



## EEREIF

### Eastern Europe Real Estate Investment Fund

#### II half of 2008

In the second half of 2008 the return of EEREIF fund unit was negative for the first time since inception of the fund in May 2005. It lost 21.66% of its value compared to net asset value of EEREIF fund unit reported on 15 July 2008. During the entire year 2008 EEREIF fund unit lost in total 9.4% from its value. New net asset value of EEREIF fund unit is EUR 13.0224. The size of EEREIF investment portfolio together with bank loans is more than EUR 54 million and average leverage on assets is 44%.

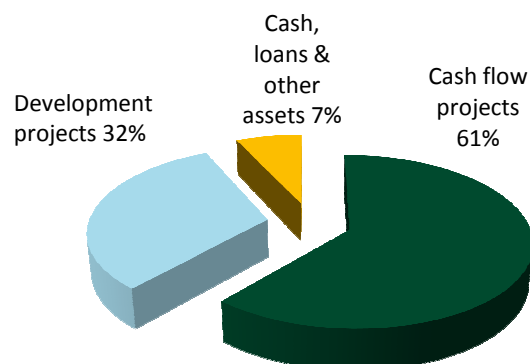
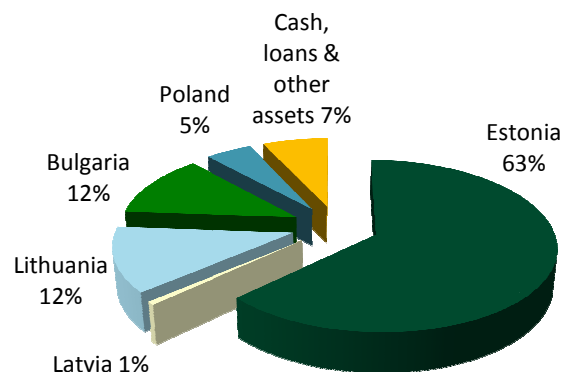
#### Market Overview

In the light of current developments in the global economy, re-pricing of risk and pressure on cash flow continues. Liquidity related issues are dominating also in the real estate sector. Generating cash flow and profitability is a crucial topic for everyone active in the sector. Fair price of any asset is the puzzle of the day for those involved in valuation. To sum up, a lot of uncertainty has emerged during the last 6 months causing investment activity to return back to basics. Real estate investment turnover according to Colliers was 60% lower in 2008 compared to 2007. That is very close to pre-EU accession investment activity in the Baltics. Low investment activity is directly affecting real estate development and construction volume.

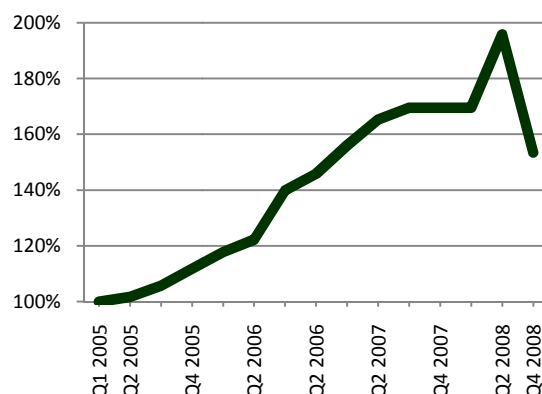
Reliance on external capital is the core of current problems in the economy. Companies unable to secure their financing or freeze it at the current level are exposed to great pressure from creditors including banks. This leads bid/ask spreads to widen even further adding to uncertainty around.

As an overall trend in the economy the fund management company expects revision of company business models to adjust to new conditions. The real estate industry and companies using real estate in their daily operations are no exceptions. With that in mind the fund management company is ready to face challenges in creating value to fund investors in 2009.

