

# Q4

**RomReal Limited**  
**Fourth Quarter 2015 Report**  
**26 February 2016**



RomReal is a Company focusing on the Romanian Real Estate market. Established in 2005 it owns premium properties in Constanta and Bucharest.

## Highlights Fourth Quarter 2015

### Net Asset Value (NAV)

- Net Asset value was EUR 0.44 (NOK 4.10) per share at the end of Q4 2015, a 5.8% decrease compared to the end of Q3 2015. As of 4Q 2014, NAV was EUR 0.48 (NOK 4.04).

### Valuation

- Knight Frank Romania has conducted its annual valuation. The valuation resulted in a 3.1% reduction in the property value on a comparable plot basis as of the end of 2015.

### Operational highlights

- No further sales were completed by the Company during Q4 2015. The Company finalised the 1 year extension of the Alpha Bank loan, currently due on 29 November 2016. The Company holds an option to extend the loan another year to 29 November 2017.

### Financial Results

- Net Result was a negative EUR 1,881,000 in 4Q 2015 compared to negative EUR 1,469, 000 in 4Q 2014. The loss is mainly explained by a currency effect due to a depreciation of RON by 2.3% against the EUR during the quarter and a reduction in the property values as a result of the new valuation report. Operating cash flow for the quarter was minus EUR 64,000 compared to minus EUR 145,000 in the same period last year.

### Macro and real estate market highlights

- Romania's GDP increase by 3.7% in 2015. The economy is well balanced with low and stable interest rates and low and falling inflation. Economy analysts forecast robust growth for 2016 with 3.7% driven by strong domestic demand and increased export.
- Following NBR's policy rate cut in May to a historically low level of 1.75 %, the low level of interest rates will continue to bolster domestic demand in 2016. While a deterioration of global investor sentiment may hinder growth prospects in the near term, medium-term growth prospects in Romania are favourable, reflecting the diversified economy, large market size and significant scope for convergence within the EU.
- Average apartment prices in Romania increased 5.9%, while in Constanta prices increased 7.1% during 2015. A potential threat to the further residential real estate recovery is the currently discussed law that will allow debtors to limit their liability to their lender by passing the ownership of the property to the lender. As the law is currently being debated and some banks suggest that if enacted, they will be forced to raise the minimum down payment to about 35%.

## Key Financial Figures

EUR '000	Q4 2015	Q4 2014	YTD 2015	YTD 2014
Operating Revenue	89	89	1,488	452
Operating Expenses	(110)	(297)	(775)	(979)
Other operating income/ (expense), net	(408)	(155)	(1,951)	(858)
Net financial income/(cost)	(1,472)	(1,011)	(909)	(359)
Pre-tax result	(1,900)	(1,374)	(2,181)	(1,744)
Result for the period	(1,881)	(1,469)	(2,169)	(1,765)
Total assets	29,965	32,450	29,965	32,450
Total liabilities	11,876	12,534	11,876	12,534
Total equity	18,089	19,916	18,089	19,916
Equity %	60.4%	61.4%	60.4%	61.4%
NAV per share (EUR)	0.44	0.48	0.44	0.48
Cash position	541	507	541	507

### Movement in Net Asset Value

The Net Asset Value (NAV) was reduced from EUR 19,198,000 in Q3 2015 to EUR 17,855,000 by the end of this quarter. NAV is reduced mainly due to reduced property values due to the new, independent valuation report and currency effects due to the Company's use of RON as operating currency and EUR as reporting currency. In 4Q 2014 the NAV was EUR 0.48 (NOK 4.04).

