

# Q4

**RomReal Limited**  
**Fourth Quarter 2016 Report**  
**17 February 2017**



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 2016

### Net Asset Value (NAV)

- Net Asset value was EUR 0.44 (NOK 3.97) per share, 4.0% up compared to the end of Q3 2016. The increase in NAV is mainly explained by the new year end valuation by Knight Frank Romania. The new valuation gave a 9.3% increase in the property value on a comparable plot basis compared to the end of 2015.
- Net Asset Value was EUR 0.5 (NOK 4.59) if the values from 2<sup>nd</sup> January 2017 conditional sales agreements had been applied to the sold properties.

### Operational highlights

- On 2<sup>nd</sup> January, the Company entered into two conditional sales transactions representing 51% of its investment portfolio. The transactions include the Mamaia North plots and the Morii Lake plot in Bucharest. The transactions amount to an estimated EUR 17.75 – 18.25 million.
- The Company has exercised its option to extend the Alpha Bank loan until 28<sup>th</sup> April 2017. If the pending sales proceeds are not received as expected, the loan will be automatically extended until 29 November 2017. The Company plans to use the sales proceeds to repay in whole the loan before the end of March.

### Financial Results

- Net Result for the quarter was EUR 14,000 compared to an EUR 1,880,000 loss in 4Q 2015. Operating cash flow for the quarter was a minus EUR 115,000 compared to minus EUR 64,000 in the same period last year.

### Macro and real estate market highlights

- 2016 marked another strong macroeconomic year for Romania. In the second quarter, Romania recorded the highest GDP growth of all EU's member states. The strong trend continues. In the fourth quarter, the preliminary GDP growth came in at 4.8%. Analysts expect growth to continue in 2017 on a high note. The real estate market developed favourably. The turnaround from the falling years following the 2008 boom, is now final. New buildings came in strong in all major real estate segments. Total new buildings coming on market in 2016 increased 88% compared to 2015 and the new lettable space was the highest since the boom ended in 2008.
- With a record number of finished residential buildings and a 9% increase in the number of transactions during the first 9 months, 2016 is expected to be one of the best years for the residential market. Apartment price in Romania have seen for the entire 2016 an increase of 10.4% to EUR 1,050 per m<sup>2</sup>, while in Bucharest the increase was 6.7% to EUR 1,141 per m<sup>2</sup> and in Constanta an increase of 6.1% to EUR 973 per m<sup>2</sup>, compared with year end 2015.

## Key Financial Figures

EUR '000	Q4 2016	Q4 2015	YTD 2016	YTD 2015
Operating Revenue	58	89	508	1,488
Operating Expenses	131	(110)	(515)	(775)
Other operating income/ (expense), net	2,962	(408)	2,282	(1,951)
Net financial income/(cost)	(1,361)	(1,472)	(632)	(909)
Pre-tax result	1,790	(1,900)	1,644	(2,181)
Result for the period	14	(1,881)	(214)	(2,169)
Total assets	32,205	29,965	31,124	29,965
Total liabilities	14,168	11,876	14,168	11,876
Total equity	18,036	18,089	17,956	18,089
Equity %	56.0%	60.4%	55.9%	60.4%
NAV per share (EUR)	0.44	0.44	0.43	0.44
Cash position	707	541	707	541

### Movement in Net Asset Value

The Net Asset Value (NAV) increased to EUR 18,036,000 at the end of Q4 2016 compared to EUR 17,343,000 at the end of Q3 2016. The main driver behind the increased NAV is an increase in the estimated value of the properties. The 2016 Knight Frank Valuation Report increased the value on a similar plot basis by 9.3% compared to the 2015 report. Against this increase works a depreciation of the RON that produces a foreign exchange loss.

The Knight Frank Valuation Report uses estimated property values based on comparable transactions. If the report had used the actual prices agreed to in the conditional transactions for the Morii Lake Plot and the Mamaia North plots, the Net Asset Value would have been EUR 0.5 (NOK 4.59).

