Press Release
12 May 2010

During the first quarter of 2010, Eurocastle Investment Limited ("Eurocastle" or the "Company") made progress on its two main objectives of continuing to reduce the Company's short term and recourse debt, and to realise value from its commercial real estate investment portfolio in Germany. This interim management statement reports on the progress made on both of these fronts, as well as other recent developments.

Highlights

- Since the end of 2009, Eurocastle has reduced short term recourse obligations by half to €16.4 million at the end of March 2010.
- During the quarter, the Group has signed 92 commercial leases for approximately 32,000 square metres (sqm). This is comprised of 60 new leases for approximately 11,000 sqm and 32 lease renewals for approximately 21,000 sqm.
- The Group sold seven properties during the quarter for total sales proceeds of €145.2 million, realising cash of €8.1 million after repayment of asset level financings. As at quarter end, the Group was under contract to sell a further four properties for approximately €35 million. Once completed these sales are expected to generate up to €13.4 million of cash, after repayment of asset level financings.

Financing and Liquidity

- In February 2010, convertible securityholders presented €1.5 million of convertible securities for conversion. Eurocastle duly converted these securities and issued 5,000,000 shares. No interest was payable on the converted securities.
- The proceeds from the sale of assets during the quarter, together with cash from operating activities, have been used to repay half of the Company's original corporate loan facility; from a balance of €12.8 million at the beginning of the year to €6.4 million at the end of March 2010. In addition, the proceeds were also used to amortise Eurocastle's other corporate obligation (originally a €30 million guarantee of a subsidiary's acquisition facility) from €20 million to €10 million.
- After the pay downs of the corporate obligations during the first quarter, the Group had a corporate cash balance of €13.9 million as at 30 April 2010.
- Following temporary waivers of covenant breaches in the Group's Mars Fixed 1 and Mars Fixed 2 facilities (as anticipated in the Company's 2009 Annual Report), the Group is currently engaged in constructive discussions about restructuring both these facilities.

Real Estate

Business Review

- The Group owns 546 investment properties (including the four properties under contract to sell) across Germany valued at approximately €3.5 billion based on independent valuations carried out at the end of 2009, equivalent to an NOI yield of 6.0% based on the 2010 first quarter's NOI. Adjusting for the transfer of 50% interest in Mars, the portfolio valuation and NOI yield were €2.9 billion and 6.3%, respectively. These assets are held in 13 separate financing portfolios. They comprise a diversified mix of office and retail properties concentrated in the five major German markets.

First Quarter 2010 Real Estate Portfolio Composition

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation* €m	Average lease term	NOI yield on valuation %
Core	495	1,184,569	90.6%	161.0	146.2	2,136	4.8	6.8%
Mars	51	539,098	75.0%	80.2	65.9	1,405	5.7	4.7%
Grand Total	**546**	**1,723,667**	**85.1%**	**241.2**	**212.1**	**3,541**	**5.1**	**6.0%**
Core plus 50% Mars Adjustment	**N/A**	**N/A**	**87.3%**	**204.3**	**181.8**	**2,888**	**5.0**	**6.3%**

* *Property valuations based on semi annual third party independent valuations undertaken in December 2009.*

- The Group has continued to generate cash at the holding company level that is available for repaying Eurocastle's two corporate loan obligations and for other corporate purposes. However, excess cashflow from the Mars portfolios is being retained within those portfolios to repay senior debt, and so currently cannot be distributed to Eurocastle.

- Eurocastle continues to pursue a real estate divestment programme seeking to dispose of assets that are believed to be stable or fully valued. In the first quarter of 2010, seven properties have been sold for total sales proceeds of €145.2 million, realising cash of €8.1 million after repayment of asset level financings and costs.

- Good progress continues to be made on new leasing and on renewing existing tenants. During the first quarter of 2010, the Group signed 92 leases for approximately 32,000 square metres, including 60 new leases for approximately 11,000 square metres and 32 lease renewals for approximately 21,000 square metres.

- The Group continues to seek to moderate capital expenditure committed on new leasing, focusing it on those leases and portfolios achieving the greatest economic benefit for the Group and thus maximising cashflow available to the holding company.

- The quarter's leasing and sales activities have left total lettable space of 2.0 million square metres at 31 March 2010 with occupancy of 85.1% as compared to occupancy of 85.9% at 31 December 2009 on a like-for-like basis. Excluding the Mars portfolios, lettable space was 1.3 million square metres at 31 March 2010 with occupancy of 90.6%, down from 91.6% at 31 December 2009. Mars portfolio lettable space had 718 thousand square metres at 31 March 2010 with occupancy of 75.0%, down from 76.1% at the previous quarter.

Market Outlook*

- The positive trend in the investment markets seen in the second half of 2009 has continued in 2010. Investment volume in the first quarter reached approximately €5 billion, representing approximately 50% of the annual volume for 2009. Foreign property investors have started to invest in Germany again, accounting for approximately €2 billion or 40% of the first quarter activity by turnover compared to only 10% in 2009.

- The major five office markets accounted for 35% of the overall investment activity with the highest volume in Berlin with €590 million. Investment in office assets accounted for 29% of the overall volume, or €1.4 billion. The investment focus on low risk property investment continues to be a trend and has accounted for approximately 74% of first quarter 2010 activity.

- The major markets showed some evidence of increasing rental take-up figures for the first time after six quarters of decline, with the exception of Frankfurt. Given the volatile economic environment, businesses remain cautious about relocation and lease extensions remain prevalent in the market. Despite a large choice of attractive space for interested businesses in the market, landlords appear to be becoming less willing to give tenant incentives.

- Despite the positive trend, prime office vacancy rates in the five major markets have increased from 10.3% in the fourth quarter of 2009 to 10.5% in this quarter. However, prime rents remained unchanged in the first three months of the year and are forecasted to hold during the remainder of 2010.

* *Data and analysis for this section has been extracted from professional market research sources.*

Debt Investments

- There were six upgrades and 31 downgrades in the first quarter of 2010, compared to five upgrades and 84 downgrades in the fourth quarter of 2009.

- The Group's three CDO financings have continued to not comply with triggers requiring that net interest received in the quarter be used to pay down senior debt. If these triggers continue not to be met in the future, then future net interest receipts will also be used to repay CDO debt. As a result, the Group's returns from these portfolios are likely to be driven primarily from the return of capital once the debt has been repaid.

- At the quarter end, there was approximately €4.2 million of cash in the three CDO financings, which was required to be held within such financings. During the quarter €43.9 million of senior liabilities were repurchased for approximately €33.0 million.

- Buying debt back at a discount improves the coverage tests that are currently not being met and increases the probability that the CDO's will be able to distribute surplus cashflow in the future. The Group intends to continue to use cash retained in the CDO's in similar ways going forward until the end of the re-investment periods (June 2010 – CDO II, June 2012 – CDO III and June 2013 – CDO V).

Forward-Looking Statements

This release contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to sell real estate and achievement of disposal targets, availability of investment and divestment opportunities, methods of funding portfolios, timing of completion of acquisitions and disposals, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavour”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. The Group’s ability to predict results or the actual effect of future plans or strategies is limited. Although the Group believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, its actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause the Group’s actual results in future periods to differ materially from forecasted results or stated expectations, including the risks regarding Eurocastle’s ability to achieve its targets regarding asset disposals or reduction in capital expenditure or that Eurocastle will be able to fund or further pay down its direct recourse liabilities.