

Q2

RomReal Limited
Second Quarter 2018 Report
31 August 2018



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

Highlights Second Quarter 2018

Net Asset Value (NAV)

- Net Asset value was EUR 0.49 (NOK 4.86) per share, 3.2 per cent higher compared to Q1 2018. There were no changes made to the value of the investment properties during the quarter.

Operational highlights

- *Hospital plot (No. 9 on the list)*: sale agreement signed 29 June 2018 for a total amount of EUR 1.85m of which EUR 0.5m received and the difference of EUR 1.2m to be paid over the next 12 months, plus 3% interest per year and the remaining EUR 0.15m to be paid no later than 30/07/2021.
- Un-zoned land, 864,534 m² (No. 10 on the list): 26 January 2018, Pre-sale agreement entered for a total price of EUR 625,060 (vs EUR 389,000 as per independent valuation). The transaction has been closed in tranches and the last instalment of EUR 495,000 was collected during July 2018.
- As announced to the market, on 19 July 2018, RomReal has received a tax claim in excess of EUR 1.7m. E&Y has been retained and the Company will pursue all legal means in order to dismiss the claim. On 18th July 2018, Constanta Court of Appeal ordered that no attachments to the bank accounts and/or lands belonging to Westhouse Group should take place pending the resolution of the case in front of the Court of Appeal.

Financial Results

- Net Result for the quarter was EUR 605,000 profit compared to a EUR 801,000 loss in 2Q 2017. Operating cash flow for the quarter was a negative EUR 1,085,000 compared to minus EUR 2,182,000 in the same period last year.
- By the end of the quarter, the Company had a cash position of EUR 3.1 million plus a total of EUR 1,350,000 in outstanding payments related to binding sales agreements, totalling about EUR 4.4 million or about EUR 0.1 per share.

Macro and real estate market highlights

- Romania's economic growth slowed to 4.1% year-on-year in the second quarter of 2018, compared to 6.1% annual growth in the like quarter of 2017, non-adjusted provisional data of the country's statistical board.
- According to the online real estate platform imobiliare.ro, asking prices in Romania remained flat during the second quarter at 1,221 /sqm at the end of July 2018. Prices in Constanta have reached in July 2018 EUR 1,139 /sqm, a 9.1 percent increase compared with the same period last year.

Key Financial Figures

EUR '000	Q2 2018	Q2 2017
Operating Revenue	1,894	(48)
Operating Expenses	(201)	(806)
Other operating income/ (expense), net	(1,128)	24
Net financial income/(cost)	7	(2)
Pre-tax result	565	(800)
Result for the period	605	(801)
Total assets	20,727	24,817
Total liabilities	329	6,443
Total equity	20,399	18,376
Equity %	98.4	74%
NAV per share (EUR)	0.49	0.46
Cash position	3,099	2,523

Movement in Net Asset Value

The Net Asset Value (NAV) increased to EUR 20,399,000 at the end of Q2 2018 compared to EUR 19,770,000 at the end of Q1 2018.

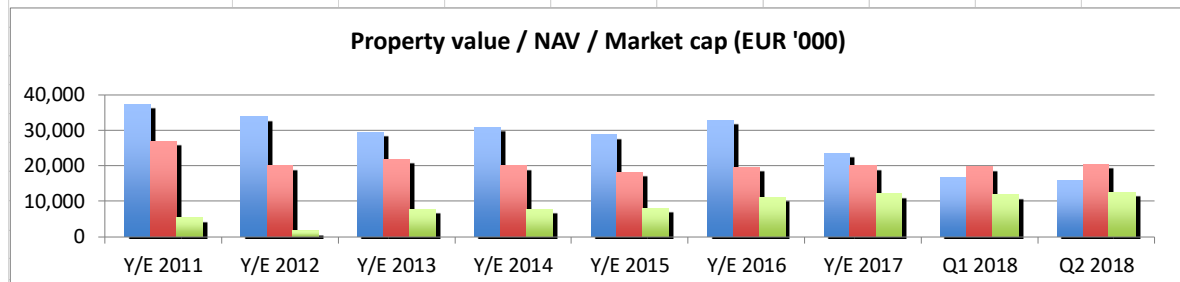
Asset base	Q2 2018			Q1 2018		
	EUR '000	EUR/ share	NOK/share	EUR '000	EUR/ share	NOK/share
Investment property	12,725	0.31	3.03	13,655	0.33	3.25
Assets held for sale	275	0.01	0.07	436	0.01	0.10
Inventories	2,690	0.07	0.64	2,690	0.07	0.64
Cash	3,099	0.07	0.74	3,789	0.09	0.90
Other assets/(liabilities)	1,609	0.04	0.38	(799)	(0.02)	(0.19)
Net asset value	20,399			19,770		
NAV/Share		0.49	4.86		0.48	4.71
Change in NAV	3.2%			-0.8%		

