

EEREIF

Eastern Europe Real Estate Investment Fund

I half of 2008

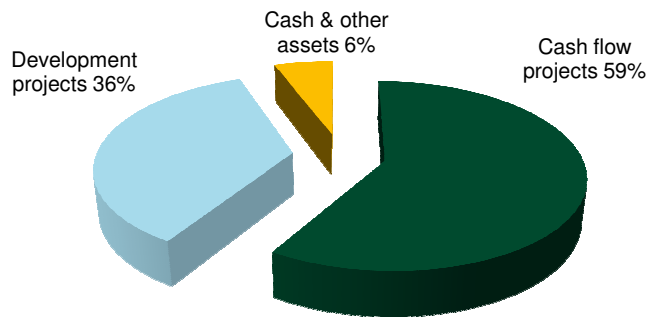
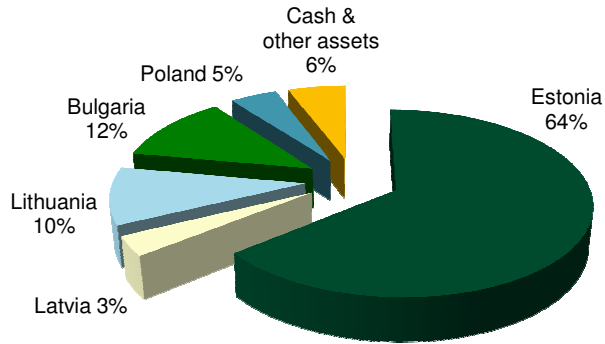
The value of EEREIF fund unit as of the end of first half of 2008 was EUR 16.6229, thereby increasing 15.52% compared to the issue price in April 2008. The size of EEREIF investment portfolio together with bank loans is close to EUR 65 mln and average leverage on assets 41%.

Market Overview

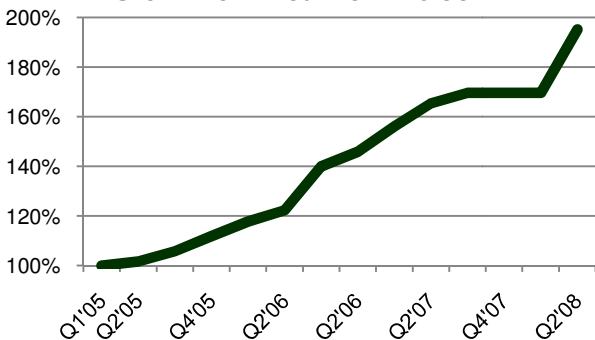
The second quarter of 2008 turned out almost as expected and unlike previous quarters this time it actually brought along good news. Already in March-April we were expecting to see a few purchase transactions after a period of silence and that is exactly what we saw. Furthermore, we made one of these transactions ourselves. EEREIF acquired two operating retail properties and entered into forward funding agreements for two more retail properties to be brought to the market within the next 9 months. This deal was completed after 16 months of avoiding any acquisitions. Probably there is no need to mention that we were not the only potential buyer for these properties and the whole team worked hard to complete the deal.

Some of our competitors made acquisitions as well, which shows that we are not the only ones who see attractive opportunities on the market. The latest and the biggest deal so far is the acquisition of the Maxima retail portfolio in Lithuania by Verdispar exceeding EUR 46.6 mln. This transaction clearly sets off a new phase, where finally expectations of sellers correlate with what buyers are willing to pay. This is a very positive development towards regaining healthy level of market activity.

Quarterly return:	15.52%
Net asset value of fund unit:	EUR 16.6229
Total Net Asset Value (NAV):	EUR 38,353,270
Fund size (total assets):	EUR 65,097,765
Compounded annual return:	25%
Average quarterly return:	5.7%
Annualized standard deviation:	9.7%
Profitable percentage:	100%
Leverage:	41%
Number of investments:	18
3 largest investments:	20%; 10%; 10%



Growth of Investment Value



	Q1	Q2	Q3	Q4	Year
2008	0.00%*	15.52%			15.5%
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 of fund unit was set on 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.

