

ERG CAPITAL - 3 ADSIP

FINANCIAL STATEMENTS,
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS
31 DECEMBER 2010

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

AND

ANNUAL MANAGEMENT REPORT ON
THE ACTIVITY

**ANNUAL REPORT
ON THE ACTIVITIES FOR 2010**

ANNUAL MANAGEMENT REPORT ON THE ACTIVITY OF ERG CAPITAL – 3 ADSIP FOR 2010

23 February 2011

"ERG Capital – 3" ADSIP ("ERG – 3" or "the Company") 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 securitization.

In 2007, the Company was licensed as a Special Investment Purpose Company by the Financial Supervision Commission ("FSC"). In the same year the Company increased its capital by 50%.

Since its listing as a public company ERG -3 complies with its obligations under the agreements to which it is a party. Its activity is oriented towards managing and/or developing five real estate investments in the cities of Sofia, Varna, Stara Zagora and Bourgas and described below and in Note 5 to the Financial statements.

ACTIVITY REVIEW

On 25 April 2007 the Financial Supervision Commission approved the prospectus for mandatory initial capital increase of ERG - 3 and licensed the Company as a company with special investment purpose. The Company increased its capital by 50%. The Company sold 700,000 rights, against which 700,000 shares were subscribed at issue price of BGN 20 per share. As a result the Company received a total of BGN 15,941 thousand and used the proceeds to pay amounts due for a real estate investment acquired in 2006 and to purchase new real estate investments.

In February 2010 due to the economic crisis the Company agreed to change the method for determining the rent in part of the lease agreements in Stara Zagora to reflect the impact of the crisis and in the same time to be able to get increased rent when economy rebounds.

The Annual General Meeting of the Company (AGM), held on 27 May 2010 made a number of important decisions, including changes in the composition of the Board of Directors and approval of amendments to the contract with the servicing company dated July 14, 2006 as per the requirements of Art. 114 of the Public Offering of Securities Act („POSA").

In September 2010 the Company executed a preliminary sale agreement for the Zagora property. The execution of the final sale agreement is contingent upon completion of due diligence by the buyer, which as at the date of this document is still in process and ability to secure financing. The agreed sale price of the Zagora property is EUR 11 million (net of VAT), whereas all state taxes and fees associated with the sale shall be for the expense of the buyer. If a final sale agreement is executed the Company shall receive the sale price within two months thereafter.

In the following discussion we present some comments regarding important aspects of the activity of the Company during 2010:

1. Liquidity

As of 31 December 2010 the Company's cash and cash equivalents are in the amount of BGN 1,214 thousand. The other current assets are in the amount of BGN 72 thousand. The current liabilities are in the amount of BGN 1,187 thousand, of which EUR 351 thousand is the current portion of the bank loan used for financing the development of the Zagora property.

During 2010 ERG – 3 made 4 scheduled coupon payments under its listed 3-year fixed rate EUR 6,514 thousand bond issue. It also serviced regularly the bank loan used for the development of the Zagora property and all its other liabilities.

As of 31 December 2010 the Company has unused line of credit from the Bulgarian American Credit Bank AD ("BACB") in the amount of EUR 1,000 thousand.

The available cash and the unused loans of the Company are sufficient at this stage to cover its liquidity needs.

2. Capital resources

As of 31 December 2010 ERG – 3's shareholders' equity is BGN 26,261 thousand. The capital of the Company was paid in full and despite the accumulated losses for 2010, 2009 and 2008, it is currently sufficient to support the Company's business activity. ERG - 3 does not plan any further capital increases.

For each of the properties described below and in Note 5 to the Financial statements, the Company has two alternatives: a/ to develop it as a commercial property and lease it out or sell it and b/ to sell it without development with a premium. In the case of developing a property, if this is considered to be more beneficial to the shareholders by the management, the Company will have significant capital expenses for construction works, which will be financed with bank loans.

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

Share of rented properties in 2010: 10.41%

Acquisitions or sales of real estate investments

As of 31 December 2010 the Company owned five real estate investments: "Yavor property", "Zagora property", "Gerena property", "Sofia Ring property" and "Bourgas retail property".