The average number shares used in the NAV calculation above is 41,367,783 shares and unchanged from Q1 2018.

Valuation of Properties

The end of year 2017 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	Y/E 2016	Y/E 2017	Q1 2018	Q2 2018
Property value	37,363	33,842	29,304	30,797	28,736	32,787	23,419	16,671	15,690
NAV	26,837	19,930	21,671	19,916	18,089	19,369	19,930	19,770	20,399
Market cap	5,335	1,520	7,623	7,541	7,933	11,052	12,100	11,848	12,520
Market cap/NAV	20%	8%	35%	38%	44%	57%	61%	60%	61%



Cash Flow

EUR '000	Q2 2018	Q2 2017
Net cash flow from operating activities	(1,085)	(2,182)
Net cash flow used in investing activities	395	15,970
Net cash flows from financing activities	-	(12,107)
Net cash change during period	(690)	1,681

Operating cash flow for Q2 2018 was negative EUR 181,000 compared to a negative EUR 172,000 in the same quarter last year. The large operating cash flow during the quarter is due to the EUR 988,000 tax paid in respect of the gains realised on the sale of Mamaia North. The net cash from investing activities includes the receipt of the down payment related to the sale of the Hospital plot as well as some outflows related to the ongoing asset base improvement investments.

Market Facts – Macro

Romania's economic growth slowed to 4.1% year-on-year in the second quarter of 2018, compared to 6.1% annual growth in the like quarter of 2017, non-adjusted provisional data of the country's statistical board, INS, indicated on 21 Aug 2018.

On a seasonally adjusted annual comparison basis, Romania's gross domestic product (GDP) growth decelerated to an annual 4.2% from 6.1% in the second quarter of last year, INS data showed. Compared to the previous quarter, Romania's GDP increased by 1.4%.

In the six months through June, Romania's economy grew by 4.2% on the year in non-adjusted terms and by a seasonally adjusted 4%, INS data showed. In the first quarter of the year, Romania's economy expanded by 4%.

Economic growth of 5.5% and budget deficit equivalent to 2.96% of GDP are forecast in Romania's 2018 state budget.

Romania's economy expanded by 6.9% year-on-year in 2017.

Real Estate market facts

The end of the first semester has brought into light great results from regional cities in all real estate segments, according to the real estate consultancy company Colliers International Romania, with the prospects for the remainder of the year remaining strong. The first half of the year closed with overall investment volumes of EUR 404m, an increase of close to 18 percent compared to the first semester of 2017.

Office market: In the first semester of 2018, the Bucharest market saw deliveries of 33,000 sqm in new office spaces, and over 150,000 sqm are expected for the remainder of the year. Regional cities were more active, with Timisoara and Cluj-Napoca adding around 72,000 sqm of modern office spaces.

Retail Market: The first half of 2018 saw the delivery of Bistrita Retail Park – 15,000 sqm and Focsani Value Center – 6,400 sqm. The second half of the year should be much more prolific, with around 168,000 sqm in new GLA. Vacancy was almost non-existent for good retail schemes, as existing brands expanded and new brands entered the market.

Industrial Market: In the first semester, 330,000 sqm in modern warehouse spaces were delivered (excluding self-developed warehouse spaces), more than double the level of the same period in 2017. Bucharest accounted for over 110,000 sqm, mostly in western and northern areas, Timisoara had 38,000 sqm and Pitesti and Ploiesti had 20,000 sqm each. The reported industrial leasing transactions were a bit under 110,000 sqm; the Colliers specialists believe that direct (and as such, unreported transactions) make up a significant part of the market, with vacancy still in low single digits.

