

Q4

RomReal Limited
Fourth Quarter 2018 Report
22 February 2019



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

Highlights Fourth Quarter 2018

Net Asset Value (NAV)

- Net Asset value was EUR 0.47 (NOK 4.67) per share, being 3.8% lower compared to the end of the third quarter 2018.
- The year-end 2018 valuation was concluded by Knight Frank and resulted in a 2.6% reduction of the portfolio's fair value.

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) was agreed during December 2018. On the Lake Side plot (No.1 on the list) the sale of a minor plot has been agreed at a satisfactory price, subject to securing all outstanding permits.
- In 2018, RomReal received a tax claim in excess of EUR 1.7 million. There is some communication with the Central Tax Authorities, but no conclusion yet. If the Tax Authorities do not reach a decision by 25th June 2019, the Company reserves its right to proceed in a lawsuit against the the Tax Authorities in a Civil Court. A follow-up meeting with the Tax Authorities has been agreed for the 13th March 2019.

Financial Results

- Net Result for the quarter was EUR 0.78 million loss compared to a EUR 1.18 million gain in 4Q 2017. Operating cash flow for the quarter was a negative EUR 0.31 million compared to minus EUR 0.44 million in the same period last year. This includes an investment cost of EUR 0.13 million, mostly on infrastructure work related to the Lake Side project.
- At the end of the quarter, the Company had a cash position of EUR 3.5 million plus a total of EUR 0.89 million in unsettled receivables related to binding sales agreements, totalling at about EUR 4.4 million or about EUR 0.1 per share.

Macro and real estate market highlights

- In the last quarter of 2018, the Romanian economy grew by 4.1 percent (gross series) and by 4 percent (seasonally adjusted data) compared with the last quarter of 2017. Compared with Q3 2018, Romania's GDP rose by 0.7 percent in Q4 2018, the 9th quarter in a row of increase.
- According to the online platform imobiliare.ro, the fourth quarter of 2018 witnessed a slight increase terms of residential prices growth of 1.5%, resulting in a total increase of around 6.4% compared to the same period of 2017. Equally, in Bucharest apartment prices went up 1.2% on average during the last quarter of 2018. Prices in Constanta have reached in December 2018 EUR 1,117 /sqm, a 2% increase since the beginning of the current year. Nonetheless, the prices are still 30% less than they were at their peak in June 2008.

Key Financial Figures

EUR '000	Q4 2018	Q4 2017
Operating Revenue	37	36
Operating Expenses	(368)	(2)
Other operating income/ (expense), net	(467)	2,079
Net financial income/(cost)	-	(726)
Pre-tax result	(798)	1,387
Result for the period	(779)	1,176
Total assets	20,041	27,503
Total liabilities	417	7,573
Total equity	19,624	19,930
Equity %	97.9%	72.5%
NAV per share (EUR)	0.47	0.48
Cash position	3,469	3,505

Movement in Net Asset Value

The Net Asset Value (NAV) decreased to EUR 19,622,000 at the end of Q4 2018 compared to EUR 20,399,000 at the end of Q3 2018.

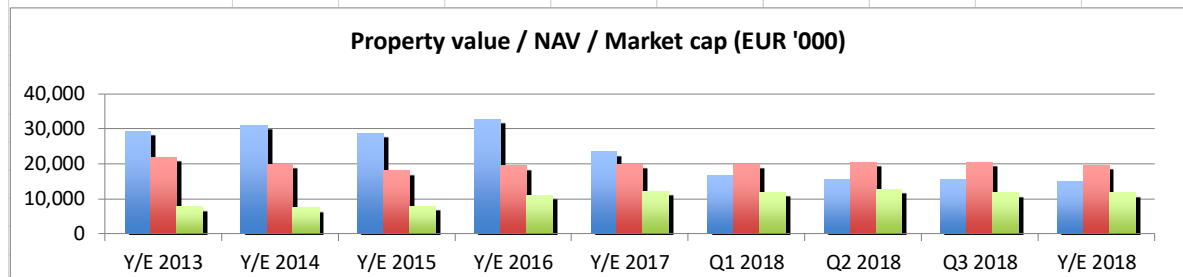
Asset base	Q4 2018			Q3 2018		
	EUR '000	EUR/ share	NOK/share	EUR '000	EUR/ share	NOK/share
Investment property	10,248	0.25	2.44	10,507	0.25	2.50
Assets held for sale	2,209	0.05	0.53	2,288	0.06	0.54
Inventories	2,504	0.06	0.60	2,690	0.07	0.64
Cash	3,469	0.08	0.83	3,685	0.09	0.88
Other assets/(liabilities)	1,193	0.03	0.28	1,227	0.03	0.29
Net asset value	19,624			20,399		
NAV/Share		0.47	4.67		0.49	4.86
Change in NAV	-3.8%			-0.8%		

