

IMPROVING FUNDAMENTALS

Bond Issue Successfully Rolled

October 2010

Agriculture

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SUMMARY

We put a BUY recommendation on ELARG Agricultural Land Opportunity Fund REIT (BBG: 4EC BU) with a target price of €0.62 per share and 107% upside potential. The significant operating performance improvement in 2009 continued in 1H 10 as well, while the successful extension of the €10MM bond issue showed the decisiveness of the bondholders to keep on supporting the Fund and the new management.

The REIT started cultivating agro land in 2009, in order to benefit from the higher returns and the availability of significant subsidies and the incentive is expected to start paying off from 2012 on.

ELARG is expected to start paying dividends in 2014.

A. Improved operating performance – 21% higher rental revenue and 13% higher cost of external services resulted in 32% profit growth to €0.3MM as of 2Q 10;

A. Management focus – the successful extension of the bond issue enabled the management to focus on the core business – the consolidation and concentration of the portfolio and the effective lease of the land;

A. Land statute changed – the statute of the Fund's land in the area of Kambanite was changed in 2009, which increases its potential for development and attractiveness;

A. Advantage to peers – ELARG is traded at a 21% discount in terms of EV-to-Land and offers 14% higher rental yield, compared to peers' average.

Table 1: Peers Summary

Issuer	Ticker	Portfolio (Ha)	Rented (%)	Avg. Rent (€/Ha)	EV / Land (€/Ha)	P/NAV
ELARG	4EC	29,304	83%	95	951	0.51
ATERA	6A6	32,672	79%	105	1,144	0.60
AgroFinance	6AG	13,009	88%	102	1,330	0.68

Source: Companies, BSE, ACP estimation

BUY

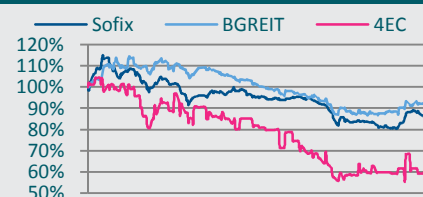
Est. Share Price:	€0.62
Current Market Price:	€0.30
Upside Potential:	107%
CoE:	12.69%

Tickers:	BSE: 4EC, BBG: 4EC BU
Mkt. Cap. (MM):	€17.9
Avg. Daily T/o Last 12m:	€5.3M

12M High (16 Sep 2009):	€0.50
12M Low (04 Aug 2010):	€0.27
12M Average:	€0.38
Abs. Performance 3m:	10%
Abs. Performance 6m:	-24%
Abs. Performance 12m:	-38%

€MM	09	10e	11e
Total Revenue	2.0	1.9	2.7
EBITDA	(1.0)	0.7	1.3
EBIT	(1.0)	0.7	1.3
Net Income	(1.7)	0.1	0.6
Total Assets	45.8	45.6	46.3
Total Liabilities	11.1	10.9	11.0
Shareholders' Equity	34.7	34.7	35.3
RoA (%)	-3.5	0.1	1.3
RoE (%)	-4.7	0.2	1.7
Net Income Mgn. (%)	-79	3	22
Rental Yield (%)	6	7	9
BVPS (€)	0.58	0.58	0.59

ELARG vs. Sofix vs. BG REIT (12m)



Source: BSE, ACP

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BUY recommendation with 107% upside potential.

INVESTMENT CASE

We put a **BUY recommendation** on ELARG Agricultural Land Opportunity Fund with a target price of €0.62 per share and 107% upside potential.

The company is the oldest and the second biggest Bulgarian REIT, specialized in **securitization of agricultural land**. As of 2Q 10, the Fund **owned a land portfolio of 29,304 Ha**, acquired for an average price of €1,121 per Ha, and allocated predominantly in Danube valley – the most fertile part of the country.

Reforms started paying off.

ELARG's year-end 2009 financial report shows that the **reforms**, carried out by the new BoD since 2008, **started paying off**. The improvement continued in 1H 10 as well and the Fund registered 32% profit growth to €0.3MM, due to 21% higher rental revenue and 13% higher expense on external services.

ELARG established two fully-owned subsidiaries in 2009, **ELARG Agro and ELARG Wind**, aiming to benefit from the higher yields of the cultivation of agro land, the availability of EU and national subsidies, as well as from the possible **development of wind energy projects**. The incentive is expected to start paying off the initial investments from 2012 on.

Bond issue successfully rolled.

On 31 August 2010, the meeting of the owners of the company's €10MM bond issue decided to **extend the bond maturity** for another three year term, although at higher price (8.5% annual coupon rate vs. current 7%). The bondholders demonstrated that they were interested in the long-term development of the Fund and enabled the management to focus on the core business – the lease of agro land, the consolidation and concentration of the portfolio.

Kambanite's land statute changed.

The major issue as of 2Q 10 was the **significant exposure to non-core assets**, worth with year-end 2009 value of €9MM or ca. 27% of the total assets. As the **statute of the land in Kambanite area was finally changed** in 2009, this will increase the property's attractiveness and we believe that the management will be able to finally sell it.

Solid basis for future growth.

Overall, ELARG's **operating performance continues improving** and the management successfully copes with the old debts and negative inheritance of the previous management company. As a result, **the Fund has now solid basis for future development**, which is confirmed by our projection, which shows 23% CAGR of the REIT's operating revenue between 2009 and 2013, resulting in solid bottom line improvement from €1.7MM loss to €2.3MM profit during the same period.

Dividends expected in 2014.

Eventually, ELARG is expected to start paying **dividends in 2014**.

COMPANY OVERVIEW

Summary:

- A. **ELARG is the oldest and the second biggest Bulgarian REIT, specialized in acquisition, consolidation and lease of agricultural land;**
- A. **Rental revenue increased by 19% YoY in 2009, while the cost of external services was reduced by 39%;**
- A. **The Fund started cultivating part of its own land.**

The company operates in the area of agro land securitization.

ELARG Agricultural Land Opportunity Fund is a Bulgarian REIT, specialized in the purchase, land consolidation and lease of agricultural land. The company is part of Sofix, BG REIT and BG 40 indices of the Bulgarian Stock Exchange.

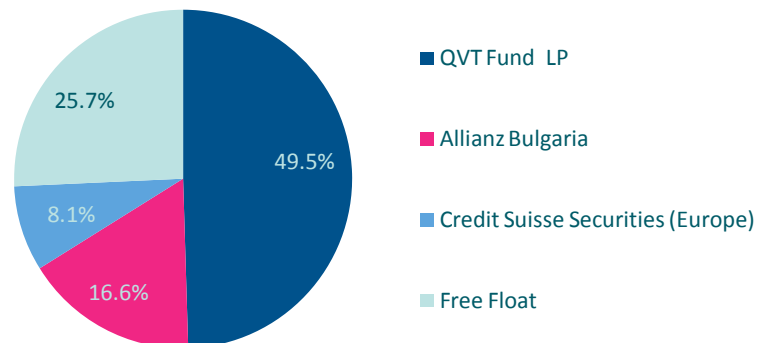
The Fund was established in 2005 with an initial capital of €0.256MM and subsequently undertook two additional equity capital raisings to reach a total of €30MM as of today. The company's AGM in 2008 extended the Fund's term of existence until 2018 and provided the BoD with the right to increase the capital by BGN 500M (€256MM) and to issue debt up to BGN 500MM (€256MM).

With a portfolio of 29,304 Ha of agricultural land, ELARG is the second biggest Bulgarian REIT after Advance Terrafund REIT (32,823 Ha) as of 2Q 10.

QVT Fund owns 49.5% of ELARG.

QVT Fund is ELARG's major shareholder, possessing 49.50% of the company, followed by Allianz Bulgaria with 16.63% and Credit Suisse Securities (Europe) with 8.14% (a depository of Kairos Investment Management Ltd).

Chart 2: ELARG – Structure of the Shareholders



Source: ELARG

According to the Company's Bylaws, ELARG is only allowed to invest in agricultural properties on the territory of Bulgaria that are not subject to legal suits, while the free cash may be temporarily invested in Government bonds and / or (up to 10% of the assets) in mortgage-backed securities. In addition, the

parent company can invest up to 10% of the total capital in the servicing company (-ies).

Board of Directors

The company has a one-tier management structure. ELARG's current Board of Directors includes the following members:

- A. Mr. **Stefan Stefanov** (Allianz) – Chairman, appointed on 30 June 2008;
- A. Mr. **Andrey Kruglykhin** (QVT) – appointed on 14 June 2007; CEO since 10 February 2010;
- A. Mr. **Ivo Gadev** (Allianz) – appointed on 22 May 2009;
- A. Mr. **Dimitar Valkov** – appointed on 05 July 2010;
- A. Mr. **Dobromir Hristov** – appointed on 05 July 2010.

A summary of the BoD members' qualifications is available at Appendix 1.

Stoyan Malkochev retired from the position of CEO for personal reasons in February 2010 and his duties were undertaken by Andrey Kruglykhin.

The majority of the current BoD was appointed by the Fund's GMS in 2008. Following the initial period of acquaintance with the financial condition of the company, the Board took series of reforms, aiming to optimize the performance of the REIT. A summary of the reforms is available at Appendix 2.

Servicing Companies

Unhappy with the results of the previous servicing company and considering the presence of significant conflict of interests, the new BoD declared void the contract with the then servicing company, Elana Property Management EOOD (EPM) and appointed Agromanage AD as the new one. Moreover, EPM's management had no experience in agriculture, while Agromanage is owned and controlled by proven specialists in the area, experienced with Glencore (bios available at Appendix 3).

In 2009, the Fund appointed second servicing company, ATA Consult OOD, responsible for the accounting of the REIT. In addition, ELARG established two fully owned servicing companies to concentrate on the Fund's activities in the areas of consolidation and management of the company's land (ELARG Agro EOOD) and identification and management of land plots, owned by the REIT and suitable for the development of wind energy parks (ELARG Wind EOOD). The FCS approved the appointment of the servicing companies on 4 November 2009.

As per ELARG's Bylaws, the maximum total annual management expense cannot exceed 8% of the company's assets. Under the current contract, ELARG pays

Two subsidiaries established to make use of the favourable market.

The favourable contract with the servicing company is a major advantage.

Agromanage annual fee equal to:

- A. Percentage of the Fund's core assets, as follows:
 - 1.5% if the core assets are worth less than €51MM;
 - 1.25% + €0.77MM if the core assets are worth between €51MM and €77MM;
 - 1% + €1MM the core assets are worth over €77MM;
- A. 10% of the rental revenue;
- A. 15% of the profit, realized from the sale of core assets.

The table below provides a comparative summary of the servicing fees of the three biggest agro land securitization Funds in Bulgaria: Advance Terrafund, ELARG and Agro Finance.

