

ERG CAPITAL - 2 ADSIP

FINANCIAL STATEMENTS,
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS
31 DECEMBER 2009

TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

AND

ANNUAL MANAGEMENT REPORT ON
THE ACTIVITY

**ANNUAL REPORT
ON THE ACTIVITIES FOR 2009**

ANNUAL MANAGEMENT REPORT ON THE ACTIVITY OF ERG CAPITAL – 2 ADSIP FOR 2009

23 February 2010

"ERG Capital – 2" ADSIP ("the Company" or "ERG – 2") is a Bulgarian joint stock company with special investment purpose. Its activity is governed by the Special Investment Purpose Companies Act ("SIPCA") and its related regulations. The Company raises funds through the issue of securities and uses these funds to acquire real estate, in effect implementing real estate ("investment property") securitization.

In 2005, ERG - 2 acquired the investment property specified in the Company's by-laws together with the rights and obligations under the associated lease agreements and was licensed as a Special Investment Purpose Company by the Financial Supervision Commission ("FSC"). In 2006 The Company increased its capital by 50%. The shares outstanding increased from 2,300,000 to 3,450,000 with nominal value of BGN 1 each. As a result ERG - 2 received a total of BGN 3,562 thousand: BGN 1,262 thousand from the sale of 1,150,000 rights, against which 1,150,000 shares were subscribed at issue price of BGN 2.00 per share.

Since its listing as a public company ERG -2 complies with its obligations under the agreements to which it is a party. Its activity is oriented towards managing its existing properties and tenant relationships, working on optimizing the Company's expenses, including its debt financing to the extent possible, and investment of temporarily free funds in accordance with the rules set in its by-laws.

ACTIVITY REVIEW

In execution of the shareholder's resolution, ERG - 2 distributed as a dividend 100% of its 2008 profit. The gross dividend per share for year 2008 (paid in 2009) was BGN 0.26. The dividend paid amounted to BGN 897 thousand.

In the following discussion we present some comments regarding important aspects of the activity of the Company during 2009:

1. Liquidity

As of 31 December 2009 the ratio of Cash and Cash Equivalents to Current Liabilities was 0.61 which indicates that the Company has sufficient liquidity.

The Company's liquidity has been adequate and we believe that this will be maintained in the future. In the normal course of business the rental income will exceed the Company's maturing obligations to its lenders. The main internal sources of liquidity are the monthly rent payments that the Company receives from "Praktiker" EOOD and "Piccadilly" EAD. ERG - 2 does not foresee any need for attracting additional financing at this stage.

2. Capital resources

The capital of the Company has been paid in full and currently it is sufficient to support the Company's business activity. ERG - 2 does not plan any further capital increases or new investment property acquisitions. The Company does not have any significant capital expenditure plans or obligations, except for possible expenses related to the maintenance of its investment property.

The table below indicates that the Company's profitability is very good, provided that its activities develop as planned, it does not need any additional capital. At 31 December 2009 the ratio of shareholders' equity to total liabilities was 55.10 %, as opposed to 55.25 % at 31 December 2008.

Profitability Coefficients*	2009	2008
Profit for the year/Sales	35.60%	35.38%
ROE	16.45%	15.49%
Profit for the year/Total Liabilities	9.06%	8.56%
ROA	5.84%	5.51%

* Profit for the year does not include any gains or losses from asset or liability revaluations.

3. Information about the properties, owned by ERG - 2 (Art. 41. (2). (5). Ordinance 2 of FSC)

a. Share of rented properties: 100%

All properties owned and securitized by ERG - 2 are rented.

b. Purchases or sales on new assets

In 2009 and to the date of this report no assets exceeding in value 5% of total assets have been purchased or sold.

c. New construction, renovation or property improvements

In 2009 ERG - 2 did not construct any new properties, did not renovate any of its existing properties and did not make any significant property improvements. The Company only incurred maintenance expenses for the existing properties, which amounted to BGN 35 thousand, or less than 2.05 % of total expenses.

d. Share of unpaid rent

The Company received 100% of the rents due from all properties that it owns in accordance with the leasing contracts to which it is a party.

4. Results from operations

The Company's profit for 2009 is BGN 925 thousand (or BGN 0.2681 per share) as compared to BGN 897 thousand (or BGN 0.2600 per share) for 2008. The Profit for the year does not include any gains or losses from asset or liability revaluations. It results entirely from the income (mostly rents received) exceeding expenses (mostly interest and depreciation). The rental income is BGN 2,598 thousand or 98% of total income. The interest expense and the depreciation expense are BGN 567 thousand and BGN 532 thousand, respectively or 33 % and 31 % of total expense.

According to SIPCA the Company shall distribute as dividends at least 90% of the 2009 Profit, which corresponds to at least BGN 832 thousand of 0.2413 per share.

In 2009 the Company did not acquire or sell assets of significant value, nor did it increase or decrease substantially its liabilities.

5. Risks

The Company is operating in the area of real estate investment and the main risks it faces are related to the development of the real estate sector in Bulgaria and to retail space in particular. To the extent that the Company already owns its properties and has rented them to long term tenants, many of the risks have been mitigated, especially those associated with real estate development, property title, rising construction costs and raising interest rates. Listed below are the main Company specific risk factors:

- Market price decreases of both real estate assets and rental levels;
- Increase in the cost of insurance
- Dependence of the income stream on the financial condition of the tenants
- Unexpected maintenance expenses
- Risk of occurrence of an uninsured event.

