and to protect the interests of shareholders and employees in the long-lasting Criminal Proceedings related to the land swap transactions. However there is a risk that the ongoing Criminal Proceeding will affect also the reputation of the Company.

According to the Estonian Commercial Code, the companies participating in a division (in the present case AS Järvevana and the Company) will remain jointly and severally liable before creditors for the obligations of the company being divided having arisen before the entry of the division in the Estonian Commercial Register. Therefore, there is a risk that a claim may be submitted against the Company for the obligations of AS Järvevana. However, if such obligations were designated in the Division Plan as obligations remaining with AS Järvevana, the Company could have recourse against AS Järvevana if it would be forced to satisfy the claim of a third party relating to such obligations.

Risks Related to the Industry

Industry is Susceptible to Economic Cycles

The operations of all business lines of the Company are subject to economic cycles, which may either improve or have a negative effect on the financial results of the Company. The construction market and the companies are influenced by a wide range of factors, which are related to economic cycles. Among these are the costs of financing, operational expenses and the demand for the services of construction companies.

In 2008 there has been a slowdown of the economic growth in all the three Baltic States. As against the first quarter of 2007, the rate of growth of GDP in Estonia was as low as 1.4%, in Latvia 3.6% and in Lithuania 6.4%. As regards the development projects of residential buildings and commercial premises, the market will evidently remain passive and is expected to recover not before 2009. For the time being, the largest challenge in the sector is to cope with the narrowing financing opportunities and liquidity problems. The year 2008 will be challenging for the real estate and construction areas. It will be important to adapt to the changing environment and cope with the risks related to these changes.

Lack of Qualified Personnel and Certain Construction Materials

Accession to the European Union has made it easier for people to work abroad. Because of higher income, a lot of qualified workforce has left to work in other member states. Local companies may not be financially competitive to offer similar working conditions and are therefore exposed to the risk that they cannot increase production even if there is a rising demand for their services. Rather, it is possible that they have to decline new projects in order to meet the deadlines of ongoing projects.

The industry may face lack of certain construction materials, for example when there is a sudden rise in demand. This kind of situation may considerably increase the price of these construction materials and also the operational expenses of the whole industry, which may have an adverse effect on the financial results of the Company.

Risks Related to the Shares

Volatility and Liquidity of Share Prices

There is a vast amount of factors that influence the share prices and trading volumes. The fluctuations in the share prices are often not related to the operating performance of the underlying companies, but dependent on other factors, such as interest rates, the state of the economy, market conditions (including world market), operating results of companies in the same or similar industries, investor confidence, etc. Therefore, there is no certainty in the ability of the shareholders to sell their shares or the price of any such sale.

In 2007, the average daily turnover of Tallinn Stock Exchange was EEK 95.4 million. The average daily turnover of the shares of AS Järvevana was EEK 7.2 million. In the first quarter of 2008, the average daily turnover of Tallinn Stock Exchange was EEK 39.1 million and the average daily turnover of the shares of AS Järvevana for the same period was EEK 2.5 million.

Offer for Sale of Substantial Number of Additional Shares May Depress the Share Price

Sales or issuance of additional Shares into the public market following the Listing could adversely affect the market price of the Shares.

Future Payments of Dividends

There is no certainty whether or how much dividends will be paid in the future by the Company. Among many other factors, including general economic environment, dividend payments are dependent on the financial condition, required investments and operating results of the Company. The payment and amount of any dividend will be subject to discretion of the Company's Management Board, Supervisory Board and, ultimately, the General Meeting of Shareholders. With the holding representing 71.99% of the voting rights in the General Meeting of Shareholders of the Company, AS Merko Grupp is in the position to decide on the payment of the dividends and the amount thereof.

Continued Analyst Coverage

The price and liquidity of Company shares are partly influenced by analyst coverage. If one or many analysts lower their ratings on Company shares, it may result in lower share price and liquidity. If one or many analysts end their coverage of Company shares, it may result in smaller attention to the Company by investors, which again may bring along lower share price and liquidity. There cannot be any assurance, which kind of analyst coverage the Company receives in the future.

Political, Economic and Legal Risks

Risks Related to Doing Business in the Baltic States

Investors investing in emerging markets such as Estonia, Latvia and Lithuania should recognize that these markets are subject to greater risks than more mature markets, including legal, economic and political risks.

Estonia, Latvia and Lithuania have experienced significant political, legal and economic changes and liberalization during the last two decades of transition from the Soviet rule and plan economy to independence and a market economy. For purposes of their accession to the European Union, Estonia, Latvia and Lithuania implemented significant social and economic changes, as well as reforms of their legal and regulatory framework. As a result, the volume of Estonian, Latvian and Lithuanian legislation and other regulations has increased and is expected to increase further pursuant to the obligation to apply the European Community law.

The civil code and corporate, competition, securities, environmental and other laws in Estonia, Latvia and Lithuania have been substantially revised during the last decade as part of these countries' transition to a market economy and to meet EU requirements and standards. The new legislation remains in part largely untested in courts and no clear administrative or court interpretation practice has evolved.

Estonian, Latvian and Lithuanian businesses are in the process of adopting the business standards and practices of the European Union. Many Estonian companies are still adopting and developing management tools for competition law related risks, corporate governance, internal controls and risk management.

Potential Tax Liabilities

Estonia currently enjoys a corporate income tax regime under which the corporate income tax is deferred until profits are distributed. Estonian companies are currently subject to income tax of 21/79 of the net amount of distributed profits. As the law currently stands, the above-mentioned rate is due to decrease gradually over the following years (down to 20/80 as from 1 January 2009, 19/81 as from 1 January 2010 and 18/82 as from 1 January 2011).

In addition, Estonian dividend withholding tax of 21% is currently imposed on dividends paid by the Company to non-resident legal persons, holding at the moment of announcement and payment of dividends less than 15% of the shares or votes of the Company. The withholding tax on dividends will be entirely abolished as from 1 January 2009.

Upon its accession to the European Union in 2004, Estonia was granted a transitional period until the end of 2008 to modify its corporate income tax system, since corporate income tax payable on profit distributions, according to the European Commission, constituted a withholding tax on dividends prohibited under the Parent-Subsidiary Directive (EC Council Directive 90/435/EEC).

On 26 March 2008, the Estonian Parliament adopted amendments to the Estonian Income Tax Act, the purpose of which is to align the Income Tax Act with the Parent-Subsidiary Directive. The amendments will enter into force as from 1 January 2009. Despite the above-described position of the European Commission, the key principle of the Estonian corporate income tax system will remain unchanged: retained (i.e. undistributed) earnings will remain untaxed until distribution.

The new law contains several amendments, such as the new taxable period being a financial year as opposed to a calendar month. Notably, Estonian resident companies will be required to make advance income tax payments calculated on the average actual taxable payments. Also, dividends received from other EU states will be exempt from income tax, irrespective of the holding period or shareholding percentage. As mentioned above, the dividend withholding tax will be entirely abolished as from 1 January 2009. See „Taxation” for more details.

It is currently unclear whether or not the European Commission will challenge the recent amendments and bring the case before the European Court of Justice. In addition, the amendments may be challenged by local businesses wishing to optimize the distribution of retained earnings. Such possibilities create significant uncertainties with regard to the Company’s future tax position.

Moreover, it should be noted that Estonian tax laws and regulations have not been in force for significant periods, in contrast to more developed market economies; therefore, implemented laws and regulations may be unclear or nonexistent. Accordingly, there is limited case law on the application and interpretation of these laws. Often, differing opinions regarding legal interpretations exist both among and within tax authorities, thus creating uncertainties and areas of conflict. The Company’s tax position may be subject to possible review and investigation by tax authorities. If for any reason the Company’s tax position were to be disputed by the tax authorities, the possible tax liabilities of the Company could have a substantial adverse impact on the Company’s operating results, and therefore could have a material adverse impact on the market price for the Shares.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the un-audited capitalization and indebtedness of the AS Merko Ehitus Group as of 31 March 2008. As the Company was established only recently and therefore lacks historical financial information, the following table is based on the Un-audited Pro Forma Financial Information of AS Merko Ehitus included elsewhere in this Prospectus. This information should be analysed in conjunction with the un-audited consolidated condensed interim financial statements of AS Järvevana for the three months ended 31 March 2008 included elsewhere in this Prospectus.

in thousands of EEK (un-audited)	31 March 2008
CAPITALIZATION	
Total current debt	317,924
- secured	142,924
- unguaranteed/unsecured	175,000
Total non-current debt (excluding current portion of long-term debt)	399,165
- secured	399,165
Shareholders' equity	1,937,247
Share capital	177,000
Statutory reserve capital	17,700
Currency translation adjustment	(5,976)
Retained earnings	1,748,523
TOTAL CAPITALIZATION	2,654,336
NET INDEBTEDNESS	
A. Cash and cash equivalents	331,863
B. Trading securities	-
C. Liquidity (A+B)	331,863
D. Current financial receivable	41,127
E. Current bank debt	129,043
F. Current portion of non-current debt	13,881
G. Other current financial debt	175,000
H. Current Financial Debt (E+F+G)	317,924
I. Net current financial indebtedness (H-D-C)	(80,068)
J. Non-current bank loans	399,165
K. Other non-current loans	-
L. Non current financial indebtedness (J+K)	399,165

F. Net financial indebtedness (I+L)	319,087
--------------------------------------------	----------------

AS Järvevana had no other current financial debt as of 31 March 2008.

The Company does not have any contingent liabilities, which might impact the Company's indebtedness.

No material changes in capitalization and indebtedness have incurred since 31 March 2008.

INFORMATION ABOUT THE COMPANY

General Information

The Company was established on 1 August 2008 as a result of the Division. The Company's registration data are the following:

Legal and commercial name	AS Merko Ehitus
Country of incorporation	The Republic of Estonia
Registration number	11520257
Date of incorporation	1 August 2008
Legal form	public limited liability company (in Estonian - <i>aktsiaselts</i>)
Legislation under which the Company operates	legislation of the Republic of Estonia
Country on incorporation	The Republic of Estonia
Registered address	Järvevana tee 9G, 11314 Tallinn, Estonia
Contact details	Tel.: +372 6 805 105 Fax: +372 6 805 106 E-mail: merko@merko.ee

Division of AS Järvevana and Establishment of the Company

The Company has been established as a result of the Division of AS Järvevana (formerly AS Merko Ehitus). AS Järvevana is currently listed on the Main List of the Tallinn Stock Exchange. On 30 April 2008 AS Järvevana concluded the notarized Division Plan, setting forth the terms and conditions of the Division of AS Järvevana. The Division Plan was published on 30 April 2008 through the information system of the Tallinn Stock Exchange and is available on the web page of the Tallinn Stock Exchange and the below web page of the Company: <http://www.merko.ee/eng/investor/generalmeeting/2008>.

The aim of the Division was to transfer all of the assets and operations, including all movables and immovables, rights and obligations (the "Business") of AS Järvevana to the Company, except for the assets and obligations that have been set forth in Annex No. 3 to the Division Plan, which are retained by AS Järvevana. AS Järvevana retained EEK 25,000,000 in cash and the following immovable property with the total book value of EEK 36,957,763 as of 31 March 2008:

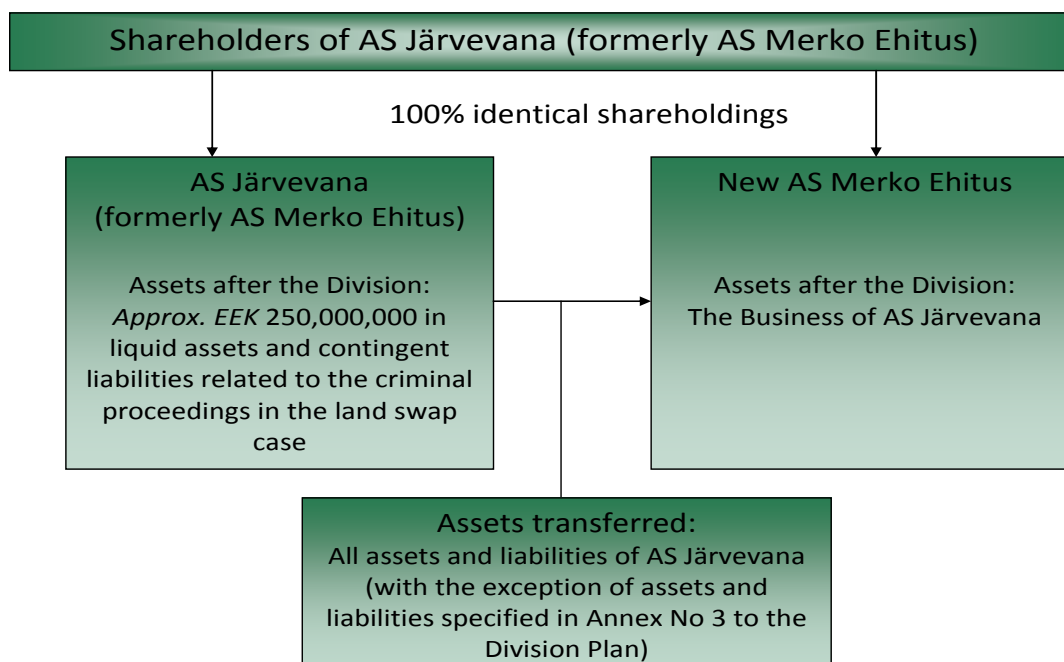
Number of immovable in the Estonian Land Register	Cadastral reference number	Address
152502	19801:002:0962	Harku municipality, Tiskre Village, Kallaste II, Estonia
13290401	78403:315:2670	Tallinn, Valukoja Str 26, Estonia
13290501	78403:315:2680	Tallinn, Valukoja Str 24, Estonia
13291001	78403:315:2730	Tallinn, Valukoja Str 35, Estonia
18460801	78407:701:0177	Tallinn, Tendre Str 55, Estonia

Additionally, AS Järvevana has certain claims and obligations arising from the transactions described in Section "Related Party Transactions". Liabilities related to the criminal case No 05913000055, including the provision reported on the balance sheet of AS Järvevana in the amount of EEK 17,500,000 in connection with the estimated legal costs and off-balance sheet contingent liabilities, including the maximum contingent penalty of EEK 250,000,000, are also retained by AS Järvevana.

The Division was approved by the resolution of the General Meeting of shareholders of AS Järvevana on 3 June 2008. Pursuant to the shareholders' resolution approving the Division Plan and an announcement published by the Management Board of AS Järvevana on 17 July 2008, each person who was a shareholder of AS Järvevana on 31 July 2008 at 23:59 received upon the registration of the Division and the establishment of the Company in the Estonian Commercial Register one share of the Company per each share of AS Järvevana held by him/her/it as of the time indicated. The share capital of both the Company and AS Järvevana amount to EEK 177,000,000 and divides into 17,700,000 shares, each with the par value of EEK 10. The share capital of the Company was deemed paid in by the assets of AS Järvevana, transferred to the Company in the course of the Division. On 18 July 2008 the Management Board of the Company has performed a valuation of the transferable assets, in order to determine that the assets were sufficient to pay in the share capital of the Company. The independent auditors AS PricewaterhouseCoopers have verified the valuation of the assets performed by the Management Board and have issued a report confirming the correctness of the valuation on 18 July 2008. The Division was registered in the Estonian Commercial Register on 1 August 2008, which is also the date of incorporation of the Company. Pursuant to the Estonian Commercial Code, assets to be transferred in the course of the division are deemed transferred to the recipient company and the shareholders of the company being divided are deemed shareholders of the recipient company pursuant to the division plan as of the entry of the division in the Estonian Commercial Register.

According to the Commercial Code, AS Järvevana and the Company shall remain jointly and severally liable for the obligations of AS Järvevana having arisen before the entry of the Division in the Estonian Commercial Register. In relations between themselves only a person to whom obligations are designated by the Division Plan, would be an obligated person. Therefore, even if third parties may require the Company to perform an obligation of AS Järvevana that has arisen before the entry of the division in the Estonian Commercial Register and which was designated in the Division Plan as an obligation remaining with AS Järvevana, the Company may, upon fulfillment of such obligation, have recourse against AS Järvevana.

The following chart provides an additional illustration of the Division:



History and Development of the Company

Even though the Company itself was established only recently and formally lacks corporate history, a summary of the history of AS Järvevana (the company from whom the Company acquired the Business in the course of the Division) is as follows:

- The foundation meeting of AS Järvevana (then AS EKE Merko) was held on 5 November 1990. AS Järvevana (then AS EKE Merko) purchased the assets and liabilities of EKE MRK in 1990.
- In 1992 the company moved to the new head office and production buildings in Saue, Harjumaa.
- In 1995 the company constructs the new head office of Hansabank as the largest project in Tallinn. The company became one of the largest construction companies in Estonia.
- In 1996 all activities not related to construction were separated from the company. The business name of the company was changed to AS Merko Ehitus.
- In 1997 the first public issue of shares of the company was organized. The shares of the company were listed in the main list of the Tallinn Stock Exchange on 22 July 1997. The shares of the company were also traded at the stock exchanges of Munich and Frankfurt.
- In 1998 the company acquired the majority holdings in the subsidiaries OÜ Matek, AS Merko Tartu, UAB Merko Statyba (100%) in Lithuania and SIA Merks (100%) in Latvia. The company became the largest construction company in Estonia and also in the Baltics with consolidated revenue of EEK 843 million.
- In 1999 the head office of AS Eesti Ühispank and Kristiine shopping centre were completed, the business activities were expanded in Latvia and Lithuania. E.L.L Kinnisvara AS was separated from AS Järvevana Group and transferred to AS Merko Grupp, the parent company of AS Järvevana, with the aim to separate the real estate development from the construction. The company focused on the development of main contracting and project management of construction and creating of necessary jobs. The activities were started by the civil engineering division, the fields of activity of which were ports, waste management projects, roads, bridges, water and sewerage utility lines etc. The international quality certificate ISO 9001 was attributed to the company.
- In 2000 Sikupilli shopping centre and Radisson SAS Hotel in Estonia were completed, Grand Palace Hotel in Riga was reconstructed, the production buildings of the brewery Cēsu Alus in Latvia and the head office of Lietuvos Telekomas in Lithuania were built. In the sector of civil engineering in Estonia the landfill of Väätsa was completed and the water supply system of Jõhvi-Ahtme and the water treatment plants of Kuressaare, Valga and Pärnu were also reconstructed. The revenue of the company exceeded EEK 1 billion.
- Related to the growth in demand of the market regarding the single-family houses and apartments the residential construction division of the company was established in 2001. In 2001 the apartment buildings of Tuvi street, family-houses of Teelahkme were among the largest projects completed. The company acquired 100 % of the shares in Tallinna Teede AS, thus expanding into the spheres of road construction and maintenance.

- The largest projects in 2002 included among other things the extension of Kristiine shopping centre and construction of Haabersti Citymarket and Norde Centrum. The construction of Mustakivi trade centre and trade and business centre of Viru square and the head office of Hansabank in Riga were started.
- In 2003 a subsidiary company named OÜ Gustaf Tallinn was founded. The sole share in OÜ Woody was also acquired. The subsidiaries of SIA Merks and UAB Merko Statyba were founded. The new large-scale construction contracts were concluded for the construction of Muuga coal terminal and Estonian Art Museum in Estonia. The former landmark hotel Lietuva of Vilnius was reconstructed.
- In 2004 Viru Centre in Tallinn and the new head office of AS Hansabanka in Riga were completed. SIA Merks started the construction of one of the most complicated development project, multifunctional entertainment centre Arena Riga in Riga. In Estonia, the larger projects completed included Pärnu spa centre and the Tallink City Hotel.
- In 2005 the subsidiary OÜ Merko Kaevandused was transferred to AS Merko Grupp, the parent company of AS Järvevana. As to the large-scale construction projects, the Estonian Art Museum (KUMU), Rävåla apartment building, Wendre production building, Muuga coal terminal and the residential and commercial building Admirali house in Estonia were completed. The construction contracts were concluded for the expansion and reconstruction of Tartu water and sewerage network and establishing of Saaremaa deep port with AS Tallinna Sadam (Port of Tallinn). The Second stage of Spice Trade Centre was completed in Riga, capital of Latvia. The construction of the trade centre in Šiauliai city centre was started in Lithuania.
- In 2006 a multifunctional entertainment centre with 12,000 seats was completed in the area of Skanstes street as a result of the joint efforts of SIA Merks and AS Järvevana and the development project of four 24-storeyed apartment buildings was started. As to the large-scale projects, Viimsi school building, Saaremaa deep port, office building of the Bank of Estonia, apartment buildings in the centre of Tabasalu, second stage of the Tallinn Landfill, the set of Iru municipal buildings and water and sewerage utility lines of the City of Valga were completed. The construction of Skulte port and Murjan bridge was started. The cornerstone of the AS Järvevana Group's all-time largest construction project - Panorama trade centre – in Vilnius, Lithuania was laid.
- In 2007 Sõpruse Ärimaja, Tornimäe apartment building, Hotel Tallink SPA and Nordic Hotel Forum were completed. In housing construction the new apartment building on Sõpruse pst was completed and second stage of the construction of row houses and apartment buildings in Räägu-Kännu district was finished. In the sector of civil engineering, the extension of Smuuli tee and Puurmani crossing were completed. The arch bridge of Puurmani crossing was announced the winner of "Concrete Building of the Year 2007" by the Estonian Concrete Union. In Latvia, the South Mole of Skulte Port was reconstructed in the first stage. As to the large-scale projects, the house of furniture next to the SPICE trade centre, a modern set of office buildings at the crossing of Duntse/Upes streets, a set of apartment buildings on Kaivase street, trade centre in Valmiera and the representative building of Krajbanka in Skanstese quarter will be completed in Latvia. In Lithuania, the Šiauliai trade centre, industrial building of ELINTA and business and apartment building on Gabijose Street in Vilnius, as own development, were completed.
- In 2007, suspicions on bribe-offering and breach of trust were presented in the criminal case No 05913000055 to AS Järvevana (then AS Merko Ehitus) and its Chairman of the Supervisory Board, Mr. Toomas Annus.
- On 13 March 2008 Latvian government agency, Jaunie tris Brani, made a decision whereby AS Järvevana (then AS Merko Ehitus) and SIA Merks were excluded from the construction

tender for the Latvian National Library because of the suspicion in the criminal case No. 05913000055.

- On 1 August 2008, AS Järvevana (then AS Merko Ehitus) was divided. In the process of the Division, the Company was established and the Business was transferred to the Company.

Investments

As the Company was established only recently, hereby information on investments of AS Järvevana in non-current assets during the financial years 2005 – 2007 and the first quarter of financial year 2007 and 2008 is presented. As the Company was formed in the course of the Division of AS Järvevana and on the basis of the Business operated previously by AS Järvevana and transferred from AS Järvevana to the Company, the below information also illustrates the investments of the Company.