Yavor property represents a 14,483 sq.m. land plot (the cadastre measured area is 14,724sq.m.) and buildings, located in Varna, with administrative address 2, Oreh Street. The property is on Slivnitsa Blvd, which is one of the main boulevards in Varna. The land represents regulated land plot № I-65, located in district 14 from the 26th region of Varna and has cadastre identification number 10135.3513.216. During 2009 part of the buildings were demolished. The total built-up area of the buildings as of 31 December 2010 was 14,916 sq.m. (the cadastre measured area), the biggest of which was built in 1989 with total built-up area of 13,383 sq.m., and could be used in future development. **The maximum building-development intensity for plot № I-65 is 3.5, which means possible construction of buildings with total built-up area of up to 51,534 sq.m. according to the city plan.**

Zagora property at 31 December 2010, represented a 22,817 sq.m. land plot (the cadastre measured area is 22,768 sq.m.) and fully developed retail complex with total built-up area of 18,530.3 sq.m. (the cadastre measured area) leased to the companies Aiko Multi Concept EOOD, Mobbo EOOD (related to Aiko Multi Concept EOOD) and Merkator-B EOOD. The first two are furniture retailers, leasing 15,370.3sq.m. and the third is a food retailer, a subsidiary of the Slovenian Merkator, leasing 3,160sq.m.

Gerena property represents 25,208 sq.m. land plot (a sketch measured area is 25,036.9sq.m.) located on Vladimir Vazov Blvd, which is one of the main boulevards in Sofia. It is easily accessible from the city centre and the airport. The property consists of three regulated plots. The property is cleared from buildings and construction scrap. The process of optimization of the plot boundaries through regulation was finalized in 2010. **After the completion of the procedure for changing the regulation and building development plan, the maximum building development intensity for that property is 3.5, which means that there could be constructed buildings with total built-up area of up to 88,288 sq. m.**

Sofia Ring property represents 131,284 sq.m. land plot located on the inner side of the Ring Road with 400 meters face on the Ring Road close to the intersection with Botevgradsko Shosse. The land consists of two regulated plots with maximum building development intensity 1.5 and 1.5 respectively, which means possible construction of buildings with total built-up area of up to

196,926 sq.m. There are two construction permits issued for the plots (based on conceptual designs) with less than the allowed construction.

Bourgas retail property represents 24,966 sq.m. land plot (the cadastre measured area is 24,959 sq.m.) adjacent to Todor Aleksandrov Blvd, which is one of the main boulevards in Bourgas. The land consisted of two regulated plots: LI - 265 and L – 636, which in 2009 were united in one regulated plot L-265,636 and has cadastre identification number 07079.659.505. The property is cleared from buildings and construction scrap. According to the effective regulation and the city plan the property is in the ПЧ1 zone, which, according to the existing standards allows maximum building development intensity up to 2.5 and respectively the possible construction of buildings with total built-up area up to 62,397.5 sq.m.

Acquisitions and sales of real estate investments in 2010

In 2010 the Company did not acquire new properties, nor it sold any of its real estate investments.

In September 2010 the Company executed a preliminary sale agreement for the Zagora property. The execution of the final sale agreement is contingent upon completion of due diligence by the buyer, which as at the date of this document is still in process and ability to secure financing. The agreed sale price of the Zagora property is EUR 11 million (net of VAT), whereas all state taxes and fees associated with the sale shall be for the expense of the buyer. If a final sale agreement is executed the Company shall receive the sale price within two months thereafter.

Lease agreements executed in 2010

In 2010 the Company did not execute new lease agreements.

In February 2010 the Company agreed to change the method for determining the rent in certain lease agreements by lowering the fixed rent amounts and adding a provision that provides additional rent as a percentage of sales. This change acknowledges the effect of the economic crisis but at the same time provides an upside potential when the economy rebounds. The rent modification reduces the total contracted fixed rent by approximately BGN 3,500 thousand. The amended lease agreements also include an option for the Company, to cancel the lease agreements with short notice and no penalty

Construction works, repairs and improvements made in 2010:

ERG-3 did not make any significant constructions works, repairs and improvements during 2010.

4. Results from operations

The Company ended 2010 with a loss for the year of BGN 1,077 thousand. In the year, due to the worsening market situation, the Company did not sell any property.

The Company generated rental income in the amount of BGN 2,110 thousand. The net rental income, after direct rental expenses and depreciation, amounted to BGN 1,239 thousand.

In the meantime the Company incurred expenses, the most significant of which was the interest expense in the amount of BGN 1,881 thousand comprising mainly the interest paid on the bond used to refinance the line for the acquisition of the Sofia Ring property and on the loan used to finance the development of the Zagora property.