Contacts

Eastern Europe Real Estate Investment Fund

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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: Semi-annually, on Jan 15 and July 15 or the following business day

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Despite the increased acquisition activity last quarter it is still too early to conclude that market has returned to normalcy. Commercial lending has always been a significant element in real estate investing and the trends highlighted earlier this year are just strengthening. Lenders are tightening credit policies as well as aiming to deleverage existing clients. This trend is also spreading from real estate market to other industries. It is due the fact that the credit crunch is not only related to events in the Baltic real estate or banking markets, but is very much connected also to the changes in the global supply and demand of capital. These days capital is very scarce, and only the best deals are granted the needed capital. Our investment team has followed the same strategy for some time regarding choosing investments for EEREIF.

Hopefully lenders will not overreact due to tightening standards and professional investors will still be able to work. As nevertheless there are viable projects on the market and granting financing to them would benefit the investors in the long run.

Portfolio Overview

As briefly described beforehand, last quarter four Bauhof DIY (do-it-yourself) stores were purchased with a sale and leaseback agreement. The purchase was made together with a Swedish real estate private equity company, which invested the majority of the capital required. This is our first syndicated deal in EEREIF portfolio, but we expect to spread some more investment risks this way over a bigger pool of properties with limited capital in hand. Besides that, as EEREIF is the managing partner of the transaction, our investment carries a profit sharing arrangement. It means that depending on the financial results of the syndication deal EEREIF will receive additional profit to the equity share of EEREIF. We see a lot of potential in the syndicated deals during the next 12 months.



Another bigger advancement in relation to our development projects is regarding Klaipeda retail centre. In cooperation with the Swedish consultancy firm, Centrumutveckling, which has consulted the development of more than 400 centres in 15 countries, we have changed the concept of Klaipeda retail centre. Together with the consultants a comprehensive market research was carried out, based on which a new optimal concept for Klaipeda land plot was drafted. When developing the concept we carefully considered local market conditions, competition, current and future purchasing power. Now we are actively negotiating with potential anchor tenants and major construction companies. Also, to match the development period, we have re-negotiated the maturity of the loan to three years.

Our cash flow portfolio is very stable and positive also in current market conditions as all the cash flow projects acquired have complied with our critical success factors which provide long-term sustainability. Growing rent revenue outpaced the upward shift of yields, resulting in slight increase of the overall cash flow portfolio value compared to the beginning of year 2008. The average portfolio yield has already reached 7.76% and we believe that today this is a fair reflection of the long-term value of our portfolio. Although one should keep in mind that if we would try to sell the portfolio today, discount for immediate liquidity would be applied. This is where the closed-end fund structure adds value, especially in turbulent times. As EEREIF is well capitalized we do not need the quick liquidity and even more, we can take advantage over others offering bargain deals.



Short-term Perspectives

We see the trends mentioned in this report continuing at least for the next 6 months. There will be more opportunities appearing on the market as loan conditions continue to tighten. This means there will be busy times evaluating various investment opportunities, organising investment syndicates and debt financing. Besides that we expect significant steps with some of our development projects for which there has been extensive preparation period. And as always, we stay alert to react to changing market conditions, thus ensuring the best possible investment performance for our Investors.

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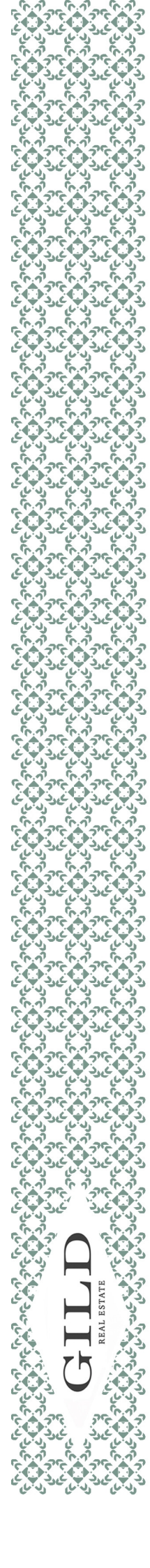
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