

Introduction

The Un-audited Pro Forma Financial Information for AS Merko Ehitus set forth below comprising the un-audited pro forma consolidated balance sheet as of 31 March 2008 and the explanatory notes thereto, has been prepared for the Prospectus, solely for illustrative purposes and presents a hypothetical situation. Therefore, it does not present the actual consolidated financial position of the Group. The Un-audited Pro Forma Financial Information should be read in conjunction with the information included in the consolidated financial statements of AS Järvevana (formerly AS Merko Ehitus), included elsewhere in this Prospectus.

The Un-audited Pro Forma Financial Information was prepared to present the division of AS Järvevana, described in detail in chapter "Division of AS Järvevana and Establishment of the Company" of the Prospectus, and the impact it could have on the consolidated financial statements of the AS Järvevana Group, had this transaction taken place as at the balance sheet date. The assumptions underlying the pro forma adjustments and the sources of information are described in the accompanying explanatory notes. The un-audited pro forma adjustments were based upon the information available and certain assumptions which, in the opinion of the Management, are reasonable given the circumstances.

No pro forma income statement was prepared, as substantially all income generating business operations have been transferred to the Company upon the Division. There were no significant revenues or expenses associated with the assets that have not been transferred to the Company. It is however expected that the costs relating to the criminal case No 05913000055 (which amounted to EEK 22.5 million in 2007 and EEK 2 million for the three months ended 31 March 2008) will be incurred by AS Järvevana rather than by the Company, but the involvement of the Company in defending its de facto owned assets may be significant. As explained in the explanatory notes to the pro forma consolidated balance sheet as of 31 March 2008, on the Division an intercompany loan of EEK 125 million between AS Järvevana and the Company has been set up. Subject to conditions set out in the explanatory notes to the pro forma consolidated balance sheet as of 31 March 2008 the loan is payable on demand and carries interest at 6% pa. for the first 12 months and henceforth a variable interest rate of 12 months' EURIBOR + 1%. As it is uncertain when and how the loan balance will be settled, it is impossible to assess reliably the impact of this loan on the business performance and results of the Company.

The Un-audited Pro Forma Financial Information was prepared in accordance with the accounting principles applied by the Group and described in the consolidated financial statements of AS Järvevana included elsewhere in this Prospectus. It has been provided solely for illustrative purposes and does not purport to present what the consolidated position of the Group would actually have been had the Division taken place on the date assumed.

Un-audited Pro Forma Consolidated Balance Sheet as at 31 March 2008

in thousands of EEK

	Unadjusted historical data of AS Järvevana (formerly Merko Ehitus AS) Un-audited Note 1	Pro forma adjustments (Division) Un-audited Note 2	Pro forma data of AS Merko Ehitus Un-audited
ASSETS			
Current assets			
Cash and cash equivalents	356 863	-25 000	331 863
Trade and other receivables	1 003 458	-	1 003 458
Prepaid corporate income tax	941	-	941
Inventories	2 047 829	-	2 047 829
	<u>3 409 091</u>	<u>-25 000</u>	<u>3 384 091</u>
Non-current assets			
Investments in associates and joint ventures	275 983	-	275 983
Other long-term loans and receivables	24 214	-	24 214
Deferred income tax assets	3 392	-	3 392
Investment property	12 946	-	12 946
Property, plant and equipment	172 134	-	172 134
Intangible assets	12 675	-	12 675
	<u>501 344</u>	<u>-</u>	<u>501 344</u>
TOTAL ASSETS	<u>3 910 435</u>	<u>-25 000</u>	<u>3 885 435</u>
LIABILITIES			
Current liabilities			
Borrowings	192 924	125 000	317 924
Trade and other payables	939 593	100 000	1 039 593
Corporate income tax liability	36 159	-	36 159
Government grants	1 498	-	1 498
Short-term provisions	81 495	-17 500	63 995
	<u>1 251 669</u>	<u>207 500</u>	<u>1 459 169</u>
Non-current liabilities			
Long-term borrowings	399 165	-	399 165
Other long-term trade payables	54 796	-	54 796
	<u>453 961</u>	<u>-</u>	<u>453 961</u>
TOTAL LIABILITIES	<u>1 705 630</u>	<u>207 500</u>	<u>1 913 130</u>
EQUITY			
Minority interest	35 058	-	35 058
Equity attributable to equity holders of the parent company			
Share capital	177 000	-	177 000
Statutory reserve capital	17 700	-	17 700
Currency translation differences	-5 976	-	-5 976
Retained earnings	1 981 023	-232 500	1 748 523
	<u>2 169 747</u>	<u>-232 500</u>	<u>1 937 247</u>
TOTAL EQUITY	<u>2 204 805</u>	<u>-232 500</u>	<u>1 972 305</u>
TOTAL LIABILITIES AND EQUITY	<u>3 910 435</u>	<u>-25 000</u>	<u>3 885 435</u>