The Company incurred operating expenses in the amount of BGN 561 thousand. BGN 277 thousand of these represent fees to the servicing company SCA under a servicing agreement dated 14 July 2006. Out of the BGN 626 thousand fees due to SCA BGN 349 thousand were paid in 2010. The rest was accrued as a payable as at 31 December 2010.

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. Listed below are the main Company specific risk factors:

- Rising construction costs
- Rising interest rates
- 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 future tenants
- Unexpected maintenance expenses
- Risk of occurrence of an uninsured event.

In addition to the Company specific risk factors, ERG-3 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 2010 the real estate market in Bulgaria worsened significantly and this trend is expected to continue at least in the first half of 2011. This and the worsening macroeconomic situation could significantly adversely affect the Company's financial condition and results of operations. It could have negative effect 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 other 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 2010.

7. Expected developments and plans for 2011

At this stage, the Company does not plan any further capital increases or new real estate acquisitions. For each of the properties described above and in Note 5 to the Financial statements, the Company is currently exploring the following alternatives: a/ develop a commercial property and lease it out or sell it b/ sell without development. In the case of developing a property, if this is more beneficial to the shareholders, the Company will have significant capital expenses for construction works, which will be financed with bank loans.

8. Research and development

ERG-3 is operating in the real estate sector and is not involved in any research and development activities.

9. Use of financial instruments

In 2009 the Company issued a secured bond in the amount of EUR 6,514 thousand to refinance existing bank loan.

10. Branches

ERG-3 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 the Public Offering of Securities Act (POSA). Therefore, by virtue of the law, ERG-3 is not allowed to purchase or own any of its shares and the Company has never traded in its own shares.

CORPORATE GOVERNANCE

The Company adopted its Good Corporate Governance Program (GCGP) in 2007. During 2010 the activities of the Company and of the Board of Directors have been in compliance with the GCGP.

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 2010, the Company has outstanding share capital of BGN 21,000 thousand comprising of 2,100,000 shares, each with a nominal value of BGN 10. All the issued and outstanding shares are fully paid-up. During 2010 there were no changes in the number of shares outstanding.

ERG - 3 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. The Company 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 (thousand BGN)
31 December 2009	2,100,000	21,000
31 December 2010	2,100,000	21,000

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 the date of this document.

At 31 December 2010

Shareholder	Number of shares Owned at 31.12.2010	% of Voting shares at 31.12.2010
Bulgarian-American Enterprise Fund (BAEF)	980,000	46.67
Frank Louis Bauer	165,509	7.88
Bulgarian-American Property Management (100% owned by BAEF)	140,700	6.70
Michael David Hunsberger	124,500	5.93

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 $\frac{3}{4}$ 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 50% 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

In 2010 Directors received gross remuneration from ERG-3 in the amount of BGN 17,455 based on the decisions of the AGM. According to these decisions each member of the Board of Directors receives gross remuneration in the amount of BGN 500 per month. Save for these payments the Company has not made any other payments to its directors in whatever form.

6. Employees and Directors as Shareholders

Company's directors hold certain interest in the Company's shares, which are equal to 6.70% of its share capital at 31 December 2010. 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 and their respective representatives' dealings with Company's shares in 2010:

Director	Shares owned on 31 December 2009	Net purchases (sales) of Company shares	Shares owned on 31 December 2010
BAPM EOOD	140,700	-	140,700
Sredetz Enterprise EOOD	-	-	-
Anna Boneva, representative of BAPM EOOD as per art. 234 par. 1 of the Commercial Act	7,500	-	7,500
Daniela Handjieva representative of Sredetz Enterprise EOOD as per art. 234 par. 1 of the Commercial Act	1,226	-	1,226
Yordan Chompalov	-	-	-

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. Yordan Compalov

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:

- "DTT" OOD;
- Spam trading OOD

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

- "Imoti Direct" ADSIP;
- Spam trading OOD

7.2. Sredetz Enterprise EOOD (as of the date of this report)

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 any company

7.2.3. Does not serve as director in other companies

7.3. Bulgarian American Property Management EOOD (BAPM EOOD) (as of the date of this

report)

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 of the following companies:

- Owns 100% of the capital of Preslav Enterprise EOOD;
- Owns 100% of the capital of Sredetz Enterprise EOOD.

