ERG CAPITAL - 3 ADSIP

ANNUAL MANAGEMENT REPORT
ON THE ACTIVITIES AND
FINANCIAL STATEMENTS PREPARED
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
31 DECEMBER 2008

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

ANNUAL REPORT
ON THE ACTIVITIES FOR 2008

ANNUAL MANAGEMENT REPORT ON THE ACTIVITY OF ERG CAPITAL – 3 ADSIP FOR 2008

23 February 2009

"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 acquired in 2006, 2007 and 2008 and described below and in Note 3 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 the following discussion we present some comments regarding important aspects of the activity of the Company during 2008:

1. Liquidity

As of 31 December 2008 the Company's cash and cash equivalents are in the amount of BGN 182 thousand. The other current assets are in the amount of BGN 3,151 thousand, of which VAT receivable in the amount of BGN 2,455 thousand. The current liabilities are in the amount of BGN 13,650 thousand, of which EUR 5,000 thousand is a bank loan used for financing the acquisition of the Sofia Ring property and EUR 1,405 thousand is the current portion of the bank loans used for financing the development of the Zagora property.

The Company is in the process of refinancing the EUR 5,000 thousand loan for the Sofia Ring property. It expects to complete the refinancing before the maturity of the EUR 5,000 thousand loan on 25 March 2009. The bulk of the current portion of the bank loans for the development of the Zagora property represents VAT financing that the Company will repay with the proceeds from the BGN 2,455 thousand VAT receivable. The rest will be serviced with the rental income from the Zagora property that is expected to start in the second quarter of 2009.

As of 31 December 2008 the Company has unused loan commitments from Raiffeisenbank (Bulgaria) EAD in the amount of EUR 3,751 thousand that will be used by the end of the third quarter of 2009 to complete the Zagora property development The Zagora property development is within the project budget and the unused loans from Raiffeisenbank (Bulgaria) EAD are sufficient to complete it.

As of 31 December 2008 the Company has unused line of credit from the Bulgarian American Credit Bank AD 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 2008 ERG – 3's shareholders' equity is approximately BGN 29,000 thousand. The capital of the Company was paid in full and 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 3 to the Financial Statements, the Company has two alternatives: a/ to develop it as a commercial property and lease it out 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 2008: 0%

Acquisitions or sales of real estate investments

As of 31 December 2008 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 and buildings, located in Varna, with administrative address 2, Oreh Street. The property is on Slivnivca 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. The total built-up area of the buildings is 15,815 sq m, 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 50,690.5 sq m according the city plan.**

Zagora property at 31 December 2008, represented a 22,817 sq.m land plot cleared from old buildings and with completed road infrastructure and external connections. In 2008 the Company started developing this property. Please refer to Lease agreements executed in 2008 and Construction works, repairs and improvements made in 2008 below.

Gerena property represents 25,208 sq.m. land plot 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 several plots, some of which are regulated. The property is cleared from buildings and construction scrap. **After the completion of the procedure for changing the regulation and building development plan, the maximum building development intensity for that property is expected to be between 1.5 and 3.5, which means that there could be constructed buildings with total built-up area between 37,500 and 87,500 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 1.2 respectively, which means possible construction of buildings with total built-up area of up to 185,662 sq. m.**

Bourgas retail property represents 24,966 sq. m. land plot adjacent to Todor Aleksandrov Blvd, which is one of the main boulevards in Bourgas. The land consists of two regulated plots: LI - 265 and L - 636. 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 62,415 sq m.**

Acquisitions of real estate investments in 2008

In 2008 the Company acquired a 229 sq.m. land plot neighbouring the Gerena property with which the size of the Gerena property increased to 25,208 sq.m.

As of 31 December 2008 the book value of the Gerena property is BGN 7,373 thousand and includes the local taxes and fees, associated with the purchase of the plots.

Sale of real estate investments in 2008

As a part of the Zagora property development the Company sold right to construct with built up area of 24.75 sq.m. to EVN Bulgaria Electrorazpredelenie AD for the price of EUR 4.67 thousand (net of VAT).