Extract from the consolidated balance sheets of AS Järvevana:

<i>in thousands of EEK</i>	31.03.2008 (un-audited)	31.03.2007 (un-audited)	31.12.2007 (audited)	31.12.2006 (audited)	31.12.2005 (audited)
Inventories	2,047,829	1,480,273	2,025,426	1,356,734	964,088
Non-current Assets					
Investments in associates and joint ventures	275,983	204,979	272,964	200,798	179,609
Other long-term loans and receivables	24,214	8,666	14,492	8,476	8,524
Investment property	12,946	3,840	7,361	3,900	42,506
Property, plant and equipment	172,134	99,795	172,912	90,445	199,004
Intangible assets	12,675	10,901	12,574	10,177	4,365
Total investments into non-current assets	497,952	328,181	480,303	313,796	434,008
Total investments into non-current assets and inventories	2,545,781	1,808,454	2,505,729	1,670,530	1,398,096

Following is an excerpt from the consolidated cash flow statements of AS Järvevana:

<i>in thousands of EEK</i>	Three months ended 31 March (un-audited)		Year ended 31 December (audited)		
	2008	2007	2007	2006	2005
Change in inventories	(13,433)	(137,643)	(665,436)	(363,595)	(464,906)
Cash flow from investing activities					
Investments into subsidiaries	-	-	(29,575)	(3,029)	(23,985)
Proceeds from sale of subsidiaries	-	6,891	500	(2)	3,376
Subsidiary liquidation	-	-	-	(20)	(694)

proceeds to minority shareholders					
Investments into associates and joint ventures	(1,000)	(3,343)	(3,352)	(7,866)	(136,228)
Proceeds from sale of associates and joint ventures	-	-	-	1,847	8,306
Proceeds from sale of other financial investments	-	-	-	3,004	3
Purchase of investment property	(112)	-	-	-	(63)
Purchase of property, plant and equipment	(3,734)	(11,169)	(48,757)	(76,264)	(226,960)
Proceeds from sale of property, plant and equipment	867	1,267	2,718	290,753	2,143
Purchase of intangible assets	(606)	(1,086)	(4,413)	(6,739)	(2,917)
Sales of a business unit	-	-	-	9,717	2,752
Loans granted	(9,737)	(110,757)	(145,692)	(275,353)	(190,123)
Loan repayments received	-	21,573	134,599	286,953	176,311
Interest received	3,482	6,348	16,226	8,393	6,641
Dividends received	-	-	4,380	3,000	3,323
Total cash flow from investing activities	(10,840)	(90,276)	(73,366)	234,394	(378,115)

According to the Division Plan, AS Järvevana was divided so that all of its assets and business, including all assets, rights and obligations, except for the assets and obligations referred to above in Section "Division of AS Järvevana and establishment of the Company", were transferred to the Company.

Following is an overview of the investments made by AS Järvevana. The information below is based on the information previously disclosed by AS Järvevana through the Tallinn Stock Exchange. As AS Järvevana has been a listed company on the Tallinn Stock Exchange since 1997, the Management of the Company deems it appropriate to highlight only such information on the investments of AS Järvevana, which AS Järvevana has assessed to be significant enough to be disclosed through the Tallinn Stock Exchange.

Financial Assets

Following is a short overview of main investments of AS Järvevana Group into financial assets (including shares in subsidiaries, associates and joint ventures):

- **2005**

In December 2005, AS Järvevana acquired the sole share in OÜ Käibevara (purchase price EEK 2,428 thousand) from E.L.L. Kinnisvara AS. OÜ Käibevara was acquired for the purpose of real estate development. In April 2005, AS Järvevana acquired 50% of shares in OÜ Pire Projekt (purchase price EEK 6,150 thousand) and OÜ Constancia (purchase price EEK 2,144 thousand). As a result of these transactions AS Järvevana became the sole shareholder in these companies. In April 2005, AS Järvevana increased the share capital of its Latvian subsidiary SIA Merks. The share capital of SIA Merks was increased by LVL 1,500 thousand (EEK 33,285 thousand). AS Järvevana also made contributions to its

subsidiaries, OÜ Maryplus, OÜ Rannamõisa Kinnisvara, OÜ Merko Ehitustööd, OÜ Maavõlur and OÜ Metsailu (each contribution was equal to EEK 40 thousand). AS Järvevana also established OÜ Baltic Electricity Engineering for the purpose of building power systems. OÜ Baltic Electricity Engineering was established with the share capital of EEK 40 thousand. In addition, SIA Merks, a subsidiary of the Company, acquired 50 % share in SIA Zakusala Estates (purchase price EEK 148,319 thousand). SIA Merks also established SIA Arena Riga on 26 January 2005 (please see “Exceptional factors” here below in relation to establishment and activities of SIA Arena Riga).

On July 8 in 2005, AS Järvevana sold its 100% shareholding in the subsidiary OÜ Merko Kaevandused to AS Merko Grupp, the parent company of AS Järvevana, (sale price EEK 4,600 thousand). UAB Merko Statyba, a subsidiary of AS Järvevana, sold its shareholding in UAB Upes Centras to E.L.L. Kinnisvara AS, which is a subsidiary of AS Merko Grupp (sale price EEK 150 thousand). AS Järvevana also sold 14% of the shares in AS Telegrupp, an associate of AS Järvevana (sale price EEK 4,100 thousand). OÜ Talbit, a subsidiary of Tallinna Teede AS, also disposed of its shareholding in AS Bituumen (sale price EEK 5,600 thousand). In addition, AS Insenerivõrgud, a joint venture of AS Järvevana, and OÜ Talbit, a subsidiary of Tallinna Teede AS, were dissolved during 2005.

- **2006**

In 2006, AS Järvevana did not acquire any shareholdings. SIA Merks, a Latvian subsidiary of AS Järvevana, sold its 100% shareholding in SIA Arena Riga on December 11, 2006 for EEK 275,500 thousand. In July 2006, AS Järvevana sold 25% of shares in AS Gustaf (sale price EEK 5,100 thousand). AS Järvevana also disposed of its 100% shareholding in subsidiaries OÜ Rannamõisa Kinnisvara (sale price EEK 31,900 thousand) and OÜ Merko Kinnisvara (sale price EEK 40 thousand) and remaining shares of an associate AS Telegrupp (sale price EEK 3,200 thousand).

- **2007**

In 2007, AS Järvevana acquired a 75% share in OÜ Fort Ehitus (purchase price EEK 15,000 thousand). AS Merko Tartu, a subsidiary of AS Järvevana, set up a private limited company named Raadi Korterimaja OÜ with the share capital of EEK 40 thousand. Tallinna Teede AS also acquired 100% shareholding in OÜ Tenever (purchase price EEK 15,000 thousand).

- **2008**

AS Järvevana has not acquired any shareholdings in 2008. On 2 May 2008, AS Järvevana sold the 100% shareholding in OÜ Karulaugu Kinnisvara to AS E.L.L. Kinnisvara. The sale price of the company was EEK 42,000 thousand; of this amount, EEK 4,120 thousand, the balance of the company's financial obligations and current assets, were deducted.

On 21 May 2008, AS Merko Ehitus sold a 50% holding (with the nominal value EEK 20 thousand) in the company OÜ Tornimäe Apartments (registry code 11016607) to the copartner AS EKE Invest. The sale price of the 50% holding was EEK 58,000 thousand.

Fixed Assets and Inventory

For investments in inventories, investment property and property, plant and equipment see notes 17, 22 and 23 to the financial statements of AS Järvevana for the years ended 31 December 2005, 2006 and 2007 included elsewhere in this Prospectus.

The table below illustrates the changes in the inventories, investment property and property, plant and equipment of AS Järvevana Group during the financial years ended 31 December 2005, 2006 and 2007 and during the three months ended 31 March 2007 and 2008.

<i>in thousands of EEK</i>	31.03.2008 (un-audited)	31.03.2007 (un-audited)	31.12.2007 (audited)	31.12.2006 (audited)	31.12.2005 (audited)
Inventories	2,047,829	1,480,273	2,025,426	1,356,734	964,088
Investment property	12,946	3,840	7,361	3,900	42,506
Property, plant and equipment	172,134	99,795	172,912	90,445	199,004
Total	2,232,909	1,583,908	2,205,699	1,451,079	1,205,598

Intangible Assets

The balances of intangible assets during the financial years 2005 – 2007 were immaterial. The intangible assets of AS Järvevana Group consisted of software and prepayments. The prepayments were made in relation to update of the software. See also note 24 to the consolidated financial statement of AS Järvevana for the year ended 31 December 2007 included elsewhere in this Prospectus.

Future Investments

In the Division Plan a put option and a call option were agreed. According to the put option the Company has an obligation to acquire from AS Järvevana certain properties for the total consideration of EEK 100 million. According to the call option the company is entitled to acquire from AS Järvevana the same properties for the total consideration of EEK 100 million. The transaction is intended to be financed on account of the Company's own funds and external funds. For further information see "Related Party Transactions".

The Management of the Company has approved the construction of a new warehouse facility in Rae Tehnopark. The total investment, including purchase of the land and the construction of the closed warehouse complex is budgeted to be EEK 16 million. The facility is intended to be used by the Group companies to accommodate construction materials, equipment and machinery. The investment is intended to be financed on account of the Company's own funds.

BUSINESS OVERVIEW

Principal Activities

As upon the Division, the Company acquired the Business (see "Division of AS Järvevana and Establishment of the Company" above), we will refer to the history and activities of AS Järvevana Group as to the history and activities of the Group in this business overview.

The main business activities of the Group are general construction (the construction of office buildings, industrial buildings, public service buildings, residential buildings including development thereof), civil engineering and road construction. In the course of these business activities, the Group carries out and renders the services of general construction, civil engineering, road construction, external networks construction, electrical construction and concrete works.

Following is an overview of the services offered and carried out in relation to the business activities of the Group.

General Construction

The range of the general construction services is wide and includes everything that covers the keywords "real estate" and "construction". The services of general construction starts from mapping the aims and wishes of the client, includes planning and offering the optimum solution for the client and results in designing, building and delivering the project to the client with warranty.

The Management and employees of the Group have specialized education and long-term experience, having worked on general construction for more than 15 years.

The general construction services are rendered primarily in the course of construction of office buildings, industrial buildings, public service buildings and residential buildings.

Out of the works performed the Company would like to set forth most of the new buildings in the downtown of Tallinn - hotel SAS Radisson, SEB Eesti Ühispank, Viru Keskus, Coca-Cola Plaza cinema complex, Tallink City Hotel, Nordic Hotel Forum and Admiral House as well as Tallink Spa & Conference Hotel and the Art Museum (KUMU). In addition to that, the Company has international experience, for example Hotel Lietuva and Lietuvos Telekomas in Lithuania and the head-office of Hansabank and Arena Riga in Latvia.

Civil Engineering

The civil engineering division builds facilities, if necessary together with designing. Port structures, landfills, bridges, overpasses, water and sewerage pipelines, water and sewage treatment plants and structures related to environmental protection are built by the Group.

The objective of the Group is to maintain high professional level of work and the Management and employees of the Group have long-term experience and professional education. Generally, the projects undertaken by the Group are complicated and unique and require specific knowledge. For the Group, it is important to maintain cooperation with the contracting entity and the local municipality.

The Company would distinguish as significant projects the construction of the Muuga coal terminal due to its size and the construction of Puurmani crossing carried out upon the order of the Road Administration, as well as the construction of the Smuuli Road viaduct and water and sewage utility lines of Tartu and Valga. All of the said projects were carried out in Estonia.

Road Construction

Road construction works are mainly performed by the subsidiary company, Tallinna Teede AS, which carries out road maintenance works throughout Estonia, both as a project manager and independently. This includes building of road structures, road repairs and exercise of supervision

over excavation works and the condition of roads in Tallinn, production of traffic signs and providing machinery repair services.

External Networks Construction

The Company is building external networks of water, sewerage and gas pipelines, installing sewerage pumping stations and constructing and renovating storm water systems.

The Company carries out works with high quality and according to the good building practice; solves the water supply and sewerage problems of the clients. External networks construction services are rendered in the course of civil engineering activities.

Out of the completed projects the Company would like to set forth installment of pipelines by the closed or directional drilling. A good example is construction of the Pärnu siphons on the Raba, Vingi and Lai street. Furthermore, the important projects are the construction of the external networks of the Rae industrial park, technically complicated extensions of the water and sewage network in Tartu Ropka district and Valga town. All of the said projects are located in Estonia.

Electrical Construction

The electrical works department of the Company is involved in designing, installment and construction of medium- and high-voltage substations and lines. In addition, OÜ Baltic Electricity Engineering is active in planning medium- and high-voltage substations and lines.

The Company has a competent and experienced professional project management team with knowledge in the field of electricity.

Out of the completed projects the Company would like to set forth the reconstruction of the Ülejõe 110 kV substation in Tartu, Estonia and the projects of Tõnismäe substation 110 kV cables in Tallinn, Estonia.

Concrete Work

The main task of the concrete works department is to offer solutions for buildings and structures made of pre-cast or cast-in-situ concrete, which are built by other units of the Company as well as external contractors. The Company manages, carries out and delivers to the clients the concrete structures of a building.

The most important works the Company would like to set forth are the headquarters of SEB Eesti Ühispank, the Postimees building on Maakri Street, Sampo bank building on Narva Road, extension of the Stockmann department store with a parking lot, of Põhjaranna Road viaduct and Radisson SAS Hotel. All of the said works have been conducted in Tallinn, Estonia.

Development Activities

The development division deals with commercial real estate development activities, including both the preparation of the construction (preparation, planning of detailed plans) and performance of the construction works. The client can order the construction of the required commercial building with the preparation on his property (offices, hotels, trade centres, production buildings etc.), or to purchase the property in the area developed by the Company, including the planning of the building and construction work on it. With long experience in detailed planning and organisation of construction works the objective of the Company is to provide quality service to the clients.

Principal Markets

Distribution of Activities

The table below illustrates the division of construction activities of AS Järvevana Group in the years ended 31 December 2005, 2006 and 2007.

<i>per cent</i>	2007 (un-audited)	2006 (un-audited)	2005 (un-audited)
Office buildings	14	15	9
Industrial buildings	2	7	10
Public service buildings	43	31	37
Residential buildings/Development	22	24	17
Civil engineering	10	16	21
Road construction	9	7	6

Over the said period the construction of public service buildings and residential buildings (together with development activities) has contributed the majority of the revenues of the AS Järvevana Group.

Geographical Markets

The geographical markets of the Group are Estonia, Latvia and Lithuania. The geographical distribution of turnover of AS Järvevana Group in the years ended 31 December 2005, 2006 and 2007.

<i>per cent</i>	2007 (un-audited)	2006 (un-audited)	2005 (un-audited)
Estonia	62	63	76
Latvia	25	24	17
Lithuania	13	13	7

Market Overview

To the best of the Company's knowledge, no current, independent, reliable and comprehensive reviews of the competitive situation in the markets in which the Company operates were publicly available prior to the date hereof. As a consequence, in presenting the overview below of the competitive position of the Company in the relevant markets, the management of the Company has relied principally on its own assessment and analysis of such competitive position. In doing so, the management of the Company has used the market information collected by its own staff and advisors for such purpose, either available on the basis of public information or derivable from the same.

The table below illustrates the market share of AS Järvevana Group in the years ended 31 December 2005, 2006 and 2007 on the Estonian construction market.

<i>per cent</i>	2007	2006	2005
AS Järvevana	6.1	6.1	7.0
AS Eesti Ehitus	5.9	5.0	4.5
AS Skanska EMV	3.2	3.9	5.1
AS YIT Ehitus	2.0	2.0	3.4
others	82.8	83.0	80.0

The table below illustrates the market share of AS Järvevana Group in the years ended 31 December 2005, 2006 and 2007 in the construction market of the Baltic States (Estonia, Latvia and Lithuania).

<i>per cent</i>	2007	2006	2005
AS Järvevana Group	3.4	3.7	3.6
Skanska	1.1	1.6	2.0
AS Eesti Ehitus Group	2.1	1.9	1.7
AS YIT Ehitus Group	2.1	0.8	1.6
Panavežio statybos trestas	1.4	1.2	0.9
Others	93.1	90.8	90.2

Exceptional Factors

In 2004, SIA Merks, a Latvian subsidiary of the Company (then of AS Järvevana) engaged in the project of Arena Riga. SIA Merks took the obligation to construct a multifunctional centre in Riga known as the Arena Riga and to finance the construction thereof from its own funds. The construction of Arena Riga had to be completed by 1 February 2006 as the Ice-hockey World Championship games were planned to take place in Arena Riga in spring 2006. As the timely construction of Arena Riga entailed major risks and the construction costs thereof were significantly higher than the recoverable amount of Arena Riga at the completion of its construction, the project was considered financially unfeasible.

The City of Riga decided to offer government grant for the potential developer. As a government grant, a number of immovables were sold to SIA Merks in 2004 and 2005. The purchase price paid for the said immovables was lower than the market price thereof. The difference of the purchase price of the said immovables and the market price thereof was reported as government grant on the accounts of AS Järvevana. The government grant was recognised as revenue in the same period as the impairment loss on the unfinished construction of Arena Riga was recognised. The amount by which the government grant exceeded the impairment loss of Arena Riga was recognised as the revenue of financial year 2005, since it was reasonably certain that SIA Merks would be eligible to the government grant.

In connection with the Arena Riga project, SIA Arena Riga was established on 26 January 2005. The principal activities of SIA Arena Riga were real estate administration and event management. On 30 November 2006, SIA Arena Riga acquired from SIA Merks the 12 thousand seat multifunctional entertainment center Arena Riga and commenced with actual economic activity. In the first eleven months of 2006, while the administration of Arena Riga was carried out by SIA Merks, 126 events (including Ice-Hockey World Championships) were held in Arena Riga with a total of 520 thousand visitors. The total revenue of the period was LVL 2,533 thousand (approx. EEK 56,207 thousand) and operating profit was EEK 9,516 thousand (approx. LVL 429 thousand).

In spite of the above financial results, the management of AS Järvevana Group assessed the risks related to Arena Riga as high and as the business of SIA Arena Riga was not in line with the core business of the group of AS Järvevana Group, the shareholding in SIA Arena Riga was disposed of. SIA Merks sold its 100 % shareholding in SIA Arena Riga on 11 December 2006 for EUR 17,610 thousand (EEK 275,597 thousand). See also “Material Contracts”.

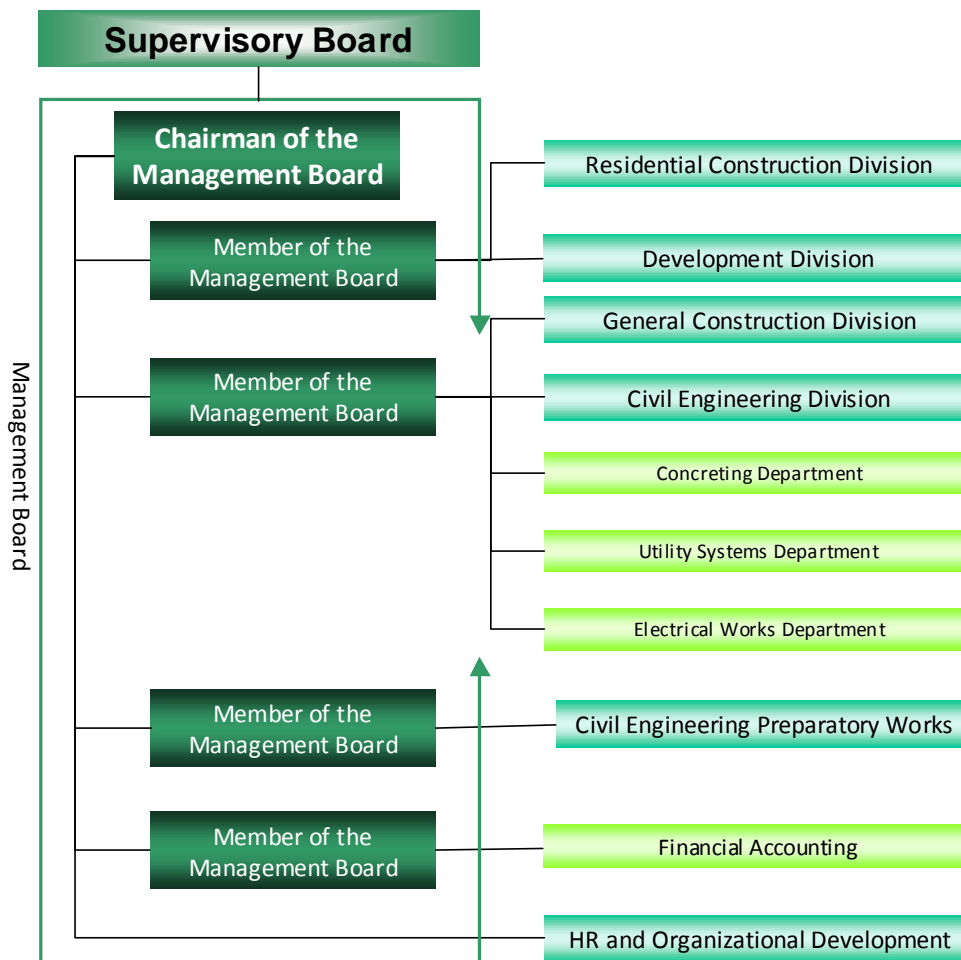
ORGANIZATIONAL STRUCTURE

The Company is a subsidiary of AS Merko Grupp, holding company controlled by Mr. Toomas Annus, who owns 65.32% of shares in AS Merko Grupp. AS Merko Grupp owns 71.99% of shares in the Company. AS Merko Grupp is also the sole shareholder in AS E.L.L. Kinnisvara and OÜ Merko Kaevandused. AS Merko Grupp owns 71.99% of shares in AS Järvevana, the company during the division of which the Company was established.

The Management Structure of the Company

The Management Board of AS Merko Ehitus has five members. The activities of the members are divided by areas of operation: general management, construction, development, technology, and finance. The Chairman of the Management Board leads the work of the Management Board.

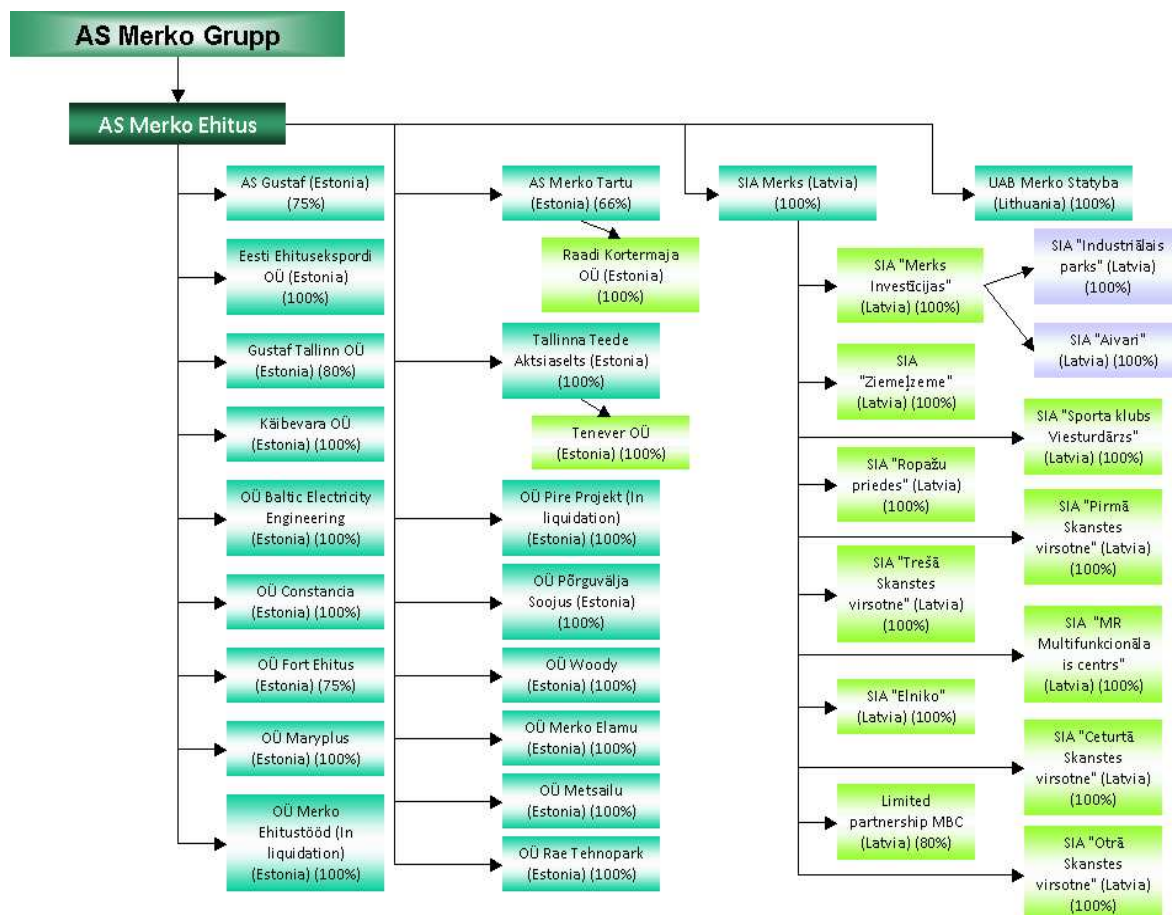
The following chart illustrates the management structure of the Company:



The Structure of the Group

The Company has 34 subsidiaries. In addition, the Company owns directly or indirectly through its subsidiaries shares in 6 companies. 19 of the subsidiaries are Estonian companies and 14 are Latvian companies. UAB Merko Statyba is the only Lithuanian subsidiary of the Company.