Bi-annual return:	-21.66%
Net asset value of fund unit:	EUR 13.0224
Total Net Asset Value (NAV):	EUR 30,046,005
Fund size (total assets):	EUR 54,198,654
Compounded annual return:	13.5%
Average bi-annual return:	6.2%
Profitable percentage:	87.5%
Leverage:	44%
Number of investments:	16
3 largest investments:	23%; 11%; 9%



Growth of Investment Value



	Q1	Q2	Q3	Q4	Year
2008	0.00%	15.52%	**	-21.66%	-9.4%
2007	6.95%	5.94%	2.59%	0.00%*	16.1%
2006	5.30%	3.77%	14.50%	4.25%	29.7%
2005		1.68%	4.01%	5.79%	11.7%

\* In Q4 2007 and Q1 2008 the value was set on the secondary market.

\*\* The initial issue of EEREIT (AS Eastern Europe Real Estate Investment Trust) notes took place in May 2005. The fund was restructured into a regulated real estate fund EEREIF (Eastern Europe Real Estate Investment Fund) in March 2008. Starting from March 2008 reporting to investors is done bi-annually.

#### Contacts

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#### General Information

Security: Fund unit  
Management fee: 2%  
Incentive fee: 20% (preferred return to investors 6%)  
Registrar: Estonian Central Securities Depository  
Reporting: Bi-annually, on 15 Jan and 15 July or the following business day



## Portfolio Overview

The fund management company closely monitors fund's needs for capital and plans future cash flows with due care. In that light we have revisited our strategy with several investments. Although value of portfolio has decreased significantly, the fund management company has not seen negative material effect on asset level. Net operating income during last 6 months of 2008 grew compared to first half of 2008. Decrease in portfolio value mostly comes from increased discount rates reflecting uncertainties in the market rather than real underperformance of assets. We have disclosed more financial information about EEREIF's assets in current EEREIF bi-annual overview.

### Cash flow projects

#### Sale and leaseback portfolio

Sale and leaseback portfolio of EEREIF is relatively stable in these circumstances due to long-term lease agreements. The key risk factor is financial health of tenants. To date the fund management company does not have information about financial difficulties of any of our sale and leaseback tenants. We expect rents to be indexed in most cases, thus improving returns. The fund management company keeps monitoring the situation closely.



Cinema House Sõprus (Estonia). Technical inspection of the property has been carried out in order to prepare investment program for next years. According to the agreement, tenant will finance all the investments.

Pharmadule production facility (Estonia). Currently production facility is built on 6 neighbouring land plots, which according to local municipality should be changed by merging all land plots. We are going through detailed planning procedure. Tenant is considering expansion of facilities.

Bauhof portfolio (Estonia). Our forward sale and leaseback transaction with Bauhof is progressing according to the investment schedule. One shop was opened in late September 2008. The last shop according to the construction schedule is due to be opened in March 2009, but we expect it to be ready already in February 2009. We have secured the financing, both equity and debt, in full amount needed to finish the construction.

BE Steel warehouse (Estonia). Detailed planning process has been started in order to split the land plot. Current use of the land plot is inefficient. Split would allow construction of additional building volume.

Finmec production facility (Estonia). In order to improve the fund liquidity the fund management company sold this investment in December 2008 earning IRR above 10% during the holding period.

BE Steel warehouse (Lithuania). Property is operating according to the budget. We have indicated an opportunity to improve cost of insurance. Currently we are negotiating changes with the bank.

ARX printing house (Lithuania). Capacity of the printing house is utilized close to 100% today. Company is working already in four shifts seven days a week. Expansion of the facility is in the plans, but no decision has been made so far. Expansion is restricted by available neighbouring land plots and expectations of their current owners.

BE Steel warehouse (Poland). Property is operating according to the budget. To date property does not require additional management time.

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**Multi-tenant property portfolio**

Multi-tenant properties are put under increased cyclical pressure taking into account the unvaried cost of leverage, flexible lease conditions (reacting to market changes), still high supply of new (especially office) space and overall recession in the economy. Efficient high quality property management including management of tenant mix and lease conditions has become critical competitive advantage.



Järveotsa Centre (Estonia). Competitive advantage of the property is its location in densely built part of Tallinn. Although tenant mix and lease conditions demand attention from the management, significant changes in cash flow are not expected.