Lease agreements executed in 2008

In February 2008 the Company executed a 10 year operating lease agreement with the Bulgarian furniture retailer AIKO Multi Concept EOOD for approximately 15,400 sq.m. of retail space to be constructed on the Zagora property. The Company expects to start receiving rental income under this agreement in the second quarter of 2009 upon receiving occupancy permit for the 15,400 sq.m. store. Subsequent to 31 December 2008 the lease agreement was amended so that for 2,796 sq.m. of the space Mobbo EOOD (a company related to AIKO Multi Concept EOOD), stepped in as a tenant under the same terms. The lessees provided bank guarantees and personal guarantees from the owner as a security under the lease agreement.

In July 2008 the Company executed a 14.9 year operating lease agreement with Mercator-B EOOD, the Bulgarian subsidiary of the Slovenian supermarket chain Mercator, for approximately 3,200 sq.m. of retail space to be constructed on the Zagora property. The Company expects to start receiving rental income under the lease agreement in the third quarter of 2009 upon receiving occupancy permit for the 3,200 sq.m. store. The lessee provided bank and corporate guarantees as a security under the lease agreement. Under the lease agreement the tenant has the option to extend the lease for 10 years.

After the completion of the AIKO and Mercator stores, with which the Zagora property will be developed, the Company expects to receive monthly rental income of approximately EUR 135 thousand or EUR 1.6 million per year under the above lease agreements.

Construction works, repairs and improvements made in 2008:

Zagora property

In June 2008 the Company received construction permit to construct approximately 15,400 sq.m. two storey store preleased to AIKO Multi Concept EOOD and Mobbo EOOD under the terms described above. The total project cost is budgeted at approximately BGN 14,500 thousand. The main contractor for the project is AT Engineering 2000 OOD accounting for approximately 83% of the cost under a construction agreement from 24 April 2008. As at 31 December 2008 the construction is approximately 75% completed. The Company expects to complete the construction within the budget by the end of the first quarter of 2009.

In October 2008 the Company received construction permit to construct approximately 3,200 sq.m. one storey store preleased to Mercator-B EOOD under the terms described above. The total project cost is budgeted at approximately BGN 3,100 thousand. The main contractor for the project is AT Engineering 2000 OOD accounting for approximately 87% of the cost under a construction agreement from 13 November 2008. As at 31 December 2008 the construction is approximately 10% completed. The Company expects to complete the construction within the budget by mid third quarter of 2009.

As at 31 December 2008 the accrued cost (the book value) of Zagora project is BGN 15,472 thousand, including land cost of BGN 3,708 thousand.

In November 2007 ERG and PVN Sofia EOOD, operating the adjacent to Zagora property Baumax DIY store, executed an agreement under which PVN Sofia EOOD had to built a parking lot in exchange of subsequent leasing of the parking lot. In March 2008 the construction was completed and the parking lot of 875 sq.m. was recognized as an investment property as described in Notes 4 and 6 to the Financial Statements. The net book value of the parking lot as of 31 December 2008 is BGN 205 thousand. The amount represents the price of the corresponding land and the completed construction works, net of accumulated depreciation.

Bourgas Retail property

In 2008 the Bourgas Retail property was cleared from buildings and construction scrap. The total cost of this was BGN 113 thousand. As of 31 December 2008 the book value of the property is BGN 7,174 thousand.

4. Results from operations

The Company ended 2008 with a loss of BGN 1,573 thousand. In the year the Company did not sell any property, except the right to construct in Zagora property.

In the meantime the Company incurred expenses, the most significant of which being the interest expense in the amount of BGN 1,009 thousand paid on the line used to finance the acquisition of the Sofia Ring property and on the loans used to finance the development of the Zagora property.

The Company incurred operating expenses in the amount of BGN 667 thousand. BGN 379 thousand of these represent fees to the servicing company SCA under a servicing agreement dated 14 July 2006. Out of the BGN 383 thousand fees due to SCA BGN 98 thousand were paid in 2008. The rest was accrued as a payable as at 31 December 2008.

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 2008 there have been certain changes in the economic trends and risks that could significantly adversely affect the Company's financial condition and results of operations. As a consequence of the global financial crisis there has been sharp reduction in the credit that will likely lead to increase in the interest rates and decrease in the real estate prices and rents as well as to decrease of the economic activity and consumption in general. This could have negative affect on the tenants' financial position and/or result in reduction of the prices of certain real estate properties including the ones owned by the Company.