The following chart illustrates the structure of the Group:



Most important subsidiaries of the Company are SIA Merks in Latvia, UAB Merko Statyba in Lithuania and Tallinna Teede AS, AS Merko Tartu, AS Gustaf, Gustaf Tallinn OÜ, OÜ Baltic Electricity Engineering, OÜ Fort Ehitus, OÜ Woody and OÜ Rae Tehnopark in Estonia.

SIA Merks, established in 1997, has grown into one of the most outstanding construction companies in Latvia. The prominent works like Hansabank's head office and the Arena Riga have earned the company a lot of recognition.

The Lithuanian subsidiary UAB Merko Statyba was established in 1998. UAB Merko Statyba provides construction project management services and offers compact solutions in all the areas of construction.

Tallinna Teede AS, which was acquired by AS Järvevana in 2002, performs road maintenance works all over Estonia, both as a project manager and independently. This includes building of road structures, performing road repairs and exercise of supervision over excavation works and the condition of roads in Tallinn, production of traffic signs and supply of machinery repair services.

AS Merko Tartu is specialized in project management, intermediation of services of subcontractors to clients, bearing ultimate liability before the clients for the timely and proper completion of construction projects.

AS Gustaf works on the principle of project management and operates as the main contractor in construction projects mainly in Pärnu County.

Gustaf Tallinn OÜ, a company established in 2003, provides main contractor services in small scale reconstruction and repair works.

OÜ Baltic Electricity Engineering performs design works for medium- and high-voltage substations and the low-, medium- and high-voltage overhead and cable lines.

OÜ Fort Ehitus is a construction company carrying out the water construction and pile works. The construction works include the sheeting of different profiles, quay walls of pipe piles and Jet-type quays, dredging works, construction of bank protections, sinking of concrete piles in every size and CFA piles.

The main areas of activity of OÜ Woody and of OÜ Rae Tehnopark are the development and sale of their own real estate projects.

For holdings of the Company in other undertakings please see “Information on Holdings”

PROPERTY, PLANT AND EQUIPMENT

Property

Below an overview of the property owned by the Company and its subsidiaries is given.

In accordance with the Law of Property Act, a person entered into the Estonian Land Register as an owner of an immovable is deemed to be the owner of that immovable. The same principle applies also in respect of building rights and other restricted real rights. Although certain properties (immovables), building rights and other restricted real rights in the tables below and related footnotes are referred to as owned by the Company, according to the entries in the Estonian Land Register the legal owner thereof is AS Järvevana until the entries in respect of the transfer of the properties, building rights and other restricted real rights are made in the Estonian Land Register. The properties, building rights and other restricted real rights are agreed to be transferred to the Company upon the Division in accordance with the Division Plan. Therefore, such property, building rights and other restricted real rights are provided below as Company's property, building rights and other restricted real rights.

The Property of the Company

Property owned by the Company:¹

No.	Location	Type of property	Area
1.	Järvevana tee 9d, Tallinn, Harju County, Estonia ²	Immovable, land designated for transport	5,929 m ²
2.	Mõisa tn 7, Tallinn, Harju County, Estonia ³	Immovable, land designated for transport	1,218 m ²
3.	Järvetipu development area (including properties in Kubu, Sagari, Rõugu and Vihu Streets)	Most of the land plots are residential land	96,022 m ²
4.	Suur-Patarei 20, Tallinn, Harju County, Estonia	Immovable, commercial land	3,533 m ²
5.	Masti tn 16, Tallinn, Harju County, Estonia ⁴	Immovable, public land	2,818 m ²
6.	Trummi tn 25, Tallinn, Harju County, Estonia	Immovable, commercial land	5,933 m ²
7.	Homniku tee 1A, Tabasalu, Harku municipality, Estonia	Immovable, production land	28 m ²
8.	Lossi tn 18/Soone tn 3, apartment No. B9, Tallinn, Harju County, Estonia ⁵	Apartment ownership, residential land	3,316 m ²
9.	Pärnu mnt 129c, Tallinn, Harju County, Estonia	Immovable, residential land	6,126 m ²
10.	Pärnu mnt 129d, Tallinn, Harju County, Estonia	Immovable, land designated for transport	1,495 m ²
11.	Vabaõhumuuseumi tee 5, apartment no. 86p, Tallinn, Harju County, Estonia ⁶	Apartment ownership, commercial land	3,754 m ²

¹ The Company has entered into agreements whereby it will purchase and acquire three properties in Vabaõhukooli Road and Narva Road, Tallinn Estonia, which are currently in the possession of OÜ Woody under usufruct (please see properties no. 21 – 23 in the list below on the property of OÜ Woody).

² The Company owns 1075/5929 of common ownership, encumbered with personal right of use for 10 years for E.L.L. Kinnisvara AS starting from 14 May 2007.

³ AS Merko Ehitus owns 12/35 of the co-ownership.

⁴ The property is encumbered with the building right in favour of Eesti Ehitusekspordi OÜ (a subsidiary of the Company).

⁵ The Company owns 63/30760 of the co-ownership in the property.

12.	Roostiku tn 47, Tallinn, Harju County, Estonia	Immovable, residential land	800 m ²
13.	Rannaniidu tn 1/Roostiku 49, Tallinn, Harju County, Estonia	Immovable, residential land	598 m ²
14.	Roostiku tn 45, Tallinn, Harju County, Estonia	Immovable, residential land	722 m ²
15.	Roostiku tn 43, Tallinn, Harju County, Estonia	Immovable, residential land	845 m ²
16.	Tartu mnt 52/Lastekodu tn 23, Tallinn, Harju County, Estonia ⁷	Immovable, residential land, 85% commercial land, 15%	5,955 m ²
17.	Tartu mnt 50a, Tallinn, Harju County, Estonia	Immovable, residential land, 90% commercial land, 10%	3,190 m ²

Property owned by AS Gustaf:

No.	Location	Type of property	Area
1.	Kellukese, Paikuse, Paikuse municipality, Pärnu County, Estonia	Immovable, profit yielding land	2.2 ha

Property owned by OÜ Käibevara:

No.	Location	Type of property	Area
1.	Kostiranna Village, Jõelähtme municipality, Harju County, Estonia	Immovable, profit yielding land	1.28 ha

Property owned by OÜ Fort Ehitus:

No.	Location	Type of property	Area
1.	Liukivi 3, apartment No. 28, Kostivere, Jõelähtme municipality, Harju County, Estonia ⁸	Apartment ownership	3,072 m ²
2.	Vibeliku tee 21B, Loo, Jõelähtme municipality, Harju County	Immovable, commercial land	2,645 m ²

Property owned by AS Merko Tartu:

No.	Location	Type of property	Area
1.	Mõisaplatsi 4, Tila Village, Tartu municipality, Tartu County, Estonia	Immovable, general purpose land	12,705 m ²
2.	Kaupmehe 5, Vahi Village, Tartu municipality, Tartu County, Estonia ⁹	Immovable, 70% multi-storey housing land, 30% commercial land	4,041 m ²

⁶ The apartment ownership is equal to 431/90055 of legal share of the respective property.

⁷ The Company owns 5234/5955 and OÜ Woody (AS Merko Ehitus subsidiary) owns 721/5955 of legal share of the registered immovable, encumbered with following mortgages: 1) mortgage in amount of EEK 12,000,000 for the benefit of Eesti Spordiselts Põhjakotkas and 2) mortgage in amount of EEK 4,000,000 for the benefit of OÜ Vana Villem. The Company owns 5234/5955 and OÜ Woody (AS Merko Ehitus subsidiary) owns 721/5955 of legal share of the property.

⁸ The apartment ownership is equal to 527/30410 of legal share of respective property.

⁹ The property has been encumbered with a mortgage to the amount of EEK 24,200,000 for the benefit of AS Sampo Pank.

3.	Kaupmehe 7, Tila Village, municipality, Tartu County, Estonia ¹⁰	Tartu	Immovable, 70% multi-storey housing land, 30% commercial land	3,901 m ²
4.	Kaupmehe 9, Tila Village, municipality, Tartu County, Estonia ¹¹	Tartu	Immovable, 70% multi-storey housing land, 30% commercial land	3,987 m ²
5.	Kaupmehe 11, Tila Village, municipality, Tartu County, Estonia ¹²	Tartu	Immovable, 70% multi-storey housing land, 30% commercial land	3,916 m ²
6.	Kaupmehe 13, Tila Village, municipality, Tartu County, Estonia	Tartu	Immovable, 70% multi-storey housing land, 30% commercial land	3,785 m ²
7.	Kaupmehe 15, Tila Village, municipality, Tartu County, Estonia	Tartu	Immovable, 70% multi-storey housing land, 30% commercial land	3,229 m ²
8.	Pärna allee 8, Tila Village, municipality, Tartu County, Estonia ¹³	Tartu	Immovable, multi-storey housing land	3,375 m ²
9.	Pärna allee 10, Tila Village, municipality, Tartu County, Estonia	Tartu	Immovable, multi-storey housing land	3,230 m ²
10.	Pärna allee 12, Tila Village, municipality, Tartu County, Estonia	Tartu	Immovable, multi-storey housing land	2,793 m ²
11.	Vahi Village, Tartu municipality, County, Estonia	Tartu	Immovable, profit yielding land	7.34 ha
12.	Pärna allee 7, Vahi Village, municipality, Tartu County, Estonia ¹⁴	Tartu	Immovable, small housing land	3,360 m ²
13.	Pärna allee 9, Tila Village, municipality, Tartu County, Estonia	Tartu	Immovable, small housing land	3,220 m ²
14.	Pärna allee 11, Tila Village, municipality, Tartu County, Estonia	Tartu	Immovable, small housing land	2,958 m ²
15.	Tähe 10, Tartu, Tartu County, Estonia		Immovable, 85% public housing land, 15% small housing land	8,239 m ²

Property owned by Raadi Kortermaja OÜ:

No.	Location	Type of property	Area
1.	Pärna allee 5, Vahi Village, Tartu municipality, Tartu County, Estonia ¹⁵	Apartment ownerships, an apartment building consisting of apartments no. 1 – 28	3,389 m ²
2.	Pärna allee 6, Vahi Village, Tartu municipality, Tartu County, Estonia ¹⁶	Apartment ownerships, an apartment building consisting of apartments no. 1 – 42	3,311 m ²

¹⁰ The property has been encumbered with a mortgage to the amount of EEK 24,200,000 for the benefit of AS Sampo Pank.

¹¹ The property has been encumbered with a mortgage to the amount of EEK 24,200,000 for the benefit of AS Sampo Pank.

¹² The property has been encumbered with a mortgage to the amount of EEK 24,200,000 for the benefit of AS Sampo Pank.

¹³ The property has been encumbered with a mortgage to the amount of EEK 19,800,000 for the benefit of AS Sampo Pank.

¹⁴ The property has been encumbered with a mortgage to the amount of EEK 19,800,000 for the benefit of AS Sampo Pank.

¹⁵ The property has been encumbered with the following mortgages: 1) mortgage to the amount of EEK 11,000,000 for the benefit of AS Sampo Pank; 2) mortgage to the amount of EEK 33,000,000 for the benefit of AS Sampo Pank.

Property owned by OÜ Tenever:

No.	Location	Type of property	Area
1.	Väike-Kõrnomaa, Kirdalu Village, Saku municipality, Harju County, Estonia ¹⁷	Immovable, profit yielding land	15.86 ha

Property owned by OÜ Woody:

No.	Location	Type of property	Area
1.	Räägu tn 10A, Tallinn, Harju County, Estonia	Immovable, 75% residential land, 25% commercial land	1,500 m ²
2.	Räägu tn 10/Vuti tn 89/ Varese tn 10a, Tallinn, Harju County, Estonia	Immovable, residential land	4,611 m ²
3.	Kiviaia tee 10, Tallinn, Harju County, Estonia	Immovable, production land	5,417 m ²
4.	Kiviaia tee 10A, Tallinn, Harju County, Estonia	Immovable, production land	66 m ²
5.	Tartu mnt 52/Lastekodu tn 23, Tallinn, Harju County, Estonia ¹⁸	Immovable, 85% residential land, 15% commercial land	5,955 m ²
6.	Kiviaia tee 11, Tallinn, Harju County, Estonia	Immovable, production land	20,857 m ²
7.	Kristiina tn 12, Tallinn, Harju County, Estonia	Immovable, residential land	1,246 m ²
8.	Sõpruse pst 33, Tallinn, Harju County, Estonia	Immovable, 85% residential land, 15% commercial land	6,000 m ²
9.	Kiviaia tee 11B, Tallinn, Harju County, Estonia	Immovable, public land	21,366 m ²
10.	Kiviaia tee 16, Tallinn, Harju County, Estonia	Immovable, public land	7,411 m ²
11.	Kiviaia tee 9a, Tallinn, Harju County, Estonia	Immovable, public land	2,535 m ²
12.	Riigimaa 40, Tallinn, Harju County, Estonia	Immovable, residential land	6.22 ha
13.	Kentmanni tn 8A, Tallinn, Harju County, Estonia	Immovable, residential and commercial land	346 m ²
14.	Sõpruse pst. 29A, Tallinn, Harju County, Estonia	Immovable, land designated for transport	665 m ²
15.	Kolde pst 67, apartment No. 7, Tallinn, Harju County, Estonia ¹⁹	apartment ownership, residential land	5,500 m ²
16.	Kolde pst 67, apartment No. 30, Tallinn, Harju County,	apartment ownership, residential land	5,500 m ²

¹⁶ The property has been encumbered with the following mortgages: 1) mortgage to the amount of EEK 11,000,000 for the benefit of AS Sampo Pank; 2) mortgage to the amount of EEK 33,000,000 for the benefit of AS Sampo Pank.

¹⁷ The property has been encumbered with the mortgage to the amount of EEK 23,400,000 for the benefit of AS Hansapank.

¹⁸ OÜ Woody owns 721/5955 of the co-ownership. AS Merko Ehitus owns 5234/5955 of the co-ownership

¹⁹ The apartment ownerships of OÜ Woody are equal to 847/31941 of legal share of respective property.

	Estonia ²⁰		
17.	Apartment ownerships at Räägu tn 12B/Kännu tn 30, Tallinn, Harju County, Estonia (4 apartments) ²¹	apartment ownership, residential land	2,830 m ²
18.	Apartment ownerships at Räägu tn 12/Lehe tn 29, apartment No. 5, Tallinn, Harju County, Estonia (10 apartment ownerships) ²²	apartment ownership, residential land	3,228 m ²
19.	Lehe tn 31, apartment No. 4, Tallinn, Harju County, Estonia ²³	apartment ownership, residential land	3,162 m ²
20.	Apartment ownerships at Sõpruse pst 29, Estonia (30 apartment ownerships) ²⁴	apartment ownership, 90% residential land, 10% commercial land	3,292 m ²

Property owned by OÜ Metsailu:

No.	Location	Type of property	Area
1.	Kentmanni tn 8, Tallinn, Harju County, Estonia	Immovable, land designated for transport	558 m ²

Property owned by Eesti Ehitusekspordi OÜ²⁵:

No.	Location	Type of property	Area
1.	Tilluvälja II, Vaela Village, Kiili municipality, Harju County, Estonia	Immovable, profit yielding land	9.82 ha

Property owned by OÜ Rae Tehnopark:

No.	Location	Type of property	Area
1.	Immovables of Rae Tehnopark at Lehmja Village, Rae municipality, Harju County, Estonia (19 immovables)	Mostly production land but includes also commercial land	Total area 183,027 m ²

Property owned by SIA Merks:

No.	Location	Type of property	Area
1.	Grostonas 15, Riga, Latvia	Ownership, residential land	19,090 m ²
2.	J. Dikmaņa 8, Riga, Latvia	Ownership, commercial land	11,898 m ²
3.	Skanstes 16, Riga, Latvia	Ownership, commercial land	4,140 m ²
4.	Skanstes 18, Riga, Latvia	Ownership, commercial land	4,130 m ²
5.	Skanstes 20, Riga, Latvia	Ownership, commercial land	5,107 m ²

²⁰ The apartment ownerships of OÜ Woody are equal to 874/31941 of legal share of respective property.

²¹ The apartment ownerships of OÜ Woody are equal to 3012/23430 of legal share of respective property.

²² The apartment ownerships of OÜ Woody are equal to 7638/26843 of legal share of respective property.

²³ The apartment ownerships of OÜ Woody are equal to 1670/16303 of legal share of respective property.

²⁴ The apartment ownerships of OÜ Woody are equal to 14242/25662 of legal share of respective property.

²⁵ Eesti Ehitusekspordi OÜ has also entered into an agreement whereby it will purchase Tilluvälja III property (12.77 ha) after the detailed plan has been prescribed.

6.	Arēnas 12, Rīga, Latvia	Ownership, commercial land	4,015 m ²
7.	Arēnas 6, Rīga, Latvia	Ownership, residential land	3,545 m ²
8.	Arēnas 4, Rīga, Latvia	Ownership, residential land	3,657 m ²
9.	Arēnas 2, Rīga, Latvia	Ownership, residential land	3,625 m ²
10.	Arēnas 8, Rīga, Latvia	Ownership, commercial land	5,457 m ²
11.	Skanstes St., Rīga, Latvia (block 16)	Ownership, mixed use	18,496 m ²
12.	Skanstes St., Rīga, Latvia (block 17)	Ownership, mixed use	36,076 m ²
13.	Skanstes St., Rīga, Latvia (block 18)	Ownership, mixed use	12,804 m ²
14.	Ķemerejas St. 3, Rīga, Latvia	Ownership	322 m ²
15.	J.Daliņa 8, Rīga, Latvia	Ownership, residential land	5,653 m ²
16.	Grostonas 25, Rīga, Latvia	Ownership, residential land	5,380 m ²

Property owned by SIA Elniko:

No.	Location	Type of property	Area
1.	Gaiļezera str., Rīga, Latvia	Ownership, residential land	52,326 m ²

Property owned by SIA Industrialais Parks:

No.	Location	Type of property	Area
1.	Salaspils, Latvia	Ownership	199,000 m ²

Property owned by SIA SPORTA KLUBS VIESTURDĀRZS:

No.	Location	Type of property	Area
1.	Rūpniecības 21, k-1, Rīga, Latvia	Ownership, commercial land	3,813 m ²

Property owned by SIA ROPAŽU PRIEDES:

No.	Location	Type of property	Area
1.	Mucenieki, Ropažu parish, Latvia	Ownership, residential land	198,320 m ²

Property owned by UAB Merko Statyba:

No.	Location	Type of property	Area
1.	3004 Virsuliskiu skg. 56, Vilnius, Lithuania	Ownership, 51% commercial, 49% residential land	4,000 m ²
2.	30101 Ežero str 1D, Kaunas /Raudondvario/ Lithuania	Ownership, commercial/residential land	3,223 m ²
3.	30102 Batniavos str 57, 57A, 57B Kaunas /Raudondvario/ Lithuania	Ownership, commercial/residential land	3,306 m ²
4.	3014 Kernavės str, Vilnius, Lithuania	Ownership, land designated for transportation	4,453 m ²
5.	3015 Mokslininkų str, Vilnius, Lithuania	Ownership, residential land	11,700 m ²

Rights of Superficies of the Group

According to the Estonian Law of Property Act, the right of superficies is a limited real right attaching to immovable property and the right of superficies in apartments is a derivative thereof. According to the Law of Property Act, an immovable may be encumbered such that the person for whose benefit a right of superficies has been established has a transferable and inheritable right for a specified term to own a construction permanently attached to the immovable.

The below table provides an overview of the building rights and building rights in apartments belonging to the Company:

Right of Superficies of the Company:

No.	Location	Type	Area
1.	Tartu mnt 87f, Tallinn, Harju County, Estonia	Building right, land designated for transport	2,762 m ²
2.	Mirta tn 38, Tallinn, Harju County, Estonia	Building right, residential land	852 m ²
3.	Mirta tn 20, apartment No. 3, Tallinn, Harju County, Estonia ²⁶	Building right in apartments, residential land	1,157 m ²
4.	Mirta tn 27, apartment No. 8, Tallinn, Harju County, Estonia ²⁷	Building right in apartments, residential land	866 m ²
5.	Veerise tn 8, apartment No. 2, Tallinn, Harju County, Estonia ²⁸	Building right in apartments, residential land	909 m ²
6.	Building rights in apartments at Veerise tn 10, Tallinn, Harju County, Estonia (2 building rights in apartments) ²⁹	Building right in apartments, residential land	1,042 m ²
7.	Building rights in apartments at Mirta tn 37, Tallinn, Harju County, Estonia (3 building rights in apartments) ³⁰	Building right in apartments, residential land	983 m ²
8.	Building rights in apartments at Veerise tn 12, Tallinn, Harju County, Estonia (3 building rights in apartments) ³¹	Building right in apartments, residential land	694 m ²
9.	Building rights in apartments at Mirta tn 41, Tallinn, Harju County, Estonia (14 building rights in apartments)	Building right in apartments, residential land	940 m ²

²⁶ The right of superficies in apartment is equal to 541/8559 of legal share of respective right of superficies.

²⁷ The right of superficies in apartment is equal to 593/8559 of legal share of respective right of superficies.

²⁸ The right of superficies in apartment is equal to 366/8559 of legal share of respective right of superficies.

²⁹ The right of superficies in apartment of the Company is equal to 959/8559 of legal share of respective right of superficies.

³⁰ The right of superficies in apartment of the Company is equal to 1652/8559 of legal share of respective right of superficies.

³¹ The right of superficies in apartment of the Company is equal to 1766/8559 of legal share of respective right of superficies.

10.	Building rights in apartments at Veerise tn 16, Tallinn, Harju County, Estonia (14 building rights in apartments)	Building right in apartments, residential land	917 m ²
11.	Building rights in apartments at Veerise tn 22, Tallinn, Harju County, Estonia (14 building rights in apartments)	Building right in apartments, residential land	590 m ²
12.	Building rights in apartments at Veerise tn 20, Tallinn, Harju County, Estonia (14 building rights in apartments)	Building right in apartments, residential land	770 m ²
13.	Building rights in apartments at Veerise tn 14, Tallinn, Harju County, Estonia (2 building rights in apartments) ³²	Building right in apartments, residential land	932 m ²

Building rights of Eesti Ehituseksporti OÜ:

No.	Location	Type	Area
1.	Masti tn 16, Tallinn, Harju County, Estonia	Building right, public land	2,818 m ²
2.	Kiviaia tee 10, Tallinn, Harju County, Estonia	Building right, production land	5,417 m ²
3.	Kiviaia tee 10A, Tallinn, Harju County, Estonia	Building right, production land	66 m ²

Building right of Tallinna Teede AS:

No.	Location	Type	Area
1.	Betooni tn 24, Tallinn, Harju County, Estonia	Building right, production land	37,502 m ²

Building right of OÜ Põrguvälja Soojus:

No.	Location	Type	Area
1.	Kentmanni tn 8, Tallinn, Harju County, Estonia ³³	Building right, land designated for transport	558 m ²

In addition, OÜ Constancia has entered into an agreement whereby the right of superficies will be entered in the Land Register encumbering the immovable at Võidujuoksu 12/Pae 7A (325,194 m²) owned by the City of Tallinn.