7.3.3. Does not serve as director in other companies

8. Conflicts of interest

In 2010 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 by-laws 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 $\frac{3}{4}$ 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 by-laws provide that a quorum of at least half of all Board members is necessary for a valid meeting and for passing of resolutions. Unless otherwise provided by law or by the Company's bylaws the decisions of the Board are taken with simple 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 by-laws requires the approval of $\frac{3}{4}$ 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 by-laws 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 to 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 Law on Companies with Special Investment Purpose, the By-laws and the 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.
- Based on proposals from the Servicing Company/ies decides on acquisitions and sales of real estate investments within the limitations of the Law and 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-3's main activity is managing and/or developing and leasing the properties it owns.

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

In 2010 the rental revenues accounted for 94.4% of the Company's revenues.

In 2010 interest and loan related expenses to Raiffeisenbank (Bulgaria) AD accounted for 16% of total expenses. Raiffeisenbank (Bulgaria) is not a related party to the Company. The interest on the bond issued in March 2009 and subsequent listed for trading on the BSE-Sofia and bond related expenses accounted for 40% of the total expenses.

In 2010 17% of the total expenses were operating expenses out of which BGN 277 thousand or 8% of total expenses were fees to the servicing company SCA under a servicing agreement approved by the Constitutive Meeting of the Shareholders, held on 23 June 2006. SCA is a related party to the Company. For further details please refer to Note 12 to the Financial statements.

No contractor, other than Raiffeisenbank (Bulgaria) and SCA has accounted for more than 10% of the total expenses of the Company.

3. Large or important deals in 2010

Save for the preliminary agreement, described above, no large or important deals were executed by the Company in 2010.

4. Deals or proposals for deals with related parties

The AGM, held on 27 May 2010 approved amendments to the contract with the servicing company dated July 14, 2006 as per the requirements of Art. 114 of the POSA. Please refer to Note 12 to the Financial statements and the minutes of the AGM (http://ergcapital-3.bg/files/prospectus/file_26_bg.pdf).

5. Unusual events with significant impact on the activities

Save from the change in the method for determining the rent in part of the lease agreements in Stara Zagora, in 2010 there were no any unusual events that could have a material impact on the activity of the Company, its financials and results from operations.

6. Off-balance sheet commitments

All off-balance sheet assets or liabilities are disclosed in the Notes 3, 5, 8, 9 and 10 to the Financial statements.

7. Ownership of other legal entities

ERG-3 does not own shares or any other ownership interest in other companies.

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

At 31 December 2010 ERG-3 has two loans (loan and line of credit) outstanding with details provided in Note 8 to the Financial statements and a listed bond issue with details provided in this report and in Note 9 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-3 is not allowed to provide loans to any party and in 2010 the Company has not entered in such deals.

10. Use of funds from a new issue of securities

In 2009 the Company issued EUR 6,514 thousand 3-year fixed rate secured bond that was listed for trading at the BSE-Sofia. The proceeds were used to refinance a bank line used to finance the acquisition of the Sofia Ring property (EUR 5,000 thousand) and to cover on-going cash needs of the Company.

11. Comparison of financial results with prior earnings forecasts

ERG-3 does not publish earnings forecasts.

12. Capital budgeting, liability management, threats and measures

ERG-3'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

Please refer to "Expected developments and plans for 2011" discusses above.

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

There were no changes to ERG-3's governance principles. With 46.7% of the shares held directly and 53.4% directly and indirectly, BAEF is the main shareholder. The Company does not have an economic group.

15. Internal control and risk management

ERG-3 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

At the AGM held on 27 May 2010 the Board of Directors member Anna Boneva was replaced by Bulgarian American Property Management EOOD, represented as per Art 234 (1) of the Commercial Act by Anna Boneva.

17. Remuneration of the Board of Directors

In 2010 the members of the Board of Directors received gross remuneration from ERG-3 forming the amount of BGN 17,455. For more details, please see the section on Corporate Governance above.

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.

20. Court, administrative or arbitration procedures

The Company is not a party to any pending, court, administrative or arbitration proceedings, regarding receivables or obligations exceeding 10% of its capital.

It is management's opinion that the resolution of these proceedings will not have a material effect on the Company's financial statements.

21. Investor relations officer

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CHANGES IN THE PRICE OF THE SHARES

According to the statistics of BSE-Sofia (infostock.bg) in 2010 16,352 shares of the Company were traded at BSE-Sofia for a total value of BGN 99.3 thousand at prices ranging between BGN 5.251 and 7.26 per share. The last deal at BSE-Sofia for the year was executed on 30 December 2010 for 1 share at BGN 6.05 per share.



