

REPORT OF THE SUPERVISORY BOARD OF PUBLIC LIMITED COMPANY MERKO EHITUS ON ITS ACTIVITIES IN THE FINANCIAL YEAR 2007

The Supervisory Board of AS MERKO EHITUS (hereinafter Merko Ehitus) (hereinafter the Supervisory Board) has compiled and endorsed the current report, providing and overview of the activities of the Supervisory Board in managing and organising the work of Merko Ehitus and the Group, consisting of its subsidiaries, to be submitted to the regular general meeting of the shareholders of Merko Ehitus (hereinafter the General Meeting).

The current member of the Supervisory Board – Mr. Toomas Annus, Mr. Teet Roopalu and Mr. Jaan Mäe – were elected at the regular General Meeting of the shareholders on May 19th 2006. According to the provisions of Article 31 of the Articles of Association of Merko Ehitus, the members of the Supervisory Board are elected for the period of three years, therefore, the authorities of the members of Supervisory Board will expire on May 19th 2009.

The Supervisory Board has reviewed the annual accounts for 2007, submitted by the Executive Board of Merko Ehitus (hereinafter the Executive Board) to the General Meeting, consisting of annual financial statements and the management report of the Executive Board. **The Supervisory Board has decided, unanimously, to approve the Annual Accounts for 2007.**

The work of the Supervisory Board was organised in the year 2007 by the Chairman of the Supervisory Board Mr. Toomas Annus.

The Supervisory Board has, when managing and organising the activities of Merko Ehitus and conducting supervision over the Executive Board of Merko Ehitus, complied with the limitations arising from the legislation of the Republic of Estonia and the authorities arising from the Articles of Association of Merko Ehitus. The Supervisory Board held 31 meetings in 2007 to fulfil its functions.

The Supervisory Board has discussed the issues, related to managing and organising the activities of Merko Ehitus, exceeding the limits of everyday regular business activities, at its meetings that took place in 2007. The consent of the Supervisory Board is required, as provided by the Articles of Association of Merko Ehitus, for the conclusion of the transactions, which involve:

- Completion of a transaction, incl. the conclusion of an agreement or submission of an offer, if the value of the transaction of transactions concluded simultaneously exceeds the total value of 10,000,000 (ten million) euros; or
- Taking of a loan and conclusion of a contract of lease, exceeding the total value of 1,000,000 (one million) euros; or
- Granting of a loan, securing a loan commitment, acquisition of a claim and assumption of a debt that exceeds the total value of 200,000 (two hundred thousand) euros; or
- Making an investment and acquisition and transfer of capital assets not provided for in the budget for the financial year, if the value of the transaction of transactions concluded simultaneously exceeds the total value of 200,000 (two hundred thousand) euros; or

- Acquisition and transfer of an immovable and registered movable, if the transaction is not prescribed by the business plan or if the value of the transaction exceeds the total value of 200,000 (two hundred thousand) euros; or
- Acquisition, transfer or winding up of a company; or
- Establishing and closing of subsidiaries abroad.

The members of the Supervisory Board have been involved directly in the managing and organising the work of Merko Ehitus and the Group, consisting of its subsidiaries, participating in the meetings of the Executive Board and the management. The members of the Supervisory Board have, together with the members of the Executive Board, also participated immediately in the development and implementation of the economic plans of Merko Ehitus.

The auditor of Merko Ehitus in the financial year of 2007 was AS PricewaterhouseCoopers. According to the contract, concluded between Merko Ehitus and AS PricewaterhouseCoopers, the auditing company audited the compliance of the financial statements, drawn up by Merko Ehitus and the subsidiaries belonging to the Group, as of December 31st 2007, against the international financial accounting standards (or the good practice in force in Estonia). The Supervisory Board has heard the essential conclusions, drawn by the auditors as the consequence of the audit. The Supervisory Board gives positive assessment to the activities of AS PricewaterhouseCoopers in financial year 2007.

Attributing the financial indicators of 2007 to the good work of the employees of Merko Ehitus and the companies belonging to the Group, the Supervisory Board is thanking the employees of Merko Ehitus and the companies belonging to the Group for their contribution to the development of Merko Ehitus Group over the last financial year.

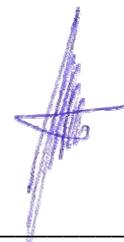
The Supervisory Board thanks the shareholders of Merko Ehitus for their trust and hopes that the activities of the Supervisory Board have contributed to all-around protection of the interests of the shareholders.



Toomas Annus
Chairman of the Supervisory Board



Teet Roopalu
Member of the Supervisory Board



Jaan Mäe
Member of the Supervisory Board

April 30th 2008