

Q1

RomReal Limited
First Quarter 2019 Report
24 May 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 First Quarter 2019

Net Asset Value (NAV)

- Net Asset value was EUR 0.47 (NOK 4.59) per share, being 1.6% lower compared to the end of the fourth quarter 2018. This was mainly driven by the unrealised exchange losses following the depreciation of the RON against the EUR.
- The year-end 2018 valuation was concluded by Knight Frank during February 2019. Consequently, no further changes were made to the value of the investment properties during the quarter.

Operational highlights

- The conditional sale of Balada Market (No.6 on the list) has been extended to 01 October 2019. The Company and the conditional buyer have now obtained the final authorisation from the Municipality.
- On the Lakeside plot (No.1 on the list) the implementation of roads and utilities are progressing according to plan, and the important main permit from the Gas Company has been obtained. The investment cost of roads & utilities has amounted EUR 641,000 by end of first quarter.
- RomReal signed a conditional sale of 15,834sqm of land of its Centerpoint plot (No.4 on the list) in April 2018, for a total consideration of EUR 630,000. This has now been converted into a binding agreement. The remaining payment after an initial down-payment is linked to infrastructure and utilities milestones.

Financial Results

- Net Result for the quarter was EUR 976,000 loss compared to a EUR 148,000 loss in Q1 2018. Operating cash flow for the quarter was a negative EUR 552,000 compared to minus EUR 1,858,000 in the same period last year.
- At the end of the quarter, the Company had a cash position of EUR 3.2 million plus a total of EUR 750,000 in unsettled receivables related to binding sales agreements, totalling at close to EUR 4 million or about EUR 0.1 per share.

Macro and real estate market highlights

- Romania's gross domestic product (GDP) increased by 5% year-on-year in the first quarter of 2019, according to the flash estimate published by the National Statistics Institute (INS) on Wednesday, May 15.
- The first quarter of 2019 witnessed a relatively flat evolution of residential prices nationwide. In Bucharest apartment prices remained flat with end of March average prices at EUR 1,327/sqm. On the contrary, prices in Constanta have increased 1.6% between the end of 2018 and the end of Q1 2019, reaching EUR 1,135 /sqm.
- Romania's annual inflation rate edged up unexpectedly to 4.1 percent in April 2019 from 4.0 percent in the previous month while markets had estimated 3.9 percent. This was the highest inflation rate since October last year.

Key Financial Figures

EUR '000	Q1 2019	Q1 2018
Operating Revenue	97	6,779
Operating Expenses	(162)	(231)
Other operating income/ (expense), net	134	(6,620)
Net financial income/(cost)	(1,037)	(21)
Pre-tax result	(967)	(93)
Result for the period	(976)	(148)
Total assets	19,671	21,152
Total liabilities	374	1,328
Total equity	19,297	19,770
Equity %	98.1%	93.5%
NAV per share (EUR)	0.47	0.47
Cash position	3,217	3,469

Movement in Net Asset Value

The Net Asset Value (NAV) decreased to EUR 19,297,000 at the end of Q1 2019 compared to EUR 19,603,000 at the end of Q1 2018.

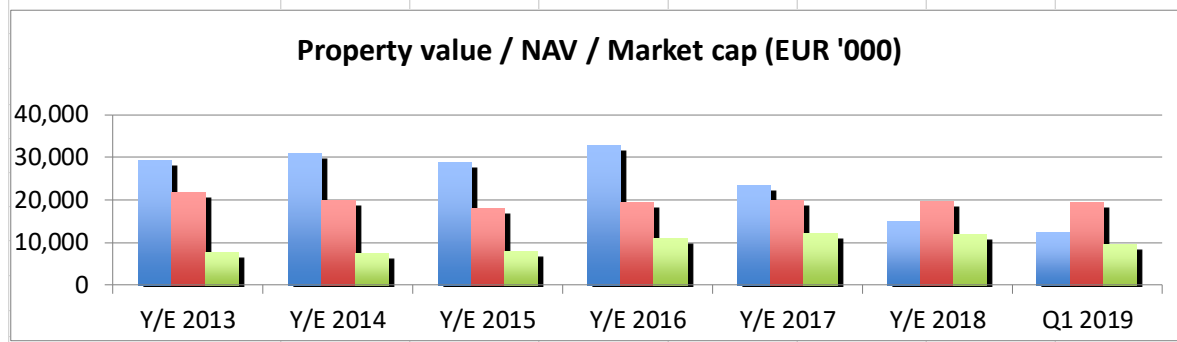
Asset base	Q1 2019			Q1 2018		
	EUR '000	EUR/ share	NOK/share	EUR '000	EUR/ share	NOK/share
Investment property	10,186	0.25	2.42	13,655	0.33	3.25
Assets held for sale	2,200	0.05	0.52	436	0.01	0.10
Inventories	2,552	0.06	0.61	2,690	0.07	0.64
Cash	3,217	0.08	0.77	3,789	0.09	0.90
Other assets/(liabilities)	1,141	0.03	0.27	(799)	(0.02)	(0.19)
Net asset value	19,297			19,770		
NAV/Share		0.47	4.59		0.48	4.71
Change in NAV	-1.6%			-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 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	Y/E 2018	Q1 2019
Property value	29,304	30,797	28,736	32,787	23,419	14,962	12,386
NAV	21,671	19,916	18,089	19,369	19,930	19,603	19,297
Market cap	7,623	7,541	7,933	11,052	12,100	11,848	9,495
Market cap/NAV	35%	38%	44%	57%	61%	60%	49%