Anna Boneva
Representative of the Executive Director
BAPM EOOD

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
DECEMBER 31, 2010**

*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 - 3 ADSIP

Report on the financial statements

We have audited the accompanying financial statements of ERG Capital - 3 ADSIP (the "Company"), which comprise the statement of financial position as of December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with IFRS 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 5 to 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.
- (c) The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in note 3 to the accompanying financial statements, in September 2010 the Company signed a preliminary sale agreement with a real estate company for sale of the Zagora property. The completion of the sale is subject to the buyer's due diligence and ability to secure financing, as well as the buyer's and the sellers' compliance with terms and conditions specified in the agreement. Currently this is the only property in the Company's portfolio that generates any cash flow through lease contracts. If the sale is completed, the Company's annual rental income will be entirely reduced and the assets value will be reduced by 36% which results in significant curtailment of the Company's operation in the foreseeable future.

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, 2010, 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, 2011.

Deloitte Audit

Deloitte Audit OOD

Sylvia Peneva

Sylvia Peneva
Managing Director
Registered Auditor

February 23, 2011
Sofia

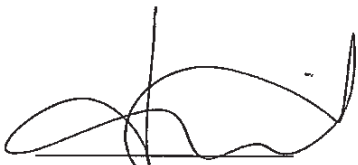


ERG CAPITAL – 3 ADSIP
 STATEMENT OF COMPREHENSIVE INCOME
 YEAR ENDED 31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2010	2009
Rental income	3	2,110	2,220
Direct rental expenses and depreciation		(871)	(616)
		1,239	1,604
Interest income		126	90
Net revenue		1,365	1,694
Expenses			
Operating expenses	4	(561)	(799)
Interest expense	8	(1,881)	(1,962)
Total expenses		(2,442)	(2,761)
Loss for the year		(1,077)	(1,067)
Loss per share - basic and diluted	11	(0.51)	(0.51)

These financial statements have been approved by the Board of Directors on 23 February 2011.


 Anna Boneva
 Representative of the Executive Director
 BAPM EOOD


 Emilia Karadocheva
 Financial Manager

Auditor:



23.02.2011

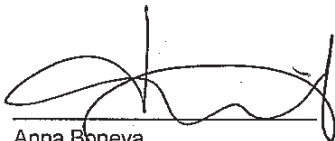


ERG CAPITAL - 3 ADSIP
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2010	2009
ASSETS			
Cash and cash equivalents		1,214	2,530
Advances for development of investment property		-	119
Other assets	6	329	380
Investment property (net)	5	<u>55,033</u>	<u>55,298</u>
TOTAL ASSETS		<u>56,576</u>	<u>58,327</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Other liabilities	7	568	589
Debt securities	9	12,669	12,641
Borrowings	8	<u>17,078</u>	<u>17,759</u>
Total liabilities		<u>30,315</u>	<u>30,989</u>
SHAREHOLDERS' EQUITY			
Share capital	10	21,000	21,000
Share premium		8,941	8,941
Reserve fund		37	37
Retained earnings		<u>(3,717)</u>	<u>(2,640)</u>
Total shareholders' equity		<u>26,261</u>	<u>27,338</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>56,576</u>	<u>58,327</u>

These financial statements have been approved by the Board of Directors on 23 February 2011.


Anna Boneva
Representative of the Executive Director
BAPM EOOD


Emilia Karadocheva
Financial Manager

Auditor:
Сгенер
23.02.2011

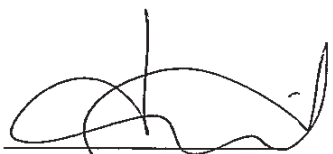


ERG CAPITAL - 3 ADSIP
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 YEAR ENDED 31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

	Share capital	Share premium	Reserve fund	Retained earnings	Total
31 December 2008	21,000	8,941	37	(1,573)	28,405
Loss for the year	-	-	-	(1,067)	(1,067)
31 December 2009	21,000	8,941	37	(2,640)	27,338
Loss for the year	-	-	-	(1,077)	(1,077)
31 December 2010	21,000	8,941	37	(3,717)	26,261

These financial statements have been approved by the Board of Directors on 23 February 2011.