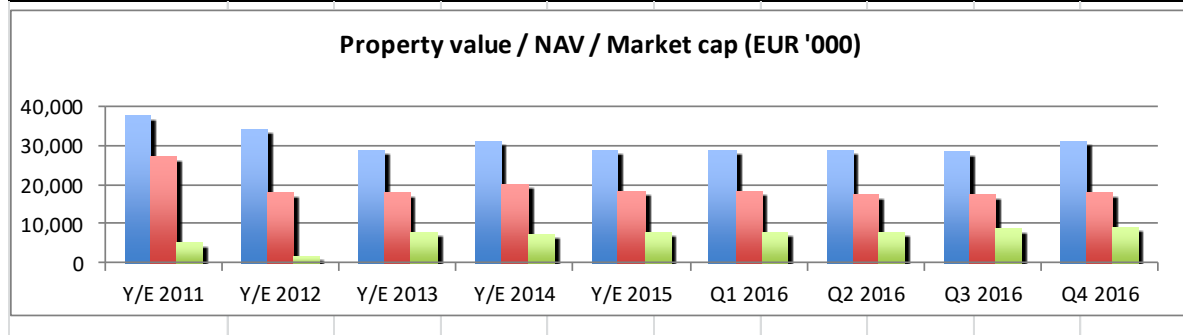
Asset base	Q4 2016			Q3 2016		
	EUR '000	EUR/share	NOK/share	EUR '000	EUR/share	NOK/share
Investment property	16,904	0.41	3.72	26,192	0.63	5.89
Assets held for sale	11,720	0.28	2.58	-	-	-
Inventories	2,536	0.06	0.56	2,278	0.06	0.51
Cash	707	0.02	0.16	289	0.01	0.06
Other assets/(liabilities)	(13,830)	(0.33)	(3.04)	(11,415)	(0.28)	(2.57)
Net asset value	18,036			17,343		
NAV/Share		0.44	3.97		0.42	3.90
Change in NAV	4.0%			-1.4%		

The average number shares used in the NAV calculation above is 41,367,783 shares and unchanged from Q3 2016.

## Valuation of Properties

The end of year 2016 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.

EUR '000	Y/E 2011	Y/E 2012	Y/E 2013	Y/E 2014	Y/E 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Property value	37,363	33,842	28,692	30,797	28,736	28,740	28,557	28,470	31,160
NAV	26,837	18,044	18,044	19,916	18,089	18,093	17,594	17,343	18,036
Market cap	5,335	1,520	7,623	7,541	7,933	7,758	7,963	8,452	9,075
Market cap/NAV	20%	8%	42%	38%	44%	43%	45%	49%	50%



## Cash Flow

EUR '000	Q4 2016	Q4 2015	YTD 2016	YTD 2015
Net cash flow from operating activities	(115)	(64)	(595)	(480)
Net cash flow used in investing activities	200	-	361	1,833
Net cash flows from financing activities	333	(426)	400	(1,319)
<b>Net cash change during period</b>	<b>418</b>	<b>(490)</b>	<b>166</b>	<b>34</b>

Operating cash flow for Q4 2016 was negative EUR 115,000 compared to a negative EUR 64,000 in the same quarter last year. The cash flows from financing activities relate to the drawdown on the shareholder lending facility, and the prepayment of interest to Alpha Bank. This prepayment was required to extend the maturity of the loan. The cash flows from investing activities during the quarter represent the down payments in respect of the sales agreements for the Mamaia North plots.

## Financing

As the end of Q4 2016 the Company's consolidated interest-bearing debt amounted to EUR 12,000,000, of which EUR 11,600,000 debt towards Alpha Bank and EUR 400,000 a shareholder loan. The bank loan is secured with the Company's plots, and it has an interest rate of EURIBOR + 300 bp. The Company has exercised its option to extend the maturity until April 28, 2017. Further extension until 29 November 2017 is permitted subject to prepayment of interest for the extension period, which is already paid into an escrow account in Alpha Bank.

The table below shows the bank interest bearing debt for RomReal Ltd as at end Q4 2016 and estimated at maturity:

EUR '000	28 Apr 2017	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

2016 has been another strong year for Romania's economic development. Overall GDP growth is strong, and in the second quarter, Romania had the highest growth recorded amongst all EU's member states. The trend is set to continue; growth for 4Q 2016 came in at 4.8%, and economic analysts foresee strong growth also in 2017.

For the whole of 2016, the National Bank interest rate has been 1.75%, fuelling an undeveloped real estate market, overall industrial activity and private consumption. The real estate market has a stable upwards trend illustrated by higher transaction volume and higher prices. Unemployment which has oscillated around 7% in the period 2010 – 2016, has fallen from 6.5% at the beginning of 2016 to 5.5% in December. Private consumption continues to rise, fuelled by 1) low inflation – below zero as a result of a cut in the VAT, 2) increasing consumer credit – a 50% increase since December 2014, and a low interest rate. Especially durable goods consumption grow rapidly, illustrated by car registrations. Car registrations in third quarter 2016 have grown over 50% since third quarter 2014. Industrial production slowed considerably in 2014 and 2015, but is now on the rise. The last three months until November have all seen annual growth rates between 4% and 5%.

