



EEREIF

Eastern Europe Real Estate Investment Fund

II half of 2009

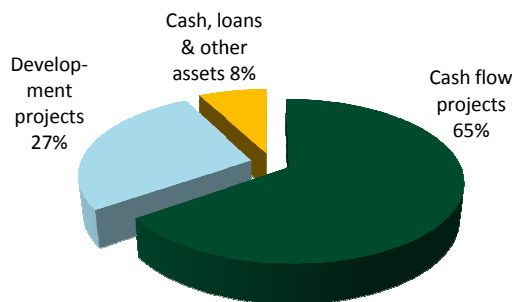
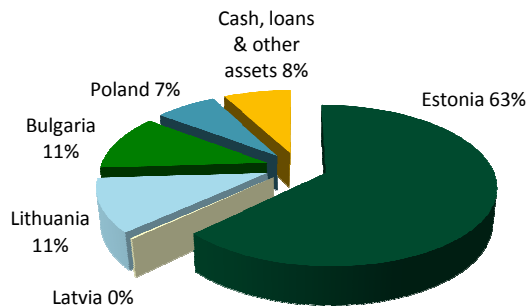
In the second half of 2009 the return of the fund unit was negative. It lost 15.5% of its value compared to net asset value of the fund unit published in July 2009, at the same time the compounded annual return of the fund is 1.39%. New net asset value of the fund unit is EUR 8.57. The size of EEREIF assets is more than EUR 43 million and average leverage on assets is 54%.

Market Overview

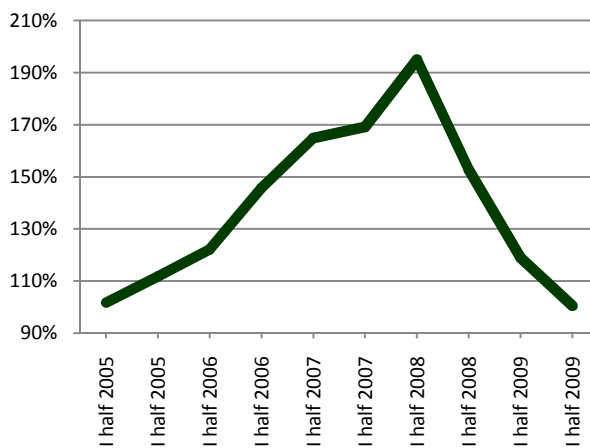
EEREIF continued to operate in a difficult environment in the second half of 2009 despite the first signs of recovery in the global economy. According to the view of various economists and experts the economic recession in the Baltics and some Eastern European countries is predicted to be more lengthy and profound in comparison to the Nordic countries, mainly due to the rapid growth of prior years.

The number of transactions on the Baltic real estate market is still very low. The few deals taking place are related to the sale of collateral assets by the banks or other financiers; in such a case the acquirer is usually a company connected to the sell-side company. At the same time companies on the market are adapting to the current circumstances and the dominating uncertainty has been replaced with very limited financing options. The required level of equity has risen considerably in involving additional capital. All market participants are more conservative and careful in their approach and expectations towards the future. As a positive development, negotiations on the commercial real estate market have become more professional and substantial – both the tenants and landlords have realised that price is not the only condition, in which the interest of both parties should be protected. Foreign investors remain careful in entering the market; they expect more clear messages on the future of Baltic currencies. Estonia has set a target to join the euro area 01.01.2011.

Bi-annual return:	-15.5%
Net asset value of fund unit:	EUR 8.57
Total Net Asset Value (NAV):	EUR 19,768,622
Fund size (total assets):	EUR 43,625,631
Compounded annual return:	1.39%
Average bi-annual return:	1.19%
Profitable percentage:	70%
Leverage:	54%
Number of investments:	16
3 largest investments:	21%, 12%, 9%



Growth of Investment Value



Change of the NAV of EEREIF 2005 - 2009

	I half	II half	Year
2009	-22.17%	-15.46%	-34.21%
2008	15.27%	-21.66%	-9.37%
2007	13.21%	2.59%	16.10%
2006	9.21%	19.30%	29.70%
2005	1.68%	9.94%	11.74%

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According to the decision of the Latvian government, target date of the transfer to euro will be set two years in advance the exchange. Similarly, Lithuania has not appointed a target date, but the government has committed to a general goal to join the euro area at the earliest possible date. By today representatives of several international organisations have considered Estonia the most likely to join the euro area next, in 2011; according to the assessment of International Monetary Fund (IMF: Public Information Notice No. 10/03) Estonia could meet all Maastricht criteria in 2010 if continued with the current course of action.