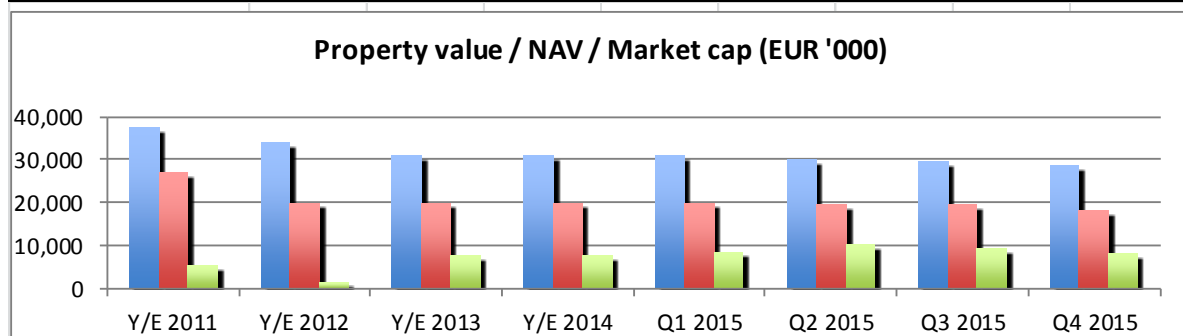
Asset base	Q4 2015			Q3 2015		
	EUR '000	EUR/share	NOK/share	EUR '000	EUR/share	NOK/share
Investment property	26,450	0.64	6.00	27,339	0.66	6.41
Inventories	2,286	0.06	0.52	2,300	0.06	0.54
Cash	541	0.01	0.12	1,031	0.01	0.24
Other assets/(liabilities)	(11,189)	(0.27)	(2.54)	(11,471)	(0.28)	(2.69)
Net asset value	18,089			19,198		
NAV/Share		0.44	4.10		0.46	4.50
Change in NAV	-5.8%			-1.2%		

The average number shares used in the NAV calculation above is 41,367,783 shares, unchanged from last quarter and 4Q 2014.

## Valuation of Properties

The end of year 2015 independent valuation of the Company's Property was executed by Knight Frank Romania. The Property portfolio was evaluated in accordance with the ANEVAR Valuation Standards 2013, which include the International Valuation Standards, issued by the IVSC in 2011. The valuation also complies with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB); and it is performed in accordance with the RICS Valuation Standards, 8th edition, as published by the Royal Institution of Chartered Surveyors (RICS) in March 2012.

EUR '000	Y/E 2011	Y/E 2012	Y/E 2013	Y/E 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Property value	37,363	33,842	30,827	30,797	30,833	29,762	29,638	28,736
NAV	26,837	19,916	19,916	19,916	19,685	19,428	19,198	18,089
Market cap	5,335	1,520	7,623	7,541	8,438	10,053	9,166	7,933
Market cap/NAV	20%	8%	38%	38%	43%	52%	48%	44%



## Cash Flow

EUR '000	Q4 2015	Q4 2014	YTD 2015	YTD 2014
Net cash flow from operating activities	(64)	(145)	(480)	(466)
Net cash flow used in investing activities	-	-	1,833	157
Net cash flows from financing activities	(426)	-	(1,319)	(157)
Net cash change during period	(490)	(145)	34	(466)

Operating cash flow for Q4 2015 was negative EUR 64,000 compared to negative EUR 145,000 in the same quarter last year. During the quarter, the Company has prepaid the interest for the one year extension of the loan from Alpha Bank and also prepaid EUR 34,000 to reduce the balance of the loan to EUR 11.6 million. Cash flow from investment activities for FY 2015 relates to sold properties where the Brasov plot explains EUR 994,000.

## Financing

As the end of Q4 2015 the Company's consolidated interest-bearing debt amounted to EUR 11,600,000. The loan is secured by the Company's plots, and it has an interest rate of 6 month EURIBOR + 300 bp. The Company has exercised its option to extend the maturity by one year until November 29, 2016. The Company holds an option to extend another year, provided that the interest is paid up front.

The table below shows the interest bearing debt for RomReal Ltd as at end Q4 2015 and estimated at maturity:

EUR '000	End Q4 2015	30 Nov 2016
Principal (Alpha Bank loan)	11,600	11,600
Accrued Interest*	-	-
Total	11,600	11,600

\*Interest has been prepaid for the entire extension period

## **Market Facts – Macro**

Romania continued to build on the strong economic momentum. For 2015, GDP increased to 3.7%, up from 3.0% in 2014. During 2015, the Central Bank lowered the interest rate several times, ending at 1.75% in May. Inflation declined during the year, helped by declining food and energy prices as well as a reduction in VAT on food products in June 2015.

