

# Report of the Board of Directors

## ECM REAL ESTATE INVESTMENTS A.G.

*société anonyme*

Registered Office: 9, rue du Laboratoire, L-1911 Luxembourg,

RCS Luxembourg: B-65.153

(the “**Company**”)

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### REPORT

of the Board of Directors to the General meeting of holders of the Bonds (ISIN: XS0319645981 (the “**Bonds**”)) to be held on 27<sup>th</sup> May 2010 (the “**Meeting**”)

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Dear Bondholders,

the Board of Directors hereby reports to the Company’s Bondholders and to all who might be concerned, in connection with the General Meeting of holders of the Bonds to be held on 27<sup>th</sup> May 2010, on the points of agenda to be considered on the Meeting.

As announced in the report of the Board of Directors to the Annual General meeting of Shareholders, the Board convenes the Meeting mainly in order to communicate the Event of default under article 4.1.8.4., letter (i) of the Securities Note relating to the Bonds and to inform the Bondholders on existing situation of the Company. Simultaneously, the Company has been requested to convene the Meeting by holders of the Bonds representing supposedly at least 5% of the total amount of outstanding Bonds.

We would like to inform, that simultaneously on the date of the Meeting, a meeting of holders of the Warrants (ISIN: XS0319646286 (the “**Warrants**”)) will be held with agenda very similar to the agenda of the Meeting, so documents submitted to these two meetings contain almost identical information.

The Board hereby cross-refers to the separate presentation, containing the detailed description of the Company’s financial situation and outlook. In this report only particular points (explicitly mentioned in the request of the Bondholders) are mentioned; these points will be described more in detail in the attached presentation and/or will be explained in detail in the course of the Meeting.

The liquidity position of the Company: as at December 31, 2009, the available cash proceeds on the cash accounts amounted to approximately EUR 4 million. By the date of the Meeting, the liquidity position as at the end of March 2010 shall be available and will be presented.

The Company is currently in a court proceeding with one of its Bondholders who is claiming that pursuant to condition 4.1.8.1.2.1 of the terms and conditions of the Bonds as set out in a Securities Note and Summary dated 3 October 2007 (the “**Securities Note**”), a Change of Control occurred in December 2008. The Company insists on the conclusion presented already on the Annual General Meeting of its shareholders held on April 29, 2009, that no Change of Control occurred, which we believe will be confirmed by a decision of the competent court. As explanation of the Company’s position in this respect, we attach hereto a letter by Mr. Antonin Jakubse, member of the Board of Directors, distributed in February 2009 to all holders of the Bonds.

Information to City Tower sale:

Total Purchase Price: 52,015,000 EUR

Cash Consideration: 36,216,000 EUR

Bonds Consideration: 15,800,000 EUR

Number of Bonds Received: 4 071 PCS

OMV (Property Price): 130,000,000 EUR

EXIT yield 7.0%

NOI 9.1 MEUR (actual NOI at the date of transaction 8.6 MEUR)

Indebtedness Covenant Impact: +0.95%

Investor: Private Slovakian Fund

More detailed analyses will be presented during the Meeting

The Board hereby proposes to appoint a representative of the body of Bondholders in accordance with article 4.2.1.14 of the Securities Note, proposed in the course of the Meeting. So far, the Company has not received any particular proposal for this position.

The Board further proposes to discuss, consider, and if deemed appropriate to appoint a counsel to the representative (at the expense of the Bondholders).

The Company is currently in breach of the condition defined in article 4.1.8.4 of Securities Notes as the event of default to its Bonds with convertible Warrants. More precisely it is the condition under 4.1.8.4 (i) the failure to comply with the following ratio: (Consolidated Financial Debt) / (Total Assets) < 65%. The further devaluation of ECM assets and ongoing negative financial results are among the major causes of the fact that this ratio currently stands around 80%.

In case the above Event of default occurs, the representative of the body of Bondholders may, if so decided by the general meeting of Bondholders, ruling by majority decision, by notification sent to the Company, declare all the Bonds due and repayable at an amount equal to 125% of par together with accrued interest.

Since the Board of Directors strongly believes that the going concern scenario described in the attached presentation shall return significant recovery to the Bondholders in year 2014, we strongly recommend NOT to declare the Bonds due (i.e. to vote "against" the declaration of the Bonds due) as a consequence of the Event of Default described above, at least until the next Bondholders meeting to be held not later than in August 2010. Simultaneously, the Board of Directors commits itself to elaborate more detailed scenarios reflecting the comments of the Bondholders (raised in the course of the Meeting) and such detailed scenarios will be presented to the Bondholders meeting to be held in August 2010.

**General information about the Company follows:**

Except for the above there are no pending litigations or other proceedings with potential adverse effect on the Company.

The controlling shareholder of the Company, ECM Group N.V., with registered office at Naritaweg 165, 1043BW Amsterdam, holds 5,715,855 shares, which represents an 83,22% share in the voting rights of the Company.

The appointment of the Members of the Board of Directors and their replacement is described in the Rules governing the Board of Directors and in the Articles of Association of the Company which were last amended on 19<sup>th</sup> December 2008; the respective wording of which is as follows:

*The Members of the Board of Directors will be elected by the General Meeting of Shareholders, which will determine their number, for a period not exceeding three years. The Members of the Board of Directors are re-eligible and they may be removed at any time, with or without cause, by a resolution adopted by the General Meeting of Shareholders.*

*The General Meeting of Shareholders may decide to appoint one or several category A directors, being the "executive" directors (the "Category A Directors") and one or several category B directors, being the "non-executive" directors (the "Category B Directors").*

None of the members of the Company's Board of Directors and of former Executive Management Council is, based on a service contract with the Company or any of its subsidiaries, entitled to any benefits upon termination of its service.

The Company committed itself to paying directly or through its subsidiaries fixed remuneration to any Member of the Board of Directors after the termination of their mandate, in case that his or her mandate is terminated and the Company will request the particular member to comply with the non-competition clause stipulated in his or her mandate agreement.

The power of the Board of Directors to issue shares is governed by the Articles of Association; the respective wording of which is as follows:

*The Board of Directors is authorized and empowered within the limits of the authorized capital to (i) realise any increase of the corporate capital in one or several successive tranches, following, as the case may be, the exercise of the subscription and/or conversion rights granted by the Board of Directors within the limits of the authorized capital under the terms and conditions of warrants (which may be separate or attached to shares, bonds, notes or similar instruments), convertible bonds, notes or similar instruments issued from time to time by the Company, by the issuing of new shares, with or without share premium, against payment in cash or in kind, by conversion of claims on the Company or in any other manner; (ii) determine the place and date of the issue or the successive issues, the issue price, the terms and conditions of the subscription of and paying up on the new shares; and (iii) remove or limit the preferential subscription rights of the then existing shareholders of the Company in case of issue under the authorized capital and it may be renewed by a resolution of the general meeting of shareholders adopted in compliance with the quorum and majority rules set by the Articles of Association or, as the case may be, by the Laws for any amendment of the Articles of Association.*

The Company has not issued any new shares in course of the year 2009.

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Luxembourg, May 5<sup>th</sup>, 2010

The Board of Directors