In addition to the Company specific risk factors, ERG - 2 also faces some general risks, associated with doing business in Bulgaria. These are as follows:

- Risk of unfavorable legislative changes
- Risk of economic downturn
- Credit risk
- Currency risk
- Inflation risk.

During 2009 the real estate market in Bulgaria worsened significantly and this trend is expected to continue at least in the first half of 2010. This and the worsening macroeconomic situation could significantly adversely affect the Company's financial condition and results of operations. It could have a negative impact on the tenants' financial position and/or result in reduction of the prices of the real estate properties owned by the Company.

6. Important events after the date of the Financial Statements

No important events that could have material effect on the operating and financial results of the Company have happened after the date of the Financial statements - 31 December 2009.

7. Expected developments and plans for 2010

At this stage, the Company does not plan any further capital increases or new investment property acquisitions. Going forward, ERG -2 intends to focus on optimizing its existing business operations. The Company does not intend to hire any new employees.

8. Research and development

ERG - 2 is operating in the real estate sector and is not involved in any research and development activities.

9. Use of financial instruments

The Company has not issued any new securities (bonds or shares) in 2009 and has not taken any new loans. Information about the existing loans of ERG-2 and the interest rate swap used is disclosed in Note 7 to the Financial Statements.

10. Branches

ERG - 2 has not registered and does not have any branches.

11. Share buy backs

Unlike the other public companies the companies with special investment purpose are not allowed by law to buy-back their own shares under the conditions of art.111, (5) of POSA. Therefore, by virtue of the law, ERG - 2 is not allowed to purchase or own any of its shares and the Company has never traded in its own shares.

CORPORATE GOVERNANCE

During 2009 the activities of the Company and of the Board of Directors have been in compliance with its Good Corporate Governance Program, which is published on its web site.

The discussion in the following sections provides additional information on the Company's share capital and disclosures related to its corporate governance.

SHARES OF THE COMPANY

1. Capital structure

Share Capital (item 1, Appendix 11 to Ordinance 2 of FSC)

At 31 December 2009, the Company's issued and outstanding share capital was BGN 3,450 thousand comprising 3,450,000 shares, each with a nominal value of BGN 1. All the issued and outstanding shares are fully paid-up. There have not been any changes in the Company's share capital during 2009.

ERG - 2 has a single class of ordinary shares, representing 100% of its registered capital. Each of the shares ranks *pari passu* amongst themselves, with no preferential rights attached to any of the shares. Each share entitles its holder to one vote at a general meeting of shareholders, to dividends when declared and to participate in a liquidation of the Company in proportion to the nominal value of the share. ERG - 2 does not have non-listed shares.

The following table shows the issued and outstanding share capital of the Company at the dates indicated:

	Number of issued shares	Paid-up share capital (BGN in thousand)
31 December 2008	3,450,000	3,450
31 December 2009	3,450,000	3,450

Pre-emption Rights

Each holder of shares has pre-emptive rights to subscribe for any new shares or convertible bonds issued by the Company pro rata to its existing holding of shares. The number of shares required to subscribe for one new share or convertible bond must be specified in the shareholder resolution approving the share capital increase. Under Bulgarian law, pre-emption rights may not be removed in any way, unless those pre-emption rights are automatically removed by operation of Bulgarian law, which occurs whenever shares are issued for the following purposes: (i) to be allotted to holders of interests in another company as part of a merger or a non-cash tender offer for the shares in that company; (ii) to be allotted to holders of convertible bonds or warrants due to the conversion of those instruments.

If the capital increase is authorized by a shareholder resolution, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the ex-dividend date, i.e. 14 days following the date of the shareholders' resolution. If the capital increase is authorized by a resolution of the Board of Directors, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the seventh day after the publication of the announcement of the rights issue in the Bulgarian State Gazette. On the business day following the ex-dividend date (or the seventh day after the announcement, as appropriate) the Central Depository opens rights accounts in the name of the relevant shareholders based on the register at the Central Depository at such date.

The first date on which pre-emption rights may either be: (1) exercised to subscribe for new shares or convertible bonds; or (2) traded on the BSE is required to be specified in the announcement of the rights issue. The final date for the exercise of pre-emption rights must be between fourteen and thirty days from the date set for the first exercise of such rights. All rights not exercised within this time must be offered to the public by means of an auction organized by the BSE five business days after the final date on which rights may be traded. This auction is open for a period of one day. Any right acquired pursuant to the auction must be exercised within ten business days of the auction.

2. Restrictions on Share Transfers (item 2, Appendix 11 to Ordinance 2 of FSC)

In general there are no limitations on the transfer of the shares and shareholders do not need the approval of the Company or of any other shareholder in order to do so.

3. Principal Shareholders (item 3, Appendix 11 to Ordinance 2 of FSC)

The following table sets out details, insofar as they are known to the Company, of the interests in shares held by persons who are directly or indirectly interested in five per cent or more of the Company's issued share capital.

At December 31, 2009

Shareholder	Number of shares owned at 31.12.2009	% of Voting shares at 31.12.2009 r.
Bulgarian-American Enterprise Fund (BAEF)	1,268,450	36.77%
Bulgarian-American Credit Bank	344,650	9.990%
Frank Louis Bauer	319,637	9.265%
Doverie UPF	241,465	6.999%
Michael David Hunsberger	178,500	5.174%

Save as disclosed in the table above, the Company is not aware of any person who is holding directly or indirectly 5% or more of the Company's registered share capital.

None of the Company's shareholders have different voting rights from any other holder of shares in respect of any shares held by them.

4. Controlling Shareholders (item 4, Appendix 11 to Ordinance 2 of FSC)

No Shareholders of the Company exercise any special controlling rights.

