

# Q3

**RomReal Limited**  
**Third Quarter 2018 Report**  
**30 November 2018**



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

## Highlights Third Quarter 2018

### Net Asset Value (NAV)

- Net Asset value was EUR 0.49 (NOK 4.86) per share, remaining at the same level as the end of second quarter 2018. There were no changes made to the value of the investment properties during the quarter.

### Operational highlights

- A conditional sale of Balada Market (No.6 on the list) and 1.5 hectares of the Industrial Park (No.4 on the list) has been agreed. On the Lakeside plot (No.1 on the list) the Planning Permission was approved during August 2018 and construction of roads started during November 2018.
- Un-zoned land, 864,534 m<sup>2</sup>: In 26 January 2018, the Company entered in a pre-sale agreement for a total price of EUR 625,060 (vs EUR 389,000 as per independent valuation). The transaction is closed and the last instalment of EUR 495,000 was collected during July 2018.
- During July 2018, RomReal 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, the Constanta Court of Appeal ordered that no attachments to the bank accounts and/or lands belonging to Westhouse Group should take place. There is on-going communication with the Central Tax Authorities, but no conclusion at the time being.

### Financial Results

- Net Result for the quarter was EUR 18,000 loss compared to a EUR 361,000 loss in 3Q 2017. Operating cash flow for the quarter was a negative EUR 284,000 compared to minus EUR 195,000 in the same period last year.
- At the end of the quarter, the Company had a cash position of EUR 3.7 million plus a total of EUR 1,050,000 in unsettled receivables related to binding sales agreements, totalling at about EUR 4.7 million or about EUR 0.1 per share.

### Macro and real estate market highlights

- Romania has registered the fastest growth rate of its economy among the 28 European Union member states in the third quarter of this year of 1.9 percent, according to Eurostat. Compared with the third quarter of 2017, the Romanian economy grew by 4.3 percent, the fastest pace this year.
- The third quarter of 2018 witnessed a slowdown in terms of residential price growth, however, there still was an increase of circa 5.6% compared to the same period of 2017. Equally, in Bucharest apartment prices stand about 35% below the prices they commanded in the same quarter of 2008. According to the real estate platform imobiliare.ro, asking prices in Romania registered a marginal increase during the third quarter reaching EUR 1,220 /sqm. Prices in Constanta have reached in September 2018 EUR 1,148 /sqm, a 4.8% increase since the beginning of the current year.

## Key Financial Figures

EUR '000	Q3 2018	Q3 2017
Operating Revenue	559	668
Operating Expenses	(238)	(227)
Other operating income/ (expense), net	(302)	(311)
Net financial income/(cost)	(23)	(486)
Pre-tax result	(4)	(356)
Result for the period	(18)	(361)
Total assets	20,808	25,159
Total liabilities	402	6,818
Total equity	20,397	18,342
Equity %	98.1%	73.0%
NAV per share (EUR)	0.49	0.44
Cash position	3,685	3,401

### Movement in Net Asset Value

The Net Asset Value (NAV) remained flat at EUR 20,397,000 at the end of Q3 2018 compared to EUR 20,399,000 at the end of Q2 2018.

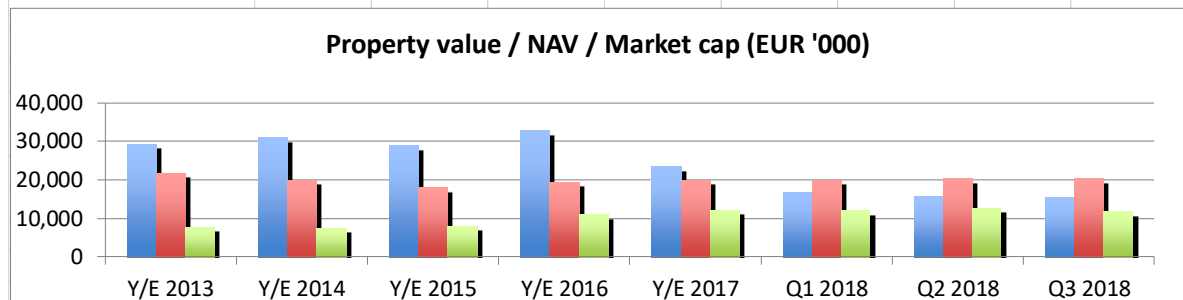
Asset base	Q3 2018			Q2 2018		
	EUR '000	EUR/ share	NOK/share	EUR '000	EUR/ share	NOK/share
Investment property	10,507	0.25	2.50	12,725	0.31	3.03
Assets held for sale	2,288	0.06	0.54	275	0.01	0.07
Inventories	2,690	0.07	0.64	2,690	0.07	0.64
Cash	3,685	0.09	0.88	3,099	0.07	0.74
Other assets/(liabilities)	1,227	0.03	0.29	1,609	0.04	0.38
Net asset value	20,397			20,399		
NAV/Share		0.49	4.86		0.49	4.86
Change in NAV	0.0%			-0.8%		

