



4 June 2010

## **ELARG Agricultural Land Opportunity Fund REIT**

**(BSE: 4EC, Bloomberg: 4EC BU)**

### **Consolidated Interim Financial Statements 1Q 2010 and Update from Management**

Dear Shareholders,

We are pleased to present our second quarterly update on ELARG. Since our first newsletter in February, a great degree of uncertainty has prevailed throughout the European financial markets. Some commentators have blamed the opaque nature of the markets and short-term traders seeking to make a quick profit. However, one of the strongest fundamental investment themes in recent times continues to be the global agricultural industry. Changing dietary patterns has meant more grain being earmarked for dairy and meat production. That is why, despite this recent market volatility, we continue to be confident that Bulgaria's agricultural sector remains poised for robust growth over the next few years.

We also believe that an agriculture company that has a long-term vision, sets ambitious milestones and demonstrates that it can consistently achieve its main objectives, will continue to attract investments.

Today, we are pleased to tell you about the financial results and the progress made by the Fund in the first quarter of 2010.

#### **1Q Results and Operational Highlights**

The quarterly results show a marked improvement in rental income (up 39% year on year, from EUR 436,000 to EUR 605,000), mainly a credit to the new management company's efforts in streamlining the land rental process.

It should be noted that the expenses are not comparable to last year due to this year's consolidation of the results of our fully owned subsidiaries Elarg Agro and Elarg Wind (the



farming and wind farm energy businesses launched in 2009). The higher expenses also reflect the seasonal nature of the business of Elarg Agro and the expenses that we have incurred in the first quarter of 2010 for salaries, rent and insurance will only be paired with revenues at the time of harvest in the third quarter of this year.

With Elarg Wind, we reflect as a current expense the administrative cost of the operation. This is unlikely to produce revenues in the short term due to the early stage nature of wind farm development. Hence, the consolidated quarterly profit is marginally down on last year's first quarter (EUR 124,000 vs. EUR 127,000) despite the much improved revenue generation.

Operationally, we are pleased to announce that the Fund's positive operating cash flow, first achieved in 2009, has been maintained. This was primarily achieved through rigorous cost cutting measures as well as an increase in the collection of rents for the 2008/2009 financial year.

As announced in our previous newsletter, the management at ELARG had set some ambitious milestones and we are glad to report that we have superseded our internal objectives for this quarter. More than 23 thousand hectares of land will be rented for 2009/10 farming season (corresponding to 80+ % of the Fund's agricultural land portfolio), at an average rate of BGN 185 per ha (EUR 95 per ha). This compares favourably to the 2008/09 farming season, when ELARG rented 75% of its land at an average rate of BGN 169 per ha (EUR 86 per ha).

The Fund continued steady progress with rent collections. As of 31 April 2009, the Fund collected BGN 2.9m (EUR 1.5m) of the 2008/09 season's rental income, representing 80% of the total rents signed for that season.

## **ELARG Argo Developments**

In the first quarter priority for the new management team was ensuring that the wheat planted in the fall were adequately insured and cared for. Despite serious flooding in the area, we are satisfied with the condition of our crops.

We also analysed the existing footprint of Elarg Agro and developed a plan for the concentration of the portfolio in subsequent years to insure optimal crop rotation and yields. It is intended that this cultivation initiative will be rolled out in the Vidin region in the fall in order to make use of our vacant land in that region and ensure its long-term profitability.

## **Outlook**

We have said that we expected 2010 to become one of the most important years in the Fund's history and it is quickly shaping out to be that way. The Bulgarian government has announced ambitious plans for the disposal of its portfolio of agricultural land, both through land sales and long-term leases. These initiatives are likely to reshape the list of national leaders in agricultural land ownership in the long term and will significantly impact the supply and demand of the rental



market in the short and medium term. It is our intention that ELARG continues to play a central role in land consolidation therefore maintaining its central role in Bulgaria's agricultural sector.

To ensure our continued dominance, our main aim will be to build on our initiatives and continue the successful work started in 2009.

For additional information please contact:

Maria Iotova  
Acting Director of Investor Relations  
ELARG Agricultural Land Opportunity Fund REIT  
95-97, James Bouchier Blvd.  
1421 Sofia, Bulgaria  
T + 359 2 8681868  
F + 359 2 8687868  
m.iotova@agromanage.bg

Vesselin Danev  
Executive Director  
Agromanage AD  
Fund-servicing company for  
ELARG Agricultural Land Opportunity Fund REIT