Anna Boneva
 Representative of the Executive Director
 BAPM EOOD



Emilia Karadocheva
 Financial Manager

Auditor:



23.02.2011

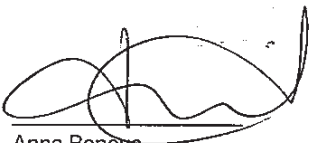


ERG CAPITAL - 3 ADSIP
STATEMENT OF CASH FLOW
YEAR ENDED 31 DECEMBER 2010


BGN in thousands except per share amounts or unless otherwise stated

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(1,077)	(1,067)
Adjustments to reconcile loss for the year to net cash used in operating activities			
Decrease in advances for development of investment property and in other assets		170	2,647
Investment in investment property	5	(435)	(5,766)
Depreciation		700	475
Decrease in payables for development of investment property and in other liabilities		(21)	(546)
Net cash used in operating activities		(663)	(4,257)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt securities	9	28	12,641
Proceeds from borrowings	8	29	7,557
Repayment of borrowings	8	(710)	(13,593)
Net cash (used in) provided by financing activities		(653)	6,605
Net (decrease) increase in cash and cash equivalents		(1,316)	2,348
Cash and cash equivalents at the beginning of the year		2,530	182
Cash and cash equivalents at the end of the year		1,214	2,530
Supplemental cash flow information:			
Interest paid		1,770	1,423

These financial statements have been approved by the Board of Directors on 23 February 2011.


Anna Boneva
Representative of the Executive Director
BAPM EOOD


Emilia Karadocheva
Financial Manager

Auditor:

23.02.2011



BGN in thousands except per share amounts or unless otherwise stated

1 Organization and operations

ERG Capital - 3 ADSIP ("the Company" or "ERG") was registered on 13 July 2006 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 46.7% of the share capital plus an additional 6.7% through a wholly owned subsidiary. Under the Company's by-laws, ERG has a fixed term of existence that ends on 31 December 2014.

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. Serdika Capital Advisors Permanent Establishment ("SCA") is the servicing company for ERG.

On 25 April 2007 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 2010, except for the adoption of IFRS 9 "Financial instruments", which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39, which has not been adopted by the Commission. The management believes that if the IFRS 9 "Financial instruments" has been approved by the Commission it would have no influence on these financial statements.

During 2010 the Company has adopted all new and revised IFRS by IASB, as approved by the Commission, effective for 2010, 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.

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 2011. 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 period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

ERG CAPITAL - 3 ADSIP
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

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 2010.

Functional and reporting currency

The functional currency of the Company is the national currency of Bulgaria - 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.

Real estate investments for future use as investment property

Real estate investments for future use as investment property are reported according to the Improvements to IFRS issued in May 2008 and effective 1 January 2009 whereas IAS 40 "Investment property" applies to property that is being constructed or developed for future use as investment property. Until 31 December 2008 IAS 16 "Property, plant and equipment" was applied to property that was acquired with the purpose of being developed for future use as investment property until development was completed. Upon completion the Company applied IAS 40 "Investment property". The Company has not elected earlier application of the amendments to IAS 40 in accordance with paragraph 85B of IAS 40.

Investment property

Investment property is property (land or a building-or part of a building-or both) held to be leased under long term operating leases or for capital appreciation or both in accordance with the Improvements to IFRS issued in May 2008 and effective 1 January 2009. An investment property is measured initially at its cost. Cost comprises its purchase price and any directly attributable expenditures, including taxes and fees directly related to the purchase and other transaction costs. 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". Construction cost is recorded based upon stages of completion. Development cost is recorded at the time the services are performed. 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 of the buildings starts when they are available for use and is based on the straight-line method over their estimated useful lives. The annual rate of depreciation used for the buildings is 4%.

ERG CAPITAL - 3 ADSIP
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

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.

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, debt securities and payables.

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 is less than the 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 Zagora property contains two commercial buildings which are fully leased. The larger of the two buildings is leased to two related companies, AIKO Multi Concept EOOD ("AIKO") and Mobbo EOOD ("Mobbo") under a single, non-cancellable operating lease contract that expires in March 2019. AIKO and Mobbo provided bank guarantees for a certain number of monthly rent payments and the owner of AIKO and Mobbo provided a personal guarantee. In February 2010 the lease contract was amended whereby the method for determining the rent was changed by lowering the fixed amount of rent and adding a provision that provides additional rent if annual net turnover for AIKO and MOBBO exceeds a certain amount. The rent modification reduces the total contracted fixed rent by approximately BGN 3,500. This change acknowledges the effect of the economic crisis but at the same time provides an upside potential when the economy rebounds.