Leaseholds and usufructs

Below is an overview of the immovable property leased by the Group (whether under a lease agreement or by way of registered usufruct):

- a. the immovable property at Pärnu mnt 143, Tallinn, Estonia, consisting 100 % of social land (with area of 191,975m²) is in the possession of the Company under an usufruct³⁴;

³² The right of superficies in apartment of the Company is equal to 1310/8559 of legal share of respective right of superficies.

³³ The right of superficies has been encumbered with a mortgage to the amount of EEK 10,000,000 for the benefit of the Company.

- b. OÜ Woody is entitled to use the following property under usufruct: immovable at Vabaõhukooli tee 17, Tallinn, Estonia (with the area of 5.99 ha), immovable at Vabaõhukooli tee 18, Tallinn, Estonia (with the area of 8,957 m²) and immovable at Narva mnt 180, Tallinn, Estonia (with the area of 29,087 m²);
- c. SIA Merks leases residential land (to be privatized) at Grostonas 6, Riga (block 8 with the area of 39,037 m²), office and parking premises at 13 Skanstes St., Riga (with the area of 1,245 m²) and archive room at 6 Duntēs St., Riga (with the area of 41.6 m²);
- d. SIA Polyster is leasing a plot of residential land at Lucavsala, Riga (with the area of 26,560 m²);
- e. UAB Merko Statyba leases two flats from private persons for accommodation of our employees (at Siauliu St. 22 – 3, Klaipeda and at S. Neries St. 83 – 58, Vilnius, Lithuania).

In addition, SIA Zakusala Estate³⁵ leases the following property:

No.	Location	Type of property	Area
1.	Zaķusalas krastmala 2, Riga	mixed use, land to be privatized	8,792 m ²
2.	Zaķusalas krastmala 34, Riga	mixed use, land to be privatized	44,602 m ²
3.	Zaķusalas krastmala 16, Riga	mixed use, land to be privatized	72,668 m ²

Plant and Equipment

AS Järvevana has neither acquired nor disposed of any material items of plant and equipment since the end of financial year ended 31 December 2007. See notes 17 and 23 to the consolidated financial statement of AS Järvevana for the financial year ended 31 December 2007 in relation to the plant and equipment of the Company and its subsidiaries.

See the annual reports of AS Järvevana for the financial years ended 31 December 2005, 2006 and 2007 and the interim report of AS Järvevana for three months ended 31 March 2008 included elsewhere in this Prospectus.

See note 25 to the annual reports of AS Järvevana for the financial years ended 31 December 2005, 2006 and 2007 in relation to the leased items of plant and equipment. The Company and its subsidiaries have leased certain items of plant and equipment, which they require for their operations. According to the management's assessment the most important leased property is an MBA 200 asphalt factory leased by Tallinna Teede AS (EUR 1,502,691 + VAT; equalling approx. EEK 23,517,114).

³⁴ According to the Estonian Law of Property Act a usufruct encumbers an immovable in such a way that the person for whose benefit the usufruct has been established is entitled to use the immovable and to acquire the fruits thereof.

³⁵ SIA Zakusala Estate is not a subsidiary of the Company but a joint venture of SIA Merks. SIA Merks owns 50 % of shares in SIA Zakusala Estate. The properties of SIA Zakusala Estate are provided herein due to the size of those properties.

SELECTED FINANCIAL INFORMATION

As the Company was established only recently and therefore lacks historical financial information, the following tables set forth certain selected financial data in regard to AS Järvevana. As the Company was formed in the course of the Division of AS Järvevana and on the basis of the Business operated previously by AS Järvevana and transferred from AS Järvevana to the Company, the below financial information also illustrates the business and financial condition of the Company. For the effects of the Division on the financial information, see the un-audited pro forma financial information of AS Merko Ehitus included elsewhere in this Prospectus.

The financial information presented below has been extracted or calculated based on the audited consolidated financial statements of AS Järvevana for the financial years ended 31 December 2005, 2006, 2007, prepared in accordance with IFRS and from the un-audited consolidated condensed interim financial information of AS Järvevana for the three months ended 31 March 2008, prepared in accordance with the IAS 34 Interim Financial Reporting, included elsewhere in this Prospectus.

The ratios and indicators set forth in the table below are provided to illustrate certain aspects of the business and financial performance of AS Järvevana. Certain of these ratios and indicators are used by the Management to evaluate the performance of AS Järvevana while others are provided for the benefit of investors holding the shares. These ratios and indicators are not IFRS measures and should not be considered as alternatives to IFRS measures of profit/(loss) or as indicators of operating performance or as measures of cash flow from operations under IFRS or as indicators of liquidity. However, the Company believes that the ratios and indicators set forth below are customary and often used by public companies to illustrate their business and financial performance.

CONSOLIDATED INCOME STATEMENT DATA

<i>In thousands of EEK</i>	Three months ended 31 March (un-audited)		Year ended 31 December (audited)		
	2008	2007	2007	2006	2005
Revenue	1,119,572	1,014,864	5,510,760	4,414,361	3,232,392
Costs of goods sold	(884,377)	(886,352)	(4,731,752)	(3,727,561)	(2,738,714)
Gross profit	235,195	128,512	779,008	686,800	493,678
Marketing expenses	(7,888)	(5,605)	(32,472)	(23,390)	(22,595)
Administrative and general expenses	(49,373)	(35,610)	(213,806)	(148,792)	(127,632)
Other operating income	1,704	2,102	6,424	148,205	185,052
Other operating expenses	(1,738)	(1,038)	(18,109)	(29,952)	(93,452)
Operating profit	177,900	88,361	521,045	632,871	435,051
Financial income and expenses	(1,762)	3,907	69,694	7,737	28,673
Profit before tax	176,138	92,268	590,739	640,608	463,724
Corporate income tax expense	(20,138)	(881)	(30,830)	(49,917)	(18,437)
Net profit for financial period	156,000	91,387	559,909	590,691	445,287
Incl. net profit attributable to equity holders of the parent company	154,881	88,450	545,049	581,738	438,638
Minority interest	1,119	2,937	14,860	8,953	6,649

CONSOLIDATED BALANCE SHEET DATA

<i>In thousands of EEK</i>					
	31.03.2008	31.03.2007	31.12.2007	31.12.2006	31.12.2005
	(un-audited)	(un-audited)	(audited)	(audited)	(audited)
ASSETS					
Current assets					
Cash and cash equivalents	356,863	321,903	205,564	676,143	268,446
Trade and other receivables	1,003,458	1,150,910	1,199,566	854,103	542,110
Prepaid corporate income tax	941	1,433	2,376	6,428	2,471
Inventories	2,047,829	1,480,273	2,025,426	1,356,734	964,088
Assets held for sale	-	-	-	733	-
	3,409,091	2,954,519	3,432,932	2,894,141	1,777,115
Non-current assets					
Investments in associates and joint ventures	275,983	204,979	272,964	200,798	179,609
Other long-term loans and receivables	24,214	8,666	14,492	8,476	8,524
Deferred income tax assets	3,392	6,547	3,396	6,592	8,753
Investment property	12,946	3,840	7,361	3,900	42,506
Property, plant and equipment	172,134	99,795	172,912	90,445	199,004
Intangible assets	12,675	10,901	12,574	10,177	4,365
	501,344	334,728	483,699	320,388	442,761
TOTAL ASSETS	3,910,435	3,289,247	3,916,631	3,214,529	2,219,876
LIABILITIES					
Current liabilities					
Borrowings	192,924	223,605	304,879	283,792	114,841
Trade and other payables	939,593	1,076,977	1,015,492	1,081,396	711,236
Corporate and other income tax liability	36,159	19,423	16,718	18,868	950
Government grants	1,498	1,472	1,498	1,498	22,225
Short-term provisions	81,495	80,580	73,212	33,517	21,741
	1,251,669	1,402,057	1,411,799	1,419,071	870,993
Non-current liabilities					
Long-term borrowings	399,165	149,814	397,713	159,335	202,824
Other long-term trade payables and prepayments	54,796	39,470	57,423	23,277	22,726
Deferred income tax liabilities	-	-	-	-	11,385
	453,961	189,284	455,136	182,612	236,935
TOTAL LIABILITIES	1,705,630	1,591,341	1,866,935	1,601,683	1,107,928
EQUITY					
Minority interest	35,058	21,840	33,939	18,904	10,552
Equity attributable to equity holders of the parent company					
Share capital	177,000	177,000	177,000	177,000	177,000
Statutory reserve capital	17,700	17,700	17,700	17,700	8,850
Currency translation differences	(5,976)	(12,077)	(5,085)	(5,751)	(5,059)
Retained earnings	1,981,023	1,493,443	1,826,142	1,404,993	920,605
	2,169,747	1,676,066	2,015,757	1,593,942	1,101,396
TOTAL EQUITY	2,204,805	1,697,906	2,049,696	1,612,846	1,111,948
TOTAL LIABILITIES AND EQUITY	3,910,435	3,289,247	3,916,631	3,214,529	2,219,876

CONSOLIDATED CASH FLOW STATEMENT DATA

<i>In thousands of EEK</i>	Three months ended 31 March (un-audited)		Year ended 31 December (audited)		
	2008	2007	2007	2006	2005
Cash flows from operating activities	276,498	(193,310)	(488,904)	155,687	264,667
Cash flows from investing activities	(10,840)	(90,276)	(73,366)	234,394	(378,115)
Cash flows from financing activities	(113,001)	(68,692)	93,319	21,646	243,108
Change in cash and cash equivalents	152,657	(352,278)	(468,951)	411,727	129,660
Cash and cash equivalents at end of the period	356,863	321,903	205,564	676,143	268,446

THE RATIOS AND METHODOLOGY OF CALCULATING THE FINANCIAL RATIOS DESCRIBING THE COMPANY'S MAIN OPERATIONS:

	Three months ended 31 March (un-audited)		Year ended 31 December (un-audited)		
	2008	2007	2007	2006	2005
Net profit margin	13.8%	8.7%	9.9%	13.2%	13.6%
Profit before tax margin	15.7%	9.1%	10.7%	14.5%	14.3%
Operating profit margin	15.9%	8.7%	9.5%	14.3%	13.5%
Return on equity per annum	29.6%	21.6%	30.2%	43.2%	48.2%
Return on assets per annum	15.8%	10.9%	15.3%	21.4%	24.9%
Equity ratio	55.5%	51.0%	51.5%	49.6%	49.6%
Current ratio	2.7	2.1	2.4	2.0	2.0
General expense ratio	5.1%	4.1%	4.5%	3.9%	4.6%
Staff costs ratio	10.9%	12.8%	9.3%	8.0%	7.3%
Debt to assets ratio	15.1%	11.4%	17.9%	13.8%	14.3%
Debt to equity ratio	27.3%	22.3%	34.9%	27.8%	28.8%
Accounts receivable turnover (in days)	60	68	59	46	33
Accounts payable turnover (in days)	40	46	41	45	38
Revenue per employee (in million EEK)	1.036	1.119	5.376	5.193	4.651
Average number of full-time employees	1081	907	1025	850	695
Number of shares, thousands	17,700	17,700	17,700	17,700	17,700
Earnings per share, in EEK	8.75	5.00	30.79	32.87	24.78

Net profit margin: $\text{Net profit}^* / \text{Revenue}$

Profit before tax margin: $\text{Profit before tax} / \text{Revenue}$

Operating profit margin: $\text{Operating profit} / \text{Revenue}$

Return on equity per annum: $\text{Net profit}^* / \text{Average equity of the period}^{**}$

Return on assets per annum: $\text{Net profit}^* / \text{Average assets of the period}$

Equity ratio: $\text{Shareholders' equity}^{**} / \text{Total assets}$

Current ratio: $\text{Current assets} / \text{Current liabilities}$

General expense ratio: $\text{Administrative and general expenses and marketing expenses} / \text{Revenue}$

Staff costs ratio: $\text{Staff costs} / \text{Revenue}$

Debt to equity ratio: $\text{Interest-bearing liabilities} / \text{Shareholders' equity}^{**}$

Debt to assets ratio: $\text{Interest-bearing liabilities} / \text{Total assets}$

Accounts receivable turnover: $\text{Trade receivables} / \text{Revenue} \times 365$
Accounts payable turnover: $\text{Payables to supplies} / \text{Cost of goods sold} \times 365$
Revenue per employee: $\text{Revenue} / \text{Average number of full-time employees}$
Earning per share: $\text{Net profit}^* / \text{Weighted average number of ordinary shares}$

** Calculated based on net profit attributable to equity holders of the parent company*

*** Calculated based on equity attributable to the equity holders of the parent company*

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

As the Company was established only recently and therefore lacks historical financial information, the following discussion as well as in sections "Capital Resources" and "Trend Information" is based on the financial information of AS Järvevana. As the Company was formed in the course of the Division of AS Järvevana and on the basis of the Business operated previously by AS Järvevana and transferred from AS Järvevana to the Company, the financial information below also illustrates the business and financial condition of the Company. For the effects of the Division on the financial information of AS Järvevana, see the un-audited pro forma financial information of AS Merko Ehitus included elsewhere in this Prospectus.

The following discussion should be read in conjunction with the consolidated audited financial statements of AS Järvevana, including the notes thereto, and the un-audited pro forma financial information of AS Merko Ehitus, included elsewhere in this Prospectus. The consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 were prepared in accordance with IFRS, while un-audited consolidated condensed interim financial information of AS Järvevana for the three months ended 31 March 2008 was prepared in accordance with IAS 34 Interim Financial Reporting.

<i>In thousands of EEK</i>	Three months ended 31 March (un-audited)		Year ended 31 December (audited)		
	2008	2007	2007	2006	2005
Revenue (note 1)	1,119,572	1,014,864	5,510,760	4,414,361	3,232,392
Administrative and general expenses (note 2)	(49,373)	(35,610)	(213,806)	(148,792)	(127,632)
Other operating income (note 3)	1,704	2,102	6,424	148,205	185,052
Other operating expenses (note 4)	(1,738)	(1,038)	(18,109)	(29,952)	(93,452)
Total financial income/(expenses) (note 4)	(1,762)	3,907	69,694	7,737	28,673
Profit before tax	176,138	92,268	590,739	640,608	463,724
Corporate income tax expense	(20,138)	(881)	(30,830)	(49,917)	(18,437)
Net profit for financial year (note 5)	156,000	91,387	559,909	590,691	445,287
incl. net profit attributable to equity holders of the parent company	154,881	88,450	545,049	581,738	438,638
Cash flows from operating activities (note 6)	276,498	(193,310)	(488,904)	155,687	264,667
Cash flows from investing activities (note 7)	(10,840)	(90,276)	(73,366)	234,394	(378,115)
Cash flows from financing activities	(113,001)	(68,692)	93,319	21,646	243,108
FINANCIAL CONDITIONS					
<i>In thousands of EEK</i>	31.03.2008	31.03.2007	31.12.2007	31.12.2006	31.12.2005
	(un-audited)	(un-audited)	(audited)	(audited)	(audited)
Cash and cash equivalents (note 6, 7)	356,863	321,903	205,564	676,143	268,446
Trade and other receivables (note 8)	1,003,458	1,150,910	1,199,566	854,103	542,110
Inventories (note 9)	2,047,829	1,480,273	2,025,426	1,356,734	964,088
Investments in associates and joint ventures	275,983	204,979	272,964	200,798	179,609
Property, plant and equipment (note 10)	172,134	99,795	172,912	90,445	199,004
Total assets	3,910,435	3,289,247	3,916,631	3,214,529	2,219,876
Borrowings (note 11)	192,924	223,605	304,879	283,792	114,841

Trade and other payables	939,593	1,076,977	1,015,492	1,081,396	711,236
Long-term borrowings (note 11)	399,165	149,814	397,713	159,335	202,824
Total equity (note 12)	2,204,805	1,697,906	2,049,696	1,612,846	1,111,948

Note 1: Revenue

Revenue from construction in progress is recognised under the stage of completion method, which also assumes that the stage of completion of construction contracts can be determined reliably. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced to determine the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted.

Revenue from real estate development projects is recognised as revenue in accordance with IAS 18 “Revenue”, i.e. revenue is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Therefore, the cyclical revenue stream from real estate development projects influenced AS Järvevana Group’s first quarter results in 2008 as well as in 2007.

Note 2: Administrative and general expenses

The fast growth in administrative and general expenses was due to an increase in salaries and legal expenses related to the criminal case No. 05913000055 in 2007. For further information about the Criminal Proceedings see “Financial Information Concerning the Issuer’s Assets and Liabilities, Financial Position and Profits and Losses – Legal and Arbitration Proceedings”.

Note 3: Other operating income

In autumn 2004, the AS Järvevana Group accepted its biggest project thus far - SIA Merks entered into a contract with Riga’s City Government committing itself to build a multifunctional hall in Riga accommodating 12,500 visitors by the time of the Ice-Hockey World Championships in 2006. The project involved huge risks related to the short construction period and losses arising from the difference between the market value and the construction and usage costs of the hall. Hence, to encourage the potential developer to undertake the construction completion and further hall’s operating risks, Riga’s City Government supported the project by government grants of EEK 177.3 million in 2005 and EEK 20.7 million in 2006. On 11 December 2006, SIA Merks, a Latvian subsidiary of AS Järvevana, sold its 100% holding in SIA Arena Riga for EUR 17,610 thousand (approx. EEK 275,597 thousand). The sum was paid to SIA Merks at the transfer of ownership. SIA Arena Riga was sold as it was not in line with the core business of AS Järvevana Group.

Note 4: Other operating expenses

High operating expenses in 2005 and 2006 were mostly influenced by impairment. In 2005, impairment charge of EEK 89.3 million related to multifunctional hall Arena Riga was recognised. Considering the experience in the neighbouring countries, where the recoverable amount of multifunctional halls established has been lower than the constructions cost, the management carried out an impairment test of the Arena Riga in order to assess the recoverable amount of the hall as at 31 December 2005. The cash-flows for the following 10 years and the present value of these cash-flows were generated based on the model. As a result of the impairment test and the recoverable amount determined, the value of the hall was written down by EEK 89.3 million. In 2006, the Järvevana Group incurred EEK 22.5 million expenses related to carrying out of the Ice-Hockey World Championships in Arena Riga. The arrangement was agreed in autumn 2004 between SIA Merks and Riga City Government and the expenditures were partially reimbursed by government grants.

Note 5: Net profit for financial year

In 2005 the net profit attributable to equity holders of the parent company totalled EEK 438.6 million, representing an increase of 48.9% in comparison with 2004. Net profit from construction and development activities totalled EEK 289.3 million, one-off transactions contributed EEK 149.3 million to net profit, of which EEK 84.7 million were earned on the transfer of registered property, EEK 53.7 million from government grants and EEK 10.9 million from the transfer of ownerships and rights. High profitability was ensured by the AS Järvevana Group’s own residential housing

developments and the sales of registered property, which were not critical for the attainment of the company's strategic goals.

In 2006, the Järvevana Group's net profit attributable to equity holders of the parent company totalled EEK 581.7 million. Income from the sale of shareholdings contributed EEK 125.1 million, development activities EEK 284.7 million, construction activities EEK 164.2 million and financial activities EEK 7.7 million of net profit. The material outcome was provided from the sales of Arena Riga. SIA Merks sold its shareholding in multipurpose hall for EEK 275.4 million and earned extra profit of EEK 122.1 million.

In 2007, the net profit attributable to equity holders of the parent company totalled EEK 545.0 million, of which EEK 48.7 million was earned as extraordinary income from the sale of registered property, EEK 337.5 million from development activities, EEK 147.8 million from construction activities and EEK 11.0 million from financing activities. Profit from main operations increased from EEK 456.6 million to EEK 496.4 million or 8.7%

The net profit attributable to equity holders of the parent company in the first three months of 2008 was EEK 154.9 million, having increased by 75.1% compared with the three months ended 31 March 2007. The warm winter jointly with the cyclic nature of residential construction and real estate development had a positive effect on the profit.

Note 6: Cash and cash equivalents. Cash flows from operating activities

The AS Järvevana Group's first quarter 2008 cash position was strongly impacted by cash flow from operating activities which amounted to EEK 276.5 million. The operating cash flow was mostly influenced by the change in trade and other receivables of EEK 162.6 million, adjustments to revenue from construction contracts under stage of completion method of EEK 113,7 million, change in trade and other payables - EEK (154.4) million and operating profit - EEK 177.9 million.

In 2007, the AS Järvevana Group's total cash flows amounted to EEK (468.0) million, which was strongly distressed by the cash flows from operating activities totalling to EEK (488.9) million. Despite of the good positive flows from the operating profit EEK 521.0 million, the cash was drained due to an increase in own developments and related growth of inventories in the sum of EEK (665.4) million, a change in receivables and prepayments in the sum of EEK (108.4) million, a change in liabilities and prepayments in the sum of EEK (127.7) million, and adjustment of revenue from construction contracts in the sum of EEK (130.9) million as a result of increasing business activities and unfavourable payment terms. Management considers the situation as temporary, since the expected sales of residential property and completion of contracts with unfavourable payment schedules should improve the net cash position in 2008.

In 2005, AS Järvevana Group's total cash flow from operations amounted to EEK 129.7 million. The cash flow for the accounting period was mostly affected by the operating profit of EEK 435.1 million, a change in inventories of EEK (464.9) million resulting from acquisition of land, a change in liabilities and prepayments of EEK 186.6 million, depreciation and amortisation of EEK 109.6 million mainly related to impairment of Arena Riga.

Note 7: Cash and cash equivalents. Cash flows from investing activities

In 2005 AS Järvevana Group's cash flow from investing activities was EEK (378.1) million, of which EEK (227.0) million was investments into property and EEK (148.5) million investments into subsidiaries and associates. The investments were mainly related to the construction of Riga Arena and strengthening capital structure of Latvian and Lithuanian subsidiaries and the acquisition of 50% shares by SIA Merks in a company engaged in real estate development, SIA Zakusala Real Estates.

On 1 December 2005, SIA Merks, a subsidiary of AS Järvevana, acquired 50% shares in SIA Zakusala Estates. The transaction's value was EUR 9.39 million (approx. EEK 146.95 million) of which EUR 8.45 million (approx. EEK 132.24 million) was settled with a loan previously granted to the shareholders of SIA Zakusala Estates, and with a further monetary payment of EUR 0.94 million (approx. EEK 14.71 million). This share purchase was a prospective and long-term investment

which does not affect financial performance of AS Järvevana Group in the nearest future. As at 31 December 2007, the investment into the joint venture SIA Zakusala Estates includes intangible assets in the amount of EEK 147.3 million (2006: EEK 147.2 million) which are not recognized on the balance sheet of the investee. The intangible asset represents the lease agreement with the City of Riga expiring at 2 June 2051 which gives it a right to use the 126 thousand m2 registered property on Zakusala island in the centre of Riga.

Note 8: Trade and other receivables

Compared to 2005 and 2006, in 2007 trade and other receivables growth in relation to revenue growth was relatively high, which was affected mostly by the participation in several large public procurements. The accounts receivable turnover increased from 46 days to 59 days and the receivables totalled to EEK 1,199.57 million at 31 December 2007. Management estimates that the receivables as at the year-end do not contain significant credit risk and the receivables amount should drop and the cash flow enhance in 2008, when those contracts will be completed.

Note 9: Inventories

Inventories are recorded in the balance sheet at their acquisition cost, which consists of the purchase costs, production costs, transportation and other costs incurred in bringing the inventories to their present location and condition. In case of separately identifiable inventory items, their cost is determined based on expenditure incurred specifically for the acquisition of each asset. If inventory items are not clearly distinguishable from each other, then the weighted average cost method is used. Inventories are recognised in the balance sheet at the lower of acquisition cost and net realisable value. The net realisable value is the sales price less estimated sales costs.