Table 4: Fees, Paid by the Major Bulgarian REITs to Servicing Companies (€'000)

% per Annum	ATERA	ELARG**	Agro Finance
of Assets	1.5% of the historic price of the investment properties*	* 1.5% if assets < €51M * €0.77M + 1.25% if €51M < assets < €77M * €1.09M + 1% if assets > €77M	1.5% of the historic price of the investment properties***.
of Rent Commissions	10	10	10
of Profit from the Sale of Assets	10, if IRR>15%	15	10

* - ATERA's contract with the servicing company, Karoll Finance EOOD, was amended effective 01 July 2010. Prior to the amendment, the Fund paid the servicing company 6% p.a. of the revaluation value of the properties as well.

** - % of the core assets.

** - Agro Finance's contract with the servicing company, Agro Finance Consult EOOD, was amended effective 01 July 2010. Prior to the amendment, the Fund paid the servicing company 1.5% p.a. of the BV of the properties, including revaluation.

Source: ELARG, ATERA, AgroFinance

ELARG started cultivating agro land in 2009, aiming at higher returns and subsidies.

Land Cultivation

In 2009, the Fund started the cultivation of own land, aiming to make use of the higher effective yields and the significant EU funding through the fully owned subsidiary, ELARG Agro EOOD, which will rent land, cultivate it and apply for the eligible subsidies. Although positive, this incentive is expected to take some time until it becomes profitable (see "Valuation Assumptions").

Currently, ELARG Agro has rented ca. 2,800 Ha of agro land in south-eastern Bulgaria for an average rent of €102 per Ha, including 1,500 Ha from ELARG and 1,300 Ha from other entities. 1,500 Ha of the land have already been cropped and, according to the management, the plan is to increase the area of the cultivated land to ca. 5,000 Ha, diversified in three separate clusters, by 2016.

On 10 September 2010, the management company reported that the first harvest was 2,800 MT, in spite of the unfavourable weather conditions.

Financial Performance

Management focus shifted to the core business.

ELARG's previous management's main priority was the acquisition of agro land, ignoring the effective absorption of the properties. As a result, the only considerable source of income in the period 2005 – 2007 was the revaluation of the price of the REIT's assets.

The new BoD took measures to improve the operating performance on the company and to concentrate on the core business – the lease of agro land. In 2008, the management sold two land properties, situated in the territories of Vrazhdebna village and Elin Pelin for €5.7MM and €2MM, respectively, with a total profit of €3.3MM, and the proceeds were used to cover the accumulated losses from previous periods.

Table 5: ELARG – Financial Performance

€ 000	2008	2009	2010e	2011e	2012e	2013e
Gross Revenue	9,490	2,042	1,914	2,676	3,761	4,658
➤ Rent	1,696	2,026	2,355	2,833	3,400	4,200
➤ Other	35	2	-	-	-	-
➤ Cropping	-	-	(441)	(157)	361	458
➤ Sale of properties	7,758	14	-	-	-	-
Operating Costs	(6,636)	(3,081)	(1,543)	(1,669)	(1,836)	(2,043)
➤ External services	(2,058)	(1,248)	(1,092)	(1,175)	(1,264)	(1,387)
➤ Personnel	(84)	(107)	(96)	(134)	(188)	(233)
➤ Depreciation & amortization	(14)	(15)	(17)	(24)	(34)	(42)
➤ BV of sold properties	(4,462)	(6)	-	-	-	-
➤ Others	(18)	(1,704)	(51)	(51)	(51)	(51)
Net Financial Income / (Loss)	(691)	(576)	(597)	(694)	(675)	(622)
EBITDA	2,868	(1,024)	667	1,304	2,241	2,967
EBIT	2,854	(1,039)	649	1,280	2,207	2,925
NET INCOME	2,163	(1,615)	53	586	1,532	2,303

Source: ELARG, ACP estimation

19% higher rental revenue...

... and 39% lower fee on external services YoY in 2009.

Although the financial result for 2009 was a loss of €1.6MM, compared to €2.2MM profit in 2008, the Fund's performance is actually improving, which is evidenced by the following facts:

- A. **Revenue** – ELARG's revenue dropped by 77% YoY to €2.2MM in 2009, but €7.8MM or 81% of the total revenue in 2008 was due to the sale of the two properties, described above. Excluding the value of the one-off transactions, the Fund's operating revenue registers 17% growth YoY.
- A. **Costs** – the REIT's fees for external services decreased by 39% YoY to €1.2MM in 2009. A large portion of the reported costs for 2009 represent one-off write downs of overdue receivables under contracts, signed by the previous management, worth €1.7MM in total. In addition, the management wrote down an unacknowledged tax loan worth €0.1MM.

Therefore, ELARG's net result for 2009 was influenced by several major one-off factors that do not allow first-look comparison of the Fund's performance before

and after the management reforms. In order to do so, we have restated the financial results by eliminating the one-off factors concentrating on the REIT's core business performance.

Table 6: 2009 vs. 2008 Restated Financial Result Comparison

€ 000	Original		Restated		% Chg. Restated
	2008	2009	2008	2009	
Gross Revenue	9,598	2,166	1,841	2,152	17%
*Rent	1,696	2,026	1,696	2,026	19%
*Property sales	7,758	14	-	-	-
*Interests received	109	124	109	124	14%
*Other	35	2	35	2	-96%
Gross Costs	(7,435)	(3,781)	(2,970)	(1,932)	-35%
*External services	(2,058)	(1,248)	(2,058)	(1,248)	-39%
*Administrative	(105)	(395)	(105)	(395)	277%
*BV of sold properties	(4,462)	(6)	-	-	-
*Interests paid	(800)	(700)	(800)	(700)	-12%
*Alteration of production	-	456	-	456	-
*Other costs	(11)	(1,888)	(7)	(44)	521%
NET INCOME	2,136	(1,165)	(1,129)	220	-120%

Source: ELARG, ACP Estimations

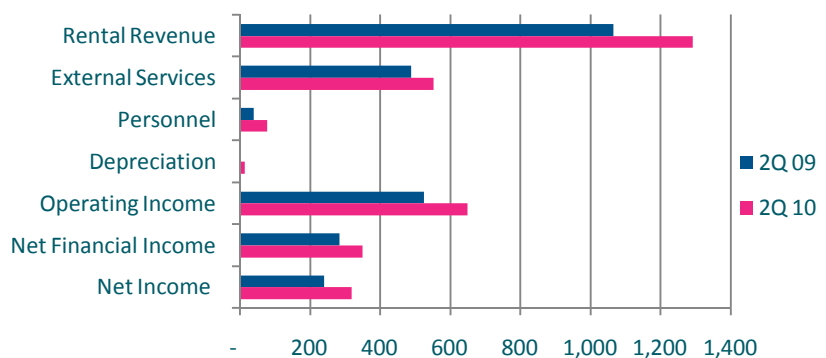
Strong core business improvement in 2009...

As seen from the table above, the profit in 2008 was mostly due to the sale of properties, while approximately 37% of the Fund's expenses in 2009 were due to one-off write-downs.

The operating performance continued improving YoY in 2Q 10 as well – the rental revenue increased by 21% to €1.3MM, while the cost of external fees increased by 13% to €0.6MM, and the Fund registered 32% profit growth to €0.3MM.

...which continued in 1H 10.

Chart 3: 2Q 10 vs. 2Q 09 Financial Performance (€ 000)



Source: ELARG, ACP Estimations

Overall, the reforms of the new management improved the company's core business performance, but the bad financial inheritance of the previous management will take some time for the ultimate stabilization of the company.

We remain optimistic regarding the future development of the REIT's operating performance, which is expected to improve the company's bottom line from €1.6MM loss in 2009 to €2.3MM profit in 2013. As a result, the company's RoA and Net Income Margin are estimated to increase from -3.5% and -79% in 2009 to 4.6% and 49% in 2013, respectively. Moreover, ELARG is expected to start the actual payment of dividends in 2014.

The Bond Issue

In 2007, the company placed €10MM par value bond issue with 7% annual coupon rate, maturing on 03 August 2010.

On 31 August 2010, the holders of the bond issue decided to extend the bond maturity for a further three year term with the following details:

- A. **Maturity date:** 03 August 2013;
- A. **Interest rate:** 8.5% per annum, paid semi-annually;
- A. **Repayment of the principal:** in full on the maturity date;
- A. The issuer shall apply the **income from sales of assets** other than agricultural land (non-core assets, namely the land plot in Kambanite area) for the payment of the interest and the principal under the bond issue;
- A. The issuer undertakes to **maintain the following financial indicators** until the full repayment of the issue:
 - Total equity / Total assets > 0.5;
 - (Total liabilities – Total equity) / Total assets < 0.5;
 - Interest coverage ratio > 0.5.
- A. **Premature repayment** – ELARG has the right to repay early the whole principal under the bonds or part thereof – the repayment can be made unilaterally and without the consent of the bondholders on any day after 3 August 2011;
- A. **Put options** – the bond holders were granted two put options, worth €2.85MM, executable by the end of 2010.

According to our estimation, ELARG will be able to successfully maintain the above indicators during the period 2010 – 2013 (see *Table 17: ELARG ALOF REIT – Financial Performance Projection*).

Despite that, we remain pessimistic that the Fund will be able to collect the funds, necessary to repay the bond in full by the end of 2013; rather, it will have to roll it once again.

The extension of the bond showed the support of the major shareholders (QVT Fund and Allianz) and their interest in the long-term development of the Fund. This is confirmed by several important items in the new agreement – the favourable coupon rate, a default on the put option is not a default on the bond,

Bond issue successfully rolled for a further three year term.

etc. For that reason, we think that another extension of the current bond issue will not be a significant issue, if necessary.

Peers Comparison

Our comparison is designed to offset the differences between the major agricultural REIT's accounting policies, stressing on the fundamentals of the business and remaining focused on the rental revenue.

Despite the lower average rent, ELARG's rental yield is 14% higher than the peers' average, due to the slightly higher rent-out ratio and the significantly lower average acquisition price of the land.

Table 7: Peers Comparison

Issuer	Land ¹ (Ha)	Rent out	Rent (€/Ha)	Acq. Price	Rental Yield	Rent/ Equity	Rent/ EV	EV/ Land (€/Ha)
ATERA	32,672	79%	105	1,304	6.4%	3.4%	7.3%	1,144
AgroFinance	13,009	88%	102	1,447	6.2%	5.1%	6.8%	1,330
Mel Invest	8,874	69%	112	1,917	4.0%	3.9%	8.8%	877
Bulland	2,088	89%	95	1,093	7.7%	2.0%	5.8%	1,448
Average	14,161	81%	104	1,440	6.1%	3.6%	7.2%	1,200
ELARG	29,304	83%	95	1,121	7.0%	6.5%	8.2%	951
+/-	-	2%	-9%	-22%	14%	82%	14%	-21%

¹ – agricultural land only Share prices as of 31 August 2010

Source: Companies' reports, ACP estimation

In terms of efficiency, ELARG's offers the highest rent-to-equity ratio (6.24% vs. an average of 3.6%) and the second highest rent-to-EV ratio (8.2% vs. an average of 7.2%) among the peers.