The average number shares used in the NAV calculation above is 41,367,783 shares and unchanged from Q3 2018.

Valuation of Properties

The end of year 2018 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	Y/E 2018
Property value	29,304	30,797	28,736	32,787	23,419	16,671	15,690	15,485	14,962
NAV	21,671	19,916	18,089	19,369	19,930	19,770	20,399	20,397	19,622
Market cap	7,623	7,541	7,933	11,052	12,100	11,848	12,520	11,764	11,764
Market cap/NAV	35%	38%	44%	57%	61%	60%	61%	58%	60%



Cash Flow

EUR '000	Q4 2018	Q4 2017
Net cash flow from operating activities	(307)	(443)
Net cash flow used in investing activities	93	548
Net cash flows from financing activities	-	-
Net cash change during period	(216)	105

Operating cash flow for Q4 2018 was negative EUR 307,000 compared to a negative EUR 443,000 in the same quarter last year. The net cash from investing activities includes the receipt of the monthly agreed payments related to the sale of the Alexandriei plot as well as some outflows related to the planned works aimed at increasing the value of the land bank. The cashflows related to the investment activities during the quarter include the costs related to the Lake Side project for an amount of EUR 0.13m, being offset by ongoing cash collections related to the plots sold.

Market Facts – Macro

Romania's GDP growth rate remained above 4% during each of the first three quarters of 2018, driven by private demand for consumption, but also by the continuing build-up of inventory. The European Commission expects country's growth to decelerate below 4% per year in 2019-2020 as the fiscal stimulus fades away and amid broader slowdown in Europe. In the last quarter of 2018, the Romanian economy grew by 4.1 percent (gross series) and by 4 percent (seasonally adjusted data) compared with the last quarter of 2017. Compared with Q3 2018, Romania's GDP rose by 0.7 percent in Q4 2018, the 9th quarter in a row of increase.

Romania's consumer prices inched up by 0.16% in December versus November and the annual inflation eased to under 3.3% in the month from 3.4% in November. The prices of non-food goods advanced by 3.8% over the 12 months ended December 2018 compared to the 3.1% y/y advance of the food prices. The fees paid by households for services increased by only 2.4% y/y.

The average inflation rate in 2018 was 4.6% y/y, up from 1.3% y/y in 2017. The exchange rate correction after steady widening of the current account deficit during 2018 is expected to exert certain inflationary pressures (the local currency hit two-year's low these days and keeps weakening at very moderate pace). The supplementary taxes enacted by the Government under emergency ordinance 114/2018 also have direct and indirect inflationary effects, possibly resulting in certain upward adjustment of the central bank's inflation outlook.

The central bank currently expects headline inflation to remain slightly under 3.5% over the next few months. The central bank's inflation target is 2.5% with a variation band of +/- 1 percentage point.

Real Estate market facts

The real estate market runs on a slightly different clock than the macro cycle given the time required to actually develop projects, so 2018 was a solid year despite the slightly worse macro picture compared to 2017. According to Colliers, for retail, 2018-2019 seems to be one of the best seasons in the post-crisis period. The office segment is likely to start feeling the pinch of the tighter labour market. Meanwhile, for the industrial market, there is reasonable space to grow as retail companies improve country-wide coverage and over the medium term.