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

During the last three years, the AS Järvevana Group experienced steady growth of inventories and particularly in work-in-progress and finished goods, which is mainly initiated from the growth of residential and commercial development. In 2007, real estate development made up 16.6% of the sales revenue of AS Järvevana Group, including residential construction of 12.2%. As of 31.12.2007, 58 completed apartments with the cost price of EEK 79.4 million and 1287 unfinished apartments with the cost price of EEK 1,022.5 million, of which 556 apartments had been sold to buyers under preliminary contracts, had not been sold by AS Järvevana Group.

<i>In thousands of EEK</i>	31.03.2008 (un-audited)	31.03.2007 (un-audited)	31.12.2007 (audited)	31.12.2006 (audited)	31.12.2005 (audited)
Materials	7,791	4,484	3,501	4,579	1,845
Work-in-progress	1,123,410	700,771	1,209,117	567,868	200,482
Finished goods	164,260	27,914	72,434	18,121	4,461
Goods for resale	713,741	703,596	704,124	723,441	752,800
Land purchased for resale*	713,729	703,488	704,111	723,334	752,789
Other goods purchased for resale	12	108	13	107	11
Prepayments for inventories	38,627	43,508	36,250	42,725	4,500
Total inventories	2,047,829	1,480,273	2,025,426	1,356,734	964,088

* AS Järvevana's inventory also contains land located on nature preserve areas with a total value of EEK 61,098 thousand. There are strict building restrictions on the land located in nature reserves. In accordance with the amendments to the Nature Conservation Act adopted by the Estonian Parliament on 19 June 2008 land owners can claim a compensation from the state for property, the use of which for its intended purposes is significantly hindered by the protection procedure, only in the form of the purchase of the registered property by the state for its usual market price (i.e. the

possibility of exchange *has been* removed). If a property is not located, as a whole, within the territory of a protected area, the part of the land located within the protected area may be purchased by the state upon agreement with the owner. If the part of the land located within the territory of a protected area is larger than two-thirds of the total area of the property, or if the land encompasses the protected category species protection site or limited management zone of an individual protected natural object, the whole property may be purchased by state based on an agreement. The above amendments shall take effect in 10 days from their publication in the official gazette entitled “Riigi Teataja” (i.e. 1 August 2008) and, thereafter, applications for exchange of land shall be treated *by the state* as offers to acquire the land. The procedure and bases for evaluation of the property shall be established by a government regulation.

The management of AS Järvevana is of *an* opinion that *the* Estonian legislation at the date of this Prospectus allows *selling of the* land to the state of Estonia for its usual market price, and consequently the management is not aware of any circumstances *implying* to an impairment of the aforementioned land. For further details please follow consolidated financial statements of AS Järvevana for the year ended 31 December 2007, Note 17.

Note 10: Property, plant and equipment

In 2006, the property of AS Järvevana Group decreased due to the sales of Arena Riga and in 2007 the balance increased due to acquisition of OÜ Fort Ehitus - the pile works and aqua construction entity.

Note 11: Borrowings

Due to intensive development activities and increase of working capital of AS Järvevana Group interest bearing debt has grown steadily during last three years.

<i>In thousands of EEK</i>	31.03.2008 (un-audited)	31.03.2007 (un-audited)	31.12.2007 (audited)	31.12.2006 (audited)	31.12.2005 (audited)
Total borrowings, of which	592,089	373,419	702,592	443,127	317,665
incl. current portion	192,924	223,605	304,879	283,792	114,841
non-current portion 2...5 years	399,165	149,814	397,713	159,335	202,824

Most of AS Järvevana Group’s loans are related to short-term development projects, the duration of which does not exceed 36 months. Due to the short-term nature of the loans, the effect of interest rate increases on the final results of projects is immaterial, and therefore, hedging against interest risks of these obligations is not considered reasonable.

Note 12: Total equity

The equity of AS Järvevana Group in recent years has been influenced by dividend payments and annual profits.

In capital management, the Company follows the principle of maintaining its trustworthiness, sustainable development and the assets of shareholders through economic cycle pursuant to which it monitors that its equity to assets ratio would at any given time be at least 45% (31.12.2007: 52%, 31.12.2006: 50%) and interest bearing debt to assets ratio would not exceed 25% (31.12.2007: 18%, 31.12.2006: 14%).

The practice of AS Järvevana Group has been that 20% of annual profit is disbursed for dividend payment. The actual dividend payment may be adjusted depending on the market situation and the company’s financial standing.

CAPITAL RESOURCES

The following table outlines the consolidated equity and balances of interest bearing liabilities of AS Järvevana as of 31 December 2005, 2006 and 2007 and 31 March 2007 and 2008:

<i>In thousands of EEK</i>	31.03.2008 (un-audited)	31.03.2007 (un-audited)	31.12.2007 (audited)	31.12.2006 (audited)	31.12.2005 (audited)
Interest bearing liabilities	592,089	373,419	702,592	443,127	317,665
Equity	2,204,805	1,697,906	2,049,696	1,612,846	1,111,948

Operating Cash Flow

In 2007, AS Järvevana Group's total cash flows amounted to EEK (468,951) thousand, of which the cash flows from operating activities totalled EEK (488,904) thousand. In 2006, AS Järvevana Group's cash flow from operating activities totalled EEK 155,687 thousand and in 2005 EEK 264,667 thousand. The cash flows from operating activities in 2007 were mostly affected by the operating profit EEK 521,045 thousand, a change in inventories EEK (665,436) thousand, a change in receivables and prepayments related to operating activities EEK (108,379) thousand, a change in liabilities and prepayments (127,742) thousand, adjustment of revenue from construction contracts under the stage of completion method EEK (130,927) thousand and corporate income tax paid EEK (34,597) thousand. AS Järvevana Group's cash flows from investing activities totalled EEK (73,366) thousand, of which EEK 150,824 thousand were loan repayments received and interest, EEK (145,692) thousand loans granted during the period, EEK (48,757) thousand investments into property, plant and equipment and EEK (32,927) thousand investments in subsidiaries and associates. AS Järvevana Group's cash flows from financing activities totalled EEK 93,319 thousand, of which the net balance of credit liabilities assumed and repaid was EEK 222,284 thousand and dividends paid EEK (128,965) thousand.

The period's negative cash flow was covered through additional loans (period's net cash flows from borrowings EEK 236,544 thousand) and through AS Järvevana Group's liquid assets.

To ensure liquidity and better management of the cash flows, AS Järvevana Group companies have concluded overdraft contracts with banks to the total amount of EEK 90 million. In addition to overdraft credits, AS Järvevana has a working capital loan with the limit of EEK 150 million from AS Merko Grupp. Management estimates that AS Järvevana Group's capital structure – high equity rate of 52% of the total assets and a low share of borrowings of 18% of the total assets – ensures the trustworthiness in the eyes of creditors also in difficult times and significantly improves the ability to extend existing financial liabilities and raising additional debt. In 2008, AS Järvevana Group's liquidity will be positively impacted by the completion of several projects with unusually long accounts receivable turnover and the transfer of apartments included in inventories to buyers.

AS Järvevana Group's net cash flow of the three months ended 31 March 2008 was EEK 152,657 thousand, including cash flow from operating activities EEK 276,498 thousand. The cash flow from operating activities was mostly influenced by the change in trade and other receivables related to operating activities (EEK 162,644 thousand), change in trade and other payables (EEK (154,437) thousand) and operating profit EEK 177,900 thousand. Cash flows from financing activities of the three months ended 31 March 2008 totalled EEK (113,001) thousand which consisted of the net balance of credit liabilities assumed and repaid.

Equity

The total amount of shares issued has not changed during the period covered in this Prospectus, the number of shares being 17,700,000 with the par value of EEK 10 each.

Working Capital

Management believes that, considering the current state of the AS Järvevana Group's assets and financial resources, the working capital is sufficient to meet all the liabilities arising as a result of ongoing operations in the next 12 months after the date of this Prospectus.

Borrowings

<i>In thousands of EEK</i>	31.03.2008 (un-audited)	31.03.2007 (un-audited)	31.12.2007 (audited)	31.12.2006 (audited)	31.12.2005 (audited)
Total borrowings, of which	592,089	373,419	702,592	443,127	317,665
incl. current portion	192,924	223,605	304,879	283,792	114,841
non-current portion 2...5 years	399,165	149,814	397,713	159,335	202,824

Out of the interest-bearing liabilities as at 31 December 2007, EEK 10.6 thousand was denominated in Estonian kroons, EEK 79,624 thousand in Lithuanian litas, EEK 382,231 thousand in Latvian lats and EEK 240,727 thousand in euros. The volume of interest-bearing liabilities increased by EEK 260 million in a year end as at the year-end, these liabilities made up 17.9% of the total assets of AS Järvevana Group. Loan interest depended on the base interest of 3-12 month interbank money market loans of the respective country of incorporation. Management expects the European Central Bank to lower the euro base rates over the following 12 months as a result of which Euribor will fall by approximately 50 basis points. However, the management expects the increase of base rates on loans denominated in national currencies of the Baltic States by approximately 75 basis points. Assuming that the volume and structure of borrowings does not change during the year, the following will occur: 1) a decrease/increase of Euribor by (50)/50 basis points will change the Company's interest costs by EEK (1,196)/1,196 thousand; 2) an increase/decrease of base rate on loans denominated in national currencies by 75/(75) basis points will increase/decrease financing costs by EEK (3,476)/3,476 thousand.

Most of AS Järvevana Group's loans relate to short-term development projects, the duration of which does not exceed 36 months. Due to the short-term nature of loans, the effect of interest rate increases is immaterial to the final results of those projects and, therefore, hedging against the interest risks of these obligations is not considered reasonable by the management.

The repayment obligation of AS Järvevana Group's outstanding loan and finance lease as at 31 December 2007 is split between future periods as follows:

<i>In thousands EEK (audited)</i>	Allocation by due dates			Total
	1-3 months	4-12 months	Over 12 months	
Loan and finance lease liabilities	91,535	213,344	397,713	702,592

The schedule of expected interest payments cannot be determined with reasonable certainty. In line with the best property development practice, the loan obligations to acquire land plots have been assumed with open-end maturities. The repayment of those loan obligations is dependent on the progress of related development projects and on the timing of cash-flows generated from those projects upon completion. Consequently, the management is of the opinion that even their best estimate on the timing of expected interest payments would not be of reliable accuracy for the users of this financial information and, therefore, has not been presented.

The financing agreements entered into by AS Järvevana Group companies contain several negative and positive covenants and requirements to obtain the lender's consent. Most of the financing agreements with financial institutions contain customary provisions on events of default, including cross-default. For further information, see "Risk Factors-Risks Relating to the Company-Financing and Loan Agreements".

TREND INFORMATION

Revenue and Gross Profit

In 2007, the revenue of AS Järvevana Group was EEK 5,510,760 thousand, increasing by 24.8% on the previous year. In 2007, Estonia contributed 61.4%, Latvia 25.2% and Lithuania 13.4% to the revenue growth. As compared to 2006, revenue increased by 31.3% in Latvia, 30.9% in Lithuania and 21.2% in Estonia. Engineering construction contributed 10%, residential construction/development 22%, administrative buildings 43%, office buildings 14%, industrial buildings 2% and road construction 9% to AS Järvevana Group's revenue. Of construction activities, 83% was new structure and 17% was renovation and reconstruction works. In 2007, AS Järvevana Group entered into construction contracts with the total volume of EEK 4,351 million and as at 31 December 2007, AS Järvevana Group's contract backlog totalled EEK 4,136 million.

In 2007, the cost of goods sold of AS Järvevana Group increased by 26.9% and distribution and administrative expenses increased by 43.0%, representing 85.9% and 4.5%, respectively, of revenue. Due to fast growth of service and labour costs, the gross margin decreased from 15.6% to 14.1% in a year, and the operating margin decreased from 14.3% to 9.5% in a year.

AS Järvevana Group's revenue for the three months ended 31 March 2008 was EEK 1,119,572 thousand, which constitutes an annual increase of 10.3% on the respective period in 2007. 55.2% of the revenue originated from Estonia, 26.7% from Latvia and 18.1% from Lithuania. As compared with the respective period in 2007, AS Järvevana Group's sales in Latvia increased by 94.1%, in Lithuania by 19.7% and decreased in Estonia by 10.7%.

Construction Market and its Developments

Warm winter jointly with the cyclic nature of residential construction and real estate development had a positive effect on the revenue in the first quarter of 2008. In general, the first quarter witnessed the slowing down of the economic growth in all the three Baltic States. As against the first quarter of 2007, the rate of growth of GDP in Estonia was as low as 1.4%, in Latvia 3.6% and in Lithuania 6.4%. Retardation of the economic growth poses a serious challenge to budgets of local governments and national governments in all the three Baltic States and generates doubts as to the feasibility of projects funded by the public sector.

The three months ended 31 March 2008 did not involve any significant changes in the construction sector. According to the information provided by the Statistical Offices, the building prices continued growing. In the year, the building service became more expensive in Latvia by 20.7%, in Lithuania by 15.4% and in Estonia by 6.0%, while labour costs climbed up in Latvia by 41.3% and in Estonia by 9.5%. For the most part, however, the appreciation occurred in 2007. As against the 4th quarter of 2007, the building service appreciated in Estonia by 1.1%, in Lithuania by 2.0% and in Latvia by 5.1%. By reference to decreasing demand and tighter competition the following quarters of the year may witness stabilization of prices, and in respect of certain types of work, also a certain decline in expenses. When planning the projects, though, one should not reckon with steep decline in prices, because the labour price in the market will continue to depend on demand for building service in the neighbouring countries, and a significant part of building materials is imported into the Baltic States at the prices applicable in the world market.

The market of residential premises picked up, to a certain extent, at the end of the first quarter 2008. However, it is rather a seasonal trend than a breaking point in the buyer's confidence and readiness to buy. As regards the development projects of residential buildings and commercial premises, the market will evidently remain passive and is not expected to recover before 2009. For the time being the largest challenge in the sector is to cope with the narrowing financing opportunities and liquidity problems.

Analysis of comparative indicators in the construction sector, construction works per capita EUR 1,751 (approx. EEK 27,403) in Estonia, EUR 953 (approx. EEK 14,914) in Latvia and EUR 922 (approx. EEK 14,426) in Lithuania, and growth rates for 2007 allow expecting regional segregation of growth rates: fast growth will continue in Latvia and Lithuania, activity will be lower in Estonia and volumes will stall. The growth rates attained in 2007 will be unattainable in 2008 and the market growth will remain between 0 - 15%.

The year 2008 will be challenging for the real estate and construction areas. It will be important to adapt to the changing environment and cope with the risks related to these changes. The year 2008 will not be able to repeat the success of the previous year, but it will offer new opportunities and lay a good foundation for future success.

ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

Pursuant to the provisions of the Estonian Commercial Code and the Company's Articles of Association, the control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Board and the Management Board. See "Additional Information – The Company's Articles of Association" for further information.

Supervisory Board

The Supervisory Board is responsible for planning the business activities of the Company, organizing the management of the Company and supervising the activities of the Management Board. The Supervisory Board reports to the General Meeting of Shareholders.

Pursuant to the Division Plan of AS Järvevana, signed on 30 April 2008 and approved by the General Meeting of Shareholders on 3 June 2008, the Supervisory Board of the Company consists of three members, whose authorization is valid for three years as of the date of their appointment.

The Supervisory Board consists of the following members:

Name	Position in the Company	Business address
Teet Roopalu	Member	Järvevana tee 9G, 11314 Tallinn, Estonia
Jaan Mäe	Member	Järvevana tee 9G, 11314 Tallinn, Estonia
Tõnu Toomik	Member	Järvevana tee 9G, 11314 Tallinn, Estonia

Teet Roopalu

Mr. Teet Roopalu (born in 1949) has graduated from the Faculty of Economics of Tallinn University of Technology, his major being construction economics and organization. Mr. Roopalu has worked in construction companies, incl. as a financial director; has managed economic activities in EKE group of companies as chief economist; has acted as a bank director; and has also been active in the sphere of design. Since November 2002 up until the Division Mr. Roopalu was responsible for the financial and legal sector in AS Järvevana.

Information about the participation of Mr. Roopalu in management bodies during the last five years (since July 2003) is presented in the table below. The positions listed exclude the participation in the management and supervisory bodies of the Company and its subsidiaries.

Entity	Position	Date of the Start	Date of the End
AS Merko Grupp	Member of the Supervisory Board	June 2007	
	Member of the Management Board	April 2004	July 2007
AS Tartu Maja Betoontooted	Member of the Supervisory Board	November 2003	
E.L.L. Kinnisvara AS	Member of the Supervisory Board	May 2003	
OÜ Vara HTG	Member of the Supervisory Board	March 2003	
OÜ Tornimäe Apartments	Member of the Supervisory Board	May 2004	May 2008
OÜ Evans Holding	Member of the Management Board	March 2005	
OÜ Teet Konsult	Member of the Management Board	February 2007	
Frans Maas Estonia OÜ (deleted from the register)	Member of the Management Board	November 1996	February 2005
OÜ Merko Kaevandused	Member of the Management Board	January 2004	August 2007
OÜ EE Ressursid	Member of the Management Board	January 1998	July 2003

Jaan Mäe

Mr. Jaan Mäe (born in 1964) has graduated from Tallinn University of Technology, his major being industrial and civil engineering. Since 1997 up until the Division Mr. Mäe has worked for AS Järvevana as a site manager, project manager and division manager; he has also served as a member of the Management Board and, as of April 2006, as a member of the Supervisory Board of AS Järvevana.

Information about the participation of Mr. Mäe in management bodies during the last five years (since July 2003) is presented in the table below. The positions listed exclude the participation in the management bodies of the Company and the Subsidiaries.

Entity	Position	Date of the Start	Date of the End
AS Merko Grupp	Chairman of the Supervisory Board	June 2007	
E.L.L. Kinnisvara AS	Member of the Supervisory Board	April 2006	
OÜ Tornimäe Apartments	Member of the Management Board	May 2004	May 2008
Admirali Korterid OÜ	Member of the Management Board	May 2002	January 2004
OÜ Unigate	Member of the Management Board	March 2002	August 2006

Tõnu Toomik

Mr. Tõnu Toomik (born in 1961) has graduated from Tallinn University of Technology, his major being industrial and civil engineering. Mr. Toomik started working for AS Järvevana in 1993 as a project manager and since 1997 up until the Division served as the chairman of the Management Board, responsible for the management and development of the activities of AS Järvevana.

Information about the participation of Mr. Toomik in management bodies during the last five years (since July 2003) is presented in the table below. The positions listed exclude the participation in the management bodies of the Company and the Subsidiaries.

Entity	Position	Date of the Start	Date of the End
E.L.L. Kinnisvara AS	Member of the Supervisory Board	August 1997	
AS Unigate	Member of the Supervisory Board	May 2003	
OÜ Tornimäe Apartments	Member of the Supervisory Board	May 2004	May 2008
AS K&P Ehitus	Member of the Supervisory Board	December 1997	August 2004
AS Remoluft	Member of the Supervisory Board	May 2004	June 2007
AS Telegrupp	Member of the Supervisory Board	July 2002	January 2006
Saue Auto AS	member of the Supervisory Board	May 2004	June 2005
AS Merko Grupp	Member of the Management Board	September 1996	
Normanni Linnagrupi AS	Member of the Management Board	February 1998	

Management Board

The Management Board manages the Company's daily business operations. Pursuant to the Division Plan of AS Järvevana, signed on 30.04.2008 and approved by the General Meeting of Shareholders on 03.06.2008, the Management Board consists of five members whose authorization is valid for three years as of the date of their appointment.

Mr. Tiit Roben is planned to be elected as the Chairman of the Management Board of the Company and is expected to assume the position in September 2008 after his resignation from the management board of E.L.L. Kinnisvara AS.

Name	Position in the Company	Business address
Tiit Roben	Chairman, responsible for the management and development of the activities of the Company	Järvevana tee 9G, 11314 Tallinn, Estonia
Veljo Viitmann	Member, responsible for the preparation and budgeting of tenders for new projects	Järvevana tee 9G, 11314 Tallinn, Estonia
Alar Lagus	Member, responsible for the Company's financial and managerial accounting and investor relations	Järvevana tee 9G, 11314 Tallinn, Estonia
Andres Agukas	Member, responsible for the execution of construction services	Järvevana tee 9G, 11314 Tallinn, Estonia
Tõnu Korts	Member, responsible for the development sector of residential and commercial areas	Järvevana tee 9G, 11314 Tallinn, Estonia

Tiit Roben

Mr. Tiit Roben (born in 1966) has graduated from Tallinn University of Technology, his major being industrial and civil engineering. Since 2005 up until the Division Mr. Roben served as a member of the Management Board of AS E.L.L. Kinnisvara being responsible for the development of the company. Mr. Roben has also previous experience working for several construction companies, including AS Järvevana.

Information about the participation of Mr. Roben in management bodies during the last five years (since July 2003) is presented in the table below. The positions listed exclude the participation in the management bodies of the Company and the Subsidiaries.

Entity	Position	Date of the Start	Date of the End
Viru Väljaku Arenduse AS	Member of the Supervisory Board	October 2003	
E.L.L. Kinnisvara AS	Member of the Management Board	June 2005	
Amistad Invest OÜ	Member of the Management Board	February 2006	
OÜ Sõpruse Investeeringud	Member of the Management Board	September 2006	
Sõpruse Ärimaja OÜ	Member of the Management Board	September 2006	
OÜ Smuuli Kinnisvara	Member of the Management Board	November 2000	
SIA Tirdzniecibas Centras Plesdkodale	Member of the Management Board	January 2006	
SIA MKEE	Member of the Management Board	January 2006	
UAB Nekilnojamas Turtas	Member of the Management Board	December 2005	
UAB Saltesta	Member of the Management Board	December 2005	
UAB Tivesta	Member of the Management Board	October 2005	
AS Viru Keskus	Member of the Management Board	February 2003	October 2003

Veljo Viitmann

Mr. Veljo Viitmann (born in 1962) has graduated from the Civil Engineering Faculty of Tallinn University of Technology, his major being transport engineering and bridges. Mr. Viitmann has worked for AS Järvevana since 1994 up until the Division.

Alar Lagus

Mr. Alar Lagus (born in 1969) has graduated from the Tallinn University of Technology, his major being public catering organization and technology. After graduation Mr. Lagus worked for ten years in different positions in Hansabank. Since 2004 up until the Division Mr. Lagus was responsible for the financial and managerial accounting and investor relations of AS Järvevana.

Information about the participation of Mr. Lagus in management bodies during the last five years (since July 2003) is presented in the table below. The positions listed exclude the participation in the management bodies of the Company and the Subsidiaries.

Entity	Position	Date of the Start	Date of the End
AS Insenerivõrgud	Member of the Supervisory Board	May 2004	April 2005
AS Telegrupp	Member of the Supervisory Board	March 2004	June 2006
AS Merko Grupp	Member of the Management Board	July 2007	
OÜ Sõpruse Investeeringud	Member of the Management Board	September 2006	

Andres Agukas

Mr. Andres Agukas (born in 1965) has graduated from Tallinn University of Technology, his major being transport engineering. Mr. Agukas started in AS Järvevana in 1998 as the first employee of the civil engineering sector and served since 2005 up until the Division as a member of the Management Board of AS Järvevana.

Tõnu Korts

Mr. Tõnu Korts (born in 1974) has graduated from Tallinn University of Technology, his major being construction economy and management. Mr. Korts worked for AS Järvevana since 1997 as a site manager, project manager, project director and division director, and since 2006 up until the Division served as a member of the Management Board of AS Järvevana.

Information about the participation of Mr. Korts in management bodies during the last five years (since July 2003) is presented in the table below. The positions listed exclude the participation in the management bodies of the Company and the Subsidiaries.