The ratio EV-to-land is considered the most important indicator, because it measures the actual price of each company's land portfolio per Ha, given its current market cap, cash and liabilities. Once again, ELARG offers the second best opportunity (after Mel Invest), since it is traded at 21% discount to peers' average.

Outlook

Following the transitional 2009, necessary for the reforms, carried out by the new management in 2008, to actually take effect, ELARG demonstrated strong improvement in terms of core business performance YoY in 1H 10: the rental revenue increased by 21% YoY, while the cost of external services was reduced by 12%, resulting in 64% profit growth to €0.8MM.

The successful extension of the bond issue for another three years stabilized the Fund for the near future, enabling the management to focus on the core

Important advantages to peers.

Solid basis for future growth.

business.

The amendments in the contracts between ATERA and Agro Finance and their servicing companies increased the competition in the sector, yet ELARG has some advantages, namely due to the more favourable contract with Agromanage, the restriction to invest and speculate with non-core assets and the cultivation of agro land.

Overall, ELARG's BoD has managed to secure stable grounds for the future development of the Fund's performance, which are expected to result in solid revenue and profitability growth from 2011 on.

SWOT Analysis

STRENGTHS		WEAKNESSES	
Restriction to invest in non-core assets		Investment properties that may be difficult to sell off	
Low external servicing costs		Limited cash reserves	
Favourable contract with the servicing company		Week liquidity of the stock, due to the low free float	
One of the biggest land banks in Bulgaria			
Highly experienced servicing company			
Cultivation of land			
OPPORTUNITIES		THREATS	
Expand the Cultivation of own land		Law suits with previous Management Company	
Enhance land value through consolidation & concentration		Agro output price volatility	
Fully benefit from EU subsidies		Competition	
Increase yields through modern equipment & methods		Bond issue maturing in three years	
Growth potential of the Bulgarian agro land & output price		Fail in further expansion, i.e. capital raising	

PORTFOLIO

Summary:

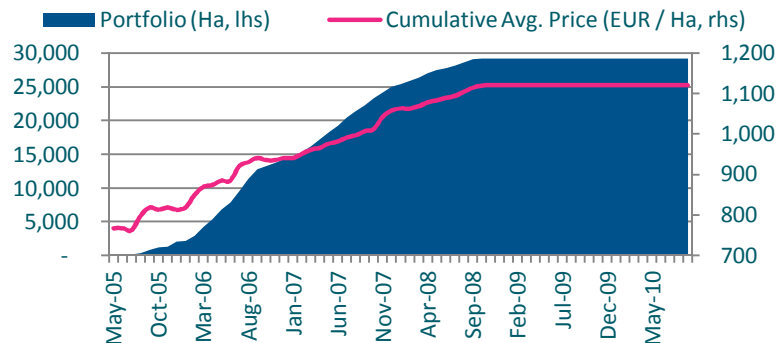
- A. ELARG owns 29,304 Ha of agricultural land, situated predominantly in northern and northeastern Bulgaria;
- A. The average accumulated acquisition price is €1,121 per Ha;
- A. The statute of ELARG's land in the area of Kampanite was changed ;
- A. 78% of the land portfolio was leased for an average rent of €95 per Ha as of December 2009.

Development

As of 2Q 10, ELARG owned 29,304 Ha of agricultural land, acquired for an average price of €1,121 per Ha (including all transaction costs). The Fund did not acquire any new properties in 2010 and no core properties were pledged as collateral.

ELARG owned 29,304 Ha of agro land in 2Q 10, ...

Chart 4: Portfolio Development



Source: ELARG

... situated mainly in the Danube valley, ...

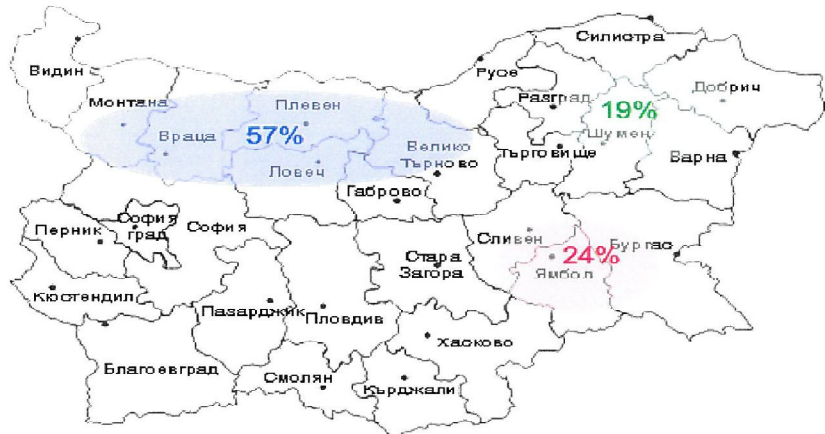
76% of the Fund's total portfolio was situated in northern Bulgaria, out of which 19% were in the most fertile, north-eastern, part of the country.

82% of ELARG's core properties represent agricultural land categories III – V (I category the most and X category – the least fertile). The land is situated within more than 1,000 territories and the average size per territory is ca. 18.6 Ha.

...and the management is focused on the effective absorption of the portfolio.

We expect that the Fund's management will remain focused on the concentration, rent and cultivation of the existing portfolio in the near term, in order to increase its value and to optimize the production potential and effectiveness. In confirmation, the company has already started cultivating part of its portfolio, aiming to make better use of the higher yield and the EU subsidies.

Map 1: ELARG Agricultural Land Distribution



Source: ELARG

According to the Prospectus, the company is about to increase its portfolio to 40,000 hectares of agricultural land. Despite that, we have assumed that ELARG will not continue investing in new agro properties until it accumulates sufficient resources for the redemption of the newly expected bond issue (€10MM).

Concentration and Consolidation Strategy

ELARG's concentration and consolidation strategy comprises four major stages:

- A. **Stage I: June 2005 – December 2006:** Acquisition of a well balanced and diversified portfolio in the Danube valley, Yambol and Burgass municipalities, targeting 20,000 Ha;
- A. **Stage II: January – December 2007:** Land concentration and consolidation, boosting the rents/yields through optimization of the portfolio of rent agreements, corporate restructuring, including the implementation of ERP systems;
- A. **Stage III: January – December 2008:** Further concentration, aiming at a portfolio, distributed between up to 400 territories;
- A. **Stage IV: January – December 2009:** Exchange of land, situated in non-priority territories for land in priority territories; continuous consolidation; cultivation of own land.

Concentration and consolidation on target.

We were advised by Agromanage that the Fund's strategy is directed towards further concentration and consolidation of the land portfolio. Once the REIT manages to cope with the bond issue, it will continue investing in agro

83% of the land leased for an average rent of €95 per...

...and the proceeds are insured by the BEIA.

Kambanite's land statute changed.

properties until the accumulation of the target portfolio of 40,000 Ha.

Renting and Rent Collection

24,184 Ha or 83% of the Fund's land portfolio was leased for the 2009/10 agro season as of 2Q 10 for an average rent of €95 per Ha, compared to 75% of the land leased for €85 per Ha during the 2008/09 agro season.

€1.5MM or 79% of the total expected rent for the 2008/09 season was collected as of 2Q 10.

The corporate rent receivables (comprising ca. 2/3 of the total) are insured by the Bulgarian Export Insurance Agency, putting behind the previous issues with rent collection.

Previously, ELARG signed predominantly four-year lease contracts with automatic 20% annual rent increase. Given the current economic situation, the management found this scheme unfavourable and the rent agreements, signed in 2009, were one-year only. Realizing the expected future growth of the average rent levels in Bulgaria, driven by the higher EU subsidies and CNDPs, the Fund is trying to protect the interests of the shareholders to the highest extend possible.

The management company reported that ca. 68% of the portfolio was leased for the 2010/11 agro season for an average rent of €112 per Ha as of August 2010.

Investment Properties for Sale

In 2008, ELARG owned two investment properties for sale with total size 138.3 Ha – Kambanite project and Vetrino Wind Park. The Fund signed a contract for the sale of the wind park to Hydroelectric Bulgari OOD by 15 December 2009, but it was dissolved, which imposed the reclassification of the property from assets available for sale to investment properties.

As a result, Kambanite remained the Fund's only investment property for sale as of the end of 2009. The project comprises 18.3 Ha in the southern part of Sofia and the statute of the land was changed by the Municipal Council from agricultural to suitable for development of residential and multifunctional projects; the Cabinet approved the new General Urban Plan on 16 December 2009. The year-end 2009 book value of the property was €7.46MM and the total amount of the invested funds was €10.4MM.

BULGARIAN AGRICULTURE

Summary:

- A. Bulgarian agricultural land is highly fertile and profitable;
- A. It is significantly cheaper, as compared to the rest of EU, due to different subjective factors;
- A. Current yields and output sell prices are lower than the EU's average and offer excellent growth potential;
- A. Bulgarian producer costs are among the lowest in EU;
- A. Bulgarian agriculture offers excellent potential for land and output price growth.

Bulgarian UAA is distributed in three major regions.

Bulgarian UAA is distributed in three major regions: Northwestern (20% of the total UAA in Bulgaria), Northern-Northeastern (43%) and Southeastern (18% of UAA). All the most important grain storage and processing bases have excellent access to different transport options, namely road, railway and river / sea.

The land is one of the cheapest in the EU.

Currently, agricultural land in Bulgaria is among the cheapest across the EU – although its price increased during the last few years, it is still far behind most of the other EU member states. The availability of sector funding, the low operating costs and the favourable legislation are some of the most important advantages of the Bulgarian agriculture.

The strong fragmentation in a major issue of the sector.

A major issue of the sector is the strong fragmentation of the agricultural properties – the result of the restitution of agricultural land in the 1990's – and land owners who managed to consolidate large areas have significant advantage.

The sector offers excellent growth perspectives in terms of yields, output, and commodity prices.

SWOT Analysis

STRENGTHS	WEAKNESSES
Cheap land	Land fragmentation
Sector funding	Insufficient infrastructure
Low operating costs and CAPEX	
Favourable Legislation	
OPPORTUNITIES	THREATS
Yields	Rising costs, rents and CAPEX
Output growth potential	Storage and handling facilities
Unused land	Decreasing rural population and labor force
Commodity prices	

Bulgarian agro land's price tripled between 2005 and 2008...

...but dropped to €1,600 per Ha in 2Q 10.

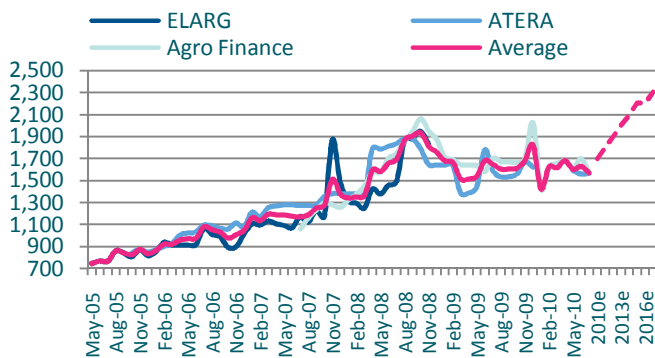
STRENGTHS

Land Price

Bulgarian agro land price almost tripled in the period 2005 – 4Q 08 to approximately €1,950 per Ha due to the large demand and the highly positive outlook of the Bulgarian economy.