6. Important events after the date of the Financial Statements

Subsequent to 31 December 2008 the lease agreement with AIKO Multi Concept EOOD was amended so that for approximately 20% of the space leased by AIKO, Mobbo EOOD, a related with AIKO company, stepped in as a tenant under the same terms as the terms in the agreement with AIKO.

On 11 February 2009 the Company signed an agreement with Astra Investment AD. The later will manage a secured bond issue for ERG-3 in the amount of minimum EUR 6,000 thousand up to maximum EUR 7,000 thousand. The Company will use the proceeds from the issue to refinance the line of credit from Raiffeisenbank (Bulgaria) EAD used for the acquisition of the Sofia Ring Property.

7. Expected developments and plans for 2009

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 3 to the Financial Statements, the Company is currently exploring the following alternatives: a/ develop a commercial property and lease or 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 2008 the company did not use any financial instruments to finance itself or hedge against or take risk. In 2009 the Company plans to issue a secured bond in the amount of minimum EUR 6,000 thousand up to maximum EUR 7,000 thousand to refinance existing bank line of credit.

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 2008 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 2008, 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 2008 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 2007	2,100,000	21,000
31 December 2008	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 2008

Shareholder	Number of shares Owned at 31.12.2008	% of Voting shares at 31.12.2008
Bulgarian-American Enterprise Fund (BAEF)	980,000	46.67
Bulgarian-American Property Management (100% owned by BAEF)	140,700	6.70
Frank Louis Bauer	140,509	6.69
Michael David Hunsberger	121,000	5.76

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 ¾ 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

The Directors have not received any remuneration from ERG-3 in 2008 in any form, including salary, bonuses, shares, options, pension or other benefits.

6. Employees and Directors as Shareholders

Company's directors hold certain interest in the Company's shares, which are equal to 0.42% of its capital at 31 December 2008. 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 2008:

Director	Shares owned on 31 December 2007	Net purchases (sales) of Company shares	Shares owned on 31 December 2008
Daniela Handjieva	1,226	-	1,226
Anna Boneva	7,500	-	7,500
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:
    - "Dimitrov, Chompalov and Todorova" OOD
  - 7.1.3. Does not serve as director in other companies
- 7.2. Anna Boneva
  - 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. Daniela Handjieva
  - 7.3.1. Does not participate in any legal entity as a general partner with unlimited liability
  - 7.3.2. Does not own more than 25% of the capital of any company
  - 7.3.3. Serves as Director in the following companies:
    - "Kapital Direct – 1" ADSIP

8. Conflicts of interest

In 2008 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 ¾ 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. 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 bylaws requires the approval of ¾ 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 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 2008 revenues from interest income on deposits with banks accounted for 45% of the Company's revenues.

In 2008 interest and loan related expenses to Raiffeisenbank (Bulgaria) AD accounted for 60% of total expenses. Raiffeisenbank (Bulgaria) is not a related party to the Company.

In 2008 40% of the total expenses were operating expenses out of which BGN 379 thousand or 23% 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.

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 2008

The Company has executed large and important deals in 2008 related to the development, financing and leasing of the Zagora property described above. These deals are disclosed in Notes 3, 4, 6 and 10 to the Financial statements.

4. Deals or proposals for deals with related parties

Please refer to Note 14 to the Financial Statements.

5. Unusual events with significant impact on the activities

In 2008 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, 4, 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

ERG-3 has three loans outstanding with details provided In Note 10 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 2008 the Company has not entered in such deals.

10. Use of funds from a new issue of securities

In 2008 the Company did not issue securities.

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 2009" 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

No changes to the Board of Directors and its members have been made in 2008.

17. Remuneration of the Board of Directors

No member of the Board of Directors has received any remuneration from ERG-3 in 2008 in any form. 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. As of 31 December 2008 the Company has not issued any bonds.

20. Court, administrative or arbitrage procedures

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

21. Investor relations officer

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CHANGES IN THE PRICE OF THE SHARES

According the statistics of the BSE-Sofia in 2008 57,726 shares of the Company were traded at the BSE-Sofia in 73 trading sessions for a total value of appr. BGN 1,324 thousand at prices ranging between BGN 10.00 and 32.31 per share. The last deal for 2008 at BSE-Sofia was executed on 23 December 2008 for 15 shares at BGN 11.80 per share.