Entity	Position	Date of the Start	Date of the End
OÜ Unigate	Member of the Supervisory Board	May 2006	
Graali Vara OÜ	Member of the Management Board	August 2005	August 2007

Declarations in Respect of the Management

To the best of the Company's knowledge, none of the members of the Supervisory Board or Management Board of the Company have been convicted in relation to fraudulent offences for the previous five years, nor were any of these persons in the same period associated with bankruptcies, receiverships or liquidations in their capacity as members of the management or supervisory bodies, partners with unlimited liability, founders or senior manager. To the best of the Company's knowledge, no such persons were subject to any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies), nor have they been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of the Company or from acting in the management or conduct of the affairs of the Company for the previous five years.

Conflict of Interest

Some members of the Management of the Company also belong to the management bodies of E.L.L. Kinnisvara AS, as presented above. E.L.L. Kinnisvara AS and the Company are controlled by the same person, AS Merko Grupp. From time to time the Company enters into transactions with E.L.L. Kinnisvara AS, which might be a source for potential conflicts of interest. The Company is of the opinion that this risk of conflicts of interest is sufficiently handled as every transaction has to be entered into on an arm's-length basis. See "Related Party Transactions" for further information. The Company is not aware of any other potential conflicts of interest between the duties of the members of its Supervisory Board or Management Board and their private interests or other duties.

REMUNERATION AND BENEFITS

As the Company was established only recently, no remuneration and benefits were paid by the Company to the members of its Supervisory Board and Management Board in 2007. As the Company was formed in the course of the Division of AS Järvevana and on the basis of the Business operated previously by AS Järvevana and transferred from AS Järvevana to the Company, the following table provides the aggregate gross amount of salary and bonuses paid to the members of the Management Board and Supervisory Board by AS Järvevana for the financial year ended 31 December 2007:

<i>In millions of EEK</i>	Total remuneration	Salary	Bonuses
Supervisory Board	7.0	1.8	5.2
Management Board	14.8	3.2	11.6

The remuneration for the Supervisory Board includes remuneration paid for 2007 to Mr. Toomas Annus, Mr. Jaan Mäe and Mr. Teet Roopalu who were the members of the Supervisory Board of AS Järvevana in 2007.

The remuneration for the Management Board includes remuneration paid for 2007 to Mr. Tõnu Toomik, Mr. Veljo Viitmann, Mr. Alar Lagus, Mr. Andres Agukas and Mr. Tõnu Korts who were the members of the Management Board of AS Järvevana in 2007.

The Company believes that the disclosure of personalized remuneration does not create additional value and disturbs the privacy of the members of the Management.

Upon premature termination or non-extension of the service contract and on the condition that the members of the Management or Supervisory Board shall not compete with the Company, severance pay shall be paid to the members of the Management and Supervisory Board equaling their twelve-month basic remuneration. The Company does not provide any other pension, retirement or similar benefits.

BOARD PRACTICES

The Tenures

	Position	Start Date	End Date	Start Date in the same position in AS Järvevana
Teet Roopalu	Member of the Supervisory Board	30 April 2008	30 April 2011	12 April 2003
Jaan Mäe	Member of the Supervisory Board	30 April 2008	30 April 2011	19 May 2006
Tõnu Toomik	Member of the Supervisory Board	30 April 2008	30 April 2011	2 January 1997*
Tiit Roben	Member of the Management Board	30 April 2008	30 April 2011	
Veljo Viitmann	Member of the Management Board	30 April 2008	30 April 2011	27 May 1997
Alar Lagus	Member of the Management Board	30 April 2008	30 April 2011	5 January 2004
Andres Agukas	Member of the Management Board	30 April 2008	30 April 2011	1 October 2005
Tõnu Korts	Member of the Management Board	30 April 2008	30 April 2011	25 May 2006

* The starting date on the Management Board of AS Järvevana.

Upon premature termination or non-extension of the service contract and on the condition that the members of the Management or Supervisory Board shall not compete with the Company, severance pay shall be paid to the members of the Management and Supervisory Board equaling the person's twelve-month salary.

The Company does not have any audit or remuneration committees.

Corporate Governance

From 2006, the Corporate Governance Recommendations, which lay down the general principles of managing companies and treating of shareholders, apply to the issuers of equity securities listed on the Tallinn Stock Exchange. The application of the Corporate Governance Recommendations is recommended for publicly traded companies, and companies are free to decide whether to follow the main recommendations or not. The Corporate Governance Recommendations are based on the principle of *comply or explain* according to which a company must explain its standpoints and activities with regard to those provisions which it does not follow.

The Company 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. The following is based on the activities of AS Järvevana, as the Company does not have sufficient corporate history as of the date of the Prospectus. However, the practices of AS Järvevana will be applied also by the Company. For technical, economic or other reasons the Company does not intend to follow some of the principles of the Corporate Governance Recommendations.

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

The Corporate Governance Recommendations require that members of the management board, the chairman of the supervisory board and, if possible, members of the supervisory board and at least one of the auditors should participate in the General Meeting.

On behalf of the Company, the Chairman of the Management Board and Chairman of the Supervisory Board participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards are involved. The Company does not consider

the participation of all members of the Management and Supervisory Boards in the General Meeting to be necessary.

The Corporate Governance Recommendations require that at least one-half of the members of the supervisory board must be independent. If the supervisory board has an odd number of members, there may be one independent member less than the number of dependent members. According to the recommendations, an independent member is a person who has no such business, family or other ties with the issuer, a company controlled by the issuer, a controlling shareholder of the issuer, a company belonging to the issuer's group or a member of a governing body of these companies, that can affect their decisions by the existence of conflict of interest.

The Supervisory Board of AS Merko Ehitus has three members. Merko Ehitus does not have any independent members of the Supervisory Board meeting the definition of the Corporate Governance Recommendations, as the members also participate in the work of the companies controlled by the Company and in the Supervisory Boards of the Company's controlling shareholder. The members of the Supervisory Board are elected on the basis of their knowledge and experience in the field of construction and real estate development. A peculiar feature of the work procedures of the Supervisory Board of Merko Ehitus is the fact that the members work full-time on the basis of service contracts. Such a work procedure adds responsiveness to the activities of the Group, ensures better informativeness of the Supervisory Board and altogether enables more efficient supervision over the activities of business units, which are dispersed geographically and have diverse operations.

The Corporate Governance Recommendations also require the disclosure of the remuneration of each member of the management board on the company's website and in the Corporate Governance Report, including the details about his/her base salary, performance related bonuses, severance packages, and other financial benefits and bonuses.

The Management Board of AS Merko Ehitus has five members. The activities of the members are divided by areas of operation: general management, construction, development, technology, and finance. The Chairman of the Management Board leads the work of the Management Board. The members of the Management Board have entered into three-year service contracts with the Company. The Company discloses the total amount of remuneration and bonuses of the members of the Management Board in the annual report, as it believes that the disclosure of personalised remuneration does not create additional value and disturbs the privacy of the members of the Management Board.

In accordance with the Corporate Governance Recommendations, the issuer must publish the disclosure dates of information subject to disclosure throughout the year at the beginning of the fiscal year in a separate notice, called the financial calendar.

In disclosing information, AS Merko Ehitus follows the rules and regulations of the Tallinn Stock Exchange and immediately discloses important information regarding the Company's activities to the shareholders after obtaining reasonable assurance as to its correctness and making sure that the disclosure of such information does not harm the interests of the Company and its business partners. Important information will be disclosed through the stock exchange system and on the Company's website. During the year, Merko Ehitus will 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. Merko Ehitus publishes important information regarding the Company after the end of the trading day and informs shareholders about publishing interim financial statements and the annual report at least two days prior to their disclosure.

Corporate Governance Recommendations require that the issuer disclose the amount of remuneration the issuer has paid or will pay to the auditor.

In electing the auditor, the Company considers his/her independence, competence, reliability and the price of the service offered by him/her. The Company will 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.

In other respects, the Company will consider its compliance with the requirements of the Corporate Governance Recommendations on a case-by-case basis, with the aim of achieving compliance to the maximum extent practicable. The Company will annually report to the shareholders as to the status of its compliance with the recommendations in the Corporate Governance Report. Such report will be included in the annual report of the Company.

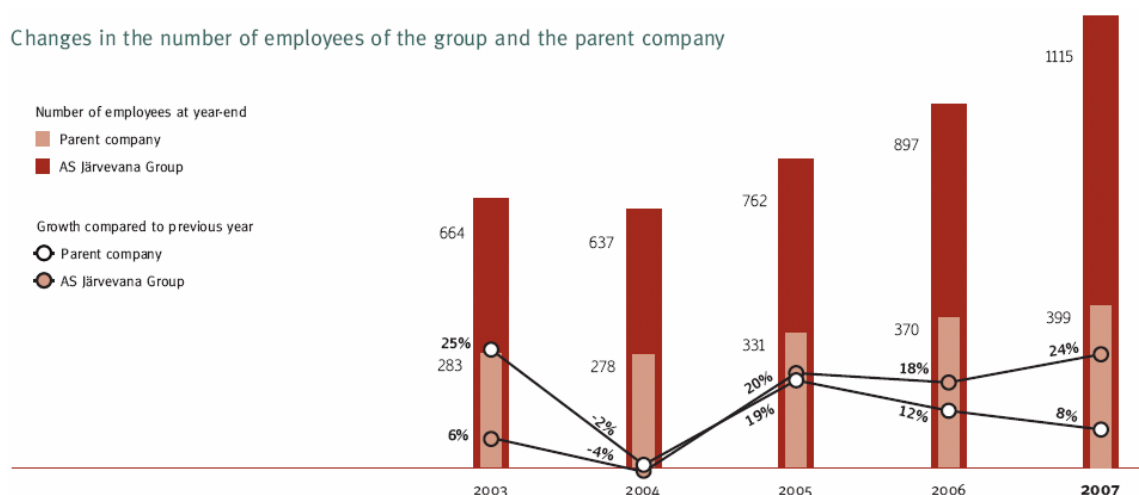
EMPLOYEES

Number of Employees

Employees are one of the main assets of the Company. All the employment contracts of AS Järvevana were transferred to the Company in the course of the Division, and therefore the following is based on the information of AS Järvevana Group.

In 2007, the number of AS Järvevana Group's employees increased by 218 people and, as at 31 December 2007, AS Järvevana Group had 1,115 employees. The gross wages and salaries of AS Järvevana Group's employees totaled EEK 406.6 million, of which basic wages and salaries made up 70.5% and bonuses 29.5%, or 46.3% more than in 2006. As compared to 2006, the number of AS Järvevana Group's employees increased by 24.3% and the average wages per employee grew by 17.7%. The number of employees of the parent company AS Järvevana was 399 at the year-end 2007, increasing by 29 people in a year. Gross wages and salaries paid to employees totaled EEK 177.3 million, for the annual growth of 40.6%, including the growth of base wages of 36.2% and that of bonuses of 48.3%.

The change in the number of employees is represented in the chart below:



The following table represents the breakdown of employees by geographic location as of the specified dates:

Location	31 December 2007	31 December 2006	31 December 2005
Estonia	679	603	537
Latvia	281	186	155
Lithuania	155	108	70
TOTAL	1,115	897	762

Most of the employment contracts have been concluded for an indefinite term. As a rule the AS Järvevana Group companies do not employ temporary employees.

Share Ownership and Acquisition of Shares

The member of the Supervisory Board of the Company, Mr. Tõnu Toomik, has an indirect holding in the Company through AS Merko Grupp, which owns 71.99% of the share capital of the Company. Mr. Toomik owns 12.61% of the shares of AS Merko Grupp.

The member of the Management Board, Mr. Tiit Roben, has an indirect holding in the Company through Amistad Invest OÜ, which owns 0.0085% of the share capital of the Company. Mr. Roben has a 50% holding of Amistad Invest OÜ.

To the best of the Company's knowledge, no other members of the Supervisory Board and Management Board or their close relatives own any shares of the Company.

Employee Participation Schemes

The Company does not have in place any arrangement for involving the employees in its equity.

MAJOR SHAREHOLDERS

The shareholders of public limited companies whose shares are admitted to trading on an Estonian or European Economic Area Member State regulated market must notify about certain percentage thresholds in their shareholdings according to the Estonian Securities Market Act. In accordance with § 185(1) of the Estonian Securities Market Act, the minimum threshold which requires the notification is five percent of the interest in the capital or voting rights of the issuer, exercised either directly or indirectly, individually or together with persons acting in concert. The list of the Company's major shareholders, as of 1 August 2008, together with the amount of each such person's interest is provided in the table below.

Name of the shareholder	Number of shares	Proportion
AS Merko Grupp	12,742,686	71.99%
Skandinaviska Enskilda Banken Ab, clients	1,040,334	5.88%
ING Luxembourg S.A., clients	963,376	5.44%

The Company is being controlled by AS Merko Grupp. AS Merko Grupp is a public limited company registered in the Estonian Commercial Register under registration code 10068039. The registered office of AS Merko Grupp is Järvevana tee 9G, 11314 Tallinn. With the proportion of 65.32% of the holdings of AS Merko Grupp, the ultimate controlling party is Mr. Toomas Annus. Other shares of AS Merko Grupp are ultimately controlled by Mr. Tõnu Toomik, a member of the Supervisory Board of the Company, who controls 12.61% of the shares of AS Merko Grupp; Mr. Viktor Mõisja, who controls 8.56% of the shares of AS Merko Grupp; Mr. Ott Kikkas, who controls 7.2% of the shares of AS Merko Grupp, and Mr. Ülo Metsaots, who controls 6.31% of the shares of AS Merko Grupp.

None of the major shareholders of the Company have different voting rights compared to other shareholders of the Company.

All transactions of the Company are concluded on an arms' length basis, which is in the opinion of the Company sufficient to prevent transactions harmful to the interests of the Company. Further, in accordance with the Articles of Association of the Company the consent of the Supervisory Board is required for the conclusion of certain transactions exceeding specified thresholds. For transactions and limits thereof requiring consent of the Supervisory Board see further "Additional Information – The Company's Articles of Association – Supervisory Board".

As of the date of the Prospectus, the Company is not aware of any existing agreements between the shareholders of the Company the operation of which may at a subsequent date result in a change in control over the Company.

RELATED PARTY TRANSACTIONS

The Company and its subsidiaries are parties to certain agreements with related parties. The following entities have been considered as related parties:

- parent company AS Merko Grupp;
- shareholders of AS Merko Grupp with significant influence through AS Merko Grupp;
- other shareholders of the Company with significant influence;
- other subsidiaries of AS Merko Grupp, so-called “entities controlled by the parent company”;
- associates and joint ventures;
- key managers and their close relatives;
- entities under control of persons mentioned above.

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

The most relevant and material of the recent and on-going agreements with related parties are the following:

1. In the Division Plan, a loan in the amount of EUR 7,989,000 (approx. EEK 125,027,850) was agreed upon between the Company and AS Järvevana. The interest for the first twelve months has been fixed at 6%, henceforth the interest rate is twelve months' EURIBOR + one percent. The lender, AS Järvevana, is entitled to declare the loan principal or any portion thereof rounded to EUR 500,000 (five hundred thousand) integer along with the interest accumulated thereon immediately due and repayable upon at least 30 (thirty) days' advance notice. The terms and conditions of the loan agreed upon under the Division Plan were specified in the cooperation agreement between the Company and AS Järvevana, dated 31 July 2008 (the “Cooperation Agreement”). According to the Cooperation Agreement it is further agreed that (a) AS Järvevana is entitled to demand repayment of the principal of the loan partially in the amount of EUR 500,000 during each year and in a higher amount if AS Järvevana fails to perform its obligations arising from or related to the criminal case No 05913000055 and (b) the Company is entitled to repay the loan by giving at least 6 months' advance notice.
2. In the Division Plan a put option and a call option were agreed upon. According to the put option the Company has an obligation to acquire from AS Järvevana certain properties for the total consideration of EEK 100 million. According to the call option the company is entitled to acquire from AS Järvevana the same properties for the total consideration of EEK 100 million. The terms and conditions of the put and call options agreed upon in the Division Plan were specified by the Cooperation Agreement. The Cooperation Agreement specifies the term for the exercise of the call and put option, which is 3 years from the execution of the Division Plan. The term for the exercise of the options has been agreed to renew itself automatically for one year at a time after passage of the initial 3-year term. The automatic renewal of the term for the exercise of the options will terminate as of termination of the criminal proceedings in the criminal case No 05913000055 by a court order or other ruling that has entered into force. According to the Cooperation Agreement AS Järvevana has the right to sell to the Company all or any of the properties at the negotiated price by notifying the Company of its wish to exercise the put option at least thirty days in advance. However, AS Järvevana is entitled to exercise its put option only if it has requested repayment of the loan provided to AS Merko Ehitus and referred to in the Division Plan. Further, the Company is entitled under the Cooperation Agreement to buy at any time from AS Järvevana all or any of the properties by notifying AS Järvevana of its wish to exercise the call option at least thirty days in advance. The properties subject to the agreement and the option exercise prices have been presented in the following table:

New property No.	Cadastral reference	Address	Option exercise price per property (in EEK)
152502	19801:002:0962	Harku municipality, Tiskre Village, Kallaste II	9,500,000
13290401	78403:315:2670	Tallinn, Valukoja Str 26	21,000,000
13290501	78403:315:2680	Tallinn, Valukoja Str 24	28,000,000
13291001	78403:315:2730	Tallinn, Valukoja Str 35	4,500,000
18460801	78407:701:0177	Tallinn, Tendre Str 55	37,000,000
Total exercise price of options (in EEK):			100,000,000

3. On 2 May 2008, AS Järvevana transferred the 100% shareholding in the company OÜ Karulaugu Kinnisvara (registry code 11034491) to E.L.L. Kinnisvara AS, a subsidiary of AS Merko Grupp. The sale price of the transaction was EEK 42 million, from which EEK 4.12 million, the balance of the company's financial obligations and current assets, were deducted. The entire sales price was paid to the seller upon transfer of the shares.
4. On 17 March 2008, AS Järvevana sold the properties in Riga, at Skantes Street 25 (gross area 6,028 m²), Skantes Street 26 (gross area 6,593 m²) and Skantes Street 27 (gross area 7,084 m²), to E.L.L. Kinnisvara AS, a subsidiary of AS Merko Grupp. The total sales price was EEK 142,457,646 (EUR 9,102,725) without VAT.
5. On 28 December 2007, AS Järvevana sold the property in Tallinn, Põhja pst. 37, to E.L.L. Kinnisvara AS, a subsidiary of AS Merko Grupp. The sales price of the transaction was EEK 58.5 million without VAT. Subject to the total construction capacity to be established by the detailed plan for the property as well as the expenses related to the liquidation of the environmental pollution, an additional sales price shall be paid up to the amount of EEK 6.5 million.
6. On 12 March 2007, AS Järvevana and OÜ Linnamaa Kinnisvara, a subsidiary of AS Merko Grupp, concluded an appendix to a construction contract, and as a result an office building (gross area 15,761 m²) and a multi-storey car park (gross area 10,214 m²) in Tallinn, at Pärnu road 141 will be built. The price of the contract is EEK 321,600,460 without VAT, and the completion time for the work is set for November 2008.
7. On 29 December 2006, AS Järvevana sold its 100% shareholding in the company OÜ Rannamõisa Kinnisvara (registry code 10677241) to E.L.L. Kinnisvara AS, a subsidiary of AS Merko Grupp. The sales price was established at EEK 35 million, from which the balance of company's financial obligations and current assets was deducted. AS Järvevana made a profit in the amount of EEK 23.75 million as a result of the transaction. Additionally, according to the contract, the buyer was obligated to order the construction on the plot from AS Järvevana. At the date of the transaction OÜ Rannamõisa Kinnisvara and AS Järvevana had a valid loan agreement, according to which OÜ Rannamõisa Kinnisvara owed to AS Järvevana EEK 2.76 million.
8. On 13 November 2006, AS Järvevana and OÜ Sõpruse Ärimaja, a subsidiary of AS Merko Grupp, concluded an appendix to a construction contract for the construction of an office building in Tallinn, at Sõpruse pst. 145. The price of the contract was EEK 253,919,553 without VAT.
9. On 29 September 2006, SIA Merks, a subsidiary of AS Järvevana, and SIA MKEE, a subsidiary of AS Merko Grupp, concluded a construction contract for the building of furniture store in Riga, at Jaunmoku Street 12 (gross area 28,000 m²). The price of the contract was EEK 266,441,000 (LVL 12,007,256) without VAT.

10. On 23 March 2006, UAB Merko Statyba, a subsidiary of AS Järvevana, and UAB Saltesta, a subsidiary of AS Merko Grupp, concluded a construction contract for the building of a shopping centre in Vilnius, at Saltoniškiu 9. The price of the contract was EEK 1,055,490,000 (LTL 233,000,000) without VAT.
11. On 30 January 2006 a construction contract concluded between SIA Merks, a subsidiary of AS Järvevana, and SIA Zeltini M, a subsidiary of AS Merko Grupp, was enforced for the construction of a seven-storey office building in Riga, at Hospitalu' street. The price of the contract was approx. EEK 216,037,259 (LVL 9,735,794).
12. On 18 November 2005, AS Järvevana and OÜ Veeilu, a subsidiary of AS Merko Grupp, concluded a contract for design and construction works of the Nordic Hotel Forum in Tallinn, at Narva street 1A/ Viru väljak 2A. The price of the contract was EEK 237,651,091 without VAT.
13. On 8 July 2005, AS Järvevana transferred its 100% shareholding in OÜ Merko Kaevandused (registry code 10540989) to AS Merko Grupp. The sale price of the transaction was EEK 5.1 million.

The Company and its subsidiaries have also executed several other intra-group transactions, such as for the purchase or rendering of construction services, real estate transactions, loan agreements, guarantees and other agreements. For additional information regarding related party transactions and balances concerning the Business transferred from AS Järvevana to the Company in the course of the Division, see Note 6 to the un-audited consolidated condensed interim financial information of AS Järvevana Group for the three months ended 31 March 2008, Note 34 to the consolidated financial statements of AS Järvevana Group for the year ended 31 December 2007, Note 34 to the consolidated financial statements of AS Järvevana Group for the year ended 31 December 2006 and Note 35 to the consolidated financial statements of AS Järvevana Group for the year ended 31 December 2005. The Management believes that all of the above agreements have been entered into on an arm's length basis.

FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

Historical Financial Information

The un-audited pro forma financial information and historical financial information of the Company is presented in the Annexes to this Prospectus. Please see "Index to Financial Information" on page 102. There has not been any significant change in the Group's financial or trading position since the end of the financial period for which the audited financial information and interim financial information has been published.

Dividends and Dividend Policy

The shares of the Company will grant the right to a share of the Company's profit as of entry of the Division in the commercial register of the seat of the Company.

The Company does not have an official dividend policy, but the practice of AS Järvevana has been that 20% of annual profits is disbursed for dividend payment.

The Company cannot assure that dividends will be paid in the future or if dividends are paid, how much they will amount to. The declaration and payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management Board to be relevant at the time. Moreover, the Management Board merely makes a proposal for the amount of dividends to be distributed. The Supervisory Board has the right to amend such proposal and the proposal is ultimately to be approved by the General Meeting of Shareholders. For more details on the procedure and regulatory restrictions relating to the payment of dividends, see "Additional Information- Shareholders Rights- Dividends and Other Distributions".

Due to the fact that the Company was established only recently, it has not yet paid dividends. As the Company was formed in the course of the Division of AS Järvevana and on the basis of the Business operated previously by AS Järvevana and transferred from AS Järvevana to the Company, an overview of the dividends paid by AS Järvevana is hereby given.

The table below shows dividends on shares that AS Järvevana has declared and paid since 2005. The General Meeting of the Shareholders of AS Järvevana approved the proposal not to pay dividends for the financial year 2007. Dividends paid historically are not representative of dividends to be paid in the future:

	2007	2006	2005
Total amount of dividends paid out (in EEK thousand)	123,900	88,500	57,525
Number of shares	17,700,000	17,700,000	8,850,000
Dividend per share (in EEK)	7.0	5.0	6.5

As to the tax considerations applicable to dividends, see "Taxation – Taxation of Dividends".