By virtue of the Company's bylaws the general meeting of the shareholders has a quorum if at least 50% of the voting shares are presented. Pursuant to the provisions of the Company's bylaws certain decisions of the shareholders' meeting are taken with majority of 90% of the shares represented at the general meeting. Unless otherwise provided by law or by the Company's bylaws the decisions of the general meeting are taken with a 2/3 majority of the shares represented at the general meeting. These provisions set forth higher majorities than those generally required in the Commercial Act.

5. Remuneration of the Members of the Board of Directors

For their services in 2009 Directors received remuneration from ERG-2 in the amount of BGN 10,500. Payments are made according to the decision of the Annual General Meeting of the Shareholders for 2008, which was held in May, 2009.

6. Employees and Directors as Shareholders

Company's directors hold certain interest in the Company's shares, which are equal to 0.47% of its capital at 31 December 2009. The single employee of the Company does not own any shares. Each director and employee votes his shares on his/her own and the Company is not aware of the existence of any control system imposing voting limitations. (item 5, Appendix 11 to Ordinance 2).

The Company is not aware of any shareholder agreement, restriction or limitation being imposed on directors or employees in voting their shares. Each shareholder exercises his/her voting right or may choose to authorize a third party of its own choice to vote by proxy. The Company is not aware of any directors' or employees' shares being blocked or restricted. The table below provides information on director's dealings with Company's shares in 2009:

Director	Shares owned on December 31, 2008	Net purchases (sales) of Company shares	Shares owned on December 31, 2009
Krassen Stanchev	0	0	0
Emilia Karadocheva	9,310	0	9,310
Preslav Enterprise	0	0	0
Veneta Ilieva as a representative of Preslav Enterprise	6,000	900	6,900

Directors do not have any special rights or privileges to acquire securities issued by the Company.

7. Directors as owners of beneficial interest in other legal entities or as Directors

7.1. Krassen Stanchev

7.1.1. Does not participate in any legal entity as a general partner with unlimited liability.

7.1.2. Owns more than 25% of the capital in the following companies:

- Europartners OOD, Sofia;
- KC2 EOOD.

7.1.3. Participates in the management of other companies or co-operations (as a procurator, manager or member of board):

- Chairman of the Management Board of the Institute for Market Economics;
- Member of the Management Board of the Bulgarian Chamber of Commerce and Industry;
- Member of the Management Board of Association "Global Bulgaria Initiative";
- Member of the Management Board of Association "Priroda Nazaem";
- Member of the Management Board of Association "Ecoglasnost";
- Member of the Management Board of Bulgarian Association of Consultants of European Projects.

7.2. Preslav Enterprise EOOD

7.2.1. Does not participate in any legal entity as a general partner with unlimited liability.

7.2.2. Does not own more than 25% of the capital of other company.

7.2.3. Does not participate in the management of other companies (as a procurator, manager or member of board).

7.3 Emilia Karadocheva

7.3.1. Does not participate in any legal entity as a general partner with unlimited liability.

7.3.2. Owns more than 25% of the capital in the following companies:

- Owns 100% of the capital of EK Advisor EOOD.

7.3.3. Participates in the management of some other companies (as a procurator, manager or member of board):

- Manager of Sredetz Enterprise EOOD, Sofia;
- Manager of Preslav Enterprise EOOD, Sofia;
- Liquidator of Enterprise Realty Group EOOD, Sofia.

8. Conflicts of interest

In 2009 none of the Directors has entered into any agreements with the Company outside of its scope of activity or on terms and conditions different from those prevailing on the market.

9. Voting Rights Restrictions (item 6, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any restrictions or limitations on voting rights on any grounds. A limitation may arise by law regarding voting on certain deals with interested parties as stipulated in article 114 et sec. of POSA.

10. Restrictive Shareholder Agreements (item 7, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any agreements between any of its shareholders that might lead to restrictions in transferring the Company's shares or in exercising voting rights.

11. Appointment of the Board of Directors and amendments and supplements of Bylaws (item 8, Appendix 11 to Ordinance 2 of FSC)

The bylaws of the Company provide for a one-tier management system consisting of a Board of Directors. Members of the Board of Directors may be either individuals or legal entities.

Board of Directors

Bulgarian law and the Company's bylaws provide that the Board of Directors must consist of at least three and not more than seven persons. The members of the Board of Directors may be appointed and dismissed by a resolution passed by a majority of 90% of the shareholders in general meeting. Under Bulgarian law at least one third of the members of the Board of Directors should be independent (i.e. (i) not being an employee of the Company, (ii) not being a majority shareholder or a person related to the Company, (iii) not being in a long-term commercial relationship with the Company, (iv) not being a board member, procurator or employee of an entity under (ii) and (iii) or (v) being related another member of board of the Company).

The Company's bylaws provide that a quorum of at least half of all Board members is necessary for a valid meeting and for passing of resolutions. Pursuant to the provisions of the Company's bylaws certain decisions of the Board are taken with unanimity or majority of ¾ of the Board members. Unless otherwise provided by law or by the Company's bylaws the decisions of the Board are taken with 2/3 majority of Board members.

The Board has authorized the Executive Director to represent the Company and to take responsibility for its daily operations.

Board members may be re-elected without limitation and may be dismissed at any time by the Shareholders meeting. A board member may resign and require to be deregistered as a Board member in the commercial register with notice in writing addressed to the Company.

