

Q2

RomReal Limited
Second Quarter 2019 Report
30 August 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 Second Quarter 2019

Net Asset Value (NAV)

- Net Asset value pre any tax was EUR 0.47 (NOK 4.58) per share, being 0.3% lower compared to the end of the first quarter 2019.
- The year-end 2018 valuation was concluded by Knight Frank in February 2019, therefore no further changes were made to the value of the investment properties during the quarter.

Operational highlights

- During April 2019, RomReal signed the sale of 15,834sqm of land of its Centerpoint plot (No.4 on the list) for a total consideration of EUR 630,000. A partial down payment of EUR 63,000 has been received, with the difference to be collected in the coming quarters, subject to certain milestones.
- Constanta City Hall has issued a final decision, and there will be no additional payments to be paid to the Municipality in case the building is converted into a supermarket. The Balada EUR 2.5m (No. 6 on the list) pending sale is agreed concluded during October 2019, with an option to the buyer to delay payment until 15th December 2019.
- Since the 1Q 2019 report, important legal progress has materialised in both the on-going EUR 1.7m tax-bill claim and the expropriation claim of land on the Mamaia North plot by the Navodari City Hall.

Financial Results

- Net Result for the quarter was EUR 138,000 gain compared to a EUR 605,000 gain in 2Q 2018. Operating cash flow for the quarter was a negative EUR 36,000 compared to a negative EUR 181,000 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 conditional instalment payments related to the binding sale agreement, totalling at close to EUR 3.95 million or about EUR 0.09 per share.

Macro and real estate market highlights

- Romania's gross domestic product (GDP) increased by 4.7% year-on-year in the first half of 2019, according to the flash estimate published by the National Statistics Institute on Wednesday, August 14. This represents a slight slowdown compared to the 5.1% growth at the end of 1Q 2019. The growth is mainly driven by the internal consumption, while at the same time the economies in Western Europe which are Romania's main export markets are facing a slowdown.
- The residential prices continue to witness a relatively flat evolution into the second quarter. Exception is Cluj-Napoca, where the upward trend continues, growth since beginning of 2019 representing circa 3.2%. In Constanta, prices have remained flat between the end of Q1 2019 (EUR 1,135 /sqm) and the end of Q2 2019 (EUR 1,130/sqm).

Key Financial Figures

EUR '000	Q2 2019	Q2 2018
Operating Revenue	41	1,894
Operating Expenses	(250)	(201)
Other operating income/ (expense), net	45	(1,128)
Net financial income/(cost)	302	-
Pre-tax result	138	565
Result for the period	138	605
Total assets	19,830	20,727
Total liabilities	585	329
Total equity	19,245	20,399
Equity %	97.0%	98.4%
NAV per share (EUR)	0.47	0.49
Cash position	3,191	3,099

Movement in Net Asset Value

The Net Asset Value (NAV) pre any tax slightly decreased to EUR 19,245,000 at the end of Q2 2019 compared to EUR 19,297,000 at the end of Q1 2019.

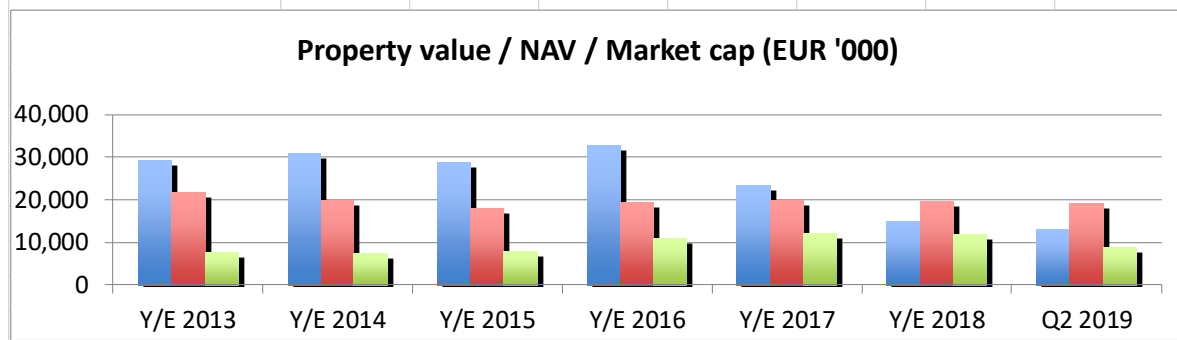
Asset base	Q2 2019			Q2 2018		
	EUR '000	EUR/ share	NOK/share	EUR '000	EUR/ share	NOK/share
Investment property	10,776	0.26	2.57	12,725	0.31	3.03
Assets held for sale	2,191	0.05	0.52	275	0.01	0.07
Inventories	2,492	0.06	0.59	2,690	0.07	0.64
Cash	3,191	0.08	0.76	3,099	0.07	0.74
Other assets/(liabilities)	594	0.01	0.14	1,609	0.04	0.38
Net asset value	19,245			20,399		
NAV/Share		0.47	4.58		0.49	4.86
Change in NAV	-0.3%			3.2%		