Office market: Around 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. Demand has been solid for office land plots during 2018: (i) AFI Europe bought a 43,000 sq m land plot situated in the proximity of AFI Park and AFI Cotroceni, for EUR 23m, with a view to develop a commercial mix in the following years; (ii) Globalworth acquired for EUR 16m two adjoint land plots in order to develop two office buildings in the north of Bucharest; (iii) Globalworth bought a land plot of 30 ha for EUR 7.4m in Timisoara. Another notable transaction was the acquisition of the development land Festival Mall in Sibiu, by NEPI

Retail Market: The development of the retail segment from the past years encouraged the growth of the demand. Retailers interest remained high and vacancy rates low. In Bucharest in particular, several shopping centre players would like to enter the market, given the low vacancy in the prime commercial units. The most active developers in the retail market remain NEPI Rockcastle, Mitiska Reim and Prime Kapital. Given the volume of new deliveries due in the next two years, we expect to see many new market entrants.

Industrial Market: Deliveries in 2018 are estimated to reach 750,000 sqm compared to some 500,000 sqm in 2017. Rental levels for prime industrial and logistics space remained stable in the first half of 2018, both in Bucharest and in the other regions across the country. In Bucharest, prime rents for modern warehouses are approx. €4.0–4.2/ sq m/month.

Land Market: Both Bucharest and the secondary cities major land supply is coming from the former factories platforms, located in semi-central areas. In Bucharest, the few remaining prime land plots, located in central/high end residential areas, are also sought-after by the residential constructors/developers. Given the large quantity of big residential projects announced or under construction, the small developers focus on central land plots with small boutique projects, with good transportation network. One essential aspect in selling a land plot is the Building Permit or PUZ. Investors are more interested into land plots with development documents issued, than to lose 2 years for approvals and miss the trend.

Residential Market: The fourth quarter of 2018 witnessed a slight increase terms of residential prices growth of 1.5%, resulting in a total increase of circa 6.4% compared to the same period of 2017. Equally, in Bucharest apartment prices went up 1.2% on average during the last quarter of 2018. Prices in Constanta have reached in December 2018 EUR 1,117 /sqm, a 2% increase since the beginning of the current year. Nonetheless, the prices are still 30% less than they were at their peak in June 2008.

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. Building authorisation for roads has been obtained during mid-August 2018. Works for implementing the roads and utilities has commenced in November 2018. Most permits are obtained, excluding the gas supplier Company which also is progressing.

The Company has sold a minor plot at a satisfactory price, subject to all outstanding regulation permits secured.

Oasis (No. 3 on the table) –The new Planning Permission (PUZ) was approved during Q4 2018. The Company is presently marketing the project and the two apartment block structures in the market.

Industrial Park (No. 4 on the table) – As soon as the conditional sale of 1.5 hectares to an investor for a total amount of EUR 630,000 reaches a final agreement, the Company is going to implement the roads and utilities in the area and promote the rest of land to the market on broad scale basis.

Balada Market (No. 6 on the table) – The Urbanization Certificate regarding the sale of the plot has been received from the Constanta Municipality. The Company, together with the conditional Buyer, is following all legal steps in order to receive the sale authorisation from the Municipality. The conditional closing is expected to be delayed for about six months.

Badulescu plot (No. 2 on the table) – The new urbanistic plan is going to be modified according to the requests of the local authorities. The purpose of this modification is to improve the site and road logistics as well as the attractiveness of the project. It is estimated that the new urbanistic plan will be finalised in Q2 2019.

Gunaydin plot (No.5 on the market) – The plot is being marketed, but so hitherto, no satisfactory bid is received.

- **Extraordinary tax claim:**

As mentioned in previous quarterly 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 and the corresponding tax assessment 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 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. 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 some communication with the central tax authorities, but no conclusion yet. If the Tax Authorities do not reach a decision by 25th June 2019, the Company reserves its right to proceed in a lawsuit against the Tax Authorities in a Civil Court. In the meantime, no penalties are expected.

The Property Portfolio

The Company's land bank consists at the end of Q4 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 Centrepoint	Constanta North/Ovidiu	121,672
5 Gunaydin plot	Constanta North/Ovidiu	15,000
6 Balada Market	Central Constanta	7,188
Total		278,290

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

Shareholder Information

Please see below the list of the top 20 shareholders in RomReal as of 12 February 2019:

Ranking	Holding	Percentage	Name
1	10 336 054	24.98576 %	SIX SIS AG
2	4 414 629	10.07281 %	GRØNSKAG, KJETIL
3	3 262 976	7.88772 %	SAGA EIENDOM AS
4	3 071 656	7.42524 %	THORKILDSEN DØDSBO, KAY TØNNES
5	2 344 100	5.66649 %	THORKILDSEN, WENCHE SYNNØVE
6	2 108 500	5.09696 %	AUSTBØ, EDVIN
7	1 452 995	3.51238 %	Danske Bank A/S
8	1 122 941	2.71453 %	ENERGI INVEST A/S
9	1 101 000	2.66149 %	ORAKEL AS
10	940 236	2.27287 %	SPAR KAPITAL INVESTOR AS
11	829 478	2.00513 %	THORKILDSEN INVEST AS
12	718 000	1.73565 %	PERSSON, ARILD
13	689 557	1.66689 %	HOEN, ANDERS MYSSSEN
14	642 890	1.55408 %	GRØNLAND, STEINAR
15	628 832	1.52010 %	Skandinaviska Enskilda Banken S.A.
16	558 306	1.34962 %	JONAS BJERG PENSION PLAN, NTS TRUSTEES LTD
17	481 480	1.16390 %	SILJAN INDUSTRIER AS
18	470 545	1.13747 %	MAGDAHL, AKSEL
19	438 583	1.06020 %	CLEARSTREAM BANKING S.A.
20	406 856	0.98351 %	BNP Paribas Securities Services
Total Top 20	35 854 691	86%	

- (1) This is the Top 20 Shareholder list as per 12 Feb. 19
- (2) The total issued number of shares issued at end Q4 2018 was 41,367,783.
- (3) Thorkildsen Invest AS is a Company controlled by Kay Thorkildsen family.
- (4) Chairman Kjetil Grønskog owns directly and indirectly 4,414,629 shares corresponding to 11%.
- (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, according to the strategy, is focusing on land value enhancing activities in order to improve the shareholder value and exit. This includes, among others, increased sales & marketing efforts, when some infra-structure investments and engaging more resources into regulation processes. The ongoing tax dispute adds uncertainty and reduces the financial flexibility.

The Company has signed three conditional sales agreements and is involved in several potential sales processes. One of the three conditional sales agreements is related to the Company's most important project, Lake Side.

INFORMATION ON FINANCIAL CONDITION AND OPERATING RESULTS

Accounting Principles

The condensed consolidated interim financial statements for the fourth 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 fourth 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 Q4 2018 and Q4 2017

The interpretations below refer to comparable financial information for Q4 2018 and Q4 2017. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

Operating Revenue

The operating revenue during Q4 2018 was EUR 37,000 compared to a total of EUR 36,000 reported in Q4 2017. This consists mainly of the rent earned by the Company in respect of some of the plots.

Operating Expenses

Total operating expenses amounted to a negative EUR 368,000 in Q4 2018 compared to a total EUR 2,000 in Q4 2017. The main cost element relates to the EUR 197,000 downward valuation of the Oasis plot. Of the remaining EUR 178,000 operating expenses, the payroll costs were EUR 47,000, while general and administration costs in connection with the running of the Group amounted to EUR 124,000.

Other operating income/ (expense), net

The other operating income/ (expense) during the quarter were a loss of EUR 467,000, reflecting mainly the downward value adjustment on some of the Company's properties as a result of the year end independent valuation.

Profit/ (loss) from operations

During Q4 2018, RomReal generated an operating loss of EUR 798,000, compared to a profit of EUR 2,113,000 in Q4 2017.

Financial Income and expense

The Company has no interest costs in respect of external financing. Foreign exchange result for Q4 2018 was a net gain of EUR 8,000 compared to a net foreign exchange loss of EUR 712,000 in Q4 2017. During the quarter the RON lost 0.09% to 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 Q4 2018 was a loss of EUR 4,000 compared to a loss before tax of EUR 356,000 in Q4 2017.

Cash and cash equivalents

The Company's cash and cash equivalents position at end of Q4 2018 was EUR 3,469,000 compared to EUR 3,685,000 as at end of Q3 2018. In addition, a total of EUR 890,000 in outstanding payments related to binding sales agreements, totalling at about EUR 4.4 million.

RomReal portfolio / sale transactions to be completed in 2019

No	Plot name	Location	Plot size (sqm)	Book value December 2018(Eur)	Agreed sale value (EUR)	Installments received@ 04/02/2019	To cash 2019	To cash 2021
1	Alexandriei plot	Bucharest sector 5 Ovidiu	13,263	875,000	1,850,000	1,200,000	500,000	150,000
2	Lakeside plot 15	Constanta	302	33,221	58,000	17,215	40,785	
	Total		13,565	908,221	1,908,000	1,217,215	540,785	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.