The average number shares used in the NAV calculation above is 41,367,783 shares and unchanged from Q2 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 2013	Y/E 2014	Y/E 2015	Y/E 2016	Y/E 2017	Q1 2018	Q2 2018	Q3 2018
Property value	29,304	30,797	28,736	32,787	23,419	16,671	15,690	15,485
NAV	21,671	19,916	18,089	19,369	19,930	19,770	20,399	20,397
Market cap	7,623	7,541	7,933	11,052	12,100	11,848	12,520	11,764
Market cap/NAV	35%	38%	44%	57%	61%	60%	61%	58%



## Cash Flow

EUR '000	Q3 2018	Q3 2017
Net cash flow from operating activities	(284)	(195)
Net cash flow used in investing activities	870	1,072
Net cash flows from financing activities	-	-
<b>Net cash change during period</b>	<b>586</b>	<b>877</b>

Operating cash flow for Q3 2018 was positive EUR 586,000 compared to a positive EUR 877,000 in the same quarter last year. The net positive change is mainly driven by the collections on further sales of investment properties. The net cash from investing activities includes the receipt of the monthly agreed payments related to the sale of the Hospital plot as well as some inflows from other smaller sales.

## Market Facts – Macro

Despite real GDP growth peaking in 2017, Romania's economy is expected to remain one of Emerging Europe's outperformers in the years ahead, suggesting the country will make further progress on its EU convergence story. Growth will be relatively broad-based, with private consumption, exports and investment all performing well. Romania's gross domestic product (GDP), the index widely used to measure the size of national economies, jumped by 1.9 percent in the third quarter of this year compared with the second quarter, the fastest pace in a year, according to National Institute of Statistics (INS) flash estimate.

However, loose monetary and fiscal policies have contributed to the strong economic performance, and with inflationary pressures building and the trade deficit widening, with the risk of overheating.

## **Real Estate market facts**

After more than a year of discussions on the topic, the National Bank of Romania reintroduced limits for the maximum indebtedness levels for individuals/families seeking out either consumer or mortgage loans. These debt-to-income ratios will become 40% for RON loans and 20% for hard currency starting 2019 as an exception, banks can ignore these limits for 15% of their new clients, as well as for first-home buyers, who can benefit from a maximum indebtedness level of 45% for RON loans.

*Office market:* About 185,000 sqm in new modern office spaces are expected to be added in Bucharest in 2018, taking the total stock to 2.4 million sqm. The developers' plans for the next couple of years are rather ambitious with around 650,000 sqm announced for 2019 and 2020. On the other hand, as infrastructure improvements are progressing slowly, the submarkets that offer good public transport infrastructure (like central areas of Bucharest) are likely to remain the most attractive. On a longer-term trend, there seems to be a shift towards regional cities.

*Retail Market:* The development in the retail tends to lag economic activity indicators as this is a rather reactive area of the real estate market. Considering the recent period of GDP growth, it is expected the next 2-3 years should see a strong development pipeline for retail. Colliers expects 2019 to bring around 250,000 sqm in new retail spaces compared to 2018's forecasted 189,000 sqm. The developers continue to focus mostly on regional/secondary cities, including smaller towns (with 50,000 inhabitants or less).