Swiss House (Estonia). Management of tenant mix and lease conditions demands significant attention. We are receiving letters from tenants asking to reduce the rent for different reasons. Vacancy rate is expected to grow from the current level. This can be explained largely by new supply of office space still coming to the market and aggressively attracting tenants. Maintaining cash flow on current level will be challenging. In order to improve competitive advantage of the building, property manager is working to improve parking solution in cooperation with Europark. Additional investment into infrastructure and interior design is planned as well.

**Land and development projects**

Global credit crunch puts direct pressure on projects not generating any type of regular revenue. Situation is even worse when substantial investment is needed to unlock the value. In these circumstances we have reconsidered our strategy as well. We cut back our investment programs as long as there is no clear demand visible on the market and focus on protecting the value meanwhile.



Telliskivi City (Estonia). The fund management company has significantly changed the concept of Telliskivi City to match the overall trends in the economy and capitalize on it. Still, due to overall recession in the economy, valuation of this project has decreased more than 33% compared to last reported value in July 2008. Today the fund management company is actively seeking new tenants for existing premises and in case of interested tenant, we plan some investments to renovate the space.

Balti Kett (Estonia). According to third party real estate appraisals our investment in land stock on Pärnu highway, Balti Kett, has lost 39% of its last reported value in July 2008 due to weak demand. Further development of the project depends on finding an anchor tenant.

Eirospektrs (Latvia). The fund management company has valued fund investment down by close to 90% in development project managed by Metro Capital Management in Riga. The fund management company is evaluating past performance of project manager and is looking for decrease our risks. As long as we have not found satisfying solution, we ordered valuation of the investment from recognized real estate valuation company in Latvia. On 14 January 2009 the fund management company received report from Metro Capital Management informing that according to the opinion of the management the value of the investment is 65% lower from where it was one month ago. This is 55% from the total investment at cost. We set the value in our books based on the estimation of previously mentioned third party real estate appraisal, even though value reported by project manager is almost 2.5 times higher.

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Pajurio IG (Lithuania). The fund management company has stopped investing into the shopping centre concept due to decreasing demand from tenant side. As long as there is no substantial tenant interest, we will keep this project on hold.

Vladaja bonds and Delta Marina (Bulgaria). The fund management company is still intensively working on the land status change of our investments in Bulgaria because we believe that commercial/industrial land status will attract potential buyers at more attractive price level. The fund management company does not plan to make any infrastructure investments there. We have secured the funds needed to finish the process of changing the land status. Currently the fund management company cannot give any prediction of when the final approval will be granted. At the same time the fund management company is in the process of signing contracts with brokers to start the sales process of projects.