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Anna Boneva
Executive Director

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS DECEMBER 31, 2008

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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 balance sheet as of December 31, 2008, and the income statement, statement of changes in equity and cash flow statement 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, 2008, 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 15 to the accompanying financial statements, the Company is exposed to property price and market rental risks. These risks have increased recently as a result of the global economic 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 if it lasts beyond year 2009, it may have material adverse effects on the Company's future financial position, liquidity and results of operations.

(b) Additionally, we draw attention to note 3 of the accompanying financial statements where based upon the result of the required annual appraisal, the fair value of the real estate investments is disclosed. Because of the inherent uncertainty of valuation and especially in the current market conditions, where the real estate market has deteriorated significantly, and hardly any transactions are 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) Additionally, we draw attention to note 10 of the accompanying financial statements showing that in 2009 significant amount of the borrowed funds matures which creates significant liquidity risk. On February 10, 2009 the Board of Directors has taken a decision to issue a corporate bond with total par value of minimum EUR 6 million and up to maximum EUR 7 million. As further disclosed, on February 11, 2009 the Company signed an agreement with Astra Investment AD (an investment intermediary) to manage the bond. The Company intends to use the proceeds from the issue to refinance the credit line from Raiffeisenbank Bulgaria used for the acquisition of the Sofia Ring Property, and the collaterals provided to Raiffeisenbank Bulgaria will be transferred as collateral for the corporate bond. The ability of the Company to continue its operations in the foreseeable future as a going concern depends on the successful realization of the management plans for refinancing the loans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, 2008, 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, 2009.

Deloitte Audit
Deloitte Audit OOD

Sylvia Peneva
Managing Director
Registered Auditor

February 23, 2009
Sofia

ERG CAPITAL – 3 ADSIP
STATEMENT OF INCOME
YEAR ENDED 31 DECEMBER 2008

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2008	2007
Revenue			
Sales of real estate investments	3	9	6,376
Cost of sales		(1)	(4,328)
		8	2,048
Rental income	4	50	-
Direct rental expenses and depreciation		(2)	-
		48	-
Interest income		47	167
Net revenue		**103**	**2,215**
Expenses			
Operating expenses	5	(667)	(914)
Interest expense		(1,009)	(811)
Total expenses		**(1,676)**	**(1,725)**
(Loss) profit for the year		**(1,573)**	**490**
(Loss) earnings per share - basic and diluted	**12**	**(0.75)**	**0.29**

These financial statements have been approved by the Board of Directors on 23 February 2009.

Anna Boneva
Executive Director

Emilia Karadocheva
Chief Accountant

Auditor:
23/02/2009

ERG CAPITAL - 3 ADSIP
BALANCE SHEET
31 DECEMBER 2008

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2008	2007
ASSETS			
Cash and cash equivalents		182	2,347
Other assets	7	2,470	16
Advances for real estate acquisition and development		681	6
Real estate investments	3	49,802	37,750
Investment property (net)	6	205	-
TOTAL ASSETS		**53,340**	**40,119**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Dividend payable	13	-	331
Other liabilities	8,14	330	19
Payables for real estate acquisition and development	9	805	38
Borrowings	10	23,800	9,753
Total liabilities		**24,935**	**10,141**
SHAREHOLDERS' EQUITY			
Share capital	11	21,000	21,000
Share premium		8,941	8,941
Reserve fund		37	-
Retained earnings		(1,573)	37
Total shareholders' equity		**28,405**	**29,978**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**53,340**	**40,119**

These financial statements have been approved by the Board of Directors on 23 February 2009.

Anna Boneva
Executive Director

Emilia Karadocheva
Chief Accountant

Auditor:
23/02/2009

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

ERG CAPITAL - 3 ADSIP
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED 31 DECEMBER 2008

BGN in thousands except per share amounts or unless otherwise stated

	Share capital	Share premium	Reserve fund	Retained earnings	Total
31 December 2006	**14,000**	**-**	**-**	**(122)**	**13,878**
Increase of share capital	7,000	8,941	-	-	15,941
Profit for the year	-	-	-	490	490
Dividend	-	-	-	(331)	(331)
31 December 2007	**21,000**	**8,941**	**-**	**37**	**29,978**
Reserve fund	-	-	37	(37)	-
Loss for the year	-	-	-	(1,573)	(1,573)
31 December 2008	**21,000**	**8,941**	**37**	**(1,573)**	**28,405**

These financial statements have been approved by the Board of Directors on 23 February 2009.