*Industrial Market:* Deliveries in 2018 are expected to reach 750,000 sqm compared to some 500,000 sqm in 2017. One large investment is expected to be finalized by eMAG.ro (the largest online retailer in Romania) which is expected to finish this year a 120,000 sqm warehouse near Bucharest. According to Colliers, the medium-term outlook remains favourable as Romania is still lagging regional peers in terms of development.

*Land Market:* According to Colliers, potential buyers are paying as much as 10% more than a year ago in order to buy/secure land plots. In terms of market volume, the biggest three land transactions (concluded by Globalworth, Speedwell and AFI Europe) generated over EUR 50m in turnover.

*Residential Market:* Residential market followed a continued positive path over the third quarter of 2018, although growth registered a slight slowdown. Prices of apartments in second tier cities have reached levels of (i) 1,520 Euro/net sqm in Cluj Napoca, up 0.9% since the previous quarter and 8.6% up from previous year, (ii) 1,290 EUR /sqm or 6% up on the previous year while (iii) in Constanta prices went 4.8% up compared to the beginning of the current year.

## **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](http://www.westhousegroup.ro) for further info. The new Planning Permission (PUZ) was approved by Ovidiu City Hall during 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 and the rest of building

authorisations for utilities and roads has been obtained during August 2018. Works for implementing the roads and utilities has commenced in November 2018.

The estimated costs, include most utilities, for improving marketability and total value is estimated to EUR 1.5-1.6 million plus the amount of EUR 200,000 that is necessary to comply with the new regulations concerning water waste Management and electricity supply. Since the roads and utilities will be donated to the Municipality of Ovidiu, the Company is going to address two requests to the tax authority in order to issue a guidance for the VAT and profit tax on this particular occasion. The Company is already receiving specific interest in buying parts of this project.

Oasis (No. 3 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. The new Planning Permission (PUZ) was approved during Q3 2018.

Industrial Park (No. 4 on the table) - The approvals for the new PUZ has 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. The Company has agreed a conditional sale of 1.5 hectares to a foreign investor for a total amount of EUR 630,000 to be paid in stages. The investor is presently doing the legal and technical due diligence and it is expected a binding pre-sale agreement could be signed before the end of the year.

Balada Market (No. 6 on the table) - The Company has upgraded the electrical installation and the firefighting equipment in order to comply with the requirements of the National Safety Inspectorate whose agreement and final authorisation was received during October 2018. Meantime, the sale of whole plot and building have been agreed with a Bucharest investor for a total amount of EUR 2.5m and a refundable down payment of EUR 150,000 has been received. The sale is subject to receiving a satisfactory reply from the Constanta City hall, in what concerns a possible increase of price to be paid to the municipality in case the building is converted into a supermarket. The preliminary and conditional agreements was formalised during September 2018 with a final deadline is expected to be agreed end of March 2019.

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 area in Ovidiu town. It is estimated that the new urbanistic plan would be finalised in Q1 2019

**Extraordinary tax claim:** As mentioned in the two previous 2018 reports, 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.

Westhouse Group has retained the services of E&Y Romania has and will pursue all available legal means for challenging the effects of such reassessment, in order to cancel the additional tax liabilities. 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.

A commenced restructuring of the Romanian subsidiaries' portfolio is currently being put on hold until the on-going tax case is further clarified.

## The Property Portfolio

The Company's land bank consists at the end of Q3 2018 of 6 plots with a total size of 278,290 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 Centrepont	Constanta North/Ovidiu	121,672
5 Gunaydin plot	Constanta North/Ovidiu	15,000
6 Balada Market	Central Constanta	7,188
<b>Total</b>		<b>278,290</b>

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

## Shareholder Information

Please see below the list of the top 20 shareholders in RomReal as of 22 November 2018:

Name	Holding	Percentage
SIX SIS AG 25PCT ACCOUNT	10,336,054	24.99
GRØNSKAG KJETIL	4,332,717	10.47
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
ENERGI INVEST A/S	1,122,941	2.71
ORAKEL AS	1,101,000	2.66
SPAR KAPITAL INVESTO	940,236	2.27
THORKILDSEN INVEST A	829,478	2.01
PERSSON ARILD	718,000	1.74
HOEN ANDERS MYSSEN	689,557	1.67
GRØNLAND STEINAR	650,131	1.57
Skandinaviska Enskil	628,832	1.52
JONAS BJERG PENSION NTS TRUSTEES LTD	558,306	1.35
SILJAN INDUSTRIER AS	481,480	1.16
MAGDAHL AKSEL	480,886	1.16
CLEARSTREAM BANKING	438,583	1.06
BNP Paribas Securiti S/A SPEARPOINT LTD	406,856	0.98
<b>TOTAL TOP 20</b>	<b>35,854,691</b>	<b>86</b>