Portfolio Overview

In the second half of 2009 EEREIF's team set as a priority to carry out in-depth analysis of rental agreements and reaching a compromise in relation to loan contracts with the banks. Nearly all rental agreements of portfolio companies were carefully reviewed and negotiations with several tenants were held to renew the contracts. Thus far, the active and constructive communication with banks financing investment projects has lead to agreeable results to all parties. However, some of the negotiations continue also in 2010. EEREIF's team values highly the willingness of banks to attain a reasonable solution in the current market environment, prioritising the capability of the fund to guarantee timely credit payments and other financial obligations in advance of contract covenants made in prior years. Agreements reached with banks in 2009 enable the companies in the EEREIF portfolio to service loans on more stable grounds.

Despite the persisting difficult environment the team of the fund has been engaged in gradual development of investment projects. The most challenging investments are still in those sectors which experience the greatest pressure on rents and vacancies, such as multi-tenant office and retail properties. In comparison to the first half of 2009 portfolio's total net operating income has remained on the same level. Decrease in asset value mostly comes through increased discount rates. Investor's expectations on the yields of commercial real estate remain high. At the same time the view of buyers and sellers continues to differ on the adequate price level and there have been virtually no transaction on the commercial real estate market. The present market is no longer controlled by the dominating uncertainty, but rather the inadequacy of available financial resources.

Although the volume of transactions on the real estate market has not risen, the interest of investors is returning to the Baltic and Eastern European markets. Considering the term and investment strategy of the fund, there is no eminent necessity to exit any investments in the near future. According to the Fund Rules, the duration of EEREIF ends in 2013 and this duration can be extended another two years with the decision of investors.

Cash flow projects

Sale and leaseback portfolio

Due to long-term lease agreements the sale and leaseback portfolio remains relatively stable and as a rule tenants fulfil their obligations properly. The economic situation of the tenants continues to have the most direct and eminent influence on the performance of the portfolio. Regular review of the tenants' financial results provides the team a timely overview of the current situation.



Cinema Sõprus (Sefirius Invest OÜ, Estonia); entertainment premises in the Old Town of Tallinn encompassing Sõprus cinema, night club, lounge bar and a casino. The rental agreement with the tenant is well assured. Nevertheless fund's team continues to monitor the performance of subtenants as well. One of the subtenants left in the second half of 2009, however, new seriously interested candidates have already appeared.

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Pharmadule production facility (Madara Maja OÜ, Estonia); Industrial premises with office spaces built in 2005 in Jüri Industrial Park close to Tallinn. The financial situation of the tenant remains stable and favourable. The fund management team is about to reach a principal agreement with the tenant to renew the main conditions of the rental agreement in order to update the arrangement for both parties.

Bauhof portfolio (Sõbra Ärikeskus OÜ, Estonia); four DIY stores in Estonia. Fund owns 10% share in four rent generating Bauhof store premises (in Haapsalu, Kuressaare, Valga and Võru). Among four stores, Võru store has not been opened yet. All 10 Bauhof stores operate under the same legal entity, thus the investment of the fund is guaranteed with the rental agreement signed with the parent company.

BE Steel warehouses` portfolio (Estero Projekt OÜ, Estonia; Mindaugo Namai UAB, Lithuania; Milo Investments Sp. o. O, Poland); warehouse buildings with office spaces in Maardu (Estonia), Kaunas (Lithuania) and Gdynia (Poland). In Estonia the process of changing the detail planning, initiated by the fund management team, has almost reached a conclusion. Another registered estate with new building rights will be established next to the existing warehouse building. In Lithuania and Poland the premises are managed according to set plans, there have been no considerable developments during the past six months. Rental flow of companies operating on the premises of EEREIF investments are guaranteed by the parent companies.

ARX printing house (Nemuno Panorama UAB, Lithuania); industrial building with office spaces in Kaunas, Lithuania. Due to the rapid decline of demand on the printing market the tenant started to experience difficulties in paying the rent in the first half of 2009. By today the demand has returned to the market, but the solvency of its clients is more unpredictable. The tenant puts more emphasis on liquidity management, but it cannot be excluded that the liquidity problems of the tenant will result in the cash flow gaps of the landlord as well.

Multi-tenant property portfolio

By today companies have adapted to the economic downturn and despite the increased vacancies of office and commercial spaces accompanied with lower rent levels, locations are switched following careful consideration and analysis. With regard to multi-tenant properties the team of EEREIF focused on the development of sustainable concepts and creating a relevant tenant mix in the second half of 2009. The team plans to continue with the efforts of renewing and implementing upgraded project concepts.