Cash Flow

EUR '000	Q1 2019	Q1 2018
Net cash flow from operating activities	(552)	(181)
Net cash flow used in investing activities	300	465
Net cash flows from financing activities	-	-
Net cash change during period	(252)	284

Operating cash flow for Q1 2019 was negative EUR 252,000 compared to a positive EUR 284,000 in the same quarter last year. The net negative change is mainly driven by the operating expenses. The net cash from investing activities includes the receipt of the monthly agreed payments related to the sale of the Alexadriei plot.

Market Facts – Macro

The flash estimate of Q1 2019 GDP posted a 1.3% sequential advance, translating into a 5.0% year-on-year expansion, compared to the ING and Bloomberg consensus of 4.1%.

The Romanian GDP expanded 5.0 percent year-on-year in the first quarter of 2019, following a 4.1 percent growth in the previous period and easily beating market expectations of 3.9 percent, a preliminary estimate showed. It was the strongest GDP growth rate since the fourth quarter 2017. On a seasonally adjusted quarterly basis, the economy advanced 1.3 percent in the first quarter, compared to an upwardly revised 1.0 percent expansion in the prior quarter. GDP

Annual Growth Rate in Romania averaged 3.20 percent from 1996 until 2018, reaching an all-time high of 12.60 percent in the fourth quarter of 2004 and a record low of -7.40 percent in the third quarter of 1997.

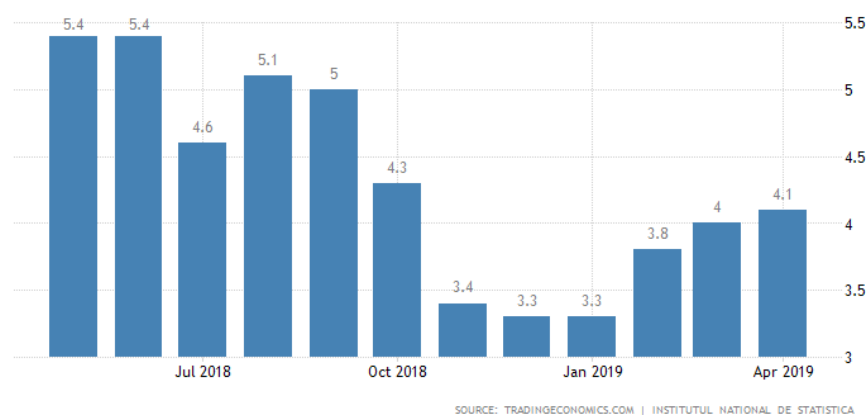
On the demand side, it is expected that the household consumption was very strong as suggested by the retail sales data, while investments and net exports are likely to have negative contributions. On the supply side, services continued to be the main contributor to the sequential growth. High frequency data points to a negative contribution from industry and a positive contribution from the construction sector.



According to the National Bank of Romania May 2019 report, the annual CPI inflation rate saw its downward path come to a halt in early 2019, reaching 3.83 percent in February, i.e. above the variation band of the flat target of 2.5 percent ± 1 percentage point, and 4.03 percent in March, i.e. 0.76 percentage points above the end-2018 level. Except for administered prices, all major groups of goods and services in the CPI basket triggered this change.