It is widely expected that Romania will continue its positive development with relatively high GDP growth. Growth forecasts circle around 3.7% growth for 2016. The political turmoil around Prime Minister Ponta's departure does not seem to have slowed growth.

## **Real Estate market facts**

The real estate market continued its positive trend in the fourth quarter. Property prices, building permits and construction all increase. Total commercial transaction volume decreased in 2015 to EUR 650 million (45% down of 2014), but the volume still implies a liquid market. The transaction market is dominated by local players; 80% of the transaction value in 2015 involved five local players – CTP, GLL, P3, NEPI and Globalworth, according to data from commercial real estate services firm JLL Romania.

The industrial segment accounted for the largest share – 41 percent – of the total EUR 650 million. Indeed, the largest two transactions last year involved two industrial properties – P3 buying the Europolis Park from CA Immo and CTP taking over Bucharest West from Portland Trust. Office came second with 38 percent. The only large retail transaction last year was NEPI buying Iris Titan from Scottish company Aberdeen.

Overall, 80 percent of the EUR 650 million worth of transaction closed last year involved properties located in Bucharest.

### *Office market:*

German real estate fund GLL resumed acquisitions on the local market after six years and bought the Floreasca Park from Portland Trust and Victoria Center from Skanska office projects in Bucharest for close to EUR 130 million.

### *Retail market:*

South-African investment fund NEPI bought the shopping center Iris Titan from the German group Aberdeen Asset Management, for EUR 86 million. The Iris Shopping Center, also known as Auchan Titan, is one of the busiest shopping centers in Bucharest with over 33,000 visitors each day. It serves one of the city's densely populated areas, with over 370,000 residents.

#### *Industrial developments market:*

Dutch CTP was by far the most active real estate investor in 2015 buying 6 industrial properties worth a whopping EUR 130 million, according to JLL data. Czech industrial developer P3 ranked third for the acquisition of the Europolis Park industrial project from CA Immo.

#### *Land market:*

The first half of the year maintained momentum of year start with strong interest of small developers for plots of 500-1,500 sqm located in prime locations or slightly larger ones in peripheral areas. There was also a notable change in supply as banks have put up for sale substantial distressed properties. Notably, largest transactions with land plots were made by large retailers (Ikea, Dedeman, Lidl). Prices generally remained constant despite a small increase in demand for residential plots. Depending on location, prices vary from EUR 200-250/sqm in peripheral areas to EUR 1,000-1,200/sqm in prime locations.

Specifically in Constanta, the market was at a standstill with a slight improvement in the retail sector. The land market has been subdued the last 3 years. The supply of available land has increased but the lack of interest from buyers led to only a few transactions being finalised.

#### *Residential market:*

2015 can be regarded as one of the best in the last few years, especially when it comes to newly built apartments. During 2015, residential building permits rose for the first time since 2008 by 3.3%. On a national level, apartment prices rose 5.9%, and in Constanta prices rose 7.1%. According to Imobiliare.ro, there is reason to be optimistic for 2016 as it communicate that the demand is still increasing.

However, the currently discussed "giving in payment" law poses a major threat to the recovery. The law allows mortgage debtors who can't repay their loans to give the mortgaged assets to the bank and stop paying back the loans. According to the law, which was passed by the Parliament at the end of last year, but was sent back by President Klaus Iohannis for review, the debtor won't have to pay anything else to the bank, even if the value of the property doesn't cover the remaining amount to be reimbursed. According to local banks, this will change their decision making process when granting mortgage loans. The lenders will no longer decide only based on a borrower's capacity to repay the loan, but will also have to think about the potential loss of value of the mortgaged property. Raiffeisen, which is one of the top five banks in the local market, has decided to ask for a 35% down payment for new mortgage loans in local currency (RON), up from 15% until now, and a 40% advance payment for loans in euro. Other banks are saying they will follow.

## **Operational Overview**

The Company continues to work on upgrading the planning status for its plots and progressing its project plans for some of its plots. Also, the marketing plans for each of the individual plots have been revised.

For Mamaia North, the Company is pursuing the Zonal Planning approval. All documents and licences have been presented to the County Council for authorisation. It is expected that the final approval will be delivered in the next 2 months.