The second building is leased to Mercator-B EOOD under a non-cancellable operating lease contract that expires in July 2024. The lease contract is guaranteed with a bank guarantee for a certain number of monthly rent payments and a guarantee from Poslovni sistem Mercator d.d., Slovenia, the parent company of Mercator-B EOOD.

In September 2010 the Company signed a preliminary sale agreement with a real estate company for sale of the Zagora property. Completion of the sale is subject to the buyer's due diligence and ability to secure financing, as well as the buyer's and the seller's compliance with terms and conditions specified in the agreement. Currently this is the only property in the Company's portfolio that generates any cash flow through lease contracts.

ERG CAPITAL - 3 ADSIP
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

4 Operating expenses

	<u>2010</u>	<u>2009</u>
Professional fees	525	767
Board of Directors fees	18	11
General and administrative expenses	18	21
Total	<u>561</u>	<u>799</u>

5 Investment property

At 31 December 2010 and 2009 the Company owned five properties:

- "Yavor property" at 31 December 2010 represents a 14,483 sq.m. land plot and buildings, located in Varna – 2, Oreh Str. During 2009 part of the buildings were demolished and the cost was added to the cost of the land. The property is pledged in favor of Bulgarian-American Credit Bank AD ("BACB") under a loan agreement (Note 8).

- "Zagora property" at 31 December 2010 represents a 22,817 sq.m. land plot with two commercial buildings located in Stara Zagora - 50 Patriarh Evtimii blvd. The buildings are fully leased as discussed in Note 3. The property is pledged in favor of Raiffeisenbank Bulgaria under a loan agreement (Note 8).

- "Gerena property" at 31 December 2010 represents a 25,208 sq.m land plot located in Sofia, at the intersection of Vladimir Vazov blvd and Vitinya str.

- "Sofia Ring property" at 31 December 2010 represents a 131,284 sq.m land plot located in Sofia, at the Ring road and Botevgradsko shosse junction. The property is pledged in favor of United Bulgarian Bank AD as trustee bank to secure holders of the debt securities issued by the Company (Note 9).

- "Bourgas retail property" at 31 December 2010 represents a 24,966 sq.m. land plot, located in Bourgas between Todor Alexandrov blvd. and the Bourgas port.

In 2010 and 2009 the Company increased the cost of its investment property with BGN 435 and BGN 5,766 respectively, due to development. In 2009 the Company also reclassified BGN 49,802 of real estate investments to investment property in accordance with the improvements to IFRS effective 1 January 2009.

ERG CAPITAL - 3 ADSIP
 NOTES TO THE FINANCIAL STATEMENTS
 31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

	Investment property under development	Investment property generating rental income		Total
	Land & Buildings	Land	Buildings	Land & Buildings
<i>Cost</i>				
31 December 2008	-	148	59	207
Additions / Reclassification	34,423	3,708	17,437	55,568
31 December 2009	34,423	3,856	17,496	55,775
Additions	435	-	-	435
31 December 2010	34,858	3,856	17,496	56,210
<i>Accumulated depreciation</i>				
31 December 2008	-	-	2	2
Charge for 2009	-	-	475	475
31 December 2009	-	-	477	477
Charge for 2010	-	-	700	700
31 December 2010	-	-	1,177	1,177
<i>Net book value</i>				
31 December 2010	34,858	3,856	16,319	55,033
31 December 2009	34,423	3,856	17,019	55,298
31 December 2008	-	148	57	205

Based upon the result of the required annual appraisal (prepared by an independent appraiser with recognized and relevant professional qualification), the fair value of the investment property at 31 December 2010 and 2009 was BGN 85,167 and BGN 114,105, respectively.

6 Other assets

	2010	2009
Interest receivable	17	29
Other	1	3
Deferred brokerage fee & other prepaid expenses	311	348
Total	329	380

7 Other liabilities

	2010	2009
VAT payable	23	34
Deferred rental income	176	196
Other	92	90
Asset management fee payable (Note 12)	277	269
Total	568	589

BGN in thousands except per share amounts or unless otherwise stated

8 Borrowings

The table below presents the maturities of the Company's borrowings by year:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Raiffeisenbank Bulgaria - Loan № 1	<u>680</u>	<u>681</u>	<u>681</u>	<u>15,036</u>	<u>17,078</u>