## Real Estate market facts

According to a study by DTZ Echinox, 2016 was one of significant increase in all segments of the real estate market, with the exception of office space located outside of Bucharest, a segment that had already seen record deliveries in 2015.

*Office market:* The biggest increase in newbuilding in 2016 - 240% - was recorded in Bucharest 's office sector. The total new building came to around 290,000 sqm. Despite the high number of new buildings, vacancy levels remained at a stable level. The IT&C sector dominated the rental market, occupying approximately 77,000 sqm of office space (46% of H1 2016 new buildings).

*Retail Market:* Even though the numbers are far from the ones achieved during the economic boom, the retail sector had an important development in 2016, with total new, lettable area standing at 237,000 sqm, up by 40 percent compared to 2015. The increase in consumption and consumer confidence provided a strong incentive for retailers to continue their expansion plans, especially in the regional cities where the new buildings were registered. In Constanta, NEPI has finalised the 19,500 sqm extension of its City Park shopping centre.

*Industrial Market:* 2016 was the best year ever in the Romanian real estate market, with new buildings of approximately 380,000 sqm.

*Land Market:* During 2016 the land market has continued its positive trend of the previous years, with several large transactions aimed at various uses. The supply of land plots suitable

for good projects is expected to decrease, while demand is growing for land plots suitable for residential and office use, particularly those with planning approvals already in place given the lengthy process of obtaining building permits.

*Residential Market:* On-going economic growth led to an increase in both supply and demand for residential space. Completed dwellings across Romania in H1 2016 increased by 23.4%. However, building permits decreased with 1.9% in 2016. Housing prices – according to Imobiliare.ro – rose 10.4%. An important development during 2016 was the continued support for the Prima Casa program and the potential extension of the program to include young families by forfeiting down payment for such applicants.

## **Operational Overview**

Early 2017, the Company managed to close two significant conditional transactions involving around half of the Company's property portfolio as measured by value. These transactions were announced on January 2, 2017. The Company sold its Mamaia North plots – the most valuable plot in the portfolio – and the Morii Lake plot in Bucharest. In line with the prior sales concluded, these transactions were sold at a 20% premium to the IFRS book value.

The closing processes for both transactions are progressing according to plan. The closing processes are expected to finish by the end of first quarter 2017. The Company's bank; Alpha bank has approved the Mamaia North transaction and the buyer has provided further down payment as agreed in the conditional sales contract. The Company does not need any bank approval for the Morii Lake transaction.

The Company continues to develop the remaining plots to increase the attractiveness of the portfolio. As examples, the Company has decided to split the Oasis and Lakeside plots into smaller units enabling both sale of the total plot and units of the plot to smaller entrepreneurs. The new planning permissions are expected within the first half of 2017.

RomReal has on-going sales processes for several of the properties. The real estate market continues to see improved transaction volumes and higher prices. Several of the larger builders are buying new properties to their inventories. In addition, the overall economy grows in a healthy and stable fashion, despite political turmoil from time to time. Therefore, RomReal is confident that it can achieve additional sales during 2017 at prices at or above the increased year end valuation.

## The Property Portfolio

The Company's land bank consists currently of 12 plots with a total size of 1,243,812 sqm at the end of Q4 2016.

Plot name	Location	Size (m2)
1 Ovidiu Lakeside	Constanta North/Ovidiu	61,029
2 Badulescu plot	Constanta North/Ovidiu	50,000
3 Ovidiu Town	Constanta North/Ovidiu	4,641
4 Ovidiu (Oasis)	Constanta North/Ovidiu	24,651
5 Centrepont	Constanta North/Ovidiu	121,672
6 Gunaydin plot	Constanta North/Ovidiu	15,000
7 Balada Market	Central Constanta	7,188
8 Carrefour plot	Constanta	15,000
9 Morii Lake	Bucharest Sector 6	11,716
10 Hospital plot	Bucharest Sector 5	13,263
11 Un-zoned land	Constanta	864,534
12 Mamaia North plot	Navodari/Mamaia	54,714
<b>Total</b>		<b>1,243,408</b>

## Shareholder Information

Please see below the list of the top 20 shareholders in RomReal as of 10 Feb 2017