Amendments or supplements to the bylaws

The Company's bylaws provide that the shareholder resolution to amend or supplement the bylaws requires the approval of 90% of the voting shares present at the meeting. The Financial Supervision Commission has the power to issue a "stop order" or a compulsory instruction or injunction to the Company if any resolution of the shareholders in general meeting or resolution of the Board of Directors is found to be illegal. The Financial Supervision Commission alone may make such an order if a resolution of the Board would be detrimental to the interests of shareholders or other investors.

Amendments and supplements to the bylaws of the Company are only effective at the date of the registration of the resolution at the Bulgarian commercial register.

12. Powers of the Board of Directors (item 9, Appendix 11 to Ordinance 2 of FSC)

The Board of Directors is responsible for securing the lawful and viable operation of the Company. It resolves on all issues that are not of the exclusive competence of the General meeting of the shareholders. The Board of Directors reports on its activities before the General Meeting of the Shareholders.

The most important resolutions of the Board of Directors are listed below:

- conclude, terminate and rescind agreements with the Depository Bank;
- control the execution and performance of the agreements with the Servicing Company/ies and with the Depository Bank;
- take decisions to invest the Company's free funds in accordance with the requirements and the restrictions set forth by the SIPCA, these By-laws and current legislation;
- take decisions to take bank credits and conclude loan agreements with banks:
 - (a) for acquisition or completion of real estate for securitization including loans which for the current year amount to more than 1/2 of the total assets of the Company according to the certified financial report, and
 - (b) in the amount of up to 20% of the book value of the total assets of the Company which loans shall be used for payment of interest and only if the term of the loan is not exceeding 12 months;
- take decisions for providing collateral to the loan agreements under the above item including the case when the amount of the collateral for the current year exceeds ½ of the total assets of the Company as per the certified financial report;
- take decisions to invest up to 10% of the registered capital of the Company in a servicing company;
- elect and dismiss an executive director/s;
- take decisions for issue of bonds under the terms and conditions of Art. 13, para. (3) and (4) of the by-laws.

The Board of Directors resolves on all issues that are not of the sole competence of the General Meeting.

Unlike the other public companies the companies with special investment purpose are not allowed by law to buy-back their own shares under the conditions of art.111, (5) of POSA.

13. Agreements Representing a Takeover Defense (item 10, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any agreements that shall become in effect, supplemented or cancelled in the event of change in control or a takeover bid.

14. Agreements on Severance Packages in Case of Termination of Employment (item 11, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any arrangements between the company and its directors or employees that may result in extra payments, bonuses or other compensation in case of termination of employment, dismissal or cancellation of employment without any legal grounds or due to a takeover bid.

ADDITIONAL INFORMATION (APPENDIX 10 TO ORDINANCE 2 OF FSC)

1. Main goods and services

ERG - 2's main activity is renting the properties it owns.

2. Revenues by type of activity, geography and main service providers

In 2009 rental income accounted for 98% of the Company's revenue. The other source of revenue was interest income - 2%. The two properties owned by ERG - 2 are located in Varna. The Company does not have operations in any other region.

The rental income from two of the four tenants - Praktiker EOOD and Piccadilly EAD - was 48% and 50% of the total income from sales, respectively. The other tenants are Mobiltel EAD and Bulgarian American Credit Bank AD ("BACB"). All tenants are not related parties to ERG -2.

In 2009 Serdika Capital Advisors ("SCA") accounted for 23% of total expenses. SCA is a related party to the Company and received its remuneration based on a contract, approved by the Constitutive Meeting of the Shareholders, held on 25 May 2005.

In 2009 interest payments to UniCredit Bulbank accounted for 33% of total expenses. UniCredit Bulbank is not a related party to the Company.

No contractor, other than SCA and UniCredit Bulbank, has accounted for more than 10% of total expenses.

3. Large or important deals in 2009

The Company has not executed any large or important deals in 2009.

4. Deals or proposals for deals with related parties

The Company has not executed any large or significant deals in 2009. The Company does not have any subsidiaries.

In 2009 the Company has not entered into any agreements with related parties outside of its scope of activity or on terms and conditions different from those prevailing on the market. Deals, balances, expenses and income are disclosed in Note 12 to the Financial statements.

5. Unusual events with significant impact on the activities

In 2009 there were no unusual events that could have a material impact on the activity of the Company, its financial results and its performance measures.

6. Off-balance sheet commitments

All off-balance sheet assets or liabilities are disclosed in the Notes 3, 5 and 7 to the Financial statements.

7. Ownership of other legal entities

ERG - 2 does not own shares or any other ownership interest in other companies.

8. Loans of the Company, extended guarantees or other assumed obligations

In 2009 the Company has not received any new loans, extended any guarantees or assumed any other material obligations.

ERG - 2 has two loans outstanding with details provided in Note 7 to the Financial statements.

The Company is prohibited by law to and has not extended any guarantees to any third party.

9. Loans by the Company

By law ERG - 2 is not allowed to provide loans to any party and in 2009 the Company has not entered in such deals.

10. Use of funds from a new issue of securities

ERG - 2 has not issued any securities in 2009.

11. Comparison of financial results with prior earnings forecasts

ERG - 2 does not publish earnings forecasts.

12. Capital budgeting, liability management, threats and measures

ERG - 2's policy in managing its financial resources is adequate and the Company has sufficient resources to service its obligations and to fund its activities. For details, please see above the sections on Liquidity and Capital Resources.

13. Planned investments and their funding

ERG - 2 does not plan to acquire new assets or to make any other significant capital expenditures in 2010. The capital expenditures needed to maintain the Company's existing properties will be funded from internal sources.

ERG - 2 does not plan to issue any new securities or take any new loans in 2010.