For Lakeside, a new approach to marketing is currently developed, by which the plot will be split in small plots suitable for house building and small blocks. A similar concept will be applied in the case of Oasis where the plot will also be split in small plots suitable for house building and small blocks.

In the case of CenterPoint, the Company will pursue a similar strategy to split it into smaller plots, in this case suitable for warehouses and industrial use.

### The Property Portfolio

The Company's land bank consists currently of 13 plots with a total size of 1,248,552 sqm at the end of Q4 2015.

Plot name	Location	Size (m2)
1 Ovidiu Lakeside	Constanta North/Ovidiu	61,029
2 Badulescu plot	Constanta North/Ovidiu	50,000
3 Tatar Peninsula	Constanta North/Ovidiu	2,485
4 Ovidiu Town	Constanta North/Ovidiu	4,641
5 Ovidiu (Oasis)	Constanta North/Ovidiu	24,651
6 Centrepoint	Constanta North/Ovidiu	122,350
7 Gunaydin plot	Constanta North/Ovidiu	15,000
8 Balada Market	Central Constanta	7,188
9 Carrefour plot	Constanta	15,000
10 Morii Lake	Bucharest Sector 6	11,716
11 Alexandriei plot	Bucharest Sector 5	13,263
12 Un-zoned land	Constanta	865,062
13 Mamaia North plot	Navodari/Mamaia	56,167
<b>Total</b>		<b>1,248,552</b>

## Shareholder Information- to update

Please see below the list of the top 20 shareholders in RomReal as of 19.02.2016.

Shareholder	Holding	Percentage
SIX SIS AG 25PCT ACCOUNT	11,699,278	28.28
THORKILDSEN DØDSBO KAY TØNNES	5,415,756	13.09
GRØNSKAG KJETIL	3,850,307	9.31
E. LARRE HOLDING AS	1,614,444	3.90
SILJAN INDUSTRIER AS	1,600,000	3.87
SKANDINAVISKA ENSKIL	1,300,927	3.14
SAGA EIENDOM AS	1,223,667	2.96
CO/JONAS BJERG NTS TRUSTEES LTD	1,058,306	2.56
ENERGI INVEST A/S	1,000,000	2.42
SPAR KAPITAL INVESTO	940,236	2.27
Carnegie Investment CLIENT ACCOUNT	851,692	2.06
THORKILDSEN INVEST A	829,478	2.01
ORAKEL AS	800,000	1.93
HOEN ANDERS MYSSEN	689,557	1.67
CLEARSTREAM BANKING	649,417	1.57
PERSSON ARILD	629,700	1.52
LOHNE PER OVE	508,500	1.23
Skandinaviska Enskil A/C CLIENTS ACCOUNT	508,384	1.23
KBC SECURITIES NV A/C CLIENTS NON-TREA	477,676	1.15
DANSKE BANK A/S 3887 OPERATIONS SEC.	457,998	1.11
<b>TOTAL TOP 20</b>	<b>36,105,323</b>	<b>87.28</b>

(1) This is the Top 20 Shareholder list as per 19 February 2015.

(2) The total issued number of shares issued at end Q4 2015 was 41,367,783.

(3) Thorkildsen Invest AS is a company controlled by RomReal Kay Thorkildsen family.

(4) RomReal Director Arne Reinemo controls directly or indirectly SILJAN INDUSTRIER AS.

(5) The above list is the 20 largest shareholders according to the VPS print out; please note that shareholders might use different accounts and account names, adding to their total holding.

## Outlook

RomReal expects the recent positive development in the macroeconomic environment will reflect in a continued improvement of the real estate market in 2016. In addition to sale of plots, the Company seeks to add incremental value to the individual plots during the period in which they are part of the Land Bank up until a potential sale is completed.

The Company expects further asset disposals at satisfactory prices in the quarters to come. Management notes that the number of inquiries from potential buyers is at its highest since the Company started to market its assets.



## **INFORMATION ON FINANCIAL CONDITION AND OPERATING RESULTS**

### **Accounting Principles**

The financial statements for the Q4 2015 report have been prepared in accordance with IAS 34 – Interim Financial Reporting. The quarterly result has been prepared in accordance with the current IFRS standards and interpretations. The accounting policies applied in the preparation of the quarterly result are consistent with the principles applied in the financial statements for the year to 31 December 2014.