The average annual CPI inflation rate calculated based on national methodology entered a downward trend in the first three months of 2019, reaching 4.4 percent in March. At the same time, the average annual HICP inflation rate stood further at 4.1 percent, with the differential versus the EU-wide average remaining above 2 percentage points.

According to the baseline scenario of BNR, the annual CPI inflation rate will reach 4.2 percent at end-2019 and 3.3 percent at end-2020.



Real Estate market facts

The Romanian housing market remains robust, but there are some uncertainties ahead. The house prices continue to rise, at a much slower pace compared with previous years. Demand is somewhat weakening, amidst rising interest rates. Economic growth, while it remains robust, has decelerated compared to the previous year. Nonetheless, all the segments of Romania's real estate market are likely to perform well over the next two years, but the regulatory predictability becomes a key problem in the context of the Government's new fiscal measures, according to the real estate consultancy firm Colliers International.

Office market: More than 350,000 square meters of new office space will be delivered in 2019 and the total value of real estate deals could exceed EUR 1 billion, according to Colliers estimates. The non-occupancy rate rising from 9%-10% currently to maybe 13% by year-end 2019 occurs amid robust supply, therefore it is not a major concern.

Retail Market: After recording the strongest private consumption growth in the major EU states in recent years, Romania is on the map of retailers. With low vacancy rates and consistent interest from retailers, developers have been focusing to increase the retail stock significantly, with the 2019- 2020 pipeline (nearing half a million sqm) more than double the deliveries in 2017-2018. Also, while for the first time in some years, rents went up 2018, with a heavy delivery calendar, it will be difficult to replicate this in 2019.

Industrial Market: The warehouse segment has witnessed its best couple of years ever in terms of deliveries, with manufacturing activities also faring nicely. The modern warehouse spaces stock expanded about 40% in 2017-2018, to over 4.2 million sqm nationwide, but activity is likely to cool a bit in 2019. Outside Bucharest, towns in central and western Romania will likely remain more active, but economic hubs like Ploiesti, Iasi or Constanta are also expected to do well. As Romania has been in the spotlight on a regional level, it is not excluded to see some notable new entries in 2019 (some global names).

Land Market: Last year was similar to 2017 in terms of market activity for the land market, but amid some higher prices (and a few big deals), market turnover increased by circa 17%, to a new post-crisis high. Several major deals remain in various negotiation phases, but given the slower projected path for the economy as well as potential troubles in the residential market, new demand might be a bit lower in 2019 than in the previous years. Nonetheless, attractive land plots in big cities will still see sufficient demand; other trends (like retailers focusing on smaller towns; office developers looking at big regional hubs) will remain valid. Prices look set to remain more or less the same, with increases only for very good plots.

Residential Market: The residential market was already slowing down in 2018 as the central bank's tightening measures (starting late 2017) kicked in. A further setback is expected to come from the new debt limits for loans promoted by the central bank starting this year. Even though consumers have more money amid rising disposable income, a wait-and-see mood might prevail given the context. Furthermore, the tighter lending conditions might also shut off some customers from loans.

Operational Overview

The following operational highlights took place during the quarter:

Lake Side (No.1 on the table) – Works for implementing the roads and utilities have commenced in November 2018. All permits including the main permit from the gas supplier, have been obtained.

The estimated cost for improving the plot's 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. By the end of Q1 the Company has invested EUR 641,000 in infrastructure works. The Company is now increasing sales and marketing efforts towards the important Summer season.

Oasis (No. 3 on the table) – The new Planning Permission (PUZ) was approved during Q1 2019. The Company is presently marketing the plots and existing houses on the market.

Industrial Park (No. 4 on the table) – The conditional sale of 1.5 hectares to an investor for a total amount of EUR 630,000 has reached a final agreement. A prepayment has already been received and the Company has by end of first quarter invested EUR 62,000 in roads and utilities, to improve the marketability of the rest of the plot. The new owner of 1.5 hectares is a highly regarded Company underlining the attractiveness of the project.

Balada Market (No. 6 on the table) – The Company and the buyer have now obtained the final authorisation from the Municipality. The closing has been delayed until 1st of October 2019.

Badulescu plot (No. 2 on the table) – The new urbanistic plan is presently under implementation. 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 Q4 2019 since the Company is waiting for the general urbanistic plan of the municipality to be implemented.