14. Change in governance principles and in the economic group of the Company

There were no changes to ERG - 2's governance principles. With 37% of the shares, BAEF is the main shareholder. The Company does not have an economic group.

15. Internal control and risk management

ERG - 2 does not have a separate internal control unit, rather this function is exercised by the Board of Directors. The Company has an internal set of policies and rules for risk management, including its accounting policy, presented in the notes to the Financial Statements.

16. Changes of the Board of Directors

No changes to the Board of Directors and its members have been made in 2009.

17. Remuneration of the Board of Directors

In 2009 Directors received remuneration from ERG-2 in the amount of BGN 10,500.

18. Shares owned by Directors

The Company has a single class of shares and it has not issued any options. For more details on Director's ownership of shares, please see the section on Corporate Governance above.

19. Possible change in control

The Company is not aware of any negotiations or agreements that may result in change of ownership of its shares. The Company has not issued any bonds.

20. Court, administrative or arbitration procedures

The Company is not a party to any court, administrative or arbitration procedure.


21. Investor relations officer

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CHANGES IN THE PRICE OF THE SHARES

According to the statistics of the BSE-Sofia in 2009 171,936 shares of the Company were traded at the BSE-Sofia for a total value of appr. BGN 440.6 thousand at prices ranging between BGN 2.402 and 3.449 per share. The last deal at BSE-Sofia for 2009 was executed on 28 December 2009 for 20 shares at BGN 3.449 per share.



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Veneta Hieva

Representative of the
Executive Director Preslav Enterprise EOOD

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
DECEMBER 31, 2009**

*This document is a translation of the original in Bulgarian text,
in case of divergence the Bulgarian original is prevailing.*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ERG Capital - 2 ADSIP

Report on the financial statements

We have audited the accompanying financial statements of ERG Capital - 2 ADSIP (the "Company"), which comprise the statement of financial position as of December 31, 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Emphasis of matter


Without qualifying our opinion, we draw attention to the following:

- (a) As disclosed in note 13 to the accompanying financial statements, the Company is exposed to property price and market rental risks. These risks are related to the global economic crisis that limited the credit availability worldwide and affected negatively the real estate prices and the rental rates. If the crisis continues it may have material adverse effects on the Company's future financial position, liquidity and results of operations.
- (b) We draw attention to note 6 of the accompanying financial statements where based upon the result of the required annual appraisal, the fair value of the investment properties is disclosed. Due to the inherent uncertainty related to any valuation and especially in the current market conditions, where the real estate market has deteriorated significantly, and very limited number of transactions have taken place, the disclosed fair values may differ significantly from the values that would have been used had an active market for the properties existed, and the differences could be material.

Report on other legal and regulatory requirements - Annual report on the activities of the Company according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual report on the activities of the Company. The Annual report on the activities of the Company, prepared by the Company's management, is not a part of the financial statements. The historical financial information presented in the Annual report on the activities of the Company, prepared by the management is consistent, in all material respects, with the annual financial information disclosed in the financial statements of the Company as of December 31, 2009, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual report on the activities of the Company dated February 23, 2010.

Deloitte Audit
Deloitte Audit OOD


Sylvia Penëva
Managing Director
Registered Auditor



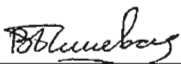
February 23, 2010
Sofia

ERG CAPITAL - 2 ADSIP
 STATEMENT OF COMPREHENSIVE INCOME
 YEAR ENDED 31 DECEMBER 2009

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2009	2008
Rental income	3	2,598	2,535
Interest income		50	61
Depreciation expense	6	(532)	(532)
Operating expenses	4	(624)	(590)
Interest expense		(567)	(577)
Profit for the year		925	897
Other comprehensive income			
Cash flow hedges		(172)	(552)
Total comprehensive income for the year		753	345
Earnings per share - basic and diluted	10	0.27	0.26

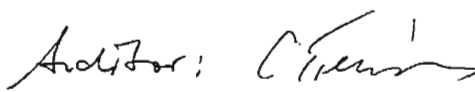
These financial statements have been approved by the Board of Directors on 23 February 2010.



 Veneta Ilieva
 Representative of the
 Executive Director Preslav Enterprise EOOD



 Emilia Karadocheva
 Financial Manager


 23/02/2010

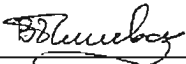


ERG CAPITAL - 2 ADSIP
 STATEMENT OF FINANCIAL POSITION
 AT 31 DECEMBER 2009

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2009	2008
ASSETS			
Cash and cash equivalents	5	1,319	1,248
Other receivables and prepaid expenses		51	36
Investment property (net)	6	14,459	14,991
TOTAL ASSETS		15,829	16,275
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Dividend payable	11	832	807
Other liabilities	8,12	402	289
Derivative financial instruments	7	332	160
Borrowings	7	8,640	9,227
Total liabilities		10,206	10,483
SHAREHOLDERS' EQUITY			
Share capital	9	3,450	3,450
Share premium		2,412	2,412
Hedge reserve		(332)	(160)
Retained earnings		93	90
Total shareholders' equity		5,623	5,792
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		15,829	16,275

These financial statements have been approved by the Board of Directors on 23 February 2010.