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

	Q4 2018	Q4 2017	YTD 2018	YTD 2017
Rent revenue	41	37	175	196
Revenue from sale of assets	(4)	(0)	9,218	11,507
Operating revenue	37	36	9,393	11,703
Payroll expenses	(47)	(53)	(179)	(184)
Management fees	(27)	(25)	(102)	(99)
Inventory (write off)/reversal	(197)	145	(200)	177
General and administrative expenses	(97)	(69)	(557)	(1,125)
Operating expenses	(368)	(2)	(1,038)	(1,232)
	-			
Profit/ (loss) before other operating items	(331)	34	8,355	10,472
Other operating income/(expense), net	(467)	2,079	(8,642)	(9,107)
Profit from operations	(798)	2,113	(287)	1,365
Financial income	(5)	(9)	18	22
Financial costs	(3)	(5)	(12)	(117)
Foreign exchange, net	8	(712)	(48)	(1,324)
	-			
Result before tax	(798)	1,387	(330)	(55)
Tax expense	19	(211)	(10)	(217)
Result of the period	(779)	1,176	(339)	(272)

CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	December 31, 2018	December 31, 2017
Non-current assets		
Investment properties	10,248	13,627
Property, plant and equipment	71	90
Deferred tax asset	121	121
Total non current assets	10,440	13,838
Current assets		
Inventories	2,504	2,690
Other short term receivables	1,389	325
Prepayments	29	43
Cash and cash equivalents	3,469	3,505
Total current assets	7,391	6,562
Assets held for sale	2,209	7,103
TOTAL ASSETS	20,041	27,503
EQUITY AND LIABILITIES	December 31, 2018	December 31, 2017
Equity		
Share capital	103	103
Contributed surplus	87,117	87,119
Other reserves	160	425
Retained earnings	(69,425)	(69,178)
Result of current period	(339)	(272)
FX reserve	2,008	1,734
Total equity	19,624	19,930
Non current liabilities		
Deferred income tax	100	1,091
Total non current liabilities	100	1,091
Current Liabilities		
Other payables	124	117
Deferred income	193	6,363
Tax payable	0	1
Total current liabilities	317	6,482
TOTAL EQUITY AND LIABILITIES	20,041	27,503

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Figures in thousand EUR

	December 31, 2018	December 31, 2017
Profit for the year	(339)	(272)
Other comprehensive income		
Exchange differences on translation of foreign operations	284	833
Other comprehensive income for the year, net of tax	284	833
Total comprehensive income for the year, net of tax	(55)	561

CASH FLOW STATEMENT (UNAUDITED)

Figures in thousand EUR

	December 31, 2018	December 31, 2017
Net cash flow from operating activities	(1,858)	(2,992)
Net cash flow from investing activities	1,822	17,868
Net cash flows from financing activities	-	(12,077)
Net cash change during period	(36)	2,798
Cash at beginning of period	3,505	707
Cash and cash equivalents at end of the period	3,469	3,505

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in thousand EUR

	December 31, 2018	December 31, 2017
Equity at the beginning of the period	19,930	19,369
Result for the period	(339)	(272)
Other changes	31	833
Equity at the end of the period	19,622	19,930

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.

DISCLAIMER

The information included in this Report contains certain forward-looking statements that address activities, events or developments that RomReal Limited ("the Company") expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by the Company, which are beyond its control and are subject to certain additional risks and uncertainties. The Company is subject to a large number of risk factors including but not limited to economic and market conditions in the geographic areas and markets in which RomReal is or will be operating, counterparty risk, interest rates, access to financing, fluctuations in currency exchange rates, and changes in governmental regulations. For a further description of other relevant risk factors, we refer to RomReal's Annual Report for 2017. As a result of these and other risk factors, actual events and our actual results may differ materially from those indicated in or implied by such forward-looking statements. The reservation is also made that inaccuracies or mistakes may occur in the information given above about current status of the Company or its business. Any reliance on the information above is at the risk of the reader, and RomReal disclaims any and all liability in this respect.