## Additional Statistical Information about EEREIF Portfolio

No	Property name	Value, I half of 2008, EUR	Cash flow, I half of 2008, EUR	Value, II half of 2008, EUR	Cash flow, II half of 2008, EUR	Valuator	Valuation method	Value change, EUR	Change %	Comments
<b>Cash flow projects</b>										
1	Estero Project	2,829,369	104,358	2,360,000	111,452	Kinnisvara-ekspert	discounted cash flow	-469,369	-17%	100% ownership
2	Järveotsa Centre	3,384,122	132,407	3,280,000	145,924	Kinnisvara-ekspert	discounted cash flow	-104,122	-3%	100% ownership
3	Madara House	6,531,770	196,021	6,110,000	257,676	Kinnisvara-ekspert	discounted cash flow	-421,770	-6%	100% ownership
4	Cinema House Sõprus	4,246,290	130,366	3,540,000	128,121	Kinnisvara-ekspert	discounted cash flow	-706,290	-17%	100% ownership
5	Swiss House	12,769,547	331,712	11,710,000	392,081	Kinnisvara-ekspert	discounted cash flow	-1,059,547	-8%	100% ownership
6	Iruinvest	3,116,971	126,558	2,556,466	-	-	sales price	-560,505	-18%	sold
7	Milo Investments	2,826,404	105,635	2,500,000	105,957	ReSolution	capitalisation	-326,404	-12%	100% ownership
8	Mindaugo Namai	494,381	19,584	425,741	24,450	ReSolution	capitalisation	-68,640	-14%	100% ownership
9	Nemuno Panorama	1,884,268	76,093	1,778,267	73,440	ReSolution	capitalisation	-106,001	-6%	100% ownership
10	Bauhof – Valga shop	-	-	141,000*	13361*	Kinnisvara-ekspert	discounted cash flow	-	-	10% ownership
11	Bauhof – Haapsalu shop	-	-	160,000*	14438*	Kinnisvara-ekspert	discounted cash flow	-	-	10% ownership
12	Bauhof – Kuressaare shop	-	-	331,000*	29861*	Kinnisvara-ekspert	discounted cash flow	-	-	10% ownership
<b>Land, development projects and investments</b>										
13	Telliskivi City	6,461,468	44,942	4,390,000	26,903	Kinnisvara-ekspert	discounted cash flow	-2,071,468	-33%	100% ownership
14	Balti Kett	1,934,606	-	1,180,000	-	Kinnisvara-ekspert	sales comparison	-754,606	-39%	100% ownership
15	Bauhof – Võru shop	-	-	204,000*	-	Kinnisvara-ekspert	discounted cash flow & cost	-	-	10% ownership
16	Eirospektrs	2,246,066	-	252,360	-	Arco Real Estate	discounted cash flow	-1,993,706	-89%	18% ownership
17	Delta Marina	5,449,500	-	4,541,700	-	Yavlena Impact	sales comparison	-907,800	-17%	100% ownership
18	Pajurio IG	4,662,882	-	4,436,979	-	ReSolution	sales comparison	-225,904	-5%	100% ownership
19	Vladaja bonds	2,171,755	-	1,973,195	-	Yavlena Impact	sales comparison	-198,560	-9%	bond**
20	GILD Arbitrage***	-	-	2,315,606	-	-	historical cost	-	-	debt

\* 10% from the actual figure due to our share in the project.

\*\* Investment is structured like a bond, but it bears all equity like risks.

\*\*\* In Q1 2008 EEREIF gave a short-term loan with attractive terms to GILD Arbitrage Risk Capital Fund that currently faces liquidity problems.

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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 net asset value of fund unit is normally determined on the basis of the net assets as presented in the fund's reports, in accordance with relevant accounting conventions, 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 fulfil this objective due to specific accounting treatment of tax effects, different financial instruments etc. The fund management company has to compensate that when reporting to investors in order to reflect only relevant risks. The fund management company of EEREIF has 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. Therefore they are presented in the table below:

	Fund, EUR	Fund unit, EUR
<b>Net asset value according to Estonian GAAP</b>		
Potential income tax exiting investment	-3,140,922	-1.36
Selling costs included in property valuations	540,628	0.23
Deferred tax liabilities	-600,920	-0.26
Contractual fees	31,595	0.01
<b>Adjusted net asset value</b>	<b>26,876,386</b>	<b>11.65</b>

**Disclosures to NAV according to Estonian GAAP.**

NAV is calculated according to Estonian GAAP.  
 Minority shareholdings below consolidation threshold are included.  
 Management fee deducted  
 Performance fee not deducted. Fund performance is below hurdle rate

The information presented in EEREIF (Eastern Europe Real Estate Investment Fund) bi-annual overview is intended only for the investors of EEREIF and any publication or dissemination of this information to any third party (including media) may substantially harm the interest of the Fund and the investors and is therefore only allowed under a written permission of the Management Company.

This bi-annual overview is for informational purposes only and it is not a binding offer of EEREIF Fund Units. It is not a recommendation to an investor to buy, sell or hold EEREIF Fund Units. EEREIF investments are subject to risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. This information is subject to change without prior notice at any time, based on economic, market and other conditions, and should not be construed as a recommendation for any further action.

AS GILD Property Asset Management does not guarantee that the presented information here is accurate or complete. When making any investment decisions investor should acquaint oneself with EEREIF rules and prospectus. All capitalized terms herein have the same meanings as set in the rules and prospectus. It should be taken into account that historical return does not guarantee future return. The potential investor is responsible for all tax related questions.

The information contained in this document does not constitute an offer of subscription or sale of fund units in the United States, Canada, Australia, Japan or in any other country and jurisdiction in which the said offer is prohibited or subject to any limitation under the applicable law provisions.

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