



# Blue Bay Club

4th Quarter 200

## Blue Bay Club AS





## 1.0 Highlights

- Global economic conditions continued to worsen during the period leading up to this report, with sustained lack of debt financing and slowdown in sales for real estate development projects.
- Bulgaria real estate markets not immune to these conditions, many development projects cancelled or put on hold. Pressure on sales prices partly outweighed by fall in construction costs.
- The Blue Bay Club project is able to adapt to the situation by postponing pre-sales launch until conditions are more favourable.
- Blue Bay Club AS (BBC) is debt-free. Net Asset Value per share is approx. NOK 7.2 based on an independent valuation report dated March 2009.
- Preliminary net profit of NOK 37,000 for 2008 as net finance income was approximately equal to operating costs for the year.
- Work continues to align project plans and sales strategies with current market situation.

## 2.0 Market conditions and sales

### General

During the fourth quarter and in the period until the release of this report, the financial crisis has escalated to a serious global economic downturn. Credit markets have worsened further, with lending and other financing to Eastern Europe in particular being dramatically reduced. The cut-back in lending to CEE countries from the western banks has aggravated the problems for the whole CEE region, and has clearly shown that the “decoupling” of the emerging economies in Eastern Europe to the developed western economies has broken down.

As a consequence, real estate development projects in the CEE area (as well as in most other parts of the world) are struggling with lack of construction and mortgage financing facilities and a sharp slowdown in sales. For this reason, the boards of Blue Bay Club AD (Ltd), the Bulgarian project company owning the Blue Bay Club project, and Blue Bay Club AS, the Norwegian owner company, are still of the opinion that it would not be in the best interest of the shareholders to attempt to launch pre-sales in the current market situation.

As BBC and the project are 100% equity financed, however, the company is in good position with regard to optimally timing the sales process going in line with the market going forward.

### Effect on tourism

With Europe expected to remain in a significant recession for some time (Goldman Sachs recently cut its Euroland growth forecast to minus 3.6% and the global growth forecast to minus 1%), the tourism activity is not immune to the economic slowdown. Thomas Cook Group Plc, Europe’s second biggest travel company, recently indicated it expects the tourism markets to worsen during 2009 and 2010.



The company said it may still meet its sales targets for this summer, as bookings recovered after a “very bad” January.

In previous downturns, people have not tended stop travelling or vacating. However, it should be expected to some extent that tourism traffic are being redirected to destinations closer to home (with lower travel expenses) and occupying shorter periods (e.g. going on one-week trips rather than two-week trips). On the other hand, the effect on low cost destinations such as Turkey and Bulgaria hold up better compared to other destinations. Bookings for the 2009 season show a significant increase relative to 2008.

#### The Bulgarian economy

The following information has been provided by Edge Capital’s research team in Bulgaria. Edge Capital has compiled information and commentary from economic agencies and local sources in Bulgaria.

Key Macro Indicators, Bulgaria	2008	2009f	2010f
GDP Growth	6.0%	1.8%	2.0%
Inflation	7.8%	5.8%	4.5%
Current acc deficit	22.8%	14.1%	11.4%
Unemployment	6.3%	10.0%	9.5%

Source: Bulgarian National Bank, Unicredit CEE reports, Bloomberg

With Western Europe already in recession, there is a unanimous understanding that in 2009 Bulgaria's economy will slow down from the 6% annual growth in the previous 3 years. Various institutions give projections between 2.1% (Ministry of Finance, IMF) and 0% (Royal Bank of Scotland).

On account of the European Commission, Bulgaria runs one of the tightest fiscal policies in Europe. The government has maintained a 3% to 4% budget surplus in recent years. In the 2009 budget, the projected deficit is 2%. This deficit provides a necessary cushion for the large current account deficit in the country and will be a key factor for stability in a year where foreign capital entering the country is likely to fall. The public debt to GDP is very healthy at 24.3%. Moody's long-term foreign currency credit rating is at Baa3 stable. Foreign Direct Investment is expected to decelerate.

The banking sector had no exposure to the toxic off-balance sheet assets that caused problems in western banks. However, in past years, Bulgarian banks were heavily reliant on external financing (mostly from Western Europe) to feed the growing internal demand for loans. With such external financing halting in 2009, banks have to rely on domestic deposits to raise credit capital. In the conditions of a currency board, the Bulgarian National Bank (BNB) cannot control interest rates and they are market determined. Stern competition among banks has already raised deposit rates to 8%-10%. This substantially raises the interest rates on credits. Various pundits in the public domain have raised questions on the sustainability of the currency board. Both BNB director Ivan Iskrov and Prime Minister Sergey



Stanishev have said that the currency board will be kept at all costs, including asking assistance from the IMF, although such a step is not seen as necessary at the moment. The currency board ensures the stability of the Bulgarian Lev and is also a key stimulus for the tight fiscal policy of the country.

#### House prices

According to the latest report from the Knight Frank group dated 23 November 2008, the Knight Frank Global House Price Index grew 3.8% in the third quarter of 2008, down from 4.8% in Q2. On quarterly basis, the average prices fell 0.3% which is the first quarterly fall ever recorded by Knight Frank. Knight Frank notes that this may spark some house investors to buy back into the property market.

In Bulgaria, the report states that average house price growth grew by 3% during the third quarter, half the rate of the previous quarter.

#### Prices of vacation properties in Bulgaria

The table below shows the minimum and maximum asking prices for vacation properties in the Black Sea region in January 2009. It should be noted that there are, however, very few deals actually taking place, so these numbers should be seen with caution.

Vacation properties - Region	price range	€/m <sup>2</sup>
Albena	760	1400
Ahelay	1400	2850
Ahtopol	530	1050
Balchik	810	2840
Byala	680	1750
Dyuni	1930	2420
Elenite	1360	2200
Journalist	850	1810
Golden Sands	920	3000
Kavarna	750	2120
Nesebar	700	2500
Obzor	740	1810
Pomorie	1040	1500
Primorsko	570	1540
Ravda	780	1980
St. Vlas	560	3160
St. Nikola	1050	2390
St. Constantine and Helena	1150	2120
Sinemorets	660	1340
Sunny Beach	530	4000
Sozopol	860	2300
Tsarevo	650	2200
Chernomorets	790	2200

Sources: *Index Imoti, indeximoti.bg; National Tourism Agency; news articles*

After peaking in 2006, the Bulgarian vacation property market is at or near its trough. The global financial crisis, combined with near-term negative economic outlook, has forced many people in Western Europe to halt large-scale purchases, such as second homes. This is especially true for British and Irish buyers, key drivers of the recent growth years in Bulgaria, who have now largely fled the market. The limited availability of mortgage financing has also had adverse effects.

Consequently, prices have dropped in many places, especially for projects under construction where the developers are under contract to complete the site and



are desperate for fresh funds. However, those who can afford to wait prefer to do so and not lower prices, waiting for better times.

The Bulgarian seaside destinations were hurt by some bad PR last summer. The National Tourism Agency hopes to reverse the negative trend, as successfully done by Turkey, by increasing its advertising budget to 8 million Levs and also proposing to cover visa costs of Russian tourists.

### Construction costs

Construction costs in Bulgaria have marked a decline in response to falling material (steel, cement, aluminium and copper) prices worldwide. The costs in the table below are rough averages for luxury construction. According to the table, total construction costs for luxury building in Bulgaria is approx. €700 per square meter. (Platinum Developments' contractor partners in Bulgaria expect to be able to build the Blue Bay Club development at lower costs than this based on the existing specifications and scale, as well as the current development in materials pricing and wages).

Construction cost survey	Lev	Euro	% of total
	per m <sup>2</sup>	per m <sup>2</sup>	
Digging	36.7	18.8	2.7%
Foundation	322.0	164.6	23.3%
Brick Laying	70.9	36.3	5.1%
Exterior finishes	129.9	66.4	9.4%
Iron and other materials	68.4	35.0	4.9%
Total Crude Construction	627.9	321.0	45.4%
Windows	62.2	31.8	4.5%
Doors	46.8	23.9	3.4%
Total Doors & Windows	109.0	55.7	7.9%
Plastering	114.1	58.3	8.3%
Heating insulation	31.6	16.2	2.3%
Painting	29.3	15.0	2.1%
Flooring	81.4	41.6	5.9%
Lining	72.7	37.2	5.3%
Others	13.8	7.1	1.0%
Total Interior Finishes	342.9	175.3	24.8%
Plumbing	26.6	13.6	1.9%
Sewage	18.6	9.5	1.3%
Sanitary utilities	34.3	17.5	2.5%
Electrical	61.5	31.4	4.4%
Heating	76.5	39.1	5.5%
Telephone	8.7	4.4	0.6%
Others	33.4	17.1	2.4%
Total Instalations	259.6	109.6	18.8%
Total Communal Conn	43.4	201.7	3.1%
<b>Total Construction Cost</b>	<b>1382.8</b>	<b>707.0</b>	<b>100.0%</b>

Source: The Bulgarian Construction Chamber (cited in survey by Capital Newspaper)

### Sales strategy

In the previous report for the third quarter 2008, existing site plans, pictures and sales strategy were described in some detail. The board of BBC as well as the board of Blue Bay Club AD have not made material amendments to these plans. However, the timing, launch plan and structure of the pre-sales process are subject of continuous evaluation. The board may also seek to re-evaluate details of the resort strategy and positioning, and identify potential improvements in conceptual design. The process of developing the strategy to facilitate an experienced hotel operator branding and management of the resort will continue.



Going forward, the board will focus on how to optimally be able to initiate the Phase 1 development. It is considered that Phase 1 itself, consisting originally of 4-5 buildings, may be divided into smaller units. It is also being considered whether different parts of the development could be developed with different sales models. Platinum Developments in Bulgaria is of the opinion that in today's market it is important to have at least one physical building in place in order to be able to market the rest of the resort off-plan. The board therefore intends to consider different sales or financing models for the first part (or building) of the development.

In terms of timing, BBC has previously indicated that the project may be around two years delayed relative to initial assumption. This means that presale should be expected to start during 2010 and the cash flows from the project should be expected to be postponed similarly. These expectations are maintained, however in broad terms they assume that the global economy starts to recover in 2010 in line with typical economists' estimates. As the company and the site is fully equity financed, this timeline is not expected to have materially adverse effects on the development margin of the project.

### 3.0 Independent valuation report

Blue Bay Club has commissioned a valuation report on the site and project from Advance Address Expert Valuation EOOD, a part of AG Capital (Address Group), the leading property business company in Bulgaria. In their report dated 4 March 2009, Address concludes that the market value for the Blue Bay Club development project is EUR 27.25 million. This implies a net asset value per share in BBC of approx. NOK 7.2 per share (based on Euro/NOK of 8.6), which is a reduction in value of 9.2% relative to the initial valuation of EUR 30 million in 2007. The report is described in more detail below.

The valuation reports notes the following characteristics of the site:

- Good location with less than 20km from Bourgas and only 18km from Sunny Beach
- All of the property is situated within 300-500 metres from the shores of the Black Sea, with only the road from Bourgas in front of the site
- Good access to engineering infrastructure, water and electricity supply
- Relatively even terrain with only a slight inclination of 3 meters

In determining the development value of the site, Address has taken the following assumptions:

- Total number of apartments: 866 (Phase 1 plans only)
- Total area of apartments including service zones: 141,700 sqm (phase 1 plans only)
- Total built up area of trade centre (mall) and its basement: 21,900 sqm
- Underground parking: 41,000 sqm
- Underground storage areas: 16,000 sqm
- Built up area of trade units and public catering units: 3,200 sqm
- Total built up area: 223,800 sqm

Note that Address has not included the hotel and some smaller residential buildings in its assumptions, focusing mainly on the detailed planning for "phase 1" and the



“mini-mall”. Furthermore, development plans include open air swimming pools and attractions, alleys, roads, green areas, monolith fencing, yard lighting and irrigation systems, and pedestrian walkways and bridge to the sea.

Other development assumptions include:

- Construction cost: €600/sqm
- Sales price for apartments: €1,500/sqm
- Sales price for trade units: €2,800/sqm
- Sales price for underground parking lots: €480/sqm
- Sales price for storage areas: €620/sqm

This results in gross development value of EUR 320 million, gross construction and engineering costs of approx. EUR 140 million (not including financing), and gross development profit of EUR 180 million (nominal, not discounted and excluding taxes). In arriving at their development valuation, however, Address considers the cash flow generation by indexing the market prices relative to different forms of payment of units under construction and expected selling periods. The resulting cash flows are discounted to reach total expected gross profit of EUR 121 million, which is somewhat higher than the estimated gross development profit of EUR 95 million as indicated in the third quarter report. It should be noted that Address uses higher current sales prices and a lower number of apartment units compared to the estimates indicated in the previous report.

Address then uses the so-called Wolfgang Negeli Method to calculate the value of the land according to its category and location, arriving at a value of EUR 53 million.

Weighing the calculated development value of the site with investment costs, actual land transaction prices and a liquidity discount, Address arrives at EUR 27.25 million (EUR 256 per sqm of land, or EUR 120 per buildable sqm).

The board intends to revert with its views on development assumptions and project returns in its reporting going forward.

## 4.0 Financial information

### Summary operating financials for 2008

For 2008, BBC has recorded zero net profit (not including potential write-down on its shares in Blue Bay Club AD). The main cost elements are related to legal expenses incurred in 2008 and management and administrative expenses. There were no operating revenues during 2008 for BBC or for the Bulgarian project company, but BBC had net finance income (interest on cash deposits and currency gains) that basically outweighed operating expenses for the year.

BBC has an existing cost base of approx. NOK 1.5 million per year. Total costs for management, administration and investor relations are expected to remain on a low level during the planning and pre-sales phases of the project. Until the sales



process is initiated, the board will have a very cautious approach to initiate activities or incur further costs that are not directly necessary or revenue-producing.

Complete financial statements including balance sheet and notes will be provided to the shareholders in advance of the company's ordinary general assembly later this spring.

Blue Bay Club AS	Year-end 2007	Year-end 2008
(NOK'000)		
Operating revenues	0	0
Operating costs	467	1,469
Operating profit	-467	-1,469
Net finance	247	1,506
Tax cost	0	0
Net profit	-220	37

*Preliminary operating figures for 2008*

#### Preliminary comments on the balance sheet

As of 31.12.08 BBC had working capital (cash/deposits and receivables less short term debt) of approx NOK 8.7 million. This includes EUR 0.5 million (NOK 4.3 million) that shall be injected as equity in the Bulgarian entity (Blue Bay Club AD) for working capital purposes in line with the agreement between BBC and Blue Bay Club entered into during the third quarter of 2008. This process is ongoing, after which BBC will hold 41.6% of the shares in the Bulgarian entity and Blue Bay Club AD will pay back a EUR 250,000 short term loan to BBC.

The independent valuation of the Blue Bay Club property conducted in March 2009, as described above, represents a fair value for BBC shareholders of approx. NOK 98 million, or NOK 7.2 per share, assuming current EUR/NOK exchange rate of 8.60. The board in BBC is of the opinion that the value of its shares in Blue Bay Club AD should be written down from NOK 104 million (cost price) to NOK 98 million in line with the independent valuation report.

## 5.0 Corporate structure and organisation

### Company structure and shareholders

The Blue Bay Club project, consisting of 112,000 sqm of seaside land, zoned and ready for development, is 100% owned by Blue Bay Club AD, a Bulgarian single-purpose limited company. BBC is a Norwegian limited company owning 41.6% of the shares in Blue Bay Club AD, following the final execution of a EUR 0.5 million capital increase by BBC (in process). The remaining shares are owned by other Norwegian (28%) and Irish investors (30%).

BBC was established in June 2007 through a capital increase of NOK 160m towards Norwegian investors. The company has approx. 270 shareholders holding a total of



13,616,300 shares outstanding. The shareholder structure is quite distributed, with the top 10 shareholders representing only 10% of the shares in the Company:

LAST NAME	SHAREHOLDING	OWNERSHIP %
ABUSDAL	190,440	1.4%
UGUMBA AS	166,700	1.2%
VEEL	161,300	1.2%
NORDMANN HOLDING AS	145,200	1.1%
SEI BULGARIA AS	113,900	0.8%
EBL HOLDING AS	107,400	0.8%
ELDER INC	107,400	0.8%
FUSA KRAFTLAG AS	107,400	0.8%
GEC HOLDING AS	107,400	0.8%
KEWA INVEST AS	107,400	0.8%
Sum top 10 shareholders	1,304,540	9.7%
Total shares outstanding	13,616,300	100.0%

#### Board of directors of BBC

In an extraordinary general assembly held in December 2008, Rolf Hansteen was elected as new board member of BBC. The board members are:

- Hans Gulseth, chairman
- Torgeir Abusdal
- Terje Veel
- Jan Rasmussen
- Rolf Hansteen

Neither BBC nor Blue Bay Club AD has any employees. Edge Capital and Pareto Investorservice AS continue to provide advisory services, administrative services and business manager/accountancy services to the company.

#### Board of directors of Blue Bay Club AD

The board of Blue Bay Club AD currently consists of the following persons (unchanged since previous report):

- Declan Lennon (Ireland)
- Neil O'Reilly (Ireland, representing Platinum Developments)
- Thorvald Sverdrup (Norway)
- Roy Nilssen (Norway)
- Knut Valle (Norway)

As previously announced, at the forthcoming general assembly in Blue Bay Club AD, BBC expects to get two of its representatives as new members of the board.

Blue Bay Club AD has access to certain management resources from Platinum Development in Bulgaria, including business management services, at the moment free of charge. Platinum Developments is also responsible for development and marketing of the project.



It should be noted that the company Black Sea Club AS, a Norwegian investment company, is a fellow shareholder to BBC currently holding 20% of the shares in Blue Bay Club AD. Aside from the fact the this company owns shares in the same company as BBC, Black Sea Club is, contrary to the impression given by some recent newspaper articles, not related to BBC in any way, nor to any of the other shareholders in Blue Bay Club AD.

## 6.0 Future reporting

Before the next quarterly report is released, BBC intends to invite to an ordinary general assembly. In the ordinary general assembly, the final annual report for 2008 will be made available. A brief financial update for the first quarter 2009 will be made available as soon as the accounts for the period ending 31 March are completed.

The documents may be downloaded from the Company's web site [www.bluebayclub.no](http://www.bluebayclub.no) and Edge Capital's web site [www.edgecap.no](http://www.edgecap.no). Shareholders may also contact their local financial advisors, or send an email to [tt@edgecap.no](mailto:tt@edgecap.no), [gv@edgecap.no](mailto:gv@edgecap.no), [tommy.jorgensen@pareto.no](mailto:tommy.jorgensen@pareto.no), and request to receive the information on email. Note that in order to save costs, quarterly reports and other information will only be provided by means of electronic distribution or web site postings.



## Notice

*This report has been written on behalf of the board of directors of BBC ("the board"), and its contents are thus to be regarded as a report from the board with the sole purpose of informing, to the best knowledge of the board, shareholders and their advisors of the status and development of the Company's investments. The opinions and considerations which are presented herein may be based on information which may prove to be erroneous or misleading, and neither the board nor Edge Capital accepts any responsibility or liability for relying on the contents of this report. Furthermore, this document contains certain forward-looking statements relating to the business, financial performance and results of the Company and/or its industry that are not historical facts and which are sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements, assumptions, opinions and views of the Company or cited from third party sources are solely opinions and forecasts which are subject to risks, uncertainties and other factors that may cause actual events to differ from any anticipated development.*

*This report has been prepared in English. Those shareholders who are not comfortable with the English language are encouraged to contact their local broker or financial advisor in order to discuss the contents of the report in Norwegian. It should be noted that neither the board nor Edge Capital has employed a certified English translator when preparing this report; we therefore apologize for any grammatical mistakes and misspellings that may have eluded our attention.*

## Disclaimer

*This report is based on information obtained from sources which Edge Capital believes to be reliable, but Edge Capital does not represent or warrant its accuracy. Any opinions and estimates contained in this report represent the views as of the date of the report, and may be subject to change without any prior notice. Edge Capital and/or Edge Capital's employees may have positions in the securities discussed. Edge Capital may have other financial interests in transactions involving these securities. Edge Capital will not be responsible for the consequence of reliance upon any opinion or statement contained in this report. This report is confidential, and may not be reproduced, in whole or in part, without the prior written permission of Edge Capital. To Non-Norwegian residents: The contents hereof are intended for the use of non private customers and may not be issued or passed on to any person and/or institution without the prior written consent of Edge Capital.*

## Viktig meddelelse

*Denne rapporten er basert på informasjon mottatt fra kilder som Edge Capital anser som troverdige, men Edge Capital kan likevel ikke garantere at informasjonen som fremkommer er korrekt. Ethvert uttrykk som formidler tro, forventninger eller estimer om fremtiden må anses som usikker og vil kunne være gjenstand for endringer uten ytterligere notis. Edge Capital eller noen av deres ansatte eller partnere kan ha interesser i potensielle verdipapirer eller prosjekter som er nevnt i denne presentasjon. Edge Capital fraskriver seg ethvert ansvar for konsekvenser av beslutninger eller investeringer som gjøres på bakgrunn av uttalelser eller innhold av denne presentasjon. Edge Capital kan også ha andre finansielle eller profesjonelle interesser enn det som fremkommer i denne presentasjon. Presentasjonen er konfidensiell og kan ikke brukes av andre uten skriftlig samtykke fra Edge Capital.*