Anna Boneva
Executive Director

Emilia Karadocheva
Chief Accountant

Auditor:
23/02/2009

ERG CAPITAL - 3 ADSIP
STATEMENT OF CASH FLOW
YEAR ENDED 31 DECEMBER 2008

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) profit for the year		**(1,573)**	**490**
Adjustments to reconcile (loss) profit for the year to net cash used in operating activities			
Proceeds from sale of real estate investment, net of realised gain and other decrease in real estate	3	148	4,328
(Increase) decrease in advances for real estate acquisition and development and in other assets		(3,129)	173
Investment in real estate	3	(12,200)	(29,533)
Investment in investment property	6	(207)	-
Depreciation		2	-
Increase (decrease) in payables for real estate acquisition and development and other liabilities		1,078	(5,667)
Net cash used in operating activities		**(15,881)**	**(30,209)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of share capital	11	-	15,941
Proceeds from borrowings	10	14,094	12,609
Repayment of borrowings	10	(47)	(2,856)
Dividend paid	13	(331)	-
Net cash provided by financing activities		**13,716**	**25,694**
Net decrease in cash and cash equivalents		**(2,165)**	**(4,515)**
Cash and cash equivalents at the beginning of the year		**2,347**	**6,862**
Cash and cash equivalents at the end of the year		**182**	**2,347**
Supplemental cash flow information:			
Interest paid		709	491

These financial statements have been approved by the Board of Directors on 23 February 2009.

Anna Boneva
Executive Director

Emilia Karadocheva
Chief Accountant

Auditor:

23/02/2009

 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 - 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 2008, 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 2008 the Company has adopted all new and revised IFRS by IASB, as approved by the Commission, effective for 2008, 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 2009. 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.

The balance sheet 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

BGN in thousands except per share amounts or unless otherwise stated

and provide information for the financial position, operations and cash flows of the Company for the year ended 31 December 2008.

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 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

Real estate investments consist of land and buildings and are stated at historical cost. These investments are acquired with the purpose of being further reconstructed and developed for future use as investment property or for future sales. Until their completion IAS 16 applies as follows: historical cost includes the purchase price of the real estate, expenditures directly attributable to the acquisition and subsequent construction and development cost. Construction cost is recorded based upon stages of completion. Development cost is recorded at the time the services are performed.

After completion of reconstruction and development the Company applies IAS 40 and uses the cost model. Therefore, depreciation of the buildings starts when they are available for use and is based on the straight-line method over their estimated useful lives. Useful lives of the buildings encompass the entire time they are available for use, regardless of whether during that time they are in use or are idle. The annual rate of depreciation is 4%.

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 income over the period of the borrowings using the effective interest method.

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 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.

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 balance sheet date, meeting the criteria of a present obligation as defined in IAS 37.

3 Real estate investments

At 31 December 2008 and 2007 the Company owned five properties:

- "Yavor property" at 31 December 2008 represents a 14,483 sq.m. land plot and buildings, located in Varna – 2, Oreh Str. The property is pledged in favor of Bulgarian-American Credit Bank AD ("BACB") under a loan agreement (Note 10).

- "Zagora property" at 31 December 2008 represents a 22,817 sq.m. land plot located in Stara Zagora - 50 Patriarh Evtimii blvd. In 2008 the Company started to develope the property (Note 4). The property is pledged in favor of Raiffeisenbank Bulgaria under loan agreements (Note 10).

- "Gerena property" at 31 December 2008 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 2008 represents 131,284 sq.m land plot located in Sofia, Ring road and Botevgradsko shosse junction. The property is pledged in favor of Raiffeisenbank Bulgaria under a loan agreement (Note 10).

- "Bourgas retail property" at 31 December 2008 represents a 24,966 sq.m. land plot, located in Bourgas, between Todor Alexandrov blvd. and Bourgas port.