### **Comparative data for Q4 2015 and Q4 2014**

The interpretations below refer to comparable financial information for Q4 2015 and Q4 2014. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

### **Operating Revenue**

The operating revenue during Q4 2015 was EUR 89,000 compared to a total of EUR 89,000 reported in Q4 2014. The income relates to the rent and costs re-charging received on some of the land bank assets awaiting development. In Q4 the re-charging of costs was presented as a reduction in costs, therefore, the reported comparative reporting at Q4 2014 was restated to reflect a similar reporting of the items.

### **Operating Expenses**

Total operating expenses amounted to EUR 110,000 in Q4 2015 compared to EUR 297,000 in Q4 2014. Out of these operating expenses, the payroll costs were EUR 42,000. Adjustment for inventories not considered, the total operating expenses of the Company in Q4 2015 were around 7% higher than the ones in the same quarter of 2014. Out of the total operating expenses, the main cost items relate to general and administration costs in connection with the running of the Group.

### **Other operating income/ (expense), net**

The other operating income/ (expense) is driven by the de recognition/expending of the carrying value related to the sold assets and the adjustment to the value of the investment property as a result of the year end independent valuation exercise as well as effect of the foreign currency exchange rate before translating them into the functional currency of the Group. During Q4 2015 the adjustment to the value of the Investment Properties amounted to EUR 845,000. This was partially offset by the positive impact of the currency effect.

The net of Other Operating Income/ (Expense) in Q4 2015 amounted to a net loss of EUR 373,000, compared to a net loss of EUR 122,000 in Q4 2014.

### **Profit/ (loss) from operations**

During Q4 2015, RomReal generated an operating loss of EUR 428,000, compared to a loss of EUR 363,000 in Q4 2014.

## Financial Income and expense

The interest expense includes the expense accrued for the period with the interest in respect of the Alpha Bank loan in amount of EUR 84,000. Foreign exchange result for Q4 2015 was a loss of EUR 1,387,000 compared to a net foreign exchange loss of EUR 913,000 in Q4 2014. During the quarter the year the RON appreciated by 2.3% against the EUR.

The main items that generate foreign exchange differences are the inter-Company loans and the loan taken from Alpha Bank in principal amount of EUR 10.6 million.

The Company's policy is to hedge these effects by retaining most of its cash in Euros and also by denominating all receivables in Euros. Although not reflected from an accounting perspective, practice in real estate is that transactions are denominated in EUR and payments made at the exchange rate ruling at the date of payment, hence reducing the risk of cash losses due to exchange rate movements.

## Result before tax

The result before tax in Q4 2015 was a loss of EUR 1,900,000 compared to a loss before tax of EUR 1,374,000 in Q4 2014.

## Cash and cash equivalents

The Company's cash and cash equivalents position at end of Q4 2015 was EUR 541,000 compared to EUR 1,031,000 as at end of Q4 2015. The main cash outflow was related to the prepayment of the interest to Alpha Bank as a result of exercising the option to extend the maturity by one year.

## Taxation

The Company is required to calculate its current income tax at a flat rate of 16%. Starting 2013, the companies in the Group with turnover below a EUR 65,000 threshold are subject to a 3% tax calculated on total revenue. This is the case for 7 of the Group companies while 3 of them are subject to 16% on taxable profits.

The Company accounts for deferred tax on all movements in the fair values of its investment properties at a flat rate of 16%. Any change in the deferred tax liability or change in the deferred tax asset is reflected as an element of income tax in the profit and loss statement. The Company recognises deferred tax asset for the amount of carried forward unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Figures in thousand EUR