 Veneta Ilieva
 Representative of the
 Executive Director Preslav Enterprise EOOD


 Emilia Karadocheva
 Financial Manager

*Auditor: Стефан
 23/02/2010*



ERG CAPITAL - 2 ADSIP
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 YEAR ENDED 31 DECEMBER 2009

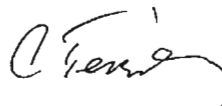
BGN in thousands except per share amounts or unless otherwise stated

	Share capital	Share premium	Hedge reserve	Retained earnings	Total
31 December 2007	3,450	2,412	392	91	6,345
Cash flow hedges	-	-	(552)	-	(552)
Profit for the year	-	-	-	897	897
Dividend	-	-	-	(898)	(898)
31 December 2008	3,450	2,412	(160)	90	5,792
Cash flow hedges	-	-	(172)	-	(172)
Profit for the year	-	-	-	925	925
Dividend	-	-	-	(922)	(922)
31 December 2009	<u>3,450</u>	<u>2,412</u>	<u>(332)</u>	<u>93</u>	<u>5,623</u>

These financial statements have been approved by the Board of Directors on 23 February 2010.


 Veneta Ilieva
 Representative of the
 Executive Director Preslav Enterprise EOOD


 Emilia Karadocheva
 Financial Manager

Auditor: 
 23/02/2010




ERG CAPITAL - 2 ADSIP
 STATEMENT OF CASH FLOW
 YEAR ENDED 31 DECEMBER 2009

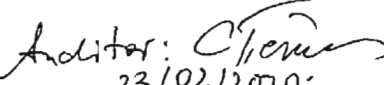
BGN in thousands except per share amounts or unless otherwise stated

	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		925	897
Adjustments to reconcile profit for the year to net cash from operating activities			
Depreciation	6	532	532
Increase in receivables and prepaid expenses		(15)	(6)
Increase (decrease) in other liabilities	8,12	113	(2)
Net cash from operating activities		1,555	1,421
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(587)	(586)
Dividend paid	11	(897)	(909)
Net cash used in financing activities		(1,484)	(1,495)
Net increase (decrease) in cash and cash equivalents		71	(74)
Cash and cash equivalents at the beginning of the year		1,248	1,322
Cash and cash equivalents at the end of the year	5	1,319	1,248
Supplemental cash flow information:			
Interest paid		567	577

These financial statements have been approved by the Board of Directors on 23 February 2010.


 Veneta Ilieva
 Representative of the
 Executive Director Preslav Enterprise EOOD


 Emilia Karadocheva
 Financial Manager

Auditor: 
 23/02/2010



4 The accompanying notes to financial statements are an integral part of these statements.

BGN in thousands except per share amounts or unless otherwise stated

1 Organization and operations

ERG Capital - 2 ADSIP ("the Company" or "ERG") was registered on 9 June 2005 as a Bulgarian joint stock company with special investment purpose with the sole purpose to invest the funds raised in real estate. The main shareholder of the Company is the Bulgarian-American Enterprise Fund ("BAEF"), which holds 37% of the share capital. Under the Company's by-laws, ERG has a fixed term of existence that ends on 31 December 2012.

ERG activities and operations are governed by the provisions of the Special Investment Purpose Companies Act ("SIPCA"), the Public Offering of Securities Act and related secondary legislative acts. The Financial Supervision Commission is responsible for supervision of the Company's compliance with the laws and regulations. The SIPCA requires the Company's cash and securities to be held at a custodian bank, which is United Bulgarian Bank AD. Bulgarian American Property Management EOOD ("BAPM") is the servicing company for ERG and the asset management company for ERG is Serdika Capital Advisors Permanent Establishment ("SCA").

On 22 December 2005 the Company received its license to operate as a company with special investment purpose from the Financial Supervision Commission.

The Company's registered office is located at 3 Shipka Str., Sofia, Bulgaria.

2 Summary of significant accounting policies

Basis of Preparation

The Company prepares and presents its financial statements in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") and the interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC"), as approved by the European Union Commission ("the Commission") and applicable in the Republic of Bulgaria. IFRS as adopted by the Commission do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of 31 December 2009, except for certain requirements for hedge reporting in accordance with the IAS 39 Financial Instruments: Recognition and Measurement, which has not been adopted by the Commission. The management believes that if the hedge requirements have been approved by the Commission it would have no influence on these financial statements.

During 2009 the Company has adopted all new and revised IFRS by IASB, as approved by the Commission, effective for 2009, which refer to the Company's business. The adoption of these amendments and interpretations has not resulted in changes in the accounting policies of the Company. In addition for all new investments started after 1 January 2009 borrowing costs that are directly attributable to the acquisition, construction and development are capitalised as part of the cost of the investment property, in accordance with the amendments to IAS 23 Borrowing costs.

Certain IFRS, amendments to IFRS and interpretations have been adopted by IASB and IFRIC as of the date of the financial statements, but are effective for annual periods beginning on or after 1 January 2010. The Company has not elected earlier application of those IFRS and IFRS revisions.

These financial statements have been prepared on the historical cost basis. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting

ERG CAPITAL - 2 ADSIP
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2009

BGN in thousands except per share amounts or unless otherwise stated

period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The statement of financial position presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items. These financial statements are prepared for general purposes and provide information for the financial position, operations and cash flows of the Company for the year ended 31 December 2009.

Functional and reporting currency

The functional currency of the Company is the national currency of Bulgaria, the Lev ("BGN"). The financial statements are presented in BGN.

Foreign currency

Foreign currency transactions, i.e. transactions denominated in currencies other than BGN, the Company's functional currency, are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Cash and cash equivalents

For the purposes of the financial statements, the Company considers all highly liquid financial instruments and other financial instruments with maturity of three months or less to be cash equivalents.