In 2008 the Company increased the cost of its real estate investments with BGN 12,200 due to an acquisition of BGN 151 and further property development of BGN 12,049. In 2008 the Company decreased the cost of its real estate investments with BGN 148. The decrease was due to a sale of right to construct on Zagora property and reclassification of a portion of Zagora property to investment property (Note 6).

All of the real estate investments are under development and according to the Company's accounting policy they are not depreciated.

Based upon the result of the required annual appraisal, the fair value of the real estate investments at 31 December 2008 and 2007 was BGN 99,763 and BGN 49,270, respectively.

BGN in thousands except per share amounts or unless otherwise stated

4 Rental income

In February 2008 the Company executed a 10 year operating lease contract with AIKO Multi Concept EOOD for 15,370 sq.m. of retail space to be constructed on the Zagora property. The lease is expected to begin upon completion in the second quarter of 2009. Subsequent to 31 December 2008 the lease contract was amended. Under the amendment 2,796 sq.m.of the AIKO space under the original contract were separated and leased to Mobbo EOOD. The rental price and all other terms and conditions under the original contract were not changed. The lease contract is non-cancellable and the lessees provided bank guarantees for a certain number of monthly rent payments and a personal guarantee from the owner of AIKO Multi Concept EOOD prior to the initiation of the rental period.

In July 2008 the Company executed a 14.9 year operating lease contract with Mercator-B EOOD for 3,162 sq.m. of retail space to be constructed on the Zagora property. The lease is expected to begin upon completion in the third quarter of 2009. The lease contract is non-cancellable and the lessee provided 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 prior to the initiation of the rental period. The lease contract contains an option to extend the lease for 10 years.

In November 2007 ERG and PVN Sofia EOOD executed an agreement under which PVN Sofia EOOD has to construct a parking lot with an area of 875 sq.m. in exchange of subsequently leasing the parking lot. In March 2008 the construction was completed and according to the agreement the Company leased the parking lot until March 2009 (Note 6).

5 Operating expenses

	2008	2007
Professional fees	659	908
General and administrative expenses	8	6
Total	667	914

6 Investment property

	Land	Buildings	Total
Cost			
31 December 2007	-	-	-
31 December 2008	148	59	207
Accumulated depreciation			
31 December 2007	-	-	-
Charge for 2008	-	2	2
31 December 2008	-	2	2
Net book value			
31 December 2008	148	57	205
31 December 2007	-	-	-

BGN in thousands except per share amounts or unless otherwise stated

At 31 December 2007 the Zagora property was classified as a real estate investment. In 2008 a portion of Zagora property, developed as a parking lot was reclassified to investment property (Note 4).

Based upon the result of the required annual appraisal, the fair value of the investment property at 31 December 2008 was BGN 212. The property is pledged in favor of Raiffeisenbank Bulgaria under loan agreements (Note 10).

7 Other assets

	2008	2007
VAT receivable	2,455	6
Prepaid expenses	15	10
Total	2,470	16

8 Other liabilities

	2008	2007
Asset management fee payable (Note 14)	285	-
Other	45	19
Total	330	19

9 Payables for real estate acquisition and development

Payables for real estate acquisition and development at 31 December 2008 are mainly related to completed stages under construction contracts with various due dates extending out through 2009. The Company, as advised by its servicing company, executed contracts with construction companies for development of the real estate. At 31 December 2008 and 2007, the total amount of these contracts in force was BGN 16,787 and BGN 416, respectively, and BGN 11,631 and BGN 223 were disbursed in 2008 and 2007, respectively.

10 Borrowings

The table bellow presents borrowings, based on the time remaining from the balance sheet date to contractual maturity dates:

	2009	2010	2011	2012	Thereafter	Total
Raiffeisenbank Bulgaria - Loan № 1	9,768	-	-	-	-	9,768
Raiffeisenbank Bulgaria - Loan № 2	2,356	-	-	-	-	2,356
Raiffeisenbank Bulgaria - Loan № 3	391	687	687	687	9,224	11,676
Total	12,515	687	687	687	9,224	23,800

BGN in thousands except per share amounts or unless otherwise stated

Loan № 1

On 20 April 2007 (and as subsequently amended) the Company and Raiffeisenbank Bulgaria executed a floating rate (3 month EURIBOR + 1.7%, increased to 3 month EURIBOR + 2.5% at 25 February 2008) loan agreement whereby the Company can borrow up to EUR 5 million for financing the purchase of Sofia Ring property. The Company pledged the property and its bank accounts in Raiffeisenbank Bulgaria. The loan has a final maturity of 25 March 2009. In addition, the loan agreement requires the BAEF to maintain at least 45% ownership (currently 46.7%) in ERG until repayment of the loan. The outstanding principal balance, net of deferred transaction cost incurred, at 31 December 2008 and 2007 was EUR 4.99 million (BGN 9,768) and EUR 4.99 million (BGN 9,753), respectively. The fair value of the loan approximates its carrying amount.