Järveotsa Centre (Järveotsa Keskus OÜ, Estonia); shopping centre with a supermarket and smaller shops in Õismäe, Tallinn. Due to the competitive advantages the property has managed quite well in the deteriorated market conditions. Tenants have been changed in some rental spaces, the process also generated quite a lot of interest for offered spaces among several competitors. During the past half year the parking arrangement of the centre has been improved and exterior of the centre renovated. This year partially initiated renewal of the interior will be carried on further.

Swiss House (SR Baltic Real Estate OÜ, Estonia); A-class office building in the centre of Tallinn. Fund management team is engaged in the development of the project concept and tenant mix. The goal is to create a tenant mix emphasising the identity of the Swiss House and supporting the mutual synergies and cooperation of the tenants. In the last half of the year renovations improving the general quality and refreshing the interior of the building were concluded. In combination with the upgrade of the concept these actions should make the building more attractive to tenants.

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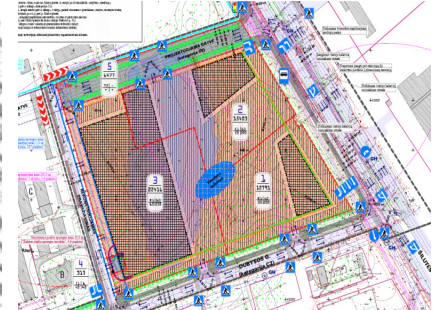
The vacancy of the building remains at 20%. The team of EEREIF has not tried to rush in filling the vacancies as the goal is to attract long term tenants corresponding to the new concept. Various negotiations are in process. In the first half of 2010 the aim is to further improve the functions of the building, changing the purpose of some spaces and improving the security of parking spaces etc. In addition to existing parking areas beneath the Swiss House, in relation to the opening of the parking area of Vabaduse Väljak, parking arrangement in the neighbourhood have advanced even more.

Land and development projects

Despite the persisting decline on the markets first investors have expressed interest in the land and development projects. Keeping in mind the term of EEREIF, there is no eminent pressure to engage in more in-depth discussions, we attentively weigh all serious offers. However, it is unlikely that in the near future deals can be reached on terms acceptable to both parties, due to existing different expectations. The team of the fund is concentrating on sustaining and increasing the value of land and development projects. In the respective projects the investment activities of the fund are limited, with the only exception being Telliskivi City, where investments are required to expand the leased area and improve the tenant mix.

Telliskivi City (Telliskivi maja OÜ, Estonia); development of a mixed-use real estate complex next to Old Town of Tallinn. In the beginning of 2009 we started to carry out the new and developing concept of a creative centre and by today this approach has proved to be viable. The current tenant mix of the City operates according to previously set goals. Several cultural and entertainment events of the City have been launched. The auditorium of the main building has been put to use, several theatre plays have already taken place there. In the second half of 2009 the fund management team dealt with finding tenants complying with the new concept, as a result we managed to involve a considerable proportion of new tenants, replacing some of the tenants in a weaker situation. The new and varied tenant mix should create value in the longer term. In 2010 the fund management team continues to work towards the new detail plan.

Balti Kett (Balti Kett OÜ, Estonia); development of a logistics centre in Lehmja, 10 km from Tallinn. According to third party real estate appraisals this investment has lost 13% of its last reported value in July 2009 due to weak demand.



Eirospektrs (SIA Eirospektrs, Latvia); mixed-use development in the centre of Riga, Latvia. As a result of longterm negotiations the company managed to retain VAT from the state, enabling to cover operating costs in the short term. However, the company requires additional capital both in order to sustain *status quo* as well carry out potential development ideas.

PIG (Pajurio Investiciju Grupe UAB, Lithuania); land plot for the development of a retail centre in Klaipeda, Lithuania. Demand from potential tenants is still very weak. EEREIF is willing to sell the project in case it generates sufficient market interest. Negotiations with the bank to restructure the loan are in progress, but this process may not lead to expected results as it is one of the most difficult projects in the land and development projects` portfolio.

Vladaja bonds (Vladaja OÜ bonds, Bulgaria); residential land development in Vladaya Village near Sofia, Bulgaria. The fund continues to increase control in the project in cooperation with the Issuer and other investors. In-depth due diligence has been completed and real estate appraisal has been commissioned. In cooperation with co-investors a structure has been developed for overtaking the project.

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Delta Marina (Delta Marina FOOD, Bulgaria): development of a part of Mramor Industrial Park near Sofia, Bulgaria. In the second half of 2009 the fund management team succeeded to change the status of nearly a half of the agricultural land in the Mramor village into a multi-functional land. Following a long and complicated process the team finally reached part of the goal that was set already at the initial investment phase. According to the new status it is allowed to build industrial, commercial and residential buildings on the respective estate. EEREIF's team continues to work towards changing the status of the rest of the plot and initiating detailed planning.