Land Market: The supply of land plots suitable for good development projects is expected to decrease, while demand is growing for land plots appropriate for residential and office use. Taking into consideration the deliveries on the office sector, and also the fact that companies need to expand in secondary cities, office developers are likely to buy land and develop in cities where their tenants want to expand and open new offices, such as Timisoara, Cluj and Iasi.

Residential Market: Residential market followed a positive path over the first half of 2018 and has made further steps to recover the losses in volumes / prices from 2009-2013. Prices of medium-profile apartments reached levels of 700-950 Euro/net sqm across county capitals of above 100,000 inhabitants, respectively 900-1,200 Euro/net sqm in regional capitals such as Brasov, Constanta and Iasi.

Operational Overview

The following operational highlights took place during the quarter:

Lake Side (No.1 on the table) –The plot is being split in small plots suitable for house building and small blocks. Please see www.westhouseGroup.ro for further info. The new Planning Permission (PUZ) has been approved by Ovidiu City Hall on 2nd August 2017. The Company is presently starting projecting the roads and utilities on the site in order to request the Urbanization Certificate and obtain the building authorisations for the roads and utilities. Building authorisation for roads has been obtained middle August 2018 and the rest of building authorisations for utilities are estimated to be obtained before end 2018. Works for implementing the roads and utilities is expected to commence in Q4 2018. In order to obtain the necessary authorisations for gas connection in the area it will be necessary at least 6 houses be built on the site.

The infrastructure costs are estimated to EUR 1.5-1.6m.

Oasis (No. 4 on the table) –The plot will be divided in small plots suitable for house building and small blocks. The 4 villas built in 2009 are presently being connected to utilities with a view to put them up for sale and the Planning Permission (PUZ) is currently in progress. The houses are registered in the Land Book Registry. It is expected that the new Planning Permission (PUZ) will be approved in Q3 2018.

Industrial Park (No. 5 on the table) - The approvals for the new PUZ have been obtained. The Company has appointed architects and engineers to start projecting roads and utilities on the site in order to obtain the building authorisations for the roads and utilities. Several companies have shown specific interest to acquire parcels in the property.

Balada Market (No. 7 on the table) - The Company have upgraded the electrical installation and the firefighting equipment in order to comply with the requirements of the National Safety Inspectorate. There are ongoing discussions with the National Safety Inspectorate in order the final approval to be granted.

Badulescu plot (No. 2 on the table) - New urbanistic zone planning on this plot has been commenced by the Company in order to regulate the area as a commercial one in Ovidiu town. It is estimated that the new urbanistic plan would be finalised in Q1 2019

Extraordinary tax claim: As briefly mentioned in the first quarter 2018 report, during the latest routine tax audit performed at the level of RomReal Romanian subsidiary Westhouse Group, covering the period 1 January 2011 – 31 December 2016, the tax authorities reassessed the loans granted by RomReal Ltd. to Westhouse Group as contribution to share capital instead of inter-company loans. In this respect, the Company received the tax audit report ("Tax Report") and the corresponding tax assessment decision ("Tax Decision"), whereby the tax authorities imposed an extraordinary tax-bill on the Company, in excess of EUR 1.7m (including penalties), as profit tax for the period covered by the tax audit. On 05.06.2018, Westhouse Group was notified of the Taxation Decision.

Westhouse Group has retained the services of E&Y Romania and pursued all available legal means for challenging the effects of such reassessment, in order to cancel the additional tax liabilities. In addition, the Company has proceeded with a legal request to Romanian competent Courts, asking the suspension of the Tax decision, pending the result of the contestation and until a binding Court decision regarding the contestation is obtained. On 18th July 2018 the Company managed to obtain the suspension of the Tax Authority Decision, until a binding Court decision regarding the contestation is obtained. The Constanta Court of Appeal ordered that no attachments to the bank accounts and/or lands belonging to Westhouse Group should take place in the meantime.