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 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	Q2 2019
Property value	29,304	30,797	28,736	32,787	23,419	14,962	12,967
NAV	21,671	19,916	18,089	19,369	19,930	19,603	19,245
Market cap	7,623	7,541	7,933	11,052	12,100	11,848	8,822
Market cap/NAV	35%	38%	44%	57%	61%	60%	46%



Cash Flow

EUR '000	Q2 2019	Q2 2018
Net cash flow from operating activities	(36)	(181)
Net cash flow used in investing activities	10	465
Net cash flows from financing activities	-	-
Net cash change during period	(26)	284

Operating cash flow for Q2 2019 was negative EUR 26,000 compared to a positive EUR 284,000 in the same quarter last year. The net negative change is mainly driven by the operating expenses related to specific land-bank projects. The net cash from investing activities includes the receipt of the monthly agreed payments related to the sale of the Hospital plot and the down payment on the sale of the 3 plots in the Industrial Plot.

Market Facts – Macro

The flash estimate of 2Q19 GDP posted a 1% growth over the first quarter of this year and 4.7% gross series expansion compared to the first half of 2018.

While the details are still expected to come, an analysis of Banca Transilvania (BT) suggests that on the domestic consumption side, the annual dynamics (although accelerating in June) are still below the potential rate, despite the significant increase of the real disposable income of the population in the last months.

According to BT's baseline scenario, the annual dynamics of private consumption could accelerate from 5.2% in 2018 to 6.3% in 2019, an evolution determined by the relaxed mix of economic policies. On the other hand, the annual rate of private consumption could decelerate to 5% in 2020, due to the prospects of rebalancing the domestic economic policy. For 2021 we could expect a re-acceleration of private consumption to 5.2% year on year.

Real Estate market facts

Romanian housing market remains healthy, but there are some uncertainties ahead. The rise in house prices has slowed down, with the exception of one or two regional cities, which continue to witness low-single digit growth during the first half of the year.

However, the number of transactions declined significantly during Q2 2019 by circa 22% according to an analysis of imobiliare.ro, the largest online transacting platform in the country. The analysis shows that the drop can be a consequence of the fact that in January and February 2019 the First House (Prima Casa) government-backed programme was suspended – and Prima Casa still covers a big part of the house market demand.

Office market: The first half of 2019 registered a total investment volume of circa EUR 340m, a 20% lower number compared to the same period of last year. Nonetheless, the market feeling continues to be optimistic with a number of transactions expected to close in the second part of the year. The largest transaction during the period was the sale of The Office project in Cluj for EUR 130 million.

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. The largest transaction during the first half of the year was the acquisition of PKM Development's nationwide portfolio by MAS REI for EUR 113m.

Industrial Market: Romania's industrial stock currently stands at around 4.1 million sqm. Over 350,000 sqm are planned to be delivered by the end of 2019, of which 30,000 sqm in Bucharest. Despite the continuous deliveries, the vacancy rates remain low at circa 5% nationwide. On the demand side, it is reported that the leasing activity accounted to about 120,000 sqm during the first half of 2019.