1. AS Järvevana (formerly Merko Ehitus AS) financial information used to prepare the Un-audited Pro Forma Financial Information was extracted from the un-audited consolidated condensed interim financial information of AS Järvevana for the three months ended 31 March 2008 included elsewhere in this Prospectus.
2. As at the date of the pro forma balance sheet, data referring to the operations not transferred to the Company as a result of the Division were included in the financial information of AS Järvevana. The adjustment reflects the elimination of assets and liabilities that were not transferred to the Company.

The adjustment to cash and cash equivalents reflects cash in the amount of EEK 25 mln that according to Section 5.1 of the Division Plan (the Division Plan has been published through the information system of the Tallinn Stock Exchange and is available at the following web page: <http://www.merko.ee/eng/investor/generalmeeting/2008>) was not transferred to the Company.

The adjustment to borrowings reflects the loan liability in the amount of EEK 125 mln to AS Järvevana. According to the terms set in the Annex No 3 to the Division Plan the loan is unsecured. Interest for the first 12 months has been fixed at 6% pa and henceforth the interest rate is 12 months' EURIBOR + 1% pa. According to the cooperation agreement between AS Järvevana and the Company, dated 31. July 2008, the loan is repayable at 30 days period of notice by AS Järvevana, but not more than EUR 500,000 per year, unless a larger amount is needed to settle the obligations of AS Järvevana arising from or related to the criminal case No 05913000055.

The adjustment to trade and other payables reflects the short-term liability to AS Järvevana in the amount of EEK 100 mln for land plots as described in Annex No 3 of the Division Plan, according to which the Company is entitled to purchase (call option) and also AS Järvevana is entitled to sell (put option) five land plots retained in AS Järvevana for a fixed price of EEK 100 mln at 30 days period of notice by either party. As according to the terms set in the Annex No 3 of the Division Plan the significant risks and rewards of ownership of the land plots were transferred to the Company, the land plots (book value EEK 39 mln) have been recorded as assets transferred to the Company as a result of the Division.

According to the cooperation agreement between AS Järvevana and the Company, dated 31. July 2008, the value of the call option of the Company is EEK 27.3 mln, the value of the put option of AS Järvevana is EEK 5.9 mln and the net value of the put option and call option is EEK 24.3 mln. According to the cooperation agreement the net value of the put option and the call option was deemed to be paid by the Company to AS Järvevana concurrently with execution of the Division Plan (i.e. the assets transferred from AS Järvevana to the Company as a result of the Division were reduced by the net value of the put option and the call option).

The cooperation agreement further specifies that the call option and put option are exercisable at any time during 3 years period from the date of the execution of the Division Plan. The exercise period of the options will be automatically extended for one more year unless the criminal proceeding in the criminal case No 05913000055 has been terminated. Since the put and call options are exercisable at any time with 30 days period of notice, the obligation is classified as current.

The adjustment to short-term provisions in amount of EEK 17.5 mln reflects the provision for estimated legal costs related to the criminal case No 05913000055 that according to Section 5.1 of the Division Plan was not transferred to the Company as such costs are expected to be settled by AS Järvevana.

The adjustment to retained earnings reflects the net assets that according to the Annex 3 of the Division Plan were not transferred to the Company.