The Property Portfolio

The Company's land bank consists at the end of Q2 2018 of 7 plots with a total size of 1,073,549 sqm:

Plot name	Location	Size (m2)
1 Ovidiu Lakeside	Constanta North/Ovidiu	59,779
2 Badulescu plot	Constanta North/Ovidiu	50,000
3 Ovidiu (Oasis)	Constanta North/Ovidiu	24,651
4 Centrepoint	Constanta North/Ovidiu	121,672
5 Gunaydin plot	Constanta North/Ovidiu	15,000
6 Balada Market	Central Constanta	7,188
7 Un-zoned land	Constanta	864,534
Total		1,073,549

*(1) Sale agreed, closing still to be completed

Shareholder Information

Please see below the list of the top 20 shareholders in RomReal as of 20 August 2018:

Shareholder	Holding	Percentage
SIX SIS AG 25PCT ACCOUNT	10,336,054	24.99
GRØNSKAG KJETIL	4,038,449	9.76
SAGA EIENDOM AS	3,162,383	7.64
THORKILDSEN DØDSBO KAY TØNNES	3,071,656	7.43
THORKILDSEN WENCHE SYNNØVE	2,344,100	5.67
AUSTBØ EDVIN	2,108,500	5.10
Danske Bank A/S 3887 OPERATIONS SEC.	1,452,995	3.51
ORAKEL AS	1,101,000	2.66
ENERGI INVEST A/S	1,055,993	2.55
SPAR KAPITAL INVESTO	940,236	2.27
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
JONAS BJERG PENSION NTS TRUSTEES LTD	558,306	1.35
GRØNLAND STEINAR	533,726	1.29
SILJAN INDUSTRIER AS	481,480	1.16
MAGDAHL AKSEL	465,000	1.12
CLEARSTREAM BANKING	438,583	1.06
BNP Paribas Securities S/A SPEARPOINT LTD	406,856	0.98
TOTAL TOP20	35,361,184	85

(1) This is the Top 20 Shareholder list as per 20 August 2018.

(2) The total issued number of shares issued at end Q2 2018 was 41,367,783.

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

(4) Chairman Kjetil Grønskag owns directly and indirectly 4,288,179 shares corresponding to 10.4%.

(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 is focusing on land value enhancing activities in order to improve the shareholder value. This includes, among others, increased sales & marketing efforts, if required some infrastructure investments and engaging more resources into regulation processes. The ongoing tax dispute adds uncertainty and reduces the financial flexibility. The Company is involved in several on-going sales processes and expects reportable conclusions before the end of 2018.

INFORMATION ON FINANCIAL CONDITION AND OPERATING RESULTS

Accounting Principles

The financial statements for the Q2 2018 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 2017. The financial statements have been prepared on a going concern basis.

Comparative data for Q2 2018 and Q2 2017

The interpretations below refer to comparable financial information for Q2 2018 and Q2 2017. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

Operating Revenue

The operating revenue during Q2 2018 was EUR 1,894,000 compared to a total of negative / correction EUR 48,000 reported in Q2 2017. This consists mainly of the finalization of the sale of the Hospital plot in Bucharest and for which a down payment was received.

Operating Expenses

Total operating expenses amounted to a negative EUR 201,000 in Q2 2018 compared to a total EUR 806,000 in Q2 2017. Out of these, the payroll costs were EUR 46,000, while general and administration costs in connection with the running of the Group amounted to EUR 131,000.

Other operating income/ (expense), net

The other operating income/ (expense) during the quarter were a loss of EUR 1,128,000, reflecting mainly the derecognition from the Company's books of the Hospital plot for which the sale was completed during the quarter.

Profit/ (loss) from operations

During Q2 2018, RomReal generated an operating profit of EUR 564,000, compared to a loss of EUR 830,000 in Q2 2017.

Financial Income and expense

The Company no longer has interest costs in respect of third party finance providers. Foreign exchange result for Q2 2018 was a net gain of EUR 4,000 compared to a net foreign exchange gain of EUR 32,000 in Q2 2017. During the quarter the RON lost 0.03% against the EUR.

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 Q2 2018 was a loss of EUR 565,000 compared to a loss before tax of EUR 800,000 in Q2 2017.

Cash and cash equivalents

The Company's cash and cash equivalents position at end of Q2 2018 was EUR 3,099,000 compared to EUR 3,789,000 as at end of Q1 2018. In addition, a total of EUR 1,350,000 in outstanding payments related to binding sales agreements, totalling at about EUR 4.4 million.