Investment property

Investment property is held to be leased under long term operating leases. After the initial recognition the investment property is accounted for in accordance with the Cost model - cost less accumulated depreciation and less accumulated impairment losses as determined by management. The SIPCA requires that ERG's investment property is appraised at the end of each fiscal year. Depreciation is based on the straight-line method over the estimated useful life of the asset. The annual rate of depreciation used for the buildings is 4%.

Borrowings

Borrowings are recognized initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Rental income recognition

Rents from operating leases are recorded as rental income as they become due in accordance with the lease contracts.

ERG CAPITAL - 2 ADSIP
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2009

BGN in thousands except per share amounts or unless otherwise stated

Interest income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing instruments using the effective interest method. Interest income includes interest on bank deposits. Interest expense includes interest on borrowings and payables.

Derivatives

Derivative financial instruments, including interest rate swaps are initially recognised in the statement of financial position at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models. The derivatives designated as effective cash flow hedges are carried as assets when fair value is positive and as liabilities when fair value is negative. The changes in their fair value are recognized in the statement of comprehensive income.

Tax status and dividend requirement

The Company was formed under the SIPCA and is exempt from Bulgarian corporate income taxes as long as it distributes to shareholders 90% of its profit for the year or 90% of its retained earnings if retained earnings are less than profit for the year. Considering the SIPCA requirement, the Company accrues the required dividend as of the end of each fiscal year and recognizes this dividend as a liability at the statement of financial position date, meeting the criteria of a present obligation as defined in IAS 37.

3 Rental income

The Company owns property at two locations in Varna – 55, Republica Blvd. and 268, Vladislav Varnenchik Blvd. The first property, except for the basement area is leased to Praktiker EOOD under an operating lease contract that expires in June 2015. The lease contract is non-cancellable and is guaranteed by Praktiker Bau- und Heimwerkermarkte AG, the parent company of Praktiker EOOD. The lease contains options to be extended 3 times, once for 8 years and twice for 6 years. The second property, along with the basement area of the first property, is leased to Piccadilly EAD under an operating lease contract that expires in December 2015. The lease contract is non-cancellable and is guaranteed with a bank guarantee for a certain number of monthly rent payments. The lease contains an option to be extended for 10 more years. In addition, the Company leases a billboard to the Bulgarian American Credit Bank AD ("BACB") under a non-cancellable lease contract that was extended in 2008 until December 2013 and a portion of the parking area to Mobilitel EAD under a non-cancellable lease contract that expires in January 2016.

4 Operating expenses

	<u>2009</u>	<u>2008</u>
Professional fees	601	581
Board of Directors fees	11	-
General and administrative expenses	<u>12</u>	<u>9</u>
Total	<u>624</u>	<u>590</u>

ERG CAPITAL - 2 ADSIP
 NOTES TO THE FINANCIAL STATEMENTS
 31 DECEMBER 2009

BGN in thousands except per share amounts or unless otherwise stated

5 Cash and cash equivalents

At 31 December 2009 and 2008 cash and cash equivalents of BGN 598 and BGN 456, respectively were pledged under loan agreements (Note 7).

6 Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<i>Cost</i>			
31 December 2008	3,419	13,285	16,704
31 December 2009	3,419	13,285	16,704
<i>Accumulated depreciation</i>			
31 December 2008	-	1,713	1,713
Charge for 2009	-	532	532
31 December 2009	-	2,245	2,245
<i>Net book value</i>			
31 December 2009	3,419	11,040	14,459
31 December 2008	3,419	11,572	14,991

Based upon the result of the required annual appraisal, the fair value of the investment property at 31 December 2009 and 2008 was BGN 28,401 and BGN 26,004 respectively.

The investment property is pledged in favor of UniCredit Bulbank under the loan agreements (Note 7).

7 Borrowings

The table below presents borrowings, based on the time remaining from the statement of financial position date to contractual maturity dates:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
UniCredit Bulbank - Loan № 1	337	337	3,902	4,576
UniCredit Bulbank - Loan № 2	250	250	3,564	4,064
Total	587	587	7,466	8,640

Loans from UniCredit Bulbank

Loan № 1

On 15 August 2005 (and as subsequently amended) the Company and HVB Bank Biochim (subsequently merged into UniCredit Bulbank) executed a floating rate (3 month EURIBOR + 3%, reduced to 3 month EURIBOR + 2% at 31 August 2006) loan agreement whereby the Company can borrow up to EUR 3.45 million for financing the purchase of investment property located in Varna at 55, Republica Blvd. Principal payments are due monthly through 20 November 2012 according to a fixed repayment schedule. The Company pledged the property and the related rental income, as well as certain bank accounts. In addition, if the BAEF reduces its percentage ownership (currently 37%) in ERG below 11% UniCredit Bulbank may require repayment of the loan. The outstanding principal balance at 31 December 2009

ERG CAPITAL - 2 ADSIP
 NOTES TO THE FINANCIAL STATEMENTS
 31 DECEMBER 2009

BGN in thousands except per share amounts or unless otherwise stated

and 2008 was EUR 2.34 million (BGN 4,576) and EUR 2.51 million (BGN 4,912), respectively. The fair value of the loan approximates its carrying amount.

Loan № 2

On 8 November 2005 (and as subsequently amended) the Company and HVB Bank Biochim (subsequently merged into UniCredit Bulbank) executed a floating rate (3 month EURIBOR + 3%, reduced to 3 month EURIBOR + 2% at 31 August 2006) loan agreement whereby the Company can borrow up to EUR 2.6 million for financing the purchase of investment property located in Varna at 268, Vladislav Varnenchik Blvd. Principal payments are due monthly through 20 November 2012 according to a fixed repayment schedule. The Company pledged the property and the related rental income, as well as certain bank accounts. In addition, if the BAEF reduces its percentage ownership (currently 37%) in ERG below 11% UniCredit Bulbank may require prepayment of the loan. The outstanding principal balance at 31 December 2009 and 2008 was EUR 2.08 million (BGN 4,064) and EUR 2.21 million (BGN 4,315), respectively. The fair value of the loan approximates its carrying amount.