Land Market: Bucharest's and other secondary cities' major land supply comes from former factories, located in semi-central areas. In Bucharest, the few remaining prime plots located in central, high end, residential areas are also sought-after by residential constructors and developers. Investors are more interested in land that have already acquired development documents, including the essential PUZ permit, rather than incur typically two-year delays for approvals.

Residential Market: The number of dwelling transactions in the residential segment has decreased by some 22% during the first half of 2019. The main cause seems to be the delays in implementing the new First House program which covers a significant part of the transactions. Additionally, the first half of 2019 has witnessed a number of changes, including the 4.1% inflation rate and the introduction of the Consumer Credit Reference Index to replace the ROBOR.

Operational Overview

The following operational highlights took place during the quarter and up to interim reporting date:

Lake Side (No.1 on the table) – Works for implementing the roads and utilities commenced in November 2018 and are advancing. The Company is in negotiations with the gas and electricity company the costs and conditions for the grid connection. Furthermore, the Company has several specific processes for selling plots in the area, a showroom house is going to be built on the plot in order to market the area. These specific cases are not expected to be converted into binding agreements before all regulation items are concluded.

Oasis (No. 3 on the table) – The Company is presently negotiating with the gas and electricity company ENEL the costs and conditions for the grid connection of whole area, to be implemented in stages. Meanwhile, the Company expects more specific sales processes to develop when the pending regulation and utility issues are further advanced.

Industrial Park (No. 4 on the table) - RomReal 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 Company is presently following the authorisation procedures of the road and utilities in order to start building the roads and comply with the provisions of sale agreement, as well as attract other investors in the area.

Balada Market (No. 6 on the table) - The sale of whole plot and building have been agreed with a Bucharest investor for a total amount of EUR 2.5 million and a down payment of EUR 150,000 is received. A satisfactory reply from the Constanta City hall has been received, and there will be no increase of price to be paid to the municipality in case the building is converted into a supermarket. The deal will be formalised during October 2019 with an option of the buyers to delay payment until 15th December 2019.

Badulescu plot (No. 2 on the table) – A New General urbanistic zone planning on this plot has been commenced by the City Hall. It is estimated that the new urbanistic plan would be finalised within end 2019, and the Company has already established specific contacts with interested investors in the area.

Restitution claim of land in Mamaia North: Following the satisfactory application by the Company, the Romanian parliament changed the subject restitution laws. A new law in this respect has been published in August 2019, ordering local authorities to proceed to the restitution of lands having no plans for public buildings to be built on them. The Company has already served the necessary notifications to Navodari City Hall, and is presently following the necessary legal steps to recover the plot. Subject to a final solution with the municipality, the piece of land is already agreed to be sold for about EUR 0.5 million to the buyer of the Company's previous Mamaia North plot.

Extraordinary tax claim: As announced in mid-2018, 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 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 retained the services of E&Y Romania and will continue to pursue all available legal means for challenging the effects of such reassessment, in order to cancel the additional tax liabilities. In 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. During June 2019, the Company managed to obtain a second Court of Appeal decision confirming the fact that no attachments to the bank accounts and/or lands belonging to Westhouse Group should take place until a final decision from the Romanian High Court of Justice is concluded in the future. This is the second time the Appeal Court has made an independent decision in favour of the Company. The first hearing date of the Court proceedings has been established by the Constanta Court of Appeal for the 25th September 2019.

The Property Portfolio

The Company's land bank consists at the end of Q2 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 21 August 2019:

No	Name	Holding	Stake
1	SIX SIS AG	10,331,934	25.0%
2	GRØNSKAG, KJETIL	4,414,629	10.7%
3	SAGA EIENDOM AS	3,262,976	7.9%
4	THORKILDSEN DØDSBO, KAY TØNNES	3,071,656	7.4%
5	THORKILDSEN, WENCHE SYNNØVE	2,344,100	5.7%
6	AUSTBØ, EDVIN	2,108,500	5.1%
7	Danske Bank A/S	1,446,299	3.5%
8	ENERGI INVEST AS	1,236,948	3.0%
9	ORAKEL AS	1,101,000	2.7%
10	SPAR KAPITAL INVESTOR AS	940,236	2