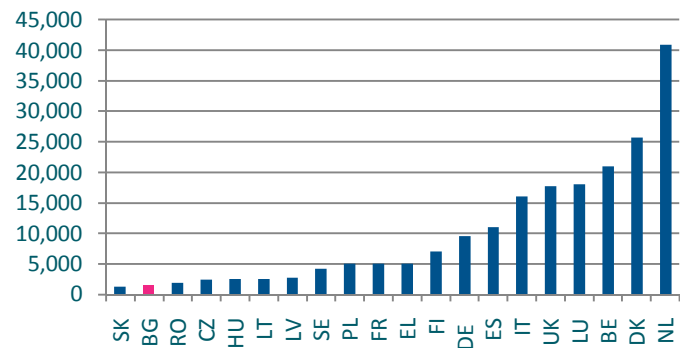
The Financial Crisis dried up the investments in the sector; the major REITs limited their investments in new properties and concentrated on land consolidation, concentration and effective renting of their portfolios. As a result, agro land price temporarily dropped to ca. €1,500 per Ha in the middle of 2009, but started growing slowly to ca. €1,600 – 1,700 per Ha throughout 2Q 10.

Chart 5: Bulgarian Farming Land Price (€/Ha)



Source: ELARG, ATERA, Agro Finance, ACP Estimation

Chart 6: EU Agricultural Land Prices (€/Ha)



Source: EUROSTAT, Various Sources, ACP Estimation

Several reasons explain the significantly lower price, compared to EU rivals.

We believe that the purchase prices announced by the REITs are the most trustworthy indicator because it reflects numerous transactions with properties of various sizes in all parts of the country.

Despite the price growth, Bulgarian agro land still trades 90% cheaper than Italian, 68% cheaper than Greek and 36% cheaper than Hungarian land. There are several reasons that explain this, more notably:

- A. **Fragmentation of land** – larger plots are more valuable;
- A. **Low efficiency** – land fragmentation impedes production efficiency;
- A. **Rents market** – agricultural lease market is currently undeveloped – the land is leased sporadically, predominantly short-term and it cannot be considered a typical income-producing investment property. As a result of the relatively lower negotiation power of the small owners, rents remain low;

The sector's profitability is expected to continue pushing agro land's price upwards.

Bulgarian farmers have the right to receive EU subsidies totaling €4.7B between 2007 and 2016...

... in addition to CNDP.

A. Infrastructure and irrigation – the existing infrastructure and irrigation facilities are old and neglected. Following the collapse of Communism, Bulgarian agricultural producers lost traditional markets and suffered 15 years of industry recession and lack of investments in infrastructure.

We think that the sector's profitability and potential for industry development, respectively land price, are widely underestimated. Supply and demand of agro land in Bulgaria are currently stabilized and the REITs are concentrated on the effective absorption of their existing portfolios, but the expected growth of the EU subsidies and CNDPs, in addition to the overall potential of the sector, will continue pushing agro land price upwards.

In general, agricultural land price varies across the country, depending on its location, fertility, condition, proximity of storage facilities, transportation, irrigation and other infrastructure, etc. Reasonably, consolidated larger plots are more valuable and expensive.

Sector Funding

According to the Treaty of Accession of Bulgaria and Romania to the EU ("Treaty"), Bulgarian farmers have the right and opportunity to receive EU subsidies totaling €4.7B during the period 2007 – 2016.

Initially, Bulgarian farmers received only 25% of the average subsidy received by EU farmers, but this amount was projected to increase gradually and catch up with EU's average in 2016.

EU subsidies represent direct payments per unit UAA, estimated by dividing the total amount allowed for allocation to Bulgarian farmers ("Ceiling") for the respective year to the UAA, as shown in Table 7 below.

Table 7: BG Farmers Direct Payments							
	2010e	2011e	2012e	2013e	2014e	2015e	2016e
EU Subsidies Ceiling (€MM)	321	401	482	562	642	723	803
% of EU Average	40	50	60	70	80	90	100
UAA (MM Ha)	3.4	3.4	3.4	3.4	3.4	3.4	3.4
EU Subsidy per Ha (€)	94	118	142	165	189	213	236
CNDP (% of Ceiling)*	50%	50%	50%	50%	50%	50%	50%
CNDP Ceiling (€M)	161	201	241	281	321	361	401
CNDP per Ha (€)	47	59	71	83	94	106	118

Max. Subsidy per Ha (€) **142** **177** **213** **248** **283** **319** **354**
 * - 30% from 2010 on, according to the original Treaty. Subsequently, Bulgaria managed to increase the maximum allowed CNDP to 50% of the Ceiling for the respective year.

Source: Treaty of Accession, EU Legislation, ACP Research

In addition, Bulgaria has the right to provide additional support to farmers

So far, Bulgaria has not made the best possible use of the availability of EU funding...

...but the new Government is striving to change the status quo.

Bulgaria offers the lowest production costs and the most favourable taxation system in the EU.

through Complementary National Direct Payments (CNDP) from the State budget, which cannot exceed certain percent of the Ceiling, also determined in the Treaty.

Table 7 shows a summary of the maximum per-Ha subsidy, allowed for allocation to Bulgarian farmers, as outlined by the Treaty.

Despite the general provisions, we must point out that these figures are tentative and are subject to amendments as a result of negotiations between Bulgaria's Government and the European Commission, Bulgarian economy's performance and the availability of budget resource, etc.

According to the information provided by the Minister of Agriculture and Foods, Bulgaria's Budget 2010 provides €77M for CNDP, while another €77M may be added in case of budget overfulfilment. According to this scenario, the subsidy received by Bulgarian farmers is expected to be between €117 and €137 per Ha.

So far, Bulgaria has been unable to fully benefit from the available EU funding due to the inability and the lack of political will of the previous two Governments to solve certain issues relating to corruption and frauds with EU funds that resulted in massive political scandals and made the EC suspend the funding for the country.

The new Cabinet demonstrated strong political will to change the status quo and to clean the country's name in the eyes of its European partners. EU funding under several programs has already been unfrozen and the EC demonstrated confidence and readiness to continue the cooperation with the new Government.

Low Operating Costs and CAPEX

Although local producers cultivate their land with the same seeds, fertilizers and plant protection chemicals, they still have several important opportunities to cut their operational costs and capital expenditures.

Bulgaria is the EU member with lowest production costs in terms of natural gas price, electricity price and salaries. Moreover, the country's 10% flat Income Tax rate is the lowest rate in the EU.

Numerous Bulgarian farmers invested in modern machinery during the last several years, benefiting from the opportunity to receive funding under SAPARD program, which is usually 50% of the price of the equipment. As a result, they are currently among the best equipped in Europe, which, on the one hand, provides for their lower operational costs and, on the other hand, enables them to cultivate their land timely and effectively.

Bulgarian legislation does not represent significant obstacle to foreign investors.

Land fragmentation is the major disadvantage of the Bulgarian agro land base.

Legislation

Bulgarian legislation restricts foreign private individuals and companies from the right to have ownership of land on the territory of the country. An exception is made for individuals and companies from the EU member states, permanently residing on the territory of Bulgaria.

The right to possess agricultural land and forests is also entitled to self-employed farmers, citizens of other EU member states, willing to establish themselves on the territory of Bulgaria. In addition, foreign-owned entities or branches, registered in Bulgaria, are also given the right to possess land in the country.

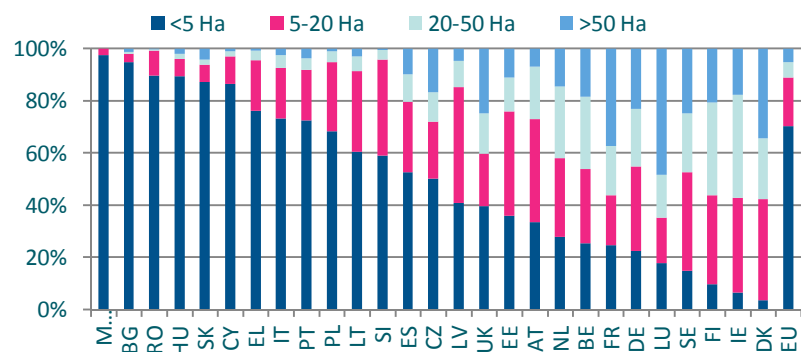
It is expected that amendments in the Law on Property will allow EU private individuals to possess land in Bulgaria in the near future. In general, legislation does not by itself represent a major obstacle to foreign companies and individuals, willing to invest in Bulgarian agricultural land.

WEAKNESSES

Land Fragmentation

The restitution following the collapse of the Communism in Bulgaria left agricultural land strongly fragmented into numerous small-scale plots, possessed by numerous owners: the 3.05MM Ha of UAA in Bulgaria were split into 482,000 properties with an average size of 6.3 Ha in 2007. Although there is a slight improvement, as compared to 2006 when the size of the average Bulgarian agricultural land plot was only 5.2 Ha, it is quite insufficient.

Chart 7: Holdings by Land Size in the EU



Source: EUROSTAT

Most of the owners are unwilling or unable to cultivate their land and they are usually leasing it to cooperatives, which creates uncertainties, increases farmers' operational costs and makes any long-term investment in production facilities

The Government is expected to support the process of land consolidation.

Practical and psychological factors provide for the high fragmentation as well.

State investments in infrastructure are very unlikely.

Bulgarian agro yields offer high growth potential.

pointless.

Bulgarian Government's policy in this respect has been neutral, so far, i.e. the land consolidation process is left in the hands of the free economy. However, we have seen discussions regarding the introduction of various administrative stimuli recently, aiming to boost the consolidation process.

In addition, there are practical and psychological reasons that explain the slow and unsatisfactory development in the area as well:

A. Human Factor – shocked by the collapse of the Bulgarian banking system in the late 1990's, many Bulgarians lost their confidence in banks and looked for alternative value preservation investments like real estate, including agricultural land. For that reason, although many of the owners are not cultivating their land, they prefer to keep it as a reserve of last resort and sell it only in case of urgent need for money. Moreover, many of the small-scale owners are emotionally devoted to their plots, being linked to their family roots.

A. Lack of Information – it is natural to expect that most of the small-scale owners, not working in the area of agriculture, are not quite informed about the main advantages, steps and general process of agricultural land consolidation. Most of these people are not aware of the advantages of consolidated land, such as higher price and rents.

As a result, the process of accumulation and consolidation of large agricultural plots in Bulgaria is slow and heavy, requiring a lot of time and efforts.