Raiffeisenbank Bulgaria - Loan № 1

On 29 May 2008 (and as subsequently amended) the Company and Raiffeisenbank Bulgaria executed a floating rate (3 month EURIBOR + 2.5%, decreased to 3 month EURIBOR + 2% starting 21 August 2009) loan agreement whereby the Company can borrow up to EUR 9.5 million (inclusive of capitalized interest) to finance the development of the Zagora property. Principal payments started in June, 2009 and are due monthly through 25 November 2014 according to a fixed repayment schedule. The Company pledged the Zagora property with all future improvements and related future rental income, as well as certain bank accounts. In addition, the loan agreement requires the BAEF to maintain at least 26% ownership (currently 46.7%) in ERG until repayment of the loan. The outstanding principal balance, net of deferred transaction cost incurred, at 31 December 2010 and 2009 was EUR 8.73 million (BGN 17,078) and EUR 9.08 million (BGN 17,759), respectively. The fair value of the loan approximates its carrying amount.

Bulgarian American Credit Bank ("BACB") - Loan № 2

On 18 December 2008 (and as subsequently amended) the Company and BACB executed a floating rate (1 month EURIBOR + 5.5%) line of credit agreement whereby the Company can borrow up to EUR 1 million for operating needs. The line of credit has a final maturity of 20 December 2011. The Company pledged the Yavor property. At 31 December 2010 and 2009 there were no amounts outstanding under this line of credit.

9 Debt securities

In March 2009, the Company issued fixed rate (10%) secured bonds in the amount of EUR 6.514 million. Coupon payments are due quarterly through 12 March 2012. Principal payment is due at the last coupon payment date unless the Company decides to make early repayments in which case the Company should pay a fee of 2% over the repaid principal. The bond issue is secured with a mortgage on the Sofia Ring Property and a pledge on a bank account to be credited with the proceeds of the future sale of Sofia Ring Property. United Bulgaria Bank AD is the trustee bank under the bond issue. The bond issue is listed on the Bulgarian Stock Exchange (BSE) for secondary trading and trades under BSE code 5ERA. The outstanding principal balance, net of deferred transaction cost incurred, at 31 December 2010 and 2009 was EUR 6.48 million (BGN 12,669) and EUR 6.46 million (BGN 12,641), respectively.

10 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 25 April 2007 the Company received its license and subsequently completed a 50% capital increase within the prescribed period.

The capital of the Company is BGN 21,000 distributed in 2,100,000 common shares with a face value of BGN 10 per share, each with equal voting rights.

BAEF owns 46.7% of the shares plus an additional 6.7% through a wholly owned subsidiary. BAEF is a U.S. corporation established pursuant to the Support for East European Democracy Act of 1989 (the

ERG CAPITAL - 3 ADSIP
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2010

BGN in thousands except per share amounts or unless otherwise stated

“SEED Act”) for the primary purpose of promoting the development of the Bulgarian private sector and policies and practices conducive to such development.

The remaining shares are owned by other companies and individuals.

The Company's shares are traded on the Bulgarian Stock Exchange under BSE code 5ER.

11 Earnings per share

Earnings per share is computed by dividing 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 2010 and 2009 is 2,100,000.

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 2010 and 2009, respectively were as follows:

<u>Related company</u>	<u>2010</u>	<u>2009</u>
Asset management fee payable to SCA	277	269
Asset management fee - SCA	277	495
Development fee - SCA	17	679
Servicing fee - SCA	63	66
Amortization of brokerage fee paid to SCA in 2009	36	28
Board of Directors fees to Sredetz Enterprise EOOD	6	3
Board of Directors fees to BAPM EOOD*	3	-

*BAPM EOOD became a member of the Board of Directors of ERG on 15 June 2010.

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).

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 bank guarantees and/or company guarantees from the lessees' parent companies for prompt and accurate performance of the obligations under the rental contracts.

BGN in thousands except per share amounts or unless otherwise stated

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 on floating rate loans through the use of interest rate swaps if necessary. This reduces to a large extent the overall interest rate risk. If the interest rate on Raiffeisenbank Bulgaria loan (Note 8) experience increase/decrease by 0.5% in the next 12 months period, the interest expense for the year would increase/decrease and the profit for the year would decrease/increase with approximately EUR 0.04 million (BGN 84), respectively.

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 2011. It is the Company's policy to reduce this risk by only investing in high quality properties and leasing them to good quality tenants with favorable terms and guarantees.