RomReal portfolio / sale transactions to be completed in 2018-2021

No	Plot name	Location	Plot size (sqm)	Book value June 2018(Eur)	Agreed sale value (EUR)	Installments received@ 17/08/2018	To cash 2018	To cash 2019	To cash 2021
1	Alexandriei plot	Bucharest sector 5	13,263	875,000	1,850,000	600,000	500,000	600,000	150,000
Total			13,263	875,000	1,850,000	600,000	500,000	600,000	150,000

Taxation

The Company is required to calculate its current income tax at a flat rate of 16%. Starting 2013, based on turnover thresholds, some companies in the Group are subject to a while some are subject to 1% tax calculated on total revenue. This is the case for 7 of the Group companies (1 pays 1% tax and 6 of them 3% tax) 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

	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Rent revenue	40	46	80	96
Revenue from sale of assets	1,854	(94)	8,593	10,903
Operating revenue	1,894	(48)	8,673	10,999
Payroll expenses	(46)	(47)	(89)	(89)
Management fees	(25)	(25)	(50)	(50)
Inventory (write off)/reversal	1	2	(4)	7
General and administrative expenses	(131)	(736)	(289)	(871)
Operating expenses	(201)	(806)	(432)	(1,003)
	-			
Profit/ (loss) before other operating items	1,693	(854)	8,241	9,996
Other operating income/(expense), net	(1,128)	24	(7,748)	(10,875)
Profit from operations	564	(830)	492	(879)
Financial income	(0)	13	4	13
Financial costs	(3)	(15)	(6)	(112)
Foreign exchange, net	4	32	(18)	(108)
	-			
Result before tax	565	(800)	472	(1,086)
Tax expense	40	(1)	(15)	(1)
Result of the period	605	(801)	457	(1,087)

CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	June 30, 2018	December 31, 2017	June 30, 2017
Non-current assets			
Investment properties	12,725	13,627	14,032
Property, plant and equipment	80	90	43
Deferred tax asset	121	121	124
Total non current assets	12,927	13,838	14,199
Current assets			
Inventories	2,690	2,690	2,525
Other short term receivables	1,691	325	236
Prepayments	45	43	37
Cash and cash equivalents	3,099	3,505	2,523
Total current assets	7,526	6,562	5,321
Assets held for sale	275	7,103	5,297
TOTAL ASSETS	20,727	27,503	24,817
EQUITY AND LIABILITIES	June 30, 2018	December 31, 2017	June 30, 2017
Equity			
Share capital	103	103	103
Contributed surplus	87,117	87,119	87,117
Other reserves	160	425	425
Retained earnings	(69,450)	(69,178)	(69,180)
Result of current period	457	(272)	(1,086)
FX reserve	1,999	1,734	997
Total equity	20,399	19,930	18,376
Non current liabilities			
Deferred income tax	114	1,091	849
Total non current liabilities	114	1,091	849
Current Liabilities			
Other payables	106	117	91
Deferred income	106	6,363	5,502
Tax payable	3	1	1
Total current liabilities	215	6,482	5,594
TOTAL EQUITY AND LIABILITIES	20,728	27,503	24,817

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Figures in thousand EUR

	June 30, 2018	December 31, 2017	June 30, 2017
Profit for the year	457	(272)	(284)
Other comprehensive income			
Exchange differences on translation of foreign operations	265	833	68
Other comprehensive income for the year, net of tax	265	833	68
Total comprehensive income for the year, net of tax	722	561	(216)

CASH FLOW STATEMENT (UNAUDITED)

Figures in thousand EUR

	June 30, 2018	December 31, 2017	June 30, 2017
Net cash flow from operating activities	(1,266)	(2,992)	(2,354)
Net cash flow from investing activities	860	17,868	16,248
Net cash flows from financing activities	-	(12,077)	(12,077)
Net cash change during period	(406)	2,798	1,817
Cash at beginning of period	3,505	707	707
Cash and cash equivalents at end of the period	3,099	3,505	2,524

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in thousand EUR

	June 30, 2018	December 31, 2017	June 30, 2017
Equity at the beginning of the period	19,930	19,369	19,369
Result for the period	457	(272)	(1,086)
Other changes	12	833	93
Equity at the end of the period	20,399	19,930	18,376

CONTACT INFORMATION

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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.

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