	Q4 2015	Q4 2014	YTD 2015	YTD 2014
Rent revenue	89	89	272	288
Revenue from sale of assets	0	-	1,216	164
<b>Operating revenue</b>	<b>89</b>	<b>89</b>	<b>1,488</b>	<b>452</b>
Payroll expenses	(42)	(58)	(239)	(213)
Management fees	(16)	(16)	(64)	(64)
Inventory (write off)/reversal	57	(134)	27	(174)
General and administrative expenses	(110)	(89)	(498)	(528)
<b>Operating expenses</b>	<b>(110)</b>	<b>(297)</b>	<b>(775)</b>	<b>(979)</b>
	-	-	-	-
<b>Profit/ (loss) before other operating items</b>	<b>(21)</b>	<b>(208)</b>	<b>713</b>	<b>(527)</b>
Other operating income/(expense), net	(408)	(155)	(1,986)	(858)
<b>Profit from operations</b>	<b>(428)</b>	<b>(363)</b>	<b>(1,272)</b>	<b>(1,385)</b>
Interest income	0	(4)	22	(2)
Interest costs	(84)	(94)	(339)	(379)
Foreign exchange, net	(1,387)	(913)	(593)	22
	-	-	-	-
<b>Result before tax</b>	<b>(1,900)</b>	<b>(1,374)</b>	<b>(2,181)</b>	<b>(1,744)</b>
Tax expense	21	(95)	12	(21)
<b>Result of the period</b>	<b>(1,881)</b>	<b>(1,469)</b>	<b>(2,169)</b>	<b>(1,765)</b>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	December 31, 2015	December 31, 2014
<b>Non-current assets</b>		
Financial assets	-	734
Investment properties	26,450	28,439
Property, plant and equipment	13	12
Deferred tax asset	125	126
<b>Total non current assets</b>	<b>26,589</b>	<b>29,311</b>
<b>Current assets</b>		
Inventories	2,286	2,388
Other short term receivables	183	236
Prepayments	366	8
Cash and cash equivalents	541	507
<b>Total current assets</b>	<b>3,376</b>	<b>3,138</b>
<b>TOTAL ASSETS</b>	<b>29,965</b>	<b>32,450</b>
<b>EQUITY AND LIABILITIES</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
<b>Equity</b>		
Share capital	103	103
Contributed surplus	87,117	87,117
Other reserves	425	425
Retained earnings	(68,179)	(66,413)
Result of current period	(2,169)	(1,767)
FX reserve	792	449
<b>Total equity</b>	<b>18,089</b>	<b>19,916</b>
<b>Non current liabilities</b>		
Non current debt	-	0
Deferred income tax	59	75
<b>Total non current liabilities</b>	<b>59</b>	<b>75</b>
<b>Current Liabilities</b>		
Bank debt	11,600	12,230
Other payables	148	74
Deferred income	70	154
Tax payable	0	1
<b>Total current liabilities</b>	<b>11,818</b>	<b>12,459</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>29,965</b>	<b>32,450</b>

## STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Figures in thousand EUR

	December 31, 2015	December 31, 2014	September 30, 2014
<b>Profit for the year</b>	<b>(2,169)</b>	<b>(1,767)</b>	<b>(296)</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	342	11	(434)
<b>Other comprehensive income for the year, net of tax</b>	<b>342</b>	<b>11</b>	<b>(434)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>(1,827)</b>	<b>(1,756)</b>	<b>(730)</b>

## CASH FLOW STATEMENT (UNAUDITED)

Figures in thousand EUR

	December 31, 2015	December 31, 2014	September 30, 2014
Net cash flow from operating activities	(480)	(466)	(321)
Net cash flow used in investing activities	1,833	157	157
Net cash flows from financing activities	(1,319)	(157)	(157)
<b>Net cash change during period</b>	<b>34</b>	<b>(466)</b>	<b>(321)</b>
Cash at beginning of period	507	973	973
<b>Cash and cash equivalents at end of the period</b>	<b>541</b>	<b>507</b>	<b>652</b>

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in thousand EUR

	December 31, 2015	December 31, 2014	September 30, 2014
Equity at the beginning of the period	19,916	21,671	21,671
Result for the period	(2,169)	(1,767)	(296)
Other changes	342	11	(435)
<b>Equity at the end of the period</b>	<b>18,089</b>	<b>19,916</b>	<b>20,941</b>

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For further information on RomReal, including presentation material relating to this interim report and financial information, please visit [www.romreal.com](http://www.romreal.com).

## **DISCLAIMER**

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