Gunaydin plot (No.5 on the market) – The plot is being actively promoted; no satisfactory bid has been received so far.

- **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, Constanta Court of Appeal ordered that no attachments to the bank accounts and/or lands belonging to Westhouse Group should take place. On 12th April 2019 the Company has received the decision issued by Tax Authority which rejected the appeal filed by the Company. The Company is drafting, with the assistance of among others EY, the appeal to the Court against the decision of tax Authority with deadline 12 June 2019.

The Property Portfolio

The Company's land bank consists at the end of Q1 2019 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
Total		278,290

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

Shareholder Information

Please see below the list of the top 20 shareholders in RomReal as of 17 May 2019:

	Shareholder	Holding	Stake
1	SIX SIS AG	10,335,934	24.99%
2	GRØNSKAG, KJETIL	4,414,629	10.67%
3	SAGA EIENDOM AS	3,262,976	7.89%
4	THORKILDSEN DØDSBO, KAY TØNNES	3,071,656	7.43%
5	THORKILDSEN, WENCHE SYNNØVE	2,344,100	5.67%
6	AUSTBØ, EDVIN	2,108,500	5.10%
7	Danske Bank A/S	1,452,995	3.51%
8	ENERGI INVEST A/S	1,122,941	2.71%
9	ORAKEL AS	1,101,000	2.66%
10	SPAR KAPITAL INVESTOR AS	940,236	2.27%
11	THORKILDSEN INVEST AS	829,478	2.01%
12	PERSSON, ARILD	718,000	1.74%
13	GRØNLAND, STEINAR	712,675	1.72%
14	HOEN, ANDERS MYSSEN	689,557	1.67%
15	Skandinaviska Enskilda Banken S.A.	628,832	1.52%
16	JONAS BJERG PENSION PLAN, NTS TRUSTEES LTD	558,306	1.35%
17	SILJAN INDUSTRIER AS	481,480	1.16%
18	MAGDAHL, AKSEL	477,477	1.15%
19	CLEARSTREAM BANKING S.A.	438,703	1.06%
20	BNP Paribas Securities Services	406,856	0.98%
	Total Top 20	36,096,331	87.26%

(1) This is the Top 20 Shareholder list as per 17 May 19

(2) The total issued number of shares issued at end Q1 2019 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 4,414,629 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

According to the strategy, RomReal is focusing on land value enhancing activities in order to improve shareholders' value and exit. This includes, among others, increased sales & marketing efforts, when necessary advanced infra-structure investments and engaging more resources into regulation processes. The ongoing tax dispute adds uncertainty and reduces the financial flexibility somewhat and is expected to drag out for a couple of years.

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. The buyer of 1.5 hectares is a highly regarded Company, underlining the attractiveness of the Industrial Park.

Due to new laws and regulations among others on Bermuda, RomReal Ltd as a Bermuda Company, would likely initiate a process to change holding company residence during 2019.

INFORMATION ON FINANCIAL CONDITION AND OPERATING RESULTS

Accounting Principles

The condensed consolidated interim financial statements for the first quarter of 2019, 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 2018. The financial statements have been prepared on a going concern basis.

To information presented in the interim report for the first quarter of 2019 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 2019, and major related party transactions.

Comparative data for Q1 2019 and Q1 2018

The interpretations below refer to comparable financial information for Q1 2019 and Q1 2018. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

Operating Revenue

The operating revenue during Q1 2019 was EUR 97,000 compared to a total of EUR 6,779,000 reported in Q1 2018. This consists of the rent earned by the Company in respect of some of the plots as well as the revenue resulting out of the sales of some small plots.

Operating Expenses

Total operating expenses amounted to a negative EUR 162,000 in Q1 2019 compared to a total negative EUR 231,000 in Q1 2018. The main cost element relates to the general and administrative expenses of EUR 130,000. Of the remaining operating expenses, the payroll costs were EUR 45,000, while the Management fees were EUR 27,000.

Other operating income/ (expense), net

The other operating income/ (expense) during the quarter were a gain of EUR 134,000, reflecting mainly the movement in the EUR/RON exchange rate.

Profit/ (loss) from operations

During Q1 2019, RomReal generated an operating gain of EUR 69,000, compared to a loss of EUR 72,000 in Q1 2018.