Infrastructure

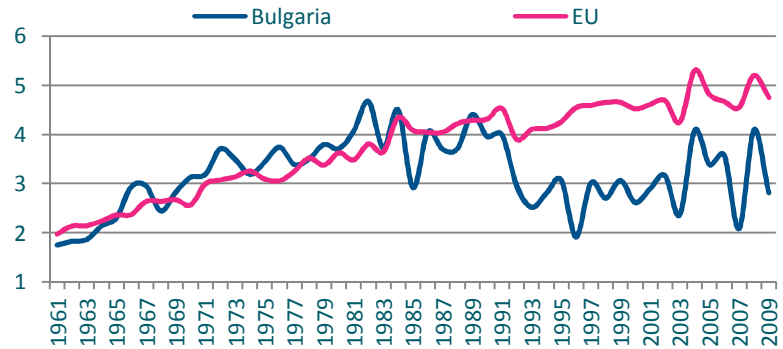
Bulgaria's Government has limited potential to invest in agricultural infrastructural facilities, such as irrigation systems, especially in new developments. Although there are on-going negotiations regarding EU funding of such projects, they cannot be relied upon yet.

OPPORTUNITIES

Yields

As seen from the chart below, until the collapse of the Communism, Bulgarian cereals yield was in the most cases higher than the average for the EU. Since then, as a result of the lack of sufficient investments, resources and markets, Bulgarian average cereals yield naturally decreased.

Chart 8: Bulgarian and EU Cereals Yield (MT/Ha)



Source: FAO, Eurostat

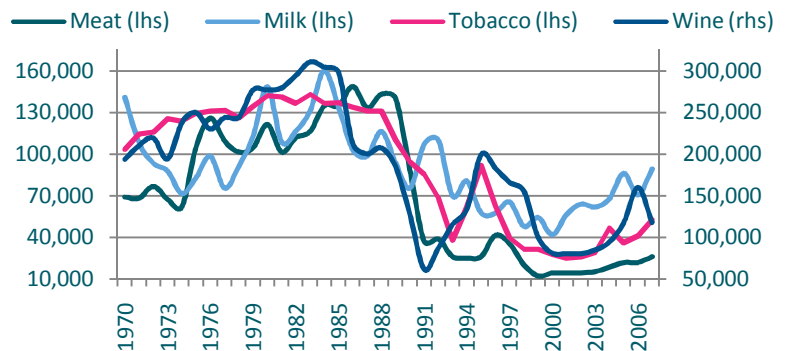
Therefore, the Bulgarian agricultural sector has a great potential for development in terms of yields growth. We believe that the inflow of funds will enable the local producers to make significant investments in machinery, equipment and know-how which should, in term, increase average yields.

Output Growth Potential

During the Communism, Bulgaria was among the major agro output exporters in Europe.

During the Communism, Bulgaria was among the leading producer and exporters of rose oil (the biggest in the world), cigarettes (the second largest exported in Europe), fruits and vegetables, livestock products, tobacco, canned food, wine, etc. For that reason, Bulgarian agricultural commodities are very well known, especially in the member countries of the previous CMEA and CIS.

Chart 9: Bulgarian Agro Commodities Export (MT)

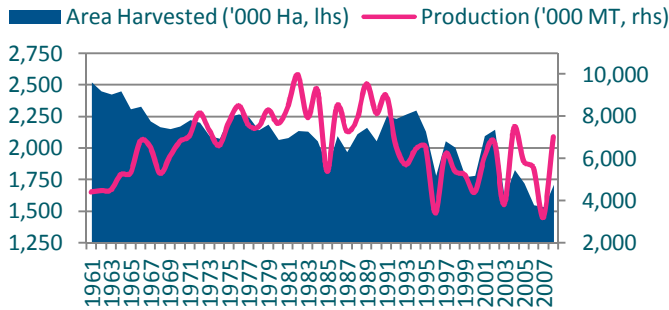


Source: FAO

Following the collapse of the system and the unsuccessful adaptation to the open market economy, Bulgarian agricultural export, with small exceptions, decreased significantly during the last 15 years.

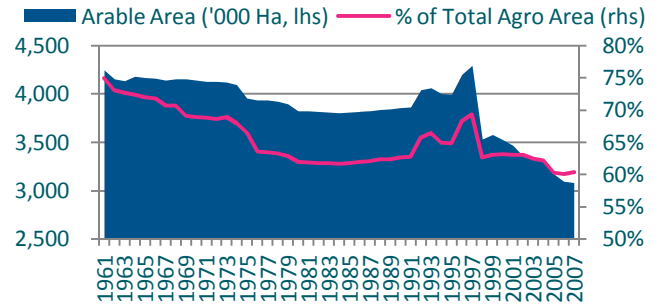
The transition process from centralized economy to market economy took its

Chart 10: Cereals Area Harvested & Production



Source: FAO

Chart 11: Cultivated Land (% of Total)



Source: FAO

The price of Bulgarian agro production is lower than the EU's average.

Commodity Prices

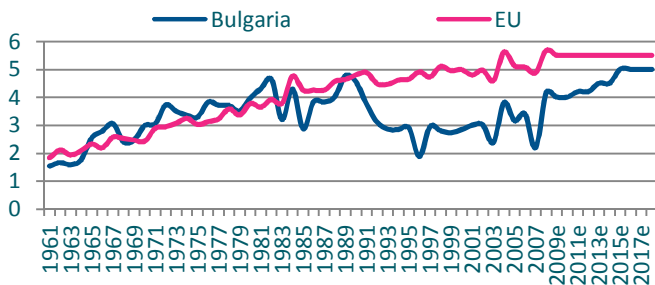
Agricultural commodities' prices have been traditionally lower in Bulgaria, as compared to the rest of the EU countries, mainly due to the lower quality of the local production.

We believe that the country's accession to the EU's common market, the increased investments in the sector and the introduction of modern equipment and production methods will improve the quality of the local output and will provide for the equalization of its price on the international markets in the mid-term.

Investments and growing demand should equalize prices worldwide.

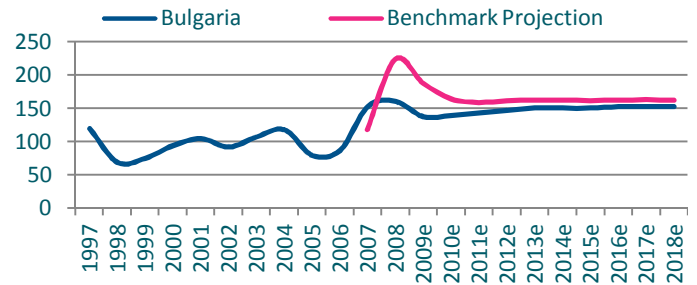
Globalization and increasing demand for cereals and oilseeds, driven by population growth and attempts to reduce the oil dependence through substitution with biofuels, will also provide for the expected equalization of Bulgarian agricultural commodity prices. Taking OECD's projection of the expected prices of cereals and oilseeds as a benchmark, we have made the following estimation of the development of the Bulgarian yields and prices in the near future:

Chart 12: Yield of Wheat (MT/Ha)



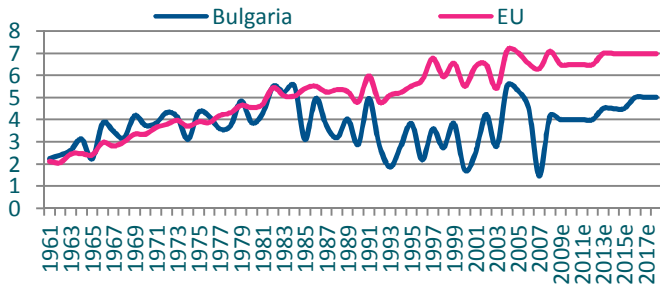
Source: Eurostat, FAO, ACP Estimation

Chart 13: Wheat Sell Price (€/MT)



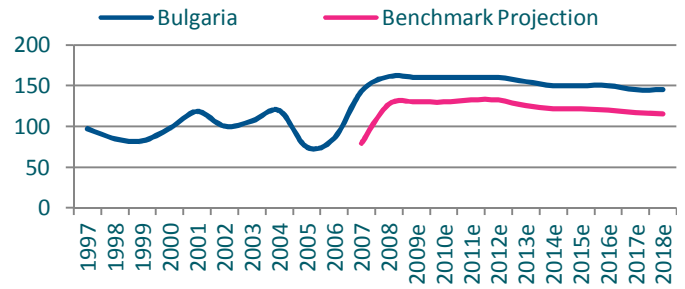
Source: Eurostat, NSI, OECD, ACP Estimation

Chart 14: Yield of Corn (MT/Ha)



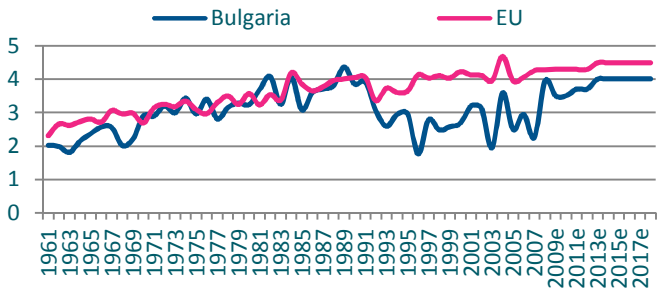
Source: Eurostat, FAO, ACP Estimation

Chart 15: Corn Sell Price (€/MT)



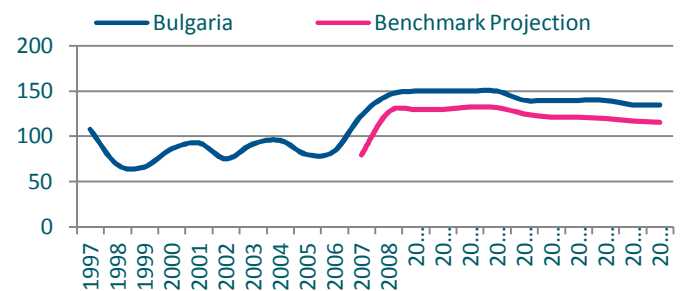
Source: Eurostat, NSI, OECD, ACP Estimation

Chart 16: Yield of Barley (MT/Ha)



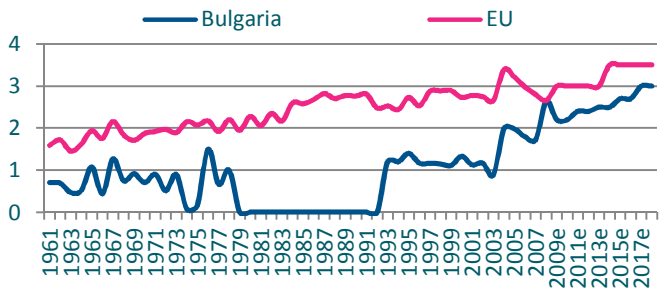
Source: Eurostat, FAO, ACP Estimation

Chart 17: Barley Sell Price (€/MT)