SHAREHOLDER	HOLDING	%
SIX SIS AG 25PCT ACCOUNT	10,336,254	24.99
THORKILDSEN DØDSBO KAY TØNNES	5,415,756	13.09
GRØNSKAG KJETIL	4,138,179	10.00
SAGA EIENDOM AS	2,528,669	6.11
AUSTBØ EDVIN	1,758,500	4.25
E. LARRE HOLDING AS	1,614,444	3.90
ENERGI INVEST A/S	1,390,000	3.36
ORAKEL AS	1,101,000	2.66
SPAR KAPITAL INVESTO	940,236	2.27
Carnegie Investment	931,458	2.25
THORKILDSEN INVEST A	829,478	2.01
PERSSON ARILD	718,000	1.74
HOEN ANDERS MYSSSEN	689,557	1.67
Skandinaviska Enskil	628,832	1.52
SILJAN INDUSTRIER AS	611,100	1.48
JONAS BJERG PENSION NTS TRUSTEES LTD	558,306	1.35
Nordea Bank AB NORDEA BA. SWE. AB (	504,784	1.22
Danske Bank A/S 3887 OPERATIONS SEC.	445,998	1.08
CLEARSTREAM BANKING	438,383	1.06
BNP Paribas Securifi S/A SPEARPOINT LTD	406,856	0.98
<b>TOTAL TOP 20</b>	<b>35,736,060</b>	<b>86</b>

- 1) This is the Top 20 Shareholder list as per 10 February 2017.
- (2) The total issued number of shares issued at end Q2 2016 was 41,367,783.
- (3) Chairman Kjetil Grønskag owns directly and indirectly 4,138,179 shares corresponding to 10.0%.
- (4) Thorkildsen Invest AS is a Company controlled by RomReal Kay Thorkildsen family.
- (5) RomReal Director Arne Reinemo controls directly or indirectly SILJAN INDUSTRIER AS.
- (6) 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 continued positive macroeconomic development to foster further growth and interest for the real estate market in 2017.

The immediate focus of the Company is to close the ongoing transactions. RomReal will emerge as a debt-free company with free liquidity and several attractively located properties with good development potential. RomReal intends to continue to capitalize on this platform with further property sales and value enhancing activities. The Company expects to sell more properties during 2017 at prices at or above book values.



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

### **Accounting Principles**

The financial statements for the Q4 2016 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 2015. The financial statements have been prepared on a going concern basis.

### **Comparative data for Q4 2016 and Q4 2015**

The interpretations below refer to comparable financial information for Q4 2016 and Q4 2015. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

### **Operating Revenue**

The operating revenue during Q4 2016 was EUR 58,000 compared to a total of EUR 89,000 reported in Q4 2015. The income relates to the rent and costs re-charging received on some of the land bank assets awaiting development.

### **Operating Expenses**

Total operating expenses amounted to positive EUR 131,000 in Q4 2016 compared to a negative EUR 111,000 in Q4 2015. The net positive effect is due to the revaluation of the Oasis plot which is classified as inventories and changes in its value presented in the operating results. Out of these operating expenses, the payroll costs were EUR 42,000, while general and administration costs in connection with the running of the Group amounted to EUR 99,000. Adjustment for inventories not considered, the total operating expenses of the Company in Q4 2016 were EUR 166,000 similar to Q4 2015.

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

The other operating income/ (expense) is driven by the derecognition/expensing 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 2016 the upward adjustment to the value of the Investment Properties as a result of the independent valuation (i.e. currency effect not considered) amounted to EUR 2,438,000.

The net of Other Operating Income/ (Expense) in Q4 2016 amounted to a net gain of EUR 2,962,000, compared to a net loss of EUR 408,000 in Q4 2015.

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

During Q4 2016, RomReal generated an operating profit of EUR 3,151,000, compared to a loss of EUR 430,000 in Q4 2015.

## Financial Income and expense

The interest expense includes the expense for the period with the interest in respect of the Alpha Bank loan in amount of EUR 100,000. Foreign exchange result for Q4 2016 was a net loss of EUR 1,261,000 compared to a net foreign exchange loss of EUR 1,387,000 in Q4 2015. During the quarter the year the RON lost 2.0% 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 11.6 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 2016 was a gain of EUR 1,790,000 compared to a loss before tax of EUR 1,901,000 in Q4 2015.

## Cash and cash equivalents

The Company's cash and cash equivalents position at end of Q4 2016 was EUR 707,000 compared to EUR 289,000 as at end of Q3 2016. Out of the total cash balance, EUR 535,000 is blocked with a Company's account at Alpha Bank with a view to secure a potential interest pre-payment in case of a further extension of maturity post 28 April 2017.