Financial Income and expense

Foreign exchange result for Q1 2019 was a net loss of EUR 1,038,000 compared to a net foreign exchange loss of EUR 22,000 in Q1 2018. During the quarter the RON lost 2.12% 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 Q1 2019 was a loss of EUR 967,000 compared to a loss before tax of EUR 93,000 in Q1 2018.

Cash and cash equivalents

The Company's cash and cash equivalents position at end of Q1 2019 was EUR 3,217,000 compared to EUR 3,469,000 as at end of Q4 2018. In addition, a total of EUR 753,000 in outstanding payments related to binding sales agreements, totalling about EUR 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@ 07/05/2019	To cash 2019	To cash 2020	To cash 2021
1	Alexandriei plot	Bucharest sector 5	13,263	875,000	1,850,000	1,500,000	200,000		150,000
2	Lakeside plot 15	Ovidiu Constanta	302	33,220	58,000	21,423	36,577		
3	Ind Park 3 plots	Ovidiu Constanta	15,834	205,842	630,000	63,000		567,000	
4	Balada market	Constanta	7,188	2,200,000	2,500,000	150,000	2,350,000		
Total			36,587	3,314,062	5,038,000	1,734,423	2,586,577	567,000	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.

Contingent liabilities

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

	Q1 2019	Q1 2018
Rent revenue	38	40
Revenue from sale of assets	58	6,739
Operating revenue	97	6,779
Payroll expenses	(45)	(43)
Management fees	(27)	(25)
Inventory (write off)/reversal	40	(5)
General and administrative expenses	(130)	(158)
Operating expenses	(162)	(231)
	-	
Profit/ (loss) before other operating items	(65)	6,548
Other operating income/(expense), net	134	(6,620)
Profit from operations	69	(72)
Financial income	6	4
Financial costs	(5)	(3)
Foreign exchange, net	(1,038)	(22)
	-	
Result before tax	(967)	(93)
Tax expense	(9)	(55)
Result of the period	(976)	(148)

CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	March 31, 2019	December 31, 2018	March 31, 2018
Non-current assets			
Investment properties	10,186	10,222	13,655
Property, plant and equipment	79	85	85
Deferred tax asset	119	121	121
Total non current assets	10,384	10,428	13,861
Current assets			
Inventories	2,552	2,504	2,690
Other short term receivables	1,278	1,389	321
Prepayments	39	29	55
Cash and cash equivalents	3,217	3,469	3,789
Total current assets	7,087	7,391	6,855
Assets held for sale	2,200	2,200	436
TOTAL ASSETS	19,671	20,020	21,152
EQUITY AND LIABILITIES	March 31, 2019	December 31, 2018	March 31, 2018
Equity			
Share capital	103	103	103
Contributed surplus	87,117	87,117	87,117
Other reserves	160	160	425
Retained earnings	(69,808)	(69,450)	(69,450)
Result of current period	(976)	(360)	(148)
FX reserve	2,700	2,032	1,743
Total equity	19,297	19,603	19,770
Non current liabilities			
Deferred income tax	105	100	157
Total non current liabilities	105	100	157
Current Liabilities			
Other payables	97	124	128
Deferred income	172	193	107
Tax payable	0	0	990
Total current liabilities	269	317	1,225
TOTAL EQUITY AND LIABILITIES	19,671	20,020	21,152

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Figures in thousand EUR

	March 31, 2019	December 31, 2018	March 31, 2018
Profit for the year	(976)	(339)	(148)
Other comprehensive income			
Exchange differences on translation of foreign operations	668	284	424
Other comprehensive income for the year, net of tax	668	284	424
Total comprehensive income for the year, net of tax	(308)	(55)	276

CASH FLOW STATEMENT (UNAUDITED)

Figures in thousand EUR

	March 31, 2019	December 31, 2018	March 31, 2018
Net cash flow from operating activities	(552)	(1,858)	(181)
Net cash flow from investing activities	300	1,822	465
Net cash flows from financing activities	-	-	-
Net cash change during period	(252)	(36)	284
Cash at beginning of period	3,469	3,505	3,505
Cash and cash equivalents at end of the period	3,217	3,469	3,789

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in thousand EUR

	March 31, 2019	December 31, 2018	March 31, 2018
Equity at the beginning of the period	19,603	19,930	19,930
Result for the period	(976)	(339)	(148)
Other changes	670	12	(12)
Equity at the end of the period	19,297	19,603	19,770

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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 2018. 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.