Legal and Arbitration Proceedings

On 15 October 2007, the Prosecutors' Office launched Criminal Proceedings (criminal case No. 05913000055) against AS Järvevana and Chairman of AS Järvevana's Supervisory Board Mr Toomas Annus, suspected of bribery and misuse of trust regarding the land swap transactions. The substance of suspicions is incomprehensible to the management of AS Järvevana, as the activities of

AS Järvevana and its governing bodies have always been appropriate and in compliance with the laws of the Republic of Estonia. The management of AS Järvevana estimated that the restructuring of AS Järvevana by means of division was the best way to ensure its sustainable development and to protect the interests of shareholders and employees in the long-lasting Criminal Proceedings related to the land swap transactions. See further “Risk Factors – Risks Related to the Company’s Business – Risk Relating to the Division of AS Järvevana”

ADDITIONAL INFORMATION

Share Capital

The current registered share capital of the Company is EEK 177,000,000. It is divided into 17,700,000 ordinary shares with a par value of EEK 10. The Company does not have any classes of shares other than ordinary shares and does not contemplate the issue of any shares of such other classes. Upon Division the share capital of the Company has been fully paid by a non-monetary contribution (i.e. the Business).

The Shares have been issued under the laws of the Republic of Estonia and registered in book-entry form in the Estonian Central Registry of Securities (as maintained by AS Eesti Väärtpaberikeskus, address Tartu mnt 2, 10145 Tallinn) under ISIN EE3100098328.

No shares are held by or on behalf of the Company itself or by subsidiaries of the Company. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital. No put or call options are outstanding with respect to the shares of any Group company.

The share capital of the Company has not been increased or decreased since the incorporation of the Company in the course of the Division.

The Company's Articles of Association

The main objective of the Company is to gain profit from its business activities (i.e. construction of commercial and other buildings). The principal activity of the Company is entered into the Commercial Register on the basis of the information provided by the Company.

Pursuant to the Estonian Commercial Code of 1995 (the "CC"), the Articles of Association must above all include provisions regarding the number of members in the Management Board and Supervisory Board and if necessary, also the specifications for the right of representation of the members of the Management Board. In addition, the Articles of Association may specify the specific work procedure of the Management Board, term of election of the Management and Supervisory Board members, transactions for conclusion of which the consent of the Supervisory Board is required and such other issues which are not in conflict with the law.

To summarize, the Articles of Association include the following provisions with respect to the Supervisory Board and Management Board:

Supervisory Board

According to the Articles of Association of the Company, the Supervisory Board plans the activities of the Company, organizes the management of the Company and supervises the activities of the Management Board. The Supervisory Board reports to the General Meeting of Shareholders. According to the Articles of Association and the Commercial Code, the Supervisory Board's functions also include the following:

- appointment and removal of members of the Management Board and procurators;
- approving and amending the Company's overall strategy;
- approval of the annual budget;
- review of the annual report prepared by the Management Board;
- determination of agendas of general meetings;
- approval of transactions between the Company and members of its Management Board and decisions regarding taking action against members of the Management Board, and appointing a representative for the Company in such action or transaction;
- approval of transactions outside the ordinary course of business of the Company.

Consent of the Supervisory Board is required by the Management Board for conclusion of transactions which bring about:

- conclusion of a transaction, including signing of a contract or agreement and placement of an offer, if the total value of the transaction or simultaneous transactions exceeds EUR 10,000,000 (ten million); or
- assumption of a loan or signing of a leasing agreement in the sum exceeding EUR 1,000,000 (one million); or
- granting of a loan, securing of a debt, acquisition of a claim or taking over of a debt in the sum exceeding EUR 200,000 (two hundred thousand); or
- making of an investment in, or acquisition or disposal of, fixed assets beyond the annual budget, if the total value of the transaction or simultaneous transactions exceeds EUR 200,000 (two hundred thousand); or
- acquisition or transfer of an immovable or registered immovable, if conclusion of such a transaction has not been prescribed by a business plan or if the value of the transaction exceeds EUR 200,000 (two hundred thousand); or
- the acquisition, transfer or dissolution of a company; or
- the foundation or closure of foreign branches

The Supervisory Board has three to five members elected for a term of three years. The members of the Supervisory Board elect a chairman from among themselves, who organizes the activities of the Supervisory Board.

Management Board

According to the Articles of Association, the Management Board is a directing body of the Company, which represents and directs the Company in accordance with the lawful orders of the Supervisory Board. *See* “Estonian Securities Market - Estonian Company Law - Corporate Governance” for further information on the duties of the Management Board.

The Management Board has three to six members, the Chairman being elected by the Supervisory Board. The members of the Management Board are elected for a term of three years.

Shareholders Rights

General Meetings of Shareholders

Shareholders exercise their power to decide on corporate matters at the general meetings of shareholders. The general meeting of shareholders considers, among other things, the annual report and the distribution of profits.

Resolutions may be adopted at either annual or extraordinary general meetings. In accordance with the Commercial Code, an annual general meeting of shareholders must be held within six months after the end of a financial year, at the latest. Annual general meetings are held once a year. The Management Board can convene an extraordinary general meeting of shareholders whenever it deems it appropriate. In addition, the Management Board must convene an extraordinary general meeting when it is required by the Commercial Code (for example, if the company’s equity capital falls below the minimum level required by law) and when the Supervisory Board, the auditor or shareholders representing at least one-tenth of the share capital of the company request so). If the Management Board fails to convene an extraordinary general meeting within one month after the receipt of such a request, the shareholders, the Supervisory Board or the auditor are entitled to convene an extraordinary general meeting themselves.

Notices to convene an annual general meeting of shareholders must be given no later than three weeks prior to the meeting, and notices to convene extraordinary general meetings of shareholders must be given no later than one week before the meeting. The Management Board will send the

notice calling a general meeting by registered or regular post, facsimile transmission or email to all shareholders holding registered shares. The notice must be sent to the address specified in the share register of the Company as maintained in the ECRS. If the Company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such address. However, if the Company has more than 50 shareholders, notices need not be sent to shareholders but may be published in at least one national daily newspaper in Estonia. General meetings must be held at the seat of the Company (i.e. within the administrative territory of the Tallinn city).

The Supervisory Board normally sets the agenda for the general meeting of shareholders. If, however, the shareholders or the auditor call a general meeting of shareholders, they also set the agenda for it. The Management Board or one or more shareholders whose shares represent at least one-tenth of the share capital of the Company are entitled to request items be included on the agenda for a general meeting of shareholders. If, upon convening a general meeting of shareholders, the requirements of law or the Articles of Association have been breached, no decision may be adopted at the meeting unless all shareholders participate or are represented at the meeting.

In order to have the right to attend and vote at a general meeting of shareholders, a shareholder must be registered in the shareholders' register on the cut-off date ten days before the meeting. Voting rights may not be exercised by a shareholder whose shares are registered in the name of a nominee unless the nominee account holder has given a power of attorney to the shareholder.

The General Meeting may adopt resolutions if over one-half of the votes represented by shares are present. If the votes specified in this article are not represented at the general meeting, the Management Board will, within three weeks but not earlier than in seven days, call another meeting with the same agenda. The new general meeting is competent to adopt resolutions regardless of the votes represented at the meeting.

Voting Rights

The Company has one class of shares with a nominal value of EEK 10 each. Each share entitles the holder to one vote. A shareholder may attend and vote at a general meeting of shareholders in person or by proxy. At a general meeting of shareholders, resolutions generally require the approval of a majority of the votes represented at the meeting. However, certain resolutions, such as amending the Articles of Association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division, reorganisation or liquidation of the company, require a majority of two-thirds of the votes represented at the general meeting of shareholders. Any issuance of new shares disapplying the existing shareholders' pre-emptive subscription rights requires a majority of at least three-quarters of the votes represented at the meeting. Creating a new class of shares requires an amendment of the articles of association with a two-thirds majority of votes represented at the meeting. According to Estonian law, the rights attaching to any class of shares may be amended only by a decision of the general meeting of shareholders which is supported by a qualified majority of four-fifths of all votes attaching to the shares of the Company and nineteenth of all the shareholders who own shares affected by the amendment.

Dividends and Other Distributions

The General Meeting of Shareholders authorizes the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the Management Board. The Supervisory Board has the right to make changes to the proposal of the Management Board before submission to the General Meeting. Dividends, if any, should be paid in cash or, if the shareholders consent, in kind.

The shareholders decide annually the dividend amount and procedure of payment on the basis of the approved annual report. Dividends may only be paid out from net profit or undistributed profit from previous financial years from which uncovered losses from previous years have been deducted. Dividends may not be paid to the shareholders if the net assets of the Company, as recorded in the

approved annual report of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law, may not be distributed to the shareholders. Dividends of companies listed on the Tallinn Stock Exchange are paid only to those shareholders (or their nominees) who are entered on the list of shareholders (shareholders' register) as maintained in the ECRS on the respective record date. The Tallinn Stock Exchange Rules provide that a listed company is required to disclose information about closing the list of shareholders (fixing the record date) at least nine trading days before the record date. If a general meeting adopts a resolution that relates to rights attached to the shares (for example, the declaration of payment of dividends), the record date may not be fixed at an earlier date than ten trading days after the date of the relevant general meeting. All the shares of the Company are registered with the Estonian Commercial Register and grant the same rights with regard to dividends and other distributions of the Company (including distribution of assets in the event of dissolution).

Pre-emptive Subscription Rights

Under Estonian law, existing shareholders of limited liability companies have pre-emptive rights to subscribe for new shares in the company, in proportion to their existing shareholding. A resolution waiving pre-emptive rights must be approved by at least three-fourths of all votes represented at the general meeting of shareholders.

Right to Acquire Own Shares

A public limited company is entitled to acquire its own shares only if the following conditions are met:

- (i) the acquisition occurs within one year after the adoption of a resolution of the general meeting which specifies the conditions and term for the acquisition and the price to be paid for the shares;
- (ii) the sum of the nominal value of the shares held by the company does not exceed one-tenth of its share capital; and
- (iii) the shares are paid for from assets excluding the share capital, reserve capital and premium.

However, a public limited company may acquire its shares by inheritance or by a resolution of the supervisory board without requiring a resolution of the general meeting if the acquisition of the shares is necessary to prevent significant damage to the company. The shareholders must be informed of the circumstances of the acquisition of the company's own shares at the next general meeting of shareholders. In any event, a public limited company, which has acquired its own shares, must transfer those shares within one year from the date on which they were acquired. In the event that the public limited company acquires its own shares in violation of the law, such shares must be disposed of or cancelled (by decreasing the share capital) within three months of acquisition. In the event that the shares acquired contribute to more than one-tenth of the share capital, such excess shares must be disposed of within six months of their acquisition.

The rules regarding acquisition of a company's own shares are also applied to the acquisition of a parent company's shares by the subsidiaries. In the event that a subsidiary acquires the shares of its parent company, the parent company shall be regarded as the acquiring party.

Pledge of Shares

A registered share may be pledged. A share encumbrance transaction must be in writing.

Transfer of Shares

The registered shares are freely transferable. Upon transfer of shares to third parties the shareholders have no right of pre-emption.

Disclosure of Shareholdings

Pursuant to the Commercial Code, the Management Board is required to submit to the Estonian Commercial Register, together with the approved annual report, a proposal for profit distribution and an auditors' report, a list of shareholders holding more than 10% of the votes as of the date of the approval of the annual report by the general meeting of shareholders.

See "Estonian Securities Market - Tallinn Stock Exchange and the Estonian Securities Market-Estonian Central Registry of Securities and Registration of Shares" for a description of other instances when information concerning the shareholders is accessible to the public.

MATERIAL CONTRACTS

The following provides a summary of material contracts, other than contracts entered into in the ordinary course of business, to which the Company or any member of the Group is a party, for the two years preceding the publication of the Prospectus.

In the Division Plan a put option and a call option were agreed. According to the put option the Company has an obligation to acquire from AS Järvevana certain properties for the total consideration of EEK 100,000,000. According to the call option the company is entitled to acquire from AS Järvevana the same properties for the total consideration of EEK 100,000,000. For more information see “Related Party Transactions”.

On 11 December 2006 SIA Merks, a Latvian subsidiary of the Company (then the subsidiary of AS Järvevana) disposed of the shareholding in SIA Arena Riga for EUR 17,610 thousand (EEK 275,597 thousand). For a more precise overview of the SIA Arena Riga contract please see “Business Overview-Exceptional Factors”.

DOCUMENTS ON DISPLAY

For the period of validity of this Prospectus, the annual reports of AS Järvevana (formerly AS Merko Ehitus) for the financial years ended 31 December 2005, 2006 and 2007; the un-audited consolidated condensed interim financial report of AS Järvevana for the three month period ended 31 March 2008 and the Articles of Association of the Company are available at its head office located at Järvevana tee 9G, Tallinn, Estonia and on the Company's website (www.merko.ee) as well as on the website of the Tallinn Stock Exchange. Any interested party may obtain a copy of these items from the Company without charge. References to the Company's website in this Prospectus should not be deemed to incorporate the information on the Company's website by reference.

INFORMATION ON HOLDINGS

In addition to the entities described in section “Organizational Structure” the Company also has holdings in other undertakings as presented below:

	Shareholding and voting rights as of 31.12.2007 %	Location	Area of operation
Associate of AS Merko Ehitus			
AS Tartu Maja Betoontooted	25	Tartu	concrete elements
Joint ventures of AS Merko Ehitus			
Normanni Linnagrupi AS	50	Tallinn	construction
OÜ Unigate	50	Tallinn	real estate
Joint ventures of SIA Merks			
PS Merks Terbe Lat	50	Republic of Latvia, Riga	construction
SIA Zakusala Estates	50	Republic of Latvia, Riga	real estate
Joint venture of AS Merko Tartu			
OÜ Korteremaja	50	Tartu	real estate

ESTONIAN SECURITIES MARKET

Estonian Company Law

The following is a brief overview of the provisions of Estonian legislation regulating the legal status and management of public limited companies. The following summary does not constitute an exhaustive description of the subject matter. It is based on the laws of Estonia as in force on the date of this Prospectus and is subject to changes as a result of any future amendments to Estonian legislation.

Introduction

Estonian law recognizes two basic forms of limited liability companies; (i) a private limited company (*osaiühing*, abbreviation *OÜ*) and (ii) a public limited company (*aktsiaselts*, abbreviation *AS*). Shareholders in either form are generally not personally liable for the obligations of the companies. The two company forms mainly differ in their requirements for capital and management structures. Public limited companies have greater capital requirements and can issue more classes of shares than private limited companies and are required to register their shares with the Estonian Central Registry of Securities (*Eesti väärtpaperite keskreister*) (“ECRS”). ECRS maintains the share registers of companies and records all the share transactions.

Under Estonian law, essential details about commercial undertakings must be entered in the Commercial Register, and a company acquires legal capacity when it has been entered in the Register. Accordingly, a company organized under Estonian law must be registered with the Commercial Register. Commercial Registers are kept by the courts of first instance and they are attached to the Real Estate Registers. The registers are kept in Estonian and all documents in other languages must be submitted with a certified translation.

The minimum share capital required for incorporating a public limited company is EEK 400,000. A public limited company’s share capital must be fully paid up when it is registered in the Commercial Register. Shares must be paid up in cash unless the company’s articles of association allow payment by means of a non-monetary contribution. An auditor must audit the valuation of a non-monetary contribution and must present an opinion on whether the contribution meets the requirements specified by law. An opinion of an auditor must *inter alia* include an assessment whether the value of the non-monetary contribution corresponds to the nominal value and issue premium of the share paid for by the non-monetary contribution. The shares of public limited companies must have a nominal value of EEK 10 each or a full multiple thereof. Shares are freely transferable, but the company’s articles of association may grant the shareholders a right of first refusal. Dividends must be distributed to the holders of shares of the same class *pro rata*, based upon the nominal value of the shares held by each shareholder. Public limited companies may also issue non-voting shares, which grant a preferential right to receive dividends and to participate in the distribution of the remaining assets of the company upon dissolution (preferred shares). The sum of the nominal values of preferred shares must not be greater than one-third of the share capital.

Corporate Governance

The management board, supervisory board and general meeting of shareholders are responsible for the corporate governance and management of a public limited company. The general meeting of shareholders is the highest authority in a public limited company and makes the most important decisions in the company, such as amending the articles of association, increasing and reducing share capital, electing members of the supervisory board, approving the annual report and distributing profit.

A public limited company incorporated in Estonia must have a two-tier management structure, with a supervisory board and a management board. The management board is an executive body responsible for the day-to-day management of the company, and it represents the company towards third parties, such as entering into contracts on its behalf. A member of the management board must

be elected for a specified term of three years unless the articles of association prescribe another term which must not be longer than five years. Members of the management board have a fiduciary duty of loyalty and due diligence, and must preserve the business secrets of the company. Members of the management board may not serve as members of a directing body of another company which operates in the same area of activity as the public limited company, without the consent of the supervisory board, unless the companies belong to the same group of companies. The management board must follow the instructions of the supervisory board, provided that they do not breach the law. At least one-half of the management board members in a public limited company must be residents of Member States of the European Economic Area or Switzerland. Members of the management board may not simultaneously serve as members of the supervisory board of the same company.

Whilst most Estonian listed companies have a management board comprising several members, the law also allows a management board comprising only one person who acts as the chief executive officer of the company.

The supervisory board is responsible for supervising the activities of the management board, devising business plans and generally organizing the management of the company. The supervisory board must have at least three members. The general meeting of shareholders elects and appoints the supervisory board for a period of five years, unless a shorter period is prescribed in the articles of association. The supervisory board reports to the general meeting of shareholders. There are no residency or nationality requirements for the members of the supervisory board. A member of the supervisory board may not simultaneously serve as a member of the management board of the same company or any of its subsidiaries.

Members of the management board and supervisory board have a number of general obligations towards the company, including a fiduciary duty of loyalty, acting with due diligence, performing their duties with sufficient skill and in a manner commensurate with their knowledge and abilities, and acting to maximize the benefit of the company and prevent losses in the company. Members of the supervisory board and management board must inform the company about any conflicts of interest and other material facts related to the performance of their duties. Members of the supervisory board and management board are subject to a strict confidentiality obligation for any information that they may learn in connection with the discharge of their duties. This confidentiality applies to the company's business and trade secrets and any other information that the company has a legitimate interest to keep confidential. To the extent necessary to protect the company's interests, the confidentiality obligation continues even after the member of the management board or supervisory board no longer serves in that position. Exceptions to the confidentiality obligation arise where the company authorizes the disclosure or where it is required by law. Unauthorized disclosure of business secrets may result in criminal sanctions.

Pursuant to the Estonian Commercial Code, a public limited company is required to engage an auditor who is appointed by the general meeting of shareholders. The general meeting of shareholders must also determine the principles of remuneration of the company's auditors. The auditors may be appointed for a specified term or for a single audit. A public limited company is required to have its financial statements audited.

After the end of the financial year, the management board prepares the financial statements and management report and presents them to the auditor for audit. The management board presents the annual report (comprising the financial statements and management report) and the auditor's report and a proposal regarding distribution of profit to the general meeting of shareholders for approval. The shareholders whose shares represent at least one tenth of the share capital may demand that the auditor who prepared the auditor's report participate in the making of the decision to approve the annual report, and provide explanations concerning the auditor's report. Such request must be submitted to the company in writing at least five days before the general meeting of shareholders. No later than six months after the end of the financial year, the approved annual report, the auditor's report and the proposal regarding distribution of profit (if any) must be filed with the Commercial Register. The Rules of the Tallinn Stock Exchange ("TSE") provide that the audited annual report

has to be made public immediately after its approval by the supervisory board but not later than four months after the end of the accounting period. Minority shareholders in a public limited company have the right to require an extraordinary audit, but they are not entitled to investigate the company's books or records. Every shareholder has the right to receive information in regard to the activities of the company from the management board at the general meeting of shareholders. However, the management board may refuse to disclose information if such disclosure might seriously harm the interests of the company.

The protection of minority shareholders includes, among other things, the right of shareholders with shares representing at least one-tenth of the share capital to (i) demand the convening of an extraordinary meeting of the shareholders, (ii) submit an application to the court demanding a dismissal of a member of the supervisory board, (iii) request an extraordinary audit (which would have to be approved by the simple majority of votes at a duly convened general meeting of shareholders), (iv) require certain issues to be included in the agenda of the general meeting of shareholders, (v) demand a meeting of the supervisory board, and (vi) prevent modifications to the rights of certain types of shares.

The Commercial Code provides that a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90 % of the share capital of a public limited company, can make an offer to acquire the shares held by the minority shareholders for a fair monetary compensation. Such an offer will be presented to the general meeting of shareholders, and if at least 95% of all the votes attaching to the company's shares vote in favor, it will be binding on all shareholders.

The Rules of the TSE impose a number of additional restrictions and limitations on the supervisory board and management board of a company listed on the TSE. Most of these restrictions apply to a company from the moment when it submits its application for listing of its shares on the TSE.

Tallinn Stock Exchange and the Estonian Securities Market

The TSE and the Estonian Central Securities Depository (*AS Eesti Väärtpaberikeskus*) ("ECSD") are the two leading securities market infrastructure operators in Estonia. Set out below is a brief overview of the information concerning the Estonian regulated securities market and certain provisions of Estonian law and current securities market regulations in effect on the date of this Prospectus. The summary is based on Estonian laws and securities market regulations and publicly available information on NASDAQ OMX Group, the principal shareholder of the company operating the TSE.

Tallinn Stock Exchange

The TSE is the only stock exchange operating in Estonia. It is operated by AS Tallinna Börs, a public limited company whose principal shareholder is NASDAQ OMX Group through the OMX Nordic Exchanges Group OY. The latter is also the controlling owner of the operators of the Copenhagen Stock Exchange, the Stockholm Stock Exchange, the Helsinki Stock Exchange, the Iceland Stock Exchange, the Riga Stock Exchange and the Vilnius Stock Exchange. The TSE is also a member of NOREX, an alliance of Nordic and Baltic stock exchanges all using the SAXESS trading system.

The TSE is a self-regulated organization, issuing and enforcing its own rules and regulations consistent with standard exchange operating procedures, but is licensed and supervised by the Estonian Financial Supervision Authority ("EFSA"). The TSE Rules are established by AS Tallinna Börs, the operator of the TSE, in order to ensure the regular and lawful operation of the stock exchange. The operator may unilaterally amend the TSE Rules, though the EFSA must approve such amendments. The rules and regulations of the TSE regulate the listing of securities and trading in them on the TSE and the performance of the obligations arising from securities transactions performed on the TSE. The TSE Rules are established by the Management Board of the TSE. The Rules are binding on the members of the TSE, and the issuers whose securities are listed on the TSE or admitted to trading on the Secondary List which is a separate market regulated by the TSE.

The activities of, and trading on, the TSE are subject to two tiers of regulation. Laws and government regulations comprise the basic regulatory framework, which is then supplemented by the TSE Rules. The principal laws governing the activities of, and trading on, the TSE are the Estonian Securities Market Act and the Estonian Central Registry of Securities Act.

Estonian Central Registry of Securities and Registration of Shares

The Estonian Central Registry of Securities (“ECRS”) is a public register established, *inter alia* for the registration and maintenance of shares, debt obligations and other securities stipulated in the Estonian Central Registry of Securities Act, and transactions executed with such securities (including pledges). The ECRS is operated by the ECSD. The ECSD is organized as a public limited company, and all of its shares are fully owned by the TSE’s operator AS Tallinna Börs. The ECSD’s primary functions include clearing and settling securities transactions, maintaining records of share ownership and pledges, and providing securities-related services to issuers and investors. The ECSD is the responsible body for the only securities settlement system (SSS) in Estonia, which settles stock exchanges and over-the-counter trades. Eesti Pank acts as a settlement bank of the netted cash position of the participants in the SSS.