On 3 November 2005 the Company and HVB Bank Biochim (subsequently merged into UniCredit Bulbank) executed an interest rate swap agreement with a notional principal of EUR 5.97 million and amortization schedule matching the amortization schedules of the two loans from UniCredit Bulbank in order to fix the interest rate on both loans. Under the agreement the Company pays to UniCredit Bulbank interest of 3.45 % on the notional principal over the term of the swap and UniCredit Bulbank pays to ERG interest equal to the corresponding 1 month EURIBOR. The maturity of the swap is 30 November 2012. The outstanding notional balance at 31 December 2009 and 2008 was EUR 4.77 million (BGN 9,324) and EUR 5.07 million (BGN 9,911), respectively. Change in the fair value at 31 December 2009 and 2008 of EUR (0.09) million (BGN (172)) and EUR (0.28) million (BGN (552)), respectively are recognized in the statement of comprehensive income. In accordance with IFRS 7, fair value hierarchy Level 2, the swap agreement fair value was derived using interest market rates at 31 December 2009. Interest income and expense are recognized in the statement of comprehensive income in the period they incur.

8 Other liabilities

	<u>2009</u>	<u>2008</u>
Asset management fee payable (Note 12)	278	269
Deferred rental income	109	-
Other	15	20
Total	<u>402</u>	<u>289</u>

9 Share capital

After receiving a license for special investment purpose company ERG was required to increase its outstanding shares by at least 30% through a public offering. On 22 December 2005 the Company received its license and subsequently completed a 50% capital increase within the prescribed period.

The capital of the Company is BGN 3,450 distributed in 3,450,000 common shares with a face value of BGN 1 per share, each with equal voting rights.

BAEF as a significant minority shareholder owns 37% of the shares. It is a U.S. corporation established pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") for the primary purpose of promoting the development of the Bulgarian private sector and policies and practices conducive to such development. It is engaged in a broad private investment program in Bulgaria, which,

BGN in thousands except per share amounts or unless otherwise stated

through equity investments, loans, grants, technical assistance and other measures, emphasizes a commitment to small-to-medium sized enterprises (SME).

The remaining shares are owned by other companies and individuals.

The Company's shares are traded on the Bulgarian Stock Exchange under the ticker 6ER.

10 Earnings per share

Earnings per share is computed by dividing the profit or loss for the year available to common shareholders by the weighted average number of common shares outstanding for the period. The company does not have any diluted shares thus basic and diluted earnings per share are equal. The weighted average number of common shares used in the calculations for 2009 and 2008 is 3,450,000.

11 Dividend per share

At 31 December 2009 and 2008 a dividend of BGN 832 (BGN 0.24 per share) and BGN 807 (BGN 0.23 per share), respectively were accrued. The 2008 dividend was increased to BGN 897 (BGN 0.26 per share) at the 2009 General Meeting and the difference was recorded in 2009.

12 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if it is under common control. The Company has entered into transactions with related parties in the normal course of business.

The balances due to/from related companies and the related expense and income at 31 December 2009 and 2008, respectively are as follows:

<u>Related company</u>	<u>2009</u>	<u>2008</u>
Asset management fee payable to SCA (Note 8)	278	269
Asset management fee - SCA	395	388
Interest income – BACB*	-	35
Rental income – BACB*	-	3
Servicing fee - BAPM	78	76
Board of Directors fees to Preslav Enterprise EOOD	3	-

*The Company and BACB are not related parties as of 17 November 2008.

13 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk, interest rate risk, liquidity risk and market risk (including currency and price risk).

BGN in thousands except per share amounts or unless otherwise stated

Credit risk

The Company is exposed to credit risk in its investment activities. Credit risk is the risks that counterparty will be unable to pay amounts in full when they become due. ERG limits the credit risk by ensuring that rental contracts are made with customers with an appropriate credit history and also by having in place company guarantees from the lessees' parent companies for prompt and accurate performance of the obligations under the rental contracts.

Interest rate risk

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations to the Company's profit for the year and equity value. It is the Company's policy to reduce the interest rate risk through the use of swap agreement (Note 7). This reduces significantly the overall interest rate risk.

Liquidity Risk

The liquidity risk refers to the risk that the Company might not have sufficient cash to meet its obligations and arises from mismatch in cash flows. For the Company, the primary liquidity risk relates to its dependence on the payments of rents in order to service the borrowings. At any point of time the Company maintains a positive balance between the incoming and outgoing cash flows on its rents and borrowings.

Market risk

Currency Risk

The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Rent receivables, borrowings and a significant amount of interest and operating expenses are denominated in EUR. The Company does not maintain positions in currency other than EUR and BGN. The BGN/EUR exchange rate of BGN 1.95583 for EUR 1 is fixed under a Currency Board arrangement.

Price risk

The Company is exposed to property price and market rental risks. This risk has increased recently as a result of the global financial crisis that limited the credit availability worldwide and affected negatively the real estate prices and the rental rates. The crisis affected Bulgaria and the local real estate market in the second half of 2008 and may have material adverse effects on the Company's financials and results of operations should it last beyond year 2010. It is the Company's policy to reduce this risk by only investing in high quality properties and leasing to first class tenants with favorable terms and guarantees.