Additional Statistical Information about EEREIF Portfolio

No	Property name	Value, I half of 2009, EUR	Cash flow, I half of 2009, EUR	Value, II half of 2009, EUR	Cash flow, II half of 2009, EUR	Valuator	Valuation method	Value change, EUR	Change %	Comments
Cash flow projects										
1	Estero Project	2,190,000	113,084	2,060,000	117,539	Kinnisvara-ekspert	discounted cash flow	-130,000	-6%	100% ownership
2	Järveotsa Centre	3,210,000	131,361	3,060,000	116,006*	Kinnisvara-ekspert	discounted cash flow	-150,000	-5%	100% ownership
3	Madara House	5,530,000	268,351	5,190,000	273,146	Kinnisvara-ekspert	discounted cash flow	-340,000	-6%	100% ownership
4	Cinema House Sõprus	3,400,000	134,543	3,100,000	133,663	Kinnisvara-ekspert	discounted cash flow	-300,000	-9%	100% ownership
5	Swiss House	9,580,000	335,301	8,740,000	309,611*	Kinnisvara-ekspert	discounted cash flow	-840,000	-9%	100% ownership
6	Milo Investments	2,546,000	114,230	2,837,000	120,251	Jacek Falkowski	capitalisation	291,000	11%	100% ownership
7	Mindaugo Namai	376,506	21,923	330,167	20,793	ReSolution	capitalisation	-46,339	-12%	100% ownership
8	Nemuno Panorama	1,488,647	87,603	1,364,110	84,086	ReSolution	capitalisation	-124,537	-8%	100% ownership
9	Bauhof - Valga shop	126,000	7,559	119,000	7,574	Kinnisvara-ekspert	discounted cash flow	-7,000	-6%	10% ownership
10	Bauhof - Haapsalu shop	149,000	8,109	135,000	8,143	Kinnisvara-ekspert	discounted cash flow	-14,000	-9%	10% ownership
11	Bauhof - Kuressaare shop	308,000	16,949	279,000	17,014	Kinnisvara-ekspert	discounted cash flow	-29,000	-9%	10% ownership
12	Bauhof - Võru shop	270,000	14,155	248,000	15,180	Kinnisvara-ekspert	discounted cash flow	-22,000	-8%	10% ownership
Land development and investments										
13	Telliskivi City	3,670,000	23,853	2,850,000	10,199*	Kinnisvara-ekspert	discounted cash flow	-820,000	-22%	100% ownership
14	Balti Kett	750,000	-	650,000	-	Kinnisvara-ekspert	sales comparison	-100,000	-13%	100% ownership
15	Eirospektrs	65,880	-	61,380	-	Arco Real Estate	discounted cash flow	-4,500	-7%	18% ownership
16	Delta Marina	3,877,400	-	3,627,700	-	Yavlena Impact	sales comparison	-249,700	-6%	100% ownership
17	PIG	3,342,215	-	2,962,813	-	ReSolution	possible development method	-379,402	-11%	100% ownership
18	Vladaja bonds	1,563,664	-	1,414,743	-	Yavlena Impact	sales comparison	-148,920	-10%	bond
19	GILD Arbitrage	2,454,879	-	2,740,620	82,188	-	historical cost	285,741	12%	bond

*In the second half of the year claims that were unlikely to be collected were written off

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Risks not included in Net Asset Value. Potential value adjustments.

The fundamental assumption underlying the adjusted Net Asset Value (NAV) is that it should reflect the economic value of the investment as it would be realized by the investor in a theoretical sale as of the balance sheet date, assuming an arm's length transaction, a willing buyer/seller, adequate time to market, no duress, etc. The NAV per unit of a fund is normally determined on the basis of the net assets as presented in the funds reports, in accordance with relevant accounting conventions, and divided by the number of units issued. One of the purposes of fund reporting is to present to the investors the value and the performance of their investment. NAV derived from Generally Accepted Accounting Principles (GAAP) does not necessarily fulfill this objective due to specific accounting treatment of tax effects, different financial instruments etc. Fund manager has to compensate that when reporting to investors in order to reflect only relevant risks. We have always followed this practice. According to INREV recommendation these risks/adjustments should be reported separately in its maximum value leaving reader to make a judgment about probability. Please see them in table below.

	Fund (EUR)	Per fund unit (EUR)
Net asset value according to Estonian GAAP		
Potential income tax exiting investment	-1,549,428	-0.6715
Selling costs included in property valuations	369,503	0.1601
Contractual fees	-395,372	-0.1714
Deferred tax assets	67,389	0.0292
Adjusted net asset value	18,260,714	7.9145

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