All shares listed and traded on the TSE must be registered in the ECRS or another register of securities if it is approved by the TSE. No share certificates are issued with respect to the registered shares. Shares are registered in the ECRS in book-entry form and are held in dematerialized form in the respective shareholders’ electronic securities accounts opened in the ECRS. Therefore, all transactions involving shares listed on the TSE must be recorded on the ECRS’ electronic database by account operators and are cleared and settled through the ECSD. The rights attached to the shares are deemed to belong to the persons who are registered as the shareholders in the share register of the issuer maintained by the ECSD.

The public has access to certain basic information and has the right to obtain extracts and transcripts of documents from the ECRS, concerning the issuer (its name, seat and registry code) and the securities (the type, nominal value and amount of securities) registered with the ECRS. If shares are quoted on the stock exchange, the information concerning the shareholders is also accessible to the public. The Estonian Central Registry of Securities Act stipulates further circumstances when additional information registered with the ECRS is available to third parties.

A securities account can be opened in the ECRS by any Estonian or foreign person. The opening of the account takes place through an account administrator (custodian). Account administrators are institutions that qualify under Estonian law as professional participants in the securities market, such as investment firms, credit institutions and other persons specified by law. Foreign companies that hold an activity license of a professional securities market participant and are registered in a Member State of the EU, or with which the Republic of Estonia has a legal agreement may also qualify as account administrators.

Professional participants in the Estonian securities market and foreign legal entities meeting certain criteria are entitled to open a nominee account in the ECRS. A notation is made and maintained in the ECRS indicating the nominee status of the relevant account. Shares held in the nominee account are deemed to be the client’s shares, not the shares of the account owner, and thus cannot be brought into the bankruptcy estate of the owner of the nominee account. In the exercise of voting rights and other rights arising from a share, the owner of a nominee account must follow the instructions of the client. At the request of the client, the owner of a nominee account must grant authorization in the required format to the client so that the client can represent the owner of the nominee account in the exercise of rights arising from the shares.

Listing on the Tallinn Stock Exchange

An application has been made to list the Shares on the main list. In order to list shares on the main list of the TSE, among other requirements, a sufficient number of such shares must be held by the public. As a general rule, this condition is fulfilled if at least 25% of the share capital represented by the shares to be listed is held by the public, or taking into consideration the number of shares and

their distribution among the public, the market would also operate properly at a lower percentage of shares held by the public, or such level of distribution is expected to be achieved shortly after listing. The TSE Rules set out certain specific criteria as to determining whether shares are held by the public.

Trading on the Tallinn Stock Exchange

The trading system of the TSE is open for trading to its members. Trading on the TSE takes place on each business day from 10:00 a.m. to 1:50 p.m. (Estonian time). From 2:05 p.m. to 2:30 p.m. the TSE carries out after-market trading. The TSE uses the Nordic-Baltic trading system SAXESS, which in addition to Estonia is used by exchanges in Sweden, Finland, Denmark, Norway, Iceland, Latvia and Lithuania. The official trading currency of the Tallinn Stock Exchange trading system is EUR. Investors of the TSE instruments can place transaction orders and pay for transactions also in EEK without extra charge; stock exchange members use the official Bank of Estonia central rate (EUR 1 = EEK 15,6466) for the calculations needed to fulfill customer's orders.

Transactions can be concluded on the TSE either through automatic matching in the Order Book (Automatic Order Matching) or between pre-determined persons outside the Order Book (Manual Trade). Automatic order matching is a process in the Order Book by which Sell and Buy Orders are matched automatically when the price, volume and other specifications for a given order correspond with Order(s) previously entered in the Order Book. In case of automatic order matching, the settlement date of the transaction is the third exchange day (T+3) following the transaction date (T). Member firms of TSE can agree upon a settlement date that differs from that by filing a relevant application with the exchange according to the procedure prescribed by the exchange. In case of manual trade, the member firms may determine that the settlement date of the transaction is from T+1 until T+6. Member firms may agree on a different settlement date of the transaction than the one provided in the previous sentence only on the consent of the TSE. A member firm must notify the exchange immediately, but not later than three minutes from the time of the trade, of any Manual trade in which it has participated. A manual trade shall be concluded by specifying one of the trade types, which are:

- Standard trade concluded on standard market terms during the trading session;
- Exchange granted trade concluded pursuant to an individual or general authorization from the exchange. Joint authorization of the exchange may be granted to all members for conclusions of a particular type of transactions.

The operator of the TSE is required to ensure constant access on its website to information on the securities traded on the market, including the acquisition and transfer prices of the securities, recent prices, price changes, the highest and lowest prices and the volume and number of transactions. According to the Estonian Securities Market Act such information must be accurate, clear, precise and complete. The TSE operates an electronic trading system that provides real-time stock quotes, distributes issuer announcements and displays information regarding executed transactions, statistics and other such data. The operator of the TSE must record at least the following regarding transactions concluded on the exchange: (i) the time at which the transaction is concluded; (ii) information regarding the market participant who concluded the transaction; (iii) the securities which served as the object of the transaction; and (iv) their number, nominal value and price. In accordance with the TSE Rules, the operator of the TSE has the right to request additional information regarding a transaction for the purposes of recording the transaction.

The Listing and Surveillance Committee of the TSE has the right, for the purpose of ensuring sufficient liquidity of a security, to demand that the issuer concludes a market-making agreement with a member of the TSE with respect to the securities to be listed. Market makers have the obligation with respect to a specific security to display the buy and sell prices in the order book throughout the trading period.

Supervision of the Tallinn Stock Exchange

Activities of the TSE are supervised by the EFSA, which is a body carrying out the supervision of all Estonian financial institutions including banks, insurance companies, investment and pension funds and the securities market. Compliance with the TSE Rules by its members is monitored by the

Listing and Surveillance Committee of the TSE. The operator of the TSE exercises supervision over the exchange with respect to the prices of securities traded on the exchange and the conduct and execution of transactions for the purpose of detecting and reducing transactions conducted on the basis of inside information, market manipulation and other violations of the law. The operator of the TSE also supervises the disclosure of adequate information to the investors, protection of the interests of the investors as well as their fair and equal treatment. The operator of the TSE can apply contractual penalties, full or partial suspension of the rights accompanying the status of a participant or member of the exchange for up to six months, suspension of the listing of or trading in the security for up to six months, termination of membership of the exchange, or permanent termination of the listing or trading in the security. The operator is under an obligation to notify the EFSA immediately of any violation of law. The EFSA also has specific supervisory obligations to monitor transactions concluded on the exchange.

Disclosure of Transactions and Ownership

A person who has acquired, either directly or indirectly, individually or together with persons operating in concert, a qualifying holding in a public limited company, and thus acquires or increases the number of votes owned thereby to more than 5%, 10%, 15%, 20%, 25% and 50% or one-third or two-thirds of all votes represented by the shares of the public limited company, must immediately, but not later than within four business days, notify the public limited company and the securities market supervisory agency of the state where the public limited company is founded or registered, disclosing the number of votes owned by such person. The same notification requirements also apply if the holding falls below the prescribed levels.

The EFSA has the right to make exemptions from such notification requirements in certain circumstances. The issuer is also required to ensure that shareholders holding more than five per cent of the shares of the issuer disclose, through the issuer, all the significant provisions of all the agreements made with other shareholders or third parties which are aimed at restricting the free transferability of the shares or which may have a significant effect on the price of the shares.

In order to ensure that disclosure obligations established by law are also fulfilled in respect of shareholdings held by nominee accounts, the operator of a nominee account is required to enter into written agreements with the clients on whose behalf the operator holds securities. These agreements must, among other things, require the client to notify the issuer and/or the competent supervisory body (the exact person to whom the notification must be submitted may vary depending on a particular transaction) if a holding in a company exceeds the threshold established by law or to obtain permission of the competent supervisory body for the holding to exceed the threshold established by law (such permission is required, for example, in the case of the acquisition of a holding above a certain level in financial institutions, or in the case of an acquisition subject to concentration control by competition authorities). The TSE Rules also regulate the disclosure of the issuer's dealings in its own shares.

Market Abuse

The Estonian Securities Market Act prohibits market abuse, which (within the meaning of the said Act) is misuse of inside information and market manipulation. The Act also requires all persons providing investment services as a permanent activity to immediately notify the EFSA of a reasonable suspicion of market abuse.

Restrictions established for the misuse of inside information apply to all financial instruments admitted to trading on the market of Estonia or in a Member State of the EEA, but also to instruments not admitted to trading, but the value of which depends on a financial instrument that is admitted to trading in Estonia or in an EEA Member State. Inside information is precise information which has not been made public, relating directly or indirectly to the financial instrument or its issuer and which, if it were made public, would probably have a significant effect on the price of the financial instrument or a derivative linked to the financial instrument. The law establishes additional conditions under which information may qualify as inside information.

An insider is a person who possesses inside information by virtue of being a partner or member of the management or supervisory bodies of the issuer, or by virtue of his shareholding in the issuer, or by virtue of having access to the information through the exercise of his employment, profession or duties, or as a result of an offence committed by him or her. Third parties who possess inside information are also treated as insiders if they knew or should have known that the information is inside information. The TSE Rules stipulate that, among other persons, persons who hold or control at least 10% of shares in an issuer, the subsidiaries of the issuer and certain officials of such shareholders and subsidiaries and persons associated with them are deemed to be insiders for the purpose of the TSE Rules.

Misuse of inside information comprises, among other things, trading on the basis of inside information, unauthorized disclosure of inside information, and the making of recommendations on the basis of inside information for the acquisition or disposal of financial instruments to which that information relates. Misuse of inside information is a criminal offence and may result in fines or imprisonment.

Issuers of publicly-traded securities and other individuals or entities that have regular access to inside information are required to establish internal rules and procedures to monitor access to inside information and prevent the disclosure of such information.

The Estonian Securities Market Act contains a non-exhaustive list of activities including price fixing, dissemination of rumors and false news and other methods that are deemed to constitute market manipulation. Under the Estonian Securities Market Act, market manipulation may be punishable by a fine. Credit institutions, investment firms and others providing investment recommendations must disclose any conflicts of interest they may have when providing investment advice. On 15 March 2007, amendments to the Estonian Penal Code took effect, creating a new criminal offense based on market manipulation of market prices of financial instruments in regulated markets or regulated trading systems. The amendment prohibits shareholders of the issuer and individuals related to the issuer through employment or their work duties from carrying out transactions or distributing information that is misleading or could be misleading. The penalty for such activities ranges from a pecuniary penalty up to three years in prison.

The TSE Rules also restrict transactions involving an issuer's securities by certain officials of the issuer and by persons connected with such officials, to avoid profiting from short-term price fluctuations of the issuer's securities and during restricted periods (in particular, after the end of a financial period but when the financial results of the issuer have not yet been made public). The Listing and Surveillance Committee of the TSE has the right to make exemptions from the requirement to abstain from trading during a restricted period if the Committee is of the opinion that the transaction will not be executed on the basis of confidential information.

Mandatory Takeover Bid

A person, who has gained dominant influence over the target issuer, either directly or together with other persons acting in concert, is required within twenty days as of gaining that dominant influence to make a takeover bid for all the remaining shares of the target issuer. This does not apply if a takeover bid has been done before gaining the dominant influence.

For the purposes of the mandatory takeover bid, a "dominant influence" is a situation where a person:

(i) holds the majority of votes represented by the issuer's shares or holds the majority of the votes as a general partner or limited partner; or (ii) person who is the general or limited partner of the company and has the right to appoint or remove the majority of the members of the supervisory board or management board of the company; or (iii) person being a shareholder or general or limited partner of the company controls alone the majority of the votes pursuant to an agreement with other partners or shareholders. The Securities Market Act requires that the offeror must obtain approval for the takeover bid from the EFSA, and that the purchase price in a takeover bid must be fair and in proportion to the rights and obligations deriving from the shares being acquired. A fair price is deemed to be the highest price paid for this share within the last six months before the takeover bid

by the offeror or persons acting in concert. If the offeror or persons acting in concert have acquired shares after the disclosure of the takeover bid and before the disclosure of the result of the takeover bid, the fair price is deemed to be the highest price paid for the share by them during this period.

After the EFSA has approved the takeover bid, a target person or other person connected with the takeover bid, may not demand cancellation of the takeover bid or modification of the conditions thereof. They may demand compensation of damage caused by the takeover bid within one year as of approval of the takeover bid by the Supervision Authority.

If the offeror has acquired at least nine-tenths of the share capital of the target issuer through a takeover bid, then upon the application of the offeror, the general meeting of shareholders of the target issuer may decide to take over the rest of the shares belonging to the target persons for a fair price. The fair price may be paid in cash or in marketable instruments which are traded and the price may not be smaller than the purchase price of the takeover bid.

The general meeting of shareholders of the target issuer may decide this within three months since the due date of the takeover period. The quorum for this decision is nine-tenths of the votes represented by shares.

Those target offerees who did not make a bid to the offeror for the transfer of their shares in the course of the takeover bid have the sell-out right if the offeror owns at least 90% of the target issuer's voting stock and the general meeting of the target issuer has not adopted a resolution for the squeeze-out described above.

TAXATION

The following summary is based on the tax laws of Estonia as in effect on the date of this Prospectus and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is in no way exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Estonia. Investors are encouraged to seek specialist assistance as to the Estonian and other tax consequences of the Listing and the purchase, ownership and disposition of Shares. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Corporate Income Tax

The Estonian corporate income tax system currently in force in Estonia is a unique system that shifts the point of corporate taxation from the moment of earning the profits to the moment of their distribution. Corporate income tax is charged on profit distributions and implicit distributions (such as fringe benefits, gifts and donations, transfer pricing adjustments and expenditures not related to the business activities of the company).

All of the above distributions are taxed at the rate of 21/79 of the net amount of distribution, which amounts to 21% of the gross amount distributed. As the Estonian Income Tax Act currently stands, the rate of the corporate income tax will decrease gradually within the following years (down to 20/80 as from 1 January 2009, 19/81 as from 1 January 2010 and 18/82 as from 1 January 2011).

Departing from the general rule described above, some profit distributions are exempted from the distribution tax. In particular, an Estonian resident company is not subject to the distribution tax in case of re-distribution of dividends received from a company subject to income tax and residing in an EEA member state or Switzerland (except for entities located at a low tax rate territory), provided that the Estonian company owned at least 15% of the share capital or votes in the distributing company at the moment of receiving the dividends.

Taxation of Dividends

In addition to the corporate income tax upon profit distributions, dividends payable to Estonian residents and non-resident individuals are not subject to any withholding in Estonia (the above distribution tax nevertheless applies). A withholding tax at the rate of 21% is, however, charged on dividends payable to non-resident legal persons. Note that such withholding tax may be reduced under the applicable conventions for avoidance of double taxation. Such conventions concluded by Estonia typically reduce the applicable rate of withholding tax down to 15%. The withholding tax on dividends will be entirely abolished as from 1 January 2009.

No withholding tax is levied on dividends payable to a non-resident legal person if the non-resident legal person is, at the moment of announcement or payment of dividends, holding at least 15% of the share capital or votes in the distributing company. Such exemption does not apply when the shareholder is situated in a low tax rate territory for the purposes of Estonian tax laws.

Taxation of Sale and Exchange of Shares

Income tax at the rate of 21% (subject to reduction down to 20% as from 1 January 2009, 19% as from 1 January 2010 and 18% as from 1 January 2011) is charged on gains realized by Estonian resident individuals upon the sale or exchange of shares. Since earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains realized by resident legal persons are not subject to taxation.

Income tax is charged on capital gains realized by non-residents from the sale or exchange of shares in an Estonian company only in very specific circumstances. Namely, in cases where at least 10% of the shares of a real estate company are being held at the time of the transfer. Pursuant to the Income Tax Act, a real estate company for these purposes is a company, a contractual investment fund or other pool of assets, of whose assets property (immovables) or structures as movables situated in Estonia constitute at the moment of transfer or have constituted at any moment within two years prior to transfer directly or indirectly more than 50%.

If the income tax on capital gains as described above in previous paragraphs is to be charged, the taxable amount is considered to be the difference between the acquisition cost and the sale price or exchange value of the shares. A shareholder is entitled to deduct certified expenses directly related to the sale or exchange of shares from the shareholder's gain.

Any payments made by the company to its shareholders as a result of the decrease of share capital or purchase of its own shares are treated as capital gains for tax purposes and will be taxed accordingly.

Acquisition Cost of the Shares

It is important to establish the acquisition cost of the Shares issued to the shareholders in the course of the Division. Although the applicable laws provide no clear guidance in this respect, in the view of the Company, the acquisition cost of each share of AS Järvevana (formerly AS Merko Ehitus) should be split between the remaining share of AS Järvevana and the newly issued Share of the Company according to the proportion between the net assets of AS Järvevana and the Company.

According to the response to AS Järvevana's (formerly AS Merko Ehitus) query issued by the Northern Tax Center of Tax and Customs Board on 29 May 2008, the tax authority agrees with the above interpretation. Note, however, that such response is not legally binding upon the tax authority, the Company or the shareholders.

Moreover, AS Järvevana (formerly AS Merko Ehitus) has filed an additional query with the tax authority to confirm that the above-mentioned proportion may be determined based on the net assets of AS Järvevana as on 31 December 2007. AS Järvevana intends to publish more detailed information on calculation of the acquisition cost of the Shares once additional clarification from the tax authority is received.

Upcoming Changes in Corporate Taxation in Estonia

Upon its accession to the European Union in 2004, Estonia was granted a transitional period until the end of 2008 to modify its corporate income tax system, since corporate income tax payable on profit distributions, according to the European Commission, constituted a withholding tax on dividends prohibited under the Parent-Subsidiary Directive (EC Council Directive 90/435/EEC).

On 26 March 2008, the Estonian Parliament adopted amendments to the Income Tax Act, the purpose of which was to align the Income Tax Act with the Parent-Subsidiary Directive. The amendments will enter into force as from 1 January 2009. Despite the above-described position of the European Commission, the key principle of the Estonian corporate income tax system will remain unchanged: retained (i.e. undistributed) earnings will remain untaxed until distribution.

The new law contains several amendments, the most important of which are the following: (i) the new taxable period will be a financial year as opposed to a calendar month; (ii) Estonian resident companies will be required to make advance income tax payments calculated based on the average actual taxable payments; (iii) extended possibilities for double taxation relief with respect to dividend income received from abroad (in particular, dividends received from other EU states will be exempt from income tax, irrespective of the holding period or shareholding percentage); (iv) the dividend withholding tax will be entirely abolished; (v) proceeds from acquisitions of own shares

and share capital reductions will be taxed at the level of the company making the payments to the extent the respective proceeds exceed the actual monetary or non-monetary contributions to the equity capital of the company.

Stamp Duty and Other Transfer Taxes

Currently there are no stamp duties or transfer taxes payable upon the transfer of shares, except for the service fees of the custodians and/or the ECRS which maintains the stock register.

SELLING RESTRICTIONS

Because of the following restrictions, persons receiving the Shares in connection with the Division and persons purchasing the Shares after the Division are advised to consult legal counsel prior to making any offer for resale, pledge or other transfer of the Shares.

General

No action has been taken or will be taken in any jurisdiction other than Estonia by the Company or any party on behalf of the Company that would permit a public offering of the Shares, or the possession or distribution of this Prospectus or any other documents relating to the Listing, or any amendment or supplement thereto, in any country or jurisdiction where specific action for that purpose is required. Persons receiving a copy of this Prospectus are required by the Company to inform themselves about and to observe any restrictions as to the acquiring or resale of the Shares.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the relevant implementation date), the Shares may not be offered to the public in that relevant Member State prior to the publication of a prospectus in relation to the Shares that has been approved by the competent authority in that relevant Member State or, where appropriate, approved in another relevant Member State and notified to the competent authority in that relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant Member State at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net revenues of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an “offer to the public” in any relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the expression may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant Member State.

United States

Neither the Shares nor their distribution has been or will be registered under the United States Securities Act of 1933 (as amended) (the “Securities Act”) or with any securities authority of the United States or any state of the United States, and the Shares may not be re-offered or re-sold within the United States or for the account of U.S. persons (as defined in Regulation S of the U.S. Securities Act of 1933) except pursuant to registration under the U.S. Securities Act of 1933 or pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act 1933.

LEGAL MATTERS

In respect of Estonian law, certain legal matters will be passed upon for the Company by AS Advokaadibüroo Tark & Ko, 2 Roosikrantsi St., Tallinn 10119, Estonia.

INDEPENDENT AUDITORS

The auditor of the Company for the year 2008 is AS PricewaterhouseCoopers, Pärnu mnt 15, Tallinn, Estonia. AS PricewaterhouseCoopers is a member of the Estonian Auditing Board.

The auditor of AS Järvevana for the financial years ended 31 December 2005, 2006 and 2007 was AS PricewaterhouseCoopers.

The consolidated financial statements of AS Järvevana for the financial years ended 31 December 2005, 2006 and 2007 included in this Prospectus have been audited by AS PricewaterhouseCoopers. The consolidated condensed interim financial information of AS Järvevana for the three months ended 31 March 2008 included in this Prospectus has not been audited.

AS PricewaterhouseCoopers conducted an examination of the un-audited pro forma financial information of AS Merko Ehitus for the three months ended 31 March 2008, prepared for the purposes of this Prospectus, and issued a report, included elsewhere in this Prospectus. The responsibility of AS PricewaterhouseCoopers for the content of this Prospectus is limited to this report and the respective responsibility statement of AS PricewaterhouseCoopers has been included within this report. AS PricewaterhouseCoopers expressed its written consent, which has not been withdrawn, for the inclusion of its report in this Prospectus in the form and context in which it is included.

DEFINITIONS AND GLOSSARY

AS Järvevana Group	AS Järvevana together with its subsidiaries before the Division
Business	The assets and business, including all movables and immovables, rights and obligations of AS Järvevana, except for the assets and obligations that have been set forth in Annex No. 3 to the Division Plan, which were transferred to the Company in accordance with the Division Plan
Company or Merko Ehitus or Issuer	AS Merko Ehitus
Criminal Proceedings	Criminal case No. 05913000055 launched against AS Järvevana and its chairman of the Supervisory Board Mr. Toomas Annus, suspected of bribery and misuse of trust in relation to the land swap transactions
Division	The division of AS Järvevana (formerly AS Merko Ehitus) in accordance with the Division Plan
Division Plan	The notarized division plan of AS Merko Ehitus (currently AS Järvevana) concluded on 30 April 2008 approved by the general meeting of shareholders on 3 June 2008
ECRS	Estonian Central Registry of Securities
ECSD	Estonian Central Securities Depository
EEA	European Economic Area
EEK	kroon, the currency of Estonia
EFSA	Estonian Financial Supervision Authority
EU	European Union
EUR	euro, the single currency of the European Union Member States participating in the European Monetary Union
Group	AS Merko Ehitus together with its subsidiaries
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Listing	Listing of the Shares of AS Merko Ehitus on the main list of Tallinn Stock Exchange

LTL	litas, the currency of Lithuania
LVL	lats, the currency of Latvia
Management	The management of AS Merko Ehitus
Management Board	The management board of AS Merko Ehitus
Prospectus	The listing and trading prospectus of AS Merko Ehitus
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading
Prospectus Regulation	Commission Regulation (EC) 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements
Shares	The shares of AS Merko Ehitus
Supervisory Board	The Supervisory Board of AS Merko Ehitus
TSE	Tallinn Stock Exchange

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ISSUER

AS Merko Ehitus
Järvevana tee 9G
11314 Tallinn
Estonia

LEGAL ADVISER TO THE ISSUER

AS Advokaadibüroo Tark & Ko
Roosikrantsi 2
10119 Tallinn
Estonia

INDEPENDENT AUDITORS

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia