ECDC PLC

Shareholder Update

October 2014

European Convergence Development Company PLC ("ECDC" or "The Company")

The Manager presents its latest Shareholder Update report covering the three month period 1st July 2014 to 30th September 2014. This report is intended to update investors on progress over the last three months and is not intended to deal with the financial statements of the Company.

Corporate News

On 2nd October 2014 the Company held an EGM with the main resolution to cancel the Company's shares from trading on AIM. The resolution was carried with no votes against and the Company's shares were cancelled and the Company delisted with effect from 10th October 2014.

The Directors of the Company have agreed with Panmure Gordon & Co that it will continue to trade the shares on a matched bargain basis in the future.

The contact details are as follows:

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The contact details can be obtained from the ECDC website.

At the Board meeting held on 3rd November 2014 the two non-executive Directors, Mr D McCrickard and Mr J Rosapepe resigned from the Board of the Company with immediate effect. The Company would like to thank them both for all their hard work, the expertise they brought to the Company and the dedication they have displayed over the last eight years, including their input into moving the Company into its next phase.

At the same Board meeting the Company appointed Mr D Humbles as an independent non-executive director with immediate effect. Mr Humbles is located on the Isle of Man and has a wealth of relevant property related experience. Mr Humbles' biography can be found on the Company website.

The Board of Directors are pleased to announce that the Company will be making a capital distribution of €0.02 cents per share to all shareholders on the register at 17th November 2014.

Economic Overview

ROMANIA

Romanian GDP contracted by 0.9% in quarter 2 further exacerbating the quarter 1 decline of 0.2%. On an annualised basis GDP grew by 1.2% in the quarter which was less than the consensus view of 3.3% growth. The IMF has reduced its 2014 full year forecast out turn growth rate to 2.4% from 2.8% partially reflecting the latest figures. The new forecast implies that economic activity will continue on an upward trend in the remaining quarters of 2014 though some lead indicators call into question this forecast especially with the slow-down in the EU, Romania's largest trading partner. The annual inflation rate in Romania in September increased to 1.5% from 0.8% making it the highest rate in the EU (0.4%) and the euro area (0.3%). The increase was driven mainly by food prices which increased by 0.2% and prices for non-food items and services which increased by 0.1% each. The IMF is forecasting a full year inflation rate of 1.5% for 2014. The favourable inflation outlook and the positive sentiment of foreign investors for RON assets allowed the National Bank of Romania (NBR) to ease the monetary policy stance on multiple fronts at the last monetary policy meeting on 30 September. The NBR cut the monetary policy rate by 25bps to 3.0% and reduced the minimum reserve ratio requirement for RON denominated liabilities from 12% to 10%. Also, the NBR narrowed the spread between the interest rate on permanent credit facility and permanent deposit facility from 6.0% to 5.5%. It is expected that the NBR will make one further reduction of 25 bps in the monetary policy rate to 2.75% at its next meeting on 4th November before stopping the easing cycle. Liquidity conditions should improve in the following months provided that the sentiment for RON assets remains positive.

The public budget deficit target has remained unchanged at 2.2% of GDP following the second revision of the budget plan enforced at the end of September and after lower than expected budget deficit of 0.24% in the period January to August.

The upcoming Presidential election, taking place in two rounds on 2nd and 16th November, will include Prime Minister Victor Ponta as one of the candidates. In the first round no candidate obtained the necessary decisive majority so the elections now go to a second round and will be held on 16th November. The election process is not expected to create any issues either on the budget execution side or on the political balance of power. The current President, who has held the post for two terms, is precluded from standing for a third term by the constitution.

The continued fighting in Ukraine and the annexation of Crimea by the Russian Federation has led to increased pressures in the region and with the fighting in Iraqi/Syria distracting Turkey, Romania has found itself playing a pivotal role in maintaining stability. Romania fully backed the US/EU approach towards the Ukrainian crisis and imposed full economic sanctions against Russia.

BULGARIA

Bulgaria looked for further political instability after snap elections to create the country's third government in less than two years failed to produce a clear result. Parliamentary elections were held on 5th October 2014 with former premier Boyko Borisov's right-wing GERB party winning 32.67% of the vote and 84 seats in the 240-seat parliament – 37 seats short of a majority. The socialists came second with 39 seats and the Turkish minority party won 38 seats. The new parliament will be comprised of eight political parties with the only solution being a sort of grand coalition, led by Borisov's party, and several others to try to bring some stability back to the country.

Bulgaria's interim cabinet approved revisions to the annual budget that forecast the 2014 fiscal deficit at 4% of GDP, which is more than twice the previous target of 1.8%. In quarter 2 the Bulgarian economy registered growth of 1.6% when compared to the same quarter in 2013 which built upon the growth of 1.2% recorded in quarter 1. The economy is forecast to grow by 1.5% in 2014 compared to 0.9% in the previous year. Growth in quarter 2 was derived from the Industrial sector which grew 4.5%, services which grew by 1% and a decline in agriculture of 1.5%.

The unemployment rate in quarter 2 2014 decreased to 11.4% from 13.0% in quarter 1, while the economy registered deflation for a thirteenth consecutive month in August 2014, with lower prices in the energy and food sectors.

Government debt amounted to 19.4% of GDP in quarter 2, domestic debt was 8.8%, external debt was 9.7% and government guaranteed debt at 0.9% of GDP. The country may need to increase the government debt to finance the fiscal deficit and to cover any funding needs which will arise from the expected insolvency of the fourth largest Bank, Corporate Bank; still, government debt would compare favourably to most EU countries.

Property Market Overview

Romania

Banking

At the beginning of 2014, the central bank started paying increased attention to the large stock of non-performing loans (NPLs) residing on Banks' balance sheets. The Central Bank sent instructions to all Banks that fully provisioned loans should be removed from their balance sheets and that all loans overdue 361 days or more should fully provision those loans and remove them from the Banks balance sheet. As a result the sale of NPL's had become more attractive to the Banks and led to Banks cleaning up their balance sheets and selling a number of NPL's to specialised companies.

Five foreign banks active on the Romanian market have failed the European Central Bank's stress test. These include the National Bank of Greece, Eurobank and Piraeus Bank, Italy's Veneto Banca, and Austria's Volksbank. The National Bank of Greece runs Banca Romaneasca on the Romanian market, while Eurobank controls Bancpost. Piraeus Bank, Veneto Banca and Volksbank operate under their own brands. The banks controlled more than 11 percent of the total assets in the Romanian banking sector at the end of last year

Investment Market

The investment volume for quarter 2 2014 is estimated at EUR 95m, 53% higher than quarter 2 2013. Total volume recorded in the first six months of the year reached EUR 432m, the highest since 2008 and an encouraging sign for the short to medium term outlook. Just over half of the transaction value achieved in quarter 2 was represented by one transaction, the purchase for €50m by BCR of the mixed use hotel and residential complex in Poiana Brasov called Silver Mountain.

About 60% of the transaction activity in the first half of the year was represented by office transactions, but there were also two noteworthy retail transactions, the purchase by Auchan of a shopping box in Pitesti by for EUR 20m and Revetas Capital acquired from Vitantis Shopping Park in Bucharest for EUR 26m from Equest.

The diversity of investors interested in the market is increasing and a number of transactions are currently at advanced stages of negotiation with new players. The increased appetite is also facilitated by a slight improvement of the lending climate with banks selectively financing operating assets. It is expected that the new transactions will test the current estimated yields of 8% for retail and offices.

Office

Four office developments were completed in quarter 2: Green Gate, AFI Business Park 2, Green Cube and Dionisie Lupu 72, which together added over 50,000sqm of A and B class space to the market. The office supply delivered in the first half of the year reached 73,000sqm. The modern stock in Bucharest is estimated at approximately 2.15 million sqm. During the remainder of the year a further 70,000sqm should be delivered with over 60% represented by two developments, City Offices and Green Court.

Recent activity was concentrated in the Floreasca – Barbu Vacarescu and Center-West sub-markets with the later becoming one of the most important locations in Bucharest because of the good infrastructure, densely populated residential areas and the proximity to the university and its students.

The overall vacancy rate in Bucharest is stable at around 14.7% but as mentioned previously it is important to appreciate that there are some considerable differences in vacancy between one district and another from below 10% in the west and centre to 35% in Pipera North and Baneasa.

Prime headline rent remained unchanged over the last 12 months at €18.50 per sqm per month. Over the last quarter incentive packages remained stable, with landlords offering both rent free periods and fit out contributions, though there is some evidence of the packages starting to tighten. As always it depends on the letting market in a particular district that will drive the incentive packages offered. In quarter 2 the total gross take-up reached 67,000 sqm, 14% higher than the similar period in 2013. New demand accounted for 53,000 sqm of this gross take up, whilst renegotiation of existing leases represented the balance of 13,000sqm. The largest transactions in quarter 2 were the prelease for the relocation of Orange in Green Court (13,700sqm) and the renewal of Volksbank in Nusco Tower for 8,000sqm.

The 2015 pipeline remained stable over the period, at 110,000sqm. Take-up is expected to increase from previous years driven mainly by new leases.

Retail

Vulcan Centre (35,000sqm) in Bucharest and Shopping City Targu Jiu (27,000sqm) in Targu Jiu, have both been finished and were delivered in Q3 2014 by NEPI. Total modern retail in Bucharest is estimated at 900,000 sqm with 1.7 million sqm in the rest of the country.

Retail sales in quarter 2 registered an almost 8% year on year increase following an almost 12% increase in non-food sales. If this growth continues throughout the remainder of the year many retailers may start to revisit their cautious expansion plans which will drive the new entrants to existing centres as there are few new developments coming on stream in the near future. International retailers are contemplating the opportunity of entering the market by acquiring the local franchises operations, such as Danish retailer Jysk. The DIY market has also been very active with the 15 Baumax stores being acquired by Leroy Merlin.

Rent in prime shopping centres increased slightly to 60-70 EUR/sqm per month, showing the first signs of recovery. Rental levels for high street retail remained at €55-65/sqm/month. The highest rents are achieved in Baneasa Shopping City and AFI Palace Cotroceni, which are considered the two most dominant retail schemes in Bucharest and Romania.

The pipeline for 2015 and 2016 for the country as a whole is set to increase to 270,000 sqm as developers gain more confidence and previous developments which had been considered before the downturn are now being restarted.

Residential

There is a reported surge in residential activity with more than 3,500 units being delivered in the first half of 2014 in Bucharest and surrounding areas. With a further 4,000 under construction. These figures are higher than the boom years of 2008 showing increased investor confidence in this sector. It should be noted that the bulk of these apartments, around 70% of the units are being delivered in a price bracket between 20,000 EUR and 40,000 EUR per unit, on the outskirts of Bucharest. Nevertheless transaction at these levels of pricing are encouraging with very little product failing to find a buyer. The majority of the investors in this segment are small local entrepreneurs.

Bulgaria

Retail

Three malls of 120,000 sqm Gross Lettable Area (GLA) previously mentioned were scheduled to open in the second half of 2014. During quarter 3 Mega Mall Lulin (24,000 sqm GLA) opened to the public with 80 % occupancy whilst the opening of Sofia South Ring Mall (70,000 sqm GLA) was delayed from its scheduled opening in Q3 to Q4 and finally another project (26,000 sqm GLA) is expected to open at the end of 2014. By the end of 2014, following the opening of these malls, the modern retail space per 1,000 inhabitants will increase to approximately 120 sqm compared to 250 sqm for Europe as a whole and 200 sqm for CEE.

At the end of June vacant space in Sofia stood at approximately 34,500 sqm (10.3% of the stock). Despite the existing vacancy prime rents in the shopping centres remained stable and brokers are not anticipating any significant changes until at least the year end. In the long term, the new deliveries are likely to increase the vacancy rate with subsequent suppression of prime rents but only for existing projects in secondary locations and poor performance.

The interest from foreign investors remained on hold until it becomes clear whether the elected political parties will form a stable government and whether geopolitical tensions in the region will get resolved. There were no investment property transactions on the Bulgarian market during the second quarter.

Development Projects Romania

Cascade

Currently the building is operating at 99% occupancy following the departure of Project Bucuresti. The rent ensures that the building generates a positive cash flow after meeting all its financial obligations from an operational and banking point of view. All financial obligations are up to date with no collection delays on the revenues side.

The current profile of the four investments made by the Company in the SPV and an analysis of the carrying value of each loan, considering an asset valuation of EUR 50m is detailed below:

ECDC	**Tranche 1**	**Tranche 2**	**Tranche 3**	**Tranche 4**	**Total**
Principal Amount	**5.000.000**	**4.000.000**	**300.000**	**510.000**	**9.810.000**
Investment Date	30 Sept 2007	31 Jul 2009	31 Mar 2011	30 Mar 2012	
Value Date	30 Oct 2014	30 Oct 2014	30 Oct 2014	30 Oct 2014	
Accrued Amount	3.144.789	6.478.276	329.844	0	9.952.909
Value to Date	**8.144.789**	**10.478.276**	**629.844**	**510.000**	**19.762.909**
Forward looking 12 months of accrual	*560.687*	*2.095.655*	*154.645*	*0*	*2.810.987*
Debt amortisation yearly					*2.044.335*

It can be seen from the table above that the Tranche 2 loan currently carries an interest charge which equates to a 20% IRR. The Tranche 3 loan carries an implied interest charge of a 27.5% IRR. It was never intended that these loans would still be in place as the interest rates agreed where meant to act as an incentive to the partner to sell the building sooner than has actually happened because the investment market has been so slow to recover. As a result the high interest burden is actually acting as a disincentive to the partner and the Manager is trying to find an equitable path which may result in ECDC having to forego part of its return for a quicker and easier sale of the asset. The negotiations with the partner continue. The current carrying value stands at €19.7m set to increase at a rate of €2,8m per year, with ECDC capturing the entire uplift in value from operating the assets over the period of one year.

The current loan is provided by Banca Romaneasca, a subsidiary of National Bank of Greece, and Piraeus. On the 30th September the total amount outstanding on the investment loan was €18.3 m with a monthly payment of €170.4k paid on the first of each month. The current debt position is as follows:

A.**Credit facilities situation:**					
Credit facility	**Current outstanding**	**Monthly Installment**	**Outstanding as of 01.11.2014**	**Maturity**	**Balloon**
Investment loan	18.320.388,47 €	170.361,26 €	18.150.027,21 €	3-Jul-2019	8.609.796,62 €

The SPV was holding just short of €1.5 million at 22nd October of which €1.2 million is available for operating costs, amortization and interest payments. An analysis of the current cash holding is below.

B. **Situation of the accounts:**	
Account	**Balance as of 22.10.2014 (EUR equal)**
Collection account	1.249.562,41
Service charge accounts	75.711,58
DSRA	158.554,48
TOTAL	**1.483.828,47**

The 99% occupancy has a Weighted Average Lease Term (WALT) of 1 year and 6 months. The low WALT will have an adverse effect on the capital value of the asset, which may be revalued at the end of the end of this calendar year, but to maximize the potential sales value a number of leases in the building will need to be renegotiated by our Partner. As a result we need to work closely with our Partner. Between now and the end of September 2015 there are 6,222 sqm of leased space which is up for renewal. This space represents 38% of the available space and 36% of the total income. Of the space coming up for renewal we know that Schneider, 2,173 sqm or €0.4 million per annum, will vacate at the end of the term of their lease in June 2015 as they have taken new space in another development.

The current lease profile of the building is as follows:

Leases	**Area**		**Income**	
Leased	16.214 sqm	99%	3.902.045	98%
Expiring in 12 months	6.222 sqm	38%	1.449.539	36%
Total	16.458 sqm	100%	3.994.079	100%

Oradea and Iasi Shopping Centres

Following the notice for repayment issued by the Company with respect to the investments in both Oradea and Iasi, the Manager is currently in negotiations over a possible structuring of the repayment. The form of the negotiation is likely to result in an impairment of the original investment and return, although the carrying value in the latest financial statements was nil.

Argo Real Estate Opportunities Fund (AREOF)

In the initial negotiations with Argo the Manager was looking to ring fence part of the income being up streamed from its Ukrainian asset in Odessa to part repay the loans. Unfortunately the escalation of the troubles in Eastern Ukraine and the freezing of foreign currency transactions closed off this source of revenue. Subsequent to the Cyprus banking crisis the loan granted by Bank of Cyprus to acquire the building and develop it is up for renewal at the end of 2014. The loan was sold, as part of a portfolio of loans held by Bank of Cyprus, to a Russian bank. Agro have commenced negotiations with the Russian bank over the renewal or refinancing of the loan but the Manager believes that in the short term there is a significant risk that there will not be significant cash available for ring-fencing. The Group Company has initiated a restructuring process, whereby it has downsized a significant portion of its staff in an attempt to contain operating costs. The day to day management of the Odessa asset has now been taken in house in an attempt to increase efficiencies and contain operating costs.

Oradea Shopping Centre/ Iasi Shopping Centre

There are no material updates on the situation of both these assets. Both assets continue to suffer from strong local competition in their regional markets and the economies of the cities, although showing significant improvement, are still far from the consumption levels registered before the downturn.

The insolvency of Oradea is running its course with the local Argo team being actively involved in the management of the asset. The banking relationship is still under pressure given the income profile of the assets.

The carrying values of both assets have been fully impaired reflecting the uncertainty surrounding both assets and the delisting of AREOF.

Development Projects Bulgaria

Plovdiv

In the three months to the end of quarter 3, occupancy had declined 11% to below 50% mainly due to Carrefour closing down its ground floor space for trading at the end of September. This followed the signing of a new addendum to the lease agreement by our partners. The new lease addendum also provides for a rent and service charge moratorium from June 2014 until the end of this year. During the six month moratorium all parties will agree the terms of the new agreement or Carrefour can terminate the existing lease agreement and vacate the premises. Under the new provisions Carrefour occupy approximately 5,000 sqm and have vacated 5,500 sqm. The Manager did not actively participate in the negotiations, which were led by the local Carrefour manager and the partner, as the Manager believes that negotiations are highly unlikely to enhance the asset's value above the outstanding Bank debt. The terms of the Annex were coordinated with the Bank. Ideally, Carrefour should be held to its existing lease however, the Mall is let below the contractually stipulated occupancy requirements which, without the Annex, would have entitled Carrefour to terminate the existing lease agreement and launch a financial claim. Therefore, the Annex prolongs the period for negotiating a new lease agreement.

Replacing the space vacated by Carrefour or introducing new large occupiers with long term lease contracts is extremely difficult because the centre lacks a cohesive letting strategy and also requires further injection of funds from the bank to enable fit-out contributions to be made.

The Manager has been informally advised that the bank is negotiating with a number of potential investors who are interested in acquiring, at a discount the bank's loan on Galleria Plovdiv. The Manager met with one of the potential acquirers of the debt and discussed how best to achieve an amicable exit. Subsequently the Bank has continued with its negotiations but has refused to reveal specific details of those negotiations. There is a risk that the Bank will foreclose on the facility as a means of taking complete control of the asset and ensuring no value to the shareholder interests.

As previously reported, the former operational manager continued to carry out rudimentary day to day activities. With the current occupancy, tenant mix, rent and service charge collection rate, the Mall covered core operating costs but was unable to meet the tax obligations in full, support a marketing budget, and invest in proper building maintenance. As a result both footfall and retail turnover continued to decline.

As previously mentioned the Manager is of the opinion that the market value of the asset is considerably less than the current Bank debt and without the ongoing support of the Bank the Mall would have to close and the company declare insolvency.

ECDC currently has a charge over some land which was offered to ECDC as a guarantee for repayment of the additional investment made by ECDC. The current carrying value of this land is €1.5 million which can only be called once the Bank has foreclosed on the loan. The carrying value of the investment in Plovdiv has been fully impaired.

Mega Mall Rousse

As previously reported Piraeuse Bank filed an application for insolvency against Mega Mall Rousse. Whilst the case was being dealt with, the court initially appointed a temporary receiver to assist in the operation of the mall and subsequent to the mall closure imposed the appointment of a security company to guard the building and seal all entrances. The court hearing has been postponed several times, the last time at the end of October because the court-appointed experts failed to provide on time their expertise assessment on the financials of the company and other insolvency-related matters.

The carrying value of this investment has been fully impaired however the Manager has been able to secure a lien on some moveable goods with a valuation of approximately €250k. The Bank is attempting to have the company declared insolvent at a date prior to the granting of the lien in order to make the lien arrangement null and void. The Manager is challenging the application of the Bank.

Trade Centre Sliven

On 25th August 2014 the Company sold its full equity position (42.5% of the equity capital of Trade Centre Sliven) to the Partner for a total consideration of €1,699,298. The Company also received full reimbursement of all outstanding loans and accrued interest.

Bourgas Retail Park

There has been no further progress made with this site.

The local partner, who is also the partner in Plovdiv holds 30% of the equity of the development spv in Bourgas and ECDC has a lien over those shares as a guarantee for the loans made to him on this development and for support of the loans made in Plovdiv. In the event that the Bank calls in the loan on Plovdiv the Manager will have the right to effectively take control of the shares that are charged and own 100% of this development land. The carrying value contained in the financial statements of the Company reflects a 100% ownership of the land.

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