(1) This is the Top 20 Shareholder list as per 22 Nov. 18

(2) The total issued number of shares issued at end Q3 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 4,332,717 shares corresponding to 10.5%.

(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, according to the strategy, focusing on land value enhancing activities in order to improve on a case by case basis value and exit opportunities. This includes, among others, increased sales & marketing efforts, some infra-structure 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 conditional sales processes as well as in specific and serious interest in the projects which are still in the regulatory process and not actively marketed.



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

### **Accounting Principles**

The condensed consolidated interim financial statements for the third quarter of 2018, which have been prepared in accordance with IFRS as adopted by EU and IAS 34 Interim Financial Reporting, give a true and fair view of the Company's consolidated assets, liabilities, financial position and results of operations. 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.

To information presented in the interim report for the third quarter of 2018 includes a fair review of important events that have occurred during the period and their impact on the condensed financial statements, the principal risks and uncertainties for the remaining of 2018, and major related party transactions.

### **Comparative data for Q3 2018 and Q3 2017**

The interpretations below refer to comparable financial information for Q3 2018 and Q3 2017. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

### **Operating Revenue**

The operating revenue during Q3 2018 was EUR 559,000 compared to a total of EUR 668,000 reported in Q3 2017. This consists mainly of the finalization of the sale of the Hospital plot in Bucharest as well as some smaller sales.

### **Operating Expenses**

Total operating expenses amounted to a negative EUR 238,000 in Q3 2018 compared to a total EUR 227,000 in Q3 2017. Out of these, the payroll costs were EUR 42,000, while general and administration costs in connection with the running of the Group amounted to EUR 171,000.

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

The other operating income/ (expense) during the quarter were a loss of EUR 302,000, reflecting mainly the derecognition from the Company's books of the sales completed during the quarter.

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

During Q3 2018, RomReal generated an operating profit of EUR 19,000, compared to a profit of EUR 130,000 in Q3 2017.

### **Financial Income and expense**

The Company no longer has interest costs in respect of third party finance providers. Foreign exchange result for Q3 2018 was a net loss of EUR 39,000 compared to a net foreign exchange loss of EUR 504,000 in Q3 2017. During the quarter the RON lost only 0.06% 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 Q3 2018 was a loss of EUR 4,000 compared to a loss before tax of EUR 356,000 in Q3 2017.

### Cash and cash equivalents

The Company's cash and cash equivalents position at end of Q3 2018 was EUR 3,685,000 compared to EUR 3,099,000 as at end of Q2 2018. In addition, a total of EUR 1,050,000 in outstanding payments related to binding sales agreements, totalling at about EUR 4.7 million.

### RomReal portfolio / Vendor financing binding agreement as at Nov 2018

Plot name	Location	Plot size (sqm)	Book value June 2018(Eur)	Agreed sale value (EUR)	Instalments received@ 12/11/2018	To cash 2018	To cash 2019	To cash 2021
Alexandriei plot	Bucharest sector 5	13,263	875,000	1,850,000	900,000	200,000	600,000	150,000
<b>Total</b>		<b>13,263</b>	<b>875,000</b>	<b>1,850,000</b>	<b>900,000</b>	<b>200,000</b>	<b>600,000</b>	<b>150,000</b>

### 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.

### Contingent liabilities

As detailed in the operational update section above, the Company is currently the subject of a tax dispute for a total amount of EUR 1.7 million. The Company assesses the possible obligation as contingent and has therefore not booked any provision in this respect.