On 11 February 2009 the Company signed an agreement with Astra Investment AD. The latter will manage a secured bond issue for ERG in the amount of minimum EUR 6 million up to maximum EUR 7 million. The Company will use the proceeds from the issue to refinance the line of credit from Raiffeisenbank Bulgaria used for the acquisition of the Sofia Ring Property.

Loan № 2

On 29 May 2008 the Company and Raiffeisenbank Bulgaria executed a floating rate (3 month EURIBOR + 2.5%) loan agreement whereby the Company can borrow up to EUR 1.5 million to finance the VAT payable related to the Zagora property development. The VAT receivable was pledged against the loan and principal payments were due as the Company receives VAT refunds. The Company also 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 and/or America for Bulgaria Foundation ("ABF") to maintain at least 26% ownership (currently 46.7%) in ERG until repayment of the loan. The loan has a final maturity of 31 March 2010 and has a grace period until 30 May 2009 during which the interest on the loan is capitalized to the principal of Loan № 3. The outstanding principal balance, net of deferred transaction cost incurred, at 31 December 2008 was EUR 1.21 million (BGN 2,356). The fair value of the loan approximates its carrying amount.

Loan № 3

On 29 May 2008 (and as subsequently amended) the Company and Raiffeisenbank Bulgaria executed a floating rate (3 month EURIBOR + 2.5%) 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 are due monthly through 25 November 2014 starting 25 June 2009 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. The loan has a grace period until 30 May 2009 during which the interest on the loan is capitalized. In addition, the loan agreement requires the BAEF and/or ABF 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 2008 was EUR 5.97 million (BGN 11,676). The fair value of the loan approximates its carrying amount.

Loan № 4

On 18 December 2008 the Company and BACB executed a floating rate (1 month EURIBOR + 5.5%) loan agreement whereby the Company can borrow up to EUR 1 million for operating needs. The loan has a final maturity of 20 December 2009. The Company pledged the Yavor property. At 31 December 2008 no disbursements were made.

BGN in thousands except per share amounts or unless otherwise stated

11 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. 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, 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 5ER.

12 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 2008 and 2007 is 2,100,000 and 1,680,000, respectively.

13 Dividend per share

The Company incurred a loss in 2008 and therefore a dividend was not accrued. At 31 December 2007 a dividend of BGN 331 (BGN 0.16 per share) was accrued and paid in 2008.

14 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 primary related party transactions during 2008 and 2007 were the purchases of real estate from BAPM for EUR 0.07 million (BGN 139) and for EUR 2.70 million (BGN 5,275), respectively.

The balances due to/from related companies and the related expense and income at 31 December 2008 and 2007, respectively were as follows:

BGN in thousands except per share amounts or unless otherwise stated

Related company	**2008**	**2007**
Asset management fee payable to SCA (Note 8)	285	-
Deposits with BACB*	-	2,296
Interest expense - BAPM	-	258
Interest income - BACB*	40	28
Capital increase expenses – BACB*	-	10
Asset management and servicing fees - SCA	383	621

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

15 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 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 on floating rate loans through the use of interest rate swaps if necessary. This reduces to a large extend 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 will result from its dependence on the receiving rent payments in the future to service its future borrowing obligations. The Company policy is at any point of time to maintain positive balance between the incoming and outgoing cash flows.

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 only to the extend to which it operates in currencies different from EUR and BGN unless the Currency Board in Bulgaria fails. The Company intends not to maintain positions in currencies other than EUR and BGN. The BGN/EUR exchange rate of BGN 1.95583 for EUR 1 is fixed under a Currency Board arrangement.

BGN in thousands except per share amounts or unless otherwise stated

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 2009. 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.