## 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.

During the quarter, the Company has recognized deferred tax liabilities of EUR 1,755,000 in respect of the ongoing disposals, which structured as assets sales will result in an income tax payable by the Company. This brings the balance of total deferred tax liabilities at EUR 1,808,000 as of year-end.

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Figures in thousand EUR

	Q4 2016	Q4 2015	YTD 2016	YTD 2015
Rent revenue	58	89	278	272
Revenue from sale of assets	(0)	-	230	1,217
<b>Operating revenue</b>	<b>58</b>	<b>89</b>	<b>508</b>	<b>1,489</b>
Payroll expenses	(42)	(42)	(169)	(239)
Management fees	(25)	(16)	(85)	(64)
Inventory (write off)/reversal	297	57	260	27
General and administrative expenses	(99)	(110)	(521)	(498)
<b>Operating expenses</b>	<b>131</b>	<b>(111)</b>	<b>(515)</b>	<b>(774)</b>
<b>Profit/ (loss) before other operating items</b>	<b>189</b>	<b>(22)</b>	<b>(7)</b>	<b>715</b>
Other operating income/(expense), net	2,962	(408)	2,282	(1,986)
<b>Profit from operations</b>	<b>3,151</b>	<b>(430)</b>	<b>2,275</b>	<b>(1,271)</b>
Interest income	0	-	0	22
Interest costs	(100)	(84)	(392)	(339)
Foreign exchange, net	(1,261)	(1,387)	(240)	(593)
-	-	-	-	-
<b>Result before tax</b>	<b>1,790</b>	<b>(1,901)</b>	<b>1,644</b>	<b>(2,181)</b>
Tax expense	(1,777)	21	(1,776)	12
<b>Result of the period</b>	<b>14</b>	<b>(1,880)</b>	<b>(132)</b>	<b>(2,169)</b>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	December 31, 2016	December 31, 2015
<b>Non-current assets</b>		
Investment properties	16,904	26,407
Property, plant and equipment	17	13
Deferred tax asset	124	125
<b>Total non current assets</b>	<b>17,046</b>	<b>26,545</b>
<b>Current assets</b>		
Inventories	2,536	2,285
Other short term receivables	156	183
Prepayments	41	366
Cash and cash equivalents	707	541
<b>Total current assets</b>	<b>3,439</b>	<b>3,376</b>
Assets held for sale	11,720	-
<b>TOTAL ASSETS</b>	<b>32,205</b>	<b>29,920</b>
<b>EQUITY AND LIABILITIES</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Equity</b>		
Share capital	103	103
Contributed surplus	87,119	87,117
Other reserves	425	425
Retained earnings	(70,393)	(68,179)
Result of current period	(132)	(2,214)
FX reserve	916	792
<b>Total equity</b>	<b>18,036</b>	<b>18,044</b>
<b>Non current liabilities</b>		
Deferred income tax	1,808	59
<b>Total non current liabilities</b>	<b>1,808</b>	<b>59</b>
<b>Current Liabilities</b>		
Bank debt	11,600	11,600
Shareholder loan	400	-
Other payables	149	148
Deferred income	211	70
Tax payable	(0)	0
<b>Total current liabilities</b>	<b>12,360</b>	<b>11,818</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>32,205</b>	<b>29,921</b>

## STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Figures in thousand EUR

	December 31, 2016	December 31, 2015
<b>Profit for the year</b>	<b>(132)</b>	<b>(2,169)</b>
<b>Other comprehensive income</b>		
Exchange differences on translation of foreign operations	124	342
<b>Other comprehensive income for the year, net of tax</b>	<b>124</b>	<b>342</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>(8)</b>	<b>(1,827)</b>

## CASH FLOW STATEMENT (UNAUDITED)

Figures in thousand EUR

	December 31, 2016	December 31, 2015
Net cash flow from operating activities	(595)	(480)
Net cash flow used in investing activities	361	1,833
Net cash flows from financing activities	400	(1,319)
<b>Net cash change during period</b>	<b>166</b>	<b>34</b>
Cash at beginning of period	541	507
<b>Cash and cash equivalents at end of the period</b>	<b>707</b>	<b>541</b>

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in thousand EUR

	December 31, 2016	December 31, 2015
Equity at the beginning of the period	18,089	19,916
Result for the period	(132)	(2,169)
Other changes	80	342
<b>Equity at the end of the period</b>	<b>18,036</b>	<b>18,089</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).

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