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Figures in thousand EUR

	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Rent revenue	53	63	133	159
Revenue from sale of assets	505	605	9,222	11,508
<b>Operating revenue</b>	<b>559</b>	<b>668</b>	<b>9,356</b>	<b>11,667</b>
Payroll expenses	(42)	(42)	(131)	(131)
Management fees	(25)	(25)	(75)	(75)
Inventory (write off)/reversal	1	25	(4)	32
General and administrative expenses	(171)	(185)	(460)	(1,056)
<b>Operating expenses</b>	<b>(238)</b>	<b>(227)</b>	<b>(670)</b>	<b>(1,230)</b>
	-			
<b>Profit/ (loss) before other operating items</b>	<b>321</b>	<b>441</b>	<b>8,686</b>	<b>10,437</b>
Other operating income/(expense), net	(302)	(311)	(8,175)	(11,186)
<b>Profit from operations</b>	<b>19</b>	<b>130</b>	<b>511</b>	<b>(749)</b>
Financial income	19	18	23	31
Financial costs	(3)	(0)	(10)	(112)
Foreign exchange, net	(39)	(504)	(56)	(612)
	-			
<b>Result before tax</b>	<b>(4)</b>	<b>(356)</b>	<b>468</b>	<b>(1,442)</b>
Tax expense	(14)	(5)	(28)	(6)
<b>Result of the period</b>	<b>(18)</b>	<b>(361)</b>	<b>439</b>	<b>(1,448)</b>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	September 30, 2018	December 31, 2017	September 30, 2017
<b>Non-current assets</b>			
Investment properties	10,507	13,627	13,509
Property, plant and equipment	75	90	42
Deferred tax asset	121	121	123
<b>Total non current assets</b>	<b>10,704</b>	<b>13,838</b>	<b>13,674</b>
<b>Current assets</b>			
Inventories	2,690	2,690	2,525
Other short term receivables	1,395	325	256
Prepayments	38	43	7
Cash and cash equivalents	3,685	3,505	3,401
<b>Total current assets</b>	<b>7,808</b>	<b>6,562</b>	<b>6,189</b>
Assets held for sale	2,288	7,103	5,297
<b>TOTAL ASSETS</b>	<b>20,800</b>	<b>27,503</b>	<b>25,160</b>
<b>EQUITY AND LIABILITIES</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
<b>Equity</b>			
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	439	(272)	(1,448)
FX reserve	2,015	1,734	1,325
<b>Total equity</b>	<b>20,397</b>	<b>19,930</b>	<b>18,342</b>
<b>Non current liabilities</b>			
Deferred income tax	112	1,091	845
<b>Total non current liabilities</b>	<b>112</b>	<b>1,091</b>	<b>845</b>
<b>Current Liabilities</b>			
Other payables	99	117	104
Deferred income	176	6,363	5,868
Tax payable	16	1	1
<b>Total current liabilities</b>	<b>290</b>	<b>6,482</b>	<b>5,973</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>20,800</b>	<b>27,503</b>	<b>25,160</b>

## STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Figures in thousand EUR

	September 30, 2018	December 31, 2017	September 30, 2017
<b>Profit for the year</b>	<b>439</b>	<b>(272)</b>	<b>(1,448)</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	281	833	424
<b>Other comprehensive income for the year, net of tax</b>	<b>281</b>	<b>833</b>	<b>424</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>720</b>	<b>561</b>	<b>(1,024)</b>

## CASH FLOW STATEMENT (UNAUDITED)

Figures in thousand EUR

	September 30, 2018	December 31, 2017	September 30, 2017
Net cash flow from operating activities	(1,550)	(2,992)	(2,549)
Net cash flow from investing activities	1,730	17,868	17,320
Net cash flows from financing activities	-	(12,077)	(12,077)
<b>Net cash change during period</b>	<b>180</b>	<b>2,798</b>	<b>2,694</b>
Cash at beginning of period	3,505	707	707
<b>Cash and cash equivalents at end of the period</b>	<b>3,685</b>	<b>3,505</b>	<b>3,401</b>

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in thousand EUR

	September 30, 2018	December 31, 2017	September 30, 2017
Equity at the beginning of the period	19,930	19,369	19,369
Result for the period	439	(272)	(1,448)
Other changes	28	833	421
<b>Equity at the end of the period</b>	<b>20,397</b>	<b>19,930</b>	<b>18,342</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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