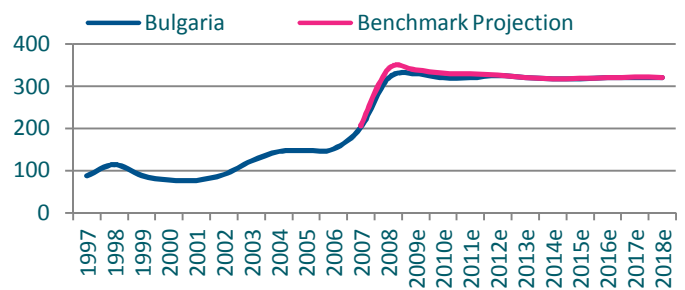
Source: Eurostat, NSI, OECD, ACP Estimation

Chart 18: Yield of Rapeseed (MT/Ha)



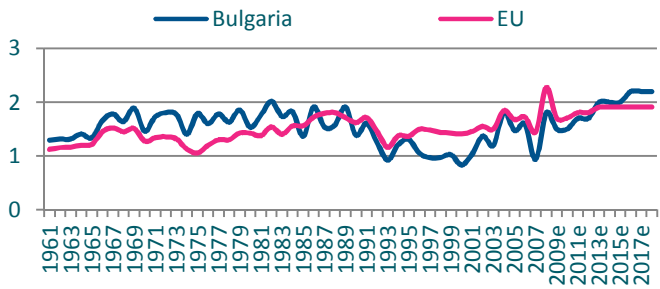
Source: Eurostat, FAO, USDA, ACP Estimation

Chart 19: Rapeseed Sell Price (€/MT)



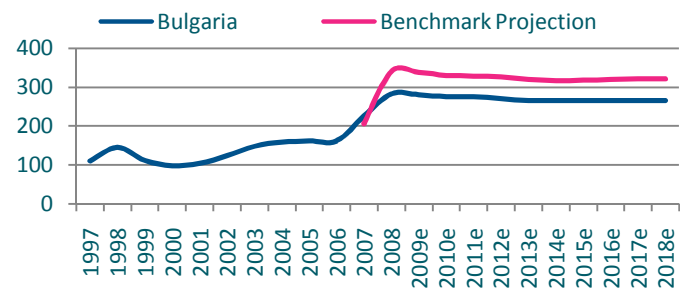
Source: Eurostat, NSI, OECD, ACP Estimation

Chart 20: Yield of Sunflower (MT/Ha)



Source: Eurostat, FAO, ACP Estimation

Chart 21: Sunflower Sell Price (€/MT)



Source: Eurostat, NSI, OECD, ACP Estimation

Labor costs in Bulgaria are rising, but are expected to remain lower than the EU's average.

The existing silo base is good, but is privately held.

Agro rents are expected to continue growing, driven by the higher yields and the growing direct payments.

THREATS

Operational Costs

Labor costs in Bulgaria were rising during the last decade and this trend is most likely to preserve, as the country currently has the smallest GDP per capita and average wage rate in the European Union.

Despite that, even if the process towards convergence with the EU average preserves, we believe that Bulgaria will keep its cost advantage.

Storage and Handling Costs

The existing silo base in Bulgaria is good and on key locations, but is privately held and the conditions of its usage may change as owners have the power to benefit from their favourable position.

Rents and CAPEX

Agro rents in Bulgaria vary between €70 – 200 per Ha and the negotiation power of farmers is currently stronger. Despite that, considering the on-going process of land consolidation, this is expected to change and land owners should become in a position to take bigger piece of farmers' revenue through higher rents.

The price for clearance and preparation for cultivation is around €150 per Ha of recently farmed land, but it can reach €500 per Ha of neglected land that has not been worked for a longer period. In addition, agricultural business may require significant initial CAPEX, in order to prepare the land and to acquire the necessary equipment for the cultivation. We have presented a tentative outline in the table below:

Investment	CAPEX (€ / Ha)		Avg.
	Min.	Max.	
Land Cleaning	150	500	200
Working Capital	150	400	250
Machinery*	250	600	300
Silo Base*	150	300	250
Rent	70	200	100
TOTAL:	770	2,000	1,100

* - Opportunity to apply for EU grants/subsidies
Source: ACP Estimation

A period of strong urbanization followed the end of the WWS...

... and the rural population dropped to less than 2.2MM people in 2008.

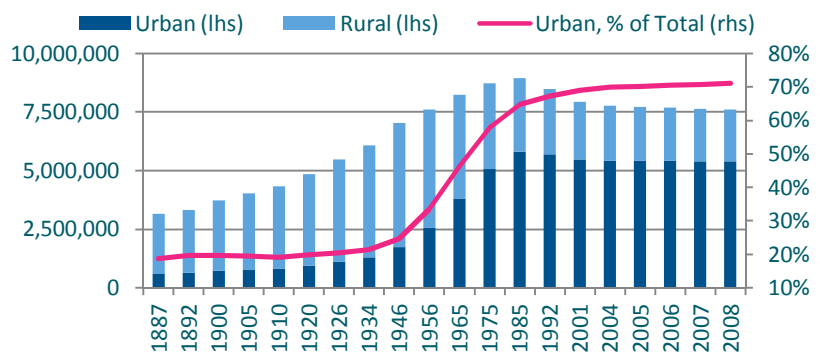
Bulgarian farms are currently managed by elderly or insufficiently qualified managers.

Labor Force

Due to the massive incentive towards strong industrialization of the Bulgarian economy that followed the end of the WWS, there was a period of huge urbanization across the country. Although this process was especially tangible in the period between the 1950's and 1980's, when the number of people living in the Bulgarian villages decreased from 5.3 million to less than 3 million, it is still running nowadays.

As a result, the share of urban population increased from less than 20% in the 1950's to over 65% in the 1990's and to over 70% as of today.

Chart 22: Population Urbanization in Bulgaria



Source: Census, NSI

Following the crash of the Bulgarian agriculture, many people were not able to find employment in the sector and were forced to seek for new job opportunities in the larger cities and holiday resorts, mainly in the construction industry.

The alteration of the area of occupation of these large population masses changed their priorities in education as well, which has recently concentrated on purely economical subjects, rather on agricultural ones.

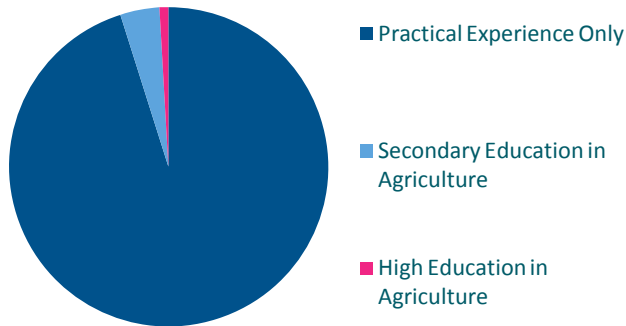
As a result of all above mentioned, the vast majority of Bulgarian farms are currently managed by elderly people or managers without the necessary experience and education.

The general conclusion is that the Bulgarian rural population is decreasing, as its occupants have migrated or passed away. Most of the people that were earlier employed in the agricultural sector are scattered within different sectors of the economy, mainly in construction works.

As the last has been severely hit by the Financial Crisis and considering the growing subsidies, we expect that some of these workers will return to the

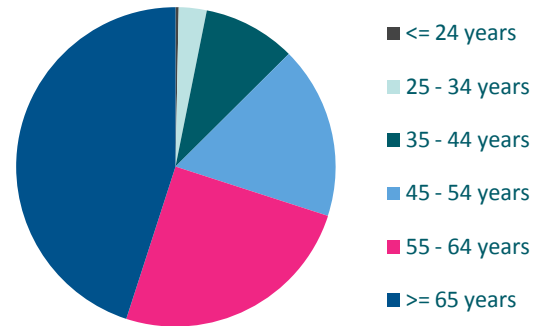
farming business.

Chart 23: Holdings Management, Education



Source: MAF

Chart 24: Holdings Management, Age Structure



Source: MAF

Bulgarian agriculture is currently widely underestimated...

... but the country's accession to the EU boosted its attractiveness.

Yields growth and direct payments are the major advantages, ...

...while the clumsy process of consolidation and the insufficient State support are the major issues of the sector.

OUTLOOK

As of today, Bulgarian agriculture's potential is unutilized and underestimated. The lack of sufficient financing, following the collapse of the Communism in the late 1990's, left Bulgarian farmers unprepared for and vulnerable to the influences of the open market, which resulted in numerous bankrupts. Many traditional markets were lost, the volume of production dropped to unprecedented levels, the young and able people migrated from the villages and the share of idling land has been growing ever since.

Bulgaria's accession to the EU in 2007 significantly increased the sector's attractiveness to investors who realize the hidden potential of Bulgarian agriculture. The introduction of modern fertilizers, equipment, machinery, technologies and sorts should strongly increase the production effectiveness and the yields, achieved by local farmers, namely in the production of cereals. It will also increase the quality of the local output and will push its price upwards, yet to levels, lower than the EU's average, enhancing Bulgarian commodities' competitiveness and helping them recapture some of the lost markets.

The availability of EU subsidies and CNDP that are expected to reach €350 per Ha in 2016 are some of the most important advantages of the Bulgarian farmers, in addition to the low production costs and the 10% flat corporate income tax – the lowest in the EU.

Among the major issues of the sector are the hard, difficult and clumsy process of agricultural land consolidation and the lack of sufficient State support, namely in through infrastructural developments. Another major issue is the current inability to fully benefit from the EU financing for the sector. However, significant political and social efforts are made to change the status quo.

VALUATION ASSUMPTIONS

Issuance of Debt and Equity

Our valuation is based upon the assumption that the Fund will not raise additional capital.

Agricultural Land Portfolio

Following our meeting with Agromanage, we have assumed that the Fund will not invest in agro land properties until it has actually accumulated reserves, sufficient for the payment of the outstanding bond issue, i.e. €10MM.

Rental Revenue

24,184 Ha or 82.5% of the Fund's land portfolio was leased for the 2009/10 agro season as of 2Q 10 for an average rent of €95 per Ha.

We were advised that the management would continue concentrating on the lease of agricultural land, being the Fund's core business, and have projected the following development of the company's rental revenue:

Table 10: ELARG – Rental Revenue Projection

Source	2010e	2011e	2012e	2013e
Total Land (Ha)	29,304	29,304	29,304	29,304
Rented (%)	85%	85%	85%	90%
Rent (€ / Ha)	95	114	137	159
Rental Revenue (€M)	2.3	2.8	3.4	4.2

Source: ACP estimation

Our estimation of the future rent levels is based upon the expectations for an increase in the average cropping revenue and subsidies and ELARG's average historic rent levels.

Fee for External Services

Table 11: Fee for External Services

Source	2010e	2011e	2012e	2013e
Servicing companies	(790)	(858)	(925)	(1,015)
Other External Services	(333)	(358)	(385)	(423)
Total External Services	(1,092)	(1,175)	(1,264)	(1,387)

Source: ACP estimation

Based upon ELARG's contract with Agromanage and the information, provided by the management, the total fee for external services, paid by the Fund, has been estimated to increase, as showed above.

Investment Properties Held for Sale

Although we believe that the change in the statute of the Fund's land in Kambanite area made it more attractive to potential developers and the management will be able to sell it in the near future, we have selected a more conservative approach and have assumed that the property will not be sold during the next five years.

Cultivation of Land

In 2009, the Fund's management established ELARG Agro, a fully owned subsidiary, in order to benefit from the higher effective yields from the cultivation of agro land and from the opportunity to receive direct payments.

We have projected that the subsidiary will generate the following cash flows from the cultivation of land:

Source	2010e	2011e	2012e	2013e
Total Land Rented (Ha)	2,800	2,500	2,500	3,000
Actually Cropped (Ha)	1,500	2,000	2,500	3,000
Yield (MT per Ha)	2	3	4	4
Cropping Revenue (€ per MT)	120	120	120	125
Cropping Revenue (€ per Ha)	240	360	480	500
Subsidies (€ per Ha)	117	148	177	207
Total Revenue (€ 000)	536	1,016	1,643	2,121
Rent (€ per Ha)	(102)	(114)	(137)	(159)
Cropping Costs (€ per Ha)	(460)	(444)	(359)	(377)
Total Costs (€000)	(977)	(1,173)	(1,239)	(1,609)
EBT (€ 000)	(441)	(157)	404	512
Income Tax (€ 000)	-	-	(42)	(54)
Net Income (€ 000)	(441)	(157)	361	458

Source: ACP estimation

Our estimation includes an initial period of partly-cultivated areas and higher costs for land preparation, purchase of equipment and establishment of the operating process.

Agro Land Sell Price

In order to provide a meaningful projection regarding the Fund's future cash

flow, we have estimated Bulgarian agricultural land's fundamental price, based upon capitalization of its current and future potential for profitability. In order to do so, we have played a scenario upon the concept for cultivation of a land bank, which, for simplicity, has been considered to be 5,000 Ha.

Our scenario envisages the cultivation of five traditional crops that are attractive to farmers in view of their price, liquidity and compatibility with the country's climate conditions.

The five crops – soft wheat, maize, barley, rapeseed and sunflower – are projected for cultivation on five 1,000 Ha plots and can be grown on one and the same plot as follows:

- A. **Soft Wheat** – once every three years;
- A. **Maize** – once every three years;
- A. **Rapeseed** – once every five to eight years;
- A. **Barley** – once every three years;
- A. **Sunflower** – once every three years.

Based upon the above, we have projected the following rotation of the five 1,000 Ha land plots, as presented in Table 13 below.

Further on, we have projected that rents will gradually reach 30% of the gross output revenue (exclusive of subsidies) in 2014 from ca. 20% as of today.

Table 13: Land Plots Rotation

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Plot 1	Rapeseed	Barley	Corn	Sunflower	Wheat	Rapeseed	Barley	Corn	Sunflower
Plot 2	Barley	Corn	Sunflower	Wheat	Rapeseed	Barley	Corn	Sunflower	Wheat
Plot 3	Corn	Sunflower	Wheat	Rapeseed	Barley	Corn	Sunflower	Wheat	Rapeseed
Plot 4	Sunflower	Wheat	Rapeseed	Barley	Corn	Sunflower	Wheat	Rapeseed	Barley
Plot 5	Wheat	Rapeseed	Barley	Corn	Sunflower	Wheat	Rapeseed	Barley	Corn

Source: ACP Estimation

Our research shows that the average Bulgarian CPI for the last 10 years was ca. 6.3%, while the average CPI of the food was 5.63%. Based upon the above and the assumption that Bulgarian CPI will average 5% for the period 2010 – 2013 and 2.5% afterwards, we have applied a terminal growth rate of 2%.

We have also assumed conservative levels of the direct payments, compared to the ceilings, outlined by Treaty of Accession of Bulgaria and Romania to the EU.

Eventually, we arrived to an average fair value of the Bulgarian agricultural land of ca. €2,300 per Ha, which is expected to be reached within the next 5 – 10 years.

Table 14: Bulgarian Agricultural Land – Harvest, Revenue and Costs

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Yields (MT/Ha)									
Wheat	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0
Barley	2.0	2.5	2.5	2.5	3.0	3.0	3.0	3.0	3.0
Rapeseed	1.2	1.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Sunflower	4.0	4.5	4.5	5.0	5.0	5.5	5.5	5.5	5.5
Corn	4.0	4.5	4.5	5.0	5.0	5.0	5.0	5.0	5.0
Sell Price (€/MT)									
Wheat	120	120	120	125	125	125	125	125	127
Barley	150	150	150	140	140	140	140	135	137
Rapeseed	320	320	315	310	310	310	310	310	315
Sunflower	275	275	270	265	265	265	265	265	265
Corn	160	160	160	155	150	150	150	145	150
Subsidies (€/Ha)									
	117	148	177	207	236	266	295	295	295
Cropping Costs (€/Ha)									
Wheat	(326)	(342)	(359)	(377)	(386)	(396)	(406)	(416)	(426)
Barley	(242)	(254)	(266)	(280)	(287)	(294)	(301)	(309)	(316)
Rapeseed	(210)	(221)	(232)	(243)	(249)	(255)	(262)	(268)	(275)
Sunflower	(242)	(254)	(266)	(280)	(287)	(294)	(301)	(309)	(316)
Corn	(273)	(287)	(301)	(316)	(324)	(332)	(340)	(349)	(358)
Rent (€/Ha)									
	(107)	(125)	(150)	(175)	(199)	(203)	(203)	(201)	(204)
Other Costs (€/Ha)	(110)	(121)	(133)	(146)	(161)	(177)	(195)	(214)	(236)
Revenue (€MM)									
	3.2	3.7	3.9	4.2	4.5	4.7	4.9	4.8	4.9
Costs (€MM)									
	(2.4)	(2.6)	(2.8)	(3.1)	(3.3)	(3.5)	(3.6)	(3.7)	(3.9)
Net Income (€MM)									
	0.8	1.1	1.0	1.1	1.2	1.2	1.3	1.1	1.0

Source: ACP research and estimation

Table 15: Bulgarian Agricultural Land – Valuation

€MM	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Net Income	0.8	1.1	1.0	1.1	1.2	1.2	1.3	1.1	1.0
Taxes	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Unleveraged FCF	0.7	1.0	0.9	1.0	1.0	1.1	1.1	1.0	0.9
Discounted FCF	0.7	0.9	0.7	0.7	0.7	0.7	0.6	0.5	0.4
Terminal growth	2.0%		WACC	9.3%					
Terminal Sale	12.4		CoE	12.35%	CoE	12.35%			
PV of Terminal Sale	5.6		CoD	8.0%	RF	5.85%			
EV	11.4		Debt	70%	ERP	10.0%			
EV (€/Ha)	2,271		Equity	30%	Beta	0.65			

Source: ACP research and estimation

Table 16: Land Price Sensitivity (€/Ha)

		Terminal Growth Rate					
		1.0%	1.5%	2.0%	2.5%	3.0%	
WACC	7%	2,903	3,060	3,248	3,478	3,765	
	8%	2,504	2,610	2,733	2,878	3,053	
	9.3%	2,127	2,195	2,271	2,359	2,461	
	10%	1,968	2,023	2,084	2,153	2,232	
	11%	1,779	1,820	1,865	1,916	1,972	

Source: ACP Estimation

ELARG ALOF REIT – EQUITY VALUATION

Based upon the above assumptions, we have estimated ELARG Agricultural Land Opportunity Fund REIT's target price as follows:

Table 17: ELARG ALOF REIT – Financial Performance Projection*

€ 000	2009	2010e	2011e	2012e	2013e	CAGR**
Operating Revenue	2,042	1,914	2,676	3,761	4,658	23%
*rent	2,026	2,355	2,833	3,400	4,200	20%
*cropping	-	(441)	(157)	361	458	-
*other	2	-	-	-	-	-
*sale of properties	14	-	-	-	-	-
Operating Costs	(3,081)	(1,264)	(1,396)	(1,554)	(1,734)	-10%
*materials	(273)	(9)	(12)	(17)	(21)	-47%
*external services	(1,248)	(1,092)	(1,175)	(1,264)	(1,387)	8%
*personnel	(107)	(96)	(134)	(188)	(233)	21%
*depreciation / amortization	(15)	(17)	(24)	(34)	(42)	29%
*BV of sold properties	(6)	-	-	-	-	-
* unfinished production	456	-	-	-	-	-
*others	(1,888)	(51)	(51)	(51)	(51)	-59%
Net Financial Income (Cost)	(576)	(597)	(694)	(675)	(622)	4%
*interest expense	(700)	(700)	(850)	(850)	(850)	5%
*interest revenue	124	103	156	175	228	10%
EBITDA	(1,024)	667	1,304	2,241	2,967	-
EBIT	(1,039)	649	1,280	2,207	2,925	-
Net Income	(1,615)	53	586	1,532	2,303	-
Dividend Due	-	-	-	-	(1,563)	-
Total Assets	45,780	45,623	46,325	47,901	50,266	2%
Non-Current Assets	32,926	32,947	32,955	32,962	32,970	0%
*investment properties	32,850	32,850	32,850	32,850	32,850	-
Current Assets	3,859	3,680	4,375	5,944	8,301	17%
*material reserves	496	128	128	256	256	-
*trade and other receivables	1,639	957	1,338	1,881	2,329	-
*cash and equivalents	1,724	2,596	2,909	3,807	5,716	-
Properties available for sale	8,995	8,995	8,995	8,995	8,995	-
Total Liabilities	11,105	10,896	11,012	11,057	11,118	0%
Non-Current Liabilities	10	10,000	10,000	-	10,000	-
*bond issue	-	10,000	10,000	-	10,000	-
Current Liabilities	11,096	896	1,013	11,057	1,118	-
*bond issue – current part	10,000	-	-	10,000	-	-
*bond issue - interest	287	350	425	425	425	-
*trade liabilities	736	546	588	632	693	-
Shareholders' Equity	34,674	34,727	35,313	36,844	39,148	2%
*common stock	30,532	30,532	30,532	30,532	30,532	-
*reserves	6,878	6,878	6,878	6,878	6,878	-
*retained earnings	(2,736)	(2,684)	(2,098)	(566)	1,737	-
Equity and Liabilities	34,674	45,623	46,325	47,901	50,266	2%
CFO	(198)	1,562	1,120	1,790	2,808	-
*rent and cropping	1,314	2,786	2,295	3,091	4,210	-
*intermediaries and brokers	(1,487)	(1,290)	(1,146)	(1,237)	(1,346)	-
* personnel & social assurance	(95)	(109)	(134)	(188)	(233)	-
*taxes	(50)	129	-	-	-	-

*interests received	114	103	156	175	228	-
*others	7	(58)	(51)	(51)	(51)	-
CFI	(217)	(39)	(32)	(42)	(50)	-
*acquisition of investment properties	(162)	-	-	-	-	-
*sale of investment properties	12	-	-	-	-	-
* acquisition of PP&E	(27)	(26)	(29)	(39)	(47)	-
* acquisition of NMA	(40)	(12)	(3)	(3)	(3)	-
CFF	(651)	(651)	(775)	(850)	(850)	-
*bond issued	-	10,000	-	-	10,000	-
*bond paid	-	(10,000)	-	-	(10,000)	-
*financial leasing	(1)	(14)	-	-	-	-
*interests paid	(650)	(637)	(775)	(850)	(850)	-
*dividend paid	-	-	-	-	-	-
NCF	(1,066)	872	313	898	1,908	-
Cash at Beginning	2,790	1,724	2,596	2,909	3,807	-
Cash at End	1,724	2,596	2,909	3,807	5,716	-
RoA	-3.5%	0.1%	1.3%	3.2%	4.6%	-
RoE	-4.7%	0.2%	1.7%	4.2%	5.9%	-
EBITDA Margin	-50.2%	34.8%	48.7%	59.6%	63.7%	-
EBIT Margin	-50.9%	33.9%	47.8%	58.7%	62.8%	-
Net Income Margin	-79%	3%	22%	41%	49%	-
Cost / Income Ratio	81%	7%	9%	10%	13%	-
Equity / Assets	76%	76%	76%	77%	78%	-
Liabilities / Assets	24%	24%	24%	23%	22%	-
Interest Coverage Ratio	-1.31	1.08	1.69	2.80	3.71	-

* - see valuation assumptions

** - CAGR 2009 – 2013

Source: ELARG ALOF REIT, ACP estimation

Table 18: ELARG ALOF REIT – Share Price Estimation

€ 000 (exc. per share prices)	2010e	2011e	2012e	2013e	EXIT
Dividend	-	-	-	-	1,563
Terminal Sale	-	-	-	-	61,695
NPV	36,886				
*PV of dividend	912				
*PV of terminal sale	35,974				
Est. Share Price	0.62	CoE	12.69%		
Market Price	0.30	RF	4.5%		
Upside	107%	Beta	0.819		
Recommendation	BUY	ERP	10.0%		

Source: Bloomberg, ACP estimation

Table 19: 12m Share Price Sensitivity to Equity Discount Rate and Terminal Agro Land Sell Price

Sell Price (€ per Ha)	Equity Discount Rate							16%	17%
	9%	10%	11%	12%	12.69%	14%	15%		
1,700	0.62	0.59	0.57	0.55	0.53	0.50	0.49	0.47	0.45
1,800	0.65	0.63	0.60	0.58	0.56	0.53	0.51	0.49	0.47
1,900	0.68	0.66	0.63	0.61	0.59	0.56	0.54	0.52	0.50
2,000	0.72	0.69	0.66	0.64	0.62	0.59	0.56	0.54	0.52
2,100	0.75	0.72	0.69	0.66	0.65	0.61	0.59	0.57	0.55
2,200	0.78	0.75	0.72	0.69	0.67	0.64	0.62	0.59	0.57
2,300	0.82	0.78	0.75	0.72	0.70	0.67	0.64	0.62	0.59

Source: ACP estimation

APPENDIX 1:

ELARG – BoD Bios

Andrey Kruglykhin,
CEO and Board Member

- A. Independent consultant to ELARG’s major shareholder, QVT Fund LP – a hedge fund with assets under management of over \$8B;
- A. Used to work and, later consult as a Senior Advisor the Corporate Finance Department for Central and Eastern Europe at ING Bank, London in 2005-2006;
- A. Five years experience as the CEO of Petrol holding AD, the majority shareholder of Petrol AD, Sofia;
- A. Previous employment for a Russian oil and gas upstream company, RITEK, Moscow;
- A. M.Sc. in Energy Economics from the Moscow Institute of Physics and Technology (University) and a PhD degree in Petroleum Economics from the Gubkin Russian State University of Oil and Gas;
- A. In 2005 -2006 he attended five out of six modules of Trium EMBA - a joint program of New York University Stern School of Business (NYU Stern), the London School of Economics and Political Science (LSE) and Graduate Business School (HEC Paris);
- A. Awarded a Certified Diploma in Accounting and Finance (CDipAF) from the Association of Certified Chartered Accountants (ACCA), an unofficial Russian translation by Askeri - ACCA, Moskow and an Anti- crisis Management Official Certificate from the Institute for Advanced Qualification of State Officials, Moscow.

Stefan Stefanov,
Chairman of the Board

- A. Head of the specialized departments for internal control of Allianz Bank Bulgaria and the insurance companies Allianz Bulgaria, Allianz Bulgaria Life and Energy;
- A. CEO of the intermediary company Bulgaria Net, a part of Allianz Bulgaria Holding;
- A. Graduated from the University of Architecture, Civil Engineering and Geodesy. Specialized in Management and Insurance in Great Britain, the Netherlands, the United States, Japan, France and Bulgaria.

Ivo Gadev,
Board Member

- A. Deputy Executive Director of Corporate Banking at Allianz Bank Bulgaria;

- Dimitar Valkov,**
Board Member
 - A. 12 years on various positions at Unionbank; last position was Director of Business Development in the segment Motor Vehicles;
 - A. M. Sc. in Industrial Management from the University of National and World Economy.
- Dimitar Valkov,**
Board Member
 - A. 20 years international banking experience;
 - A. Held different management positions at ING, Hebros Bank and BNP Paribas;
 - A. Holds a degree from the UNWE.
- Dobromir Hristov,**
Board Member
 - A. Last 12 years spent with the National Security Agency and the Ministry of Interior;
 - A. Experienced in economic security and counteraction of illicit trade;
 - A. M. Sc. in Marketing and Management from the UNWE.

APPENDIX 2:

ELARG – BoD Reforms Overview

In pursuit of better results and following the initial period of acquaintance with the Fund's status quo, the new BoD undertook series of reforms:

- A. On 30 Jun 2008 the AGM changed the **Articles of Incorporation**, imposing restrictions on investments in non-agricultural land up to 10% of the assets but not more than €5M.
- A. **New Accounting Policy** - yet in 2008, ELARG made changes to its accounting policy, mainly concerning the accounting of investment properties. The company used to apply the Fair Value concept, but the Management Board decided to use the more conservative model that considers acquisition price.
- A. **New Management Company** - on 13 March 2009 the Fund declared void the contract with its existing Management Company, Elana Property Management EOOD (EPM), due to imperative offence of the Law on Public Offering of Securities – there was a significant conflict of interests and the contract had to be approved by the AGM, as required by the law. Subsequently, the BoD appointed Agromanage AD as the new management company of the REIT.
- A. **New Business Incentive** – the new BoD also decided to start cultivation of the Fund's land, in order to fully benefit from its profitability and EU subsidies.
- A. **New Fee Structure** – the new BoD took measures to estimate the actual value of the annual fee paid for management and servicing as a percentage of the **acquisition** (not the revaluated) balance price of ELARG's assets. The results showed that during the first three years of ELARG's operation, this figure was as follows: for 2005 – 2.17%; for 2006 – 4.60%; for 2007 – 6.70%; and for 2008 – 6.44%. Consequently, the Board of Directors took measures to limit this figure to maximum 3% of the balance price of ELARG's assets. We have summarized the changes in the Fund's Fee Structure in Table 20 below:

Table 20: Amendments in the Fee Structure

Source	New	Old
% of Total Investment in Core Assets (paid quarterly)	1.5%, if up to BGN 100M invested BGN 1.5M + 1.25% if between BGN 100 and 150M BGN 2.125M + 1% if over BGN 150M	2%
% of accumulated Revaluation (paid quarterly)	0%	
% of rent commissions	10%	0%
% of realized capital gains	15% (excl. of land, acquired for change of statute)	15%
% of net income, excluding revaluation	0%	15%

Source: ELARG Reports, ACP estimation

APPENDIX 3:

Agromanage AD – BoD Bios

Vesselin Danev,
CEO

- A. Agromanage CEO since October 2009;
- A. 1997 – 2008, Morgan Stanley – Executive Director in charge of the Russian and Eastern European ultra-high net worth business and Advisory Director; employment with Moody’s (Financial Institutions Group);
- A. Co-founder and Director of Sigma Capital – a developer and investor in a hotel portfolio in Bulgaria; Director of Sol Melia (Bulgaria) AD;
- A. Graduated in Law from the University of Sofia (1991); LL.M. from the Yale Law School (1992) and MBA from the Stanford Graduate School of Business (1997); admitted to the New York Bar (1992).

Nurbek Dairbekov,
Board Member

- A. 2006 – Present, Kazakhstan Grain Company “Grain Industry” (www.grain-industry.kz), a 50% JV with “Glencore” – General Director;
- A. 2002 – 2006, KGC “Grain Industry” – Vice-President, Marketing and Trade;
- A. 1997 – 2002, Food Contract Corporation of The Republic of Kazakhstan, www.foodcorp.kz – Director of Foreign Economic Affairs;
- A. 1996 – 1997, Kazakhstan Motor Company “Astana Motors”, www.astana-motors.kz – Held several positions from Assistant to Manager in the areas of marketing and business development of the company’s Cereals Department;
- A. Graduated in Physics from the New Siberian State University, Russia; MBA from the Kazakhstan Institute of Management, Economy and Strategic Research under the Patronage of the President of Republic of Kazakhstan

Analyst Certification

The analyst(s) hereby certifies that all the views expressed in this report accurately reflect his/her personal point of view about the Subject topics treated above. He/she also certifies that no part of his/her comprehension was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Stock Rating

Buy – the stock is expected to bring in total return* greater than the company's cost of equity +5%;

Hold – the stock is expected to bring in total return between +/-5% of the company's cost of equity;

Sell – the stock is expected to bring in total return less than the company's cost of equity -5%.

*Total Return – The return on an investment, including income from dividends and interest, as well as appreciation or depreciation in the price of the security, over a given time period, usually one year.

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GLOSSARY

AGM – Annual General Meeting

BoD – Board of Directors

CIS – Commonwealth of Independent States

CMEA - Council for Mutual Economic Assistance

EM – Emerging Markets

EV – Enterprise Value

EOOD – Sole-owner Limited Liability Company

FAO – Food and Agriculture Organization of the United Nations

Ha – 1 Hectare = 10 Dca = 10,000 sq m

(H)CPI – (Harmonized) Consumer Price Index

MT – 1 Metric Ton = 1,000 kg = 2,204.6 lb

OECD – Organization for Economic Co-operation and Development

OOD – Limited Liability Company

REIT – Real Estate Investment Trust

SAPARD – Special accession program for agriculture and rural development

UAA – Utilized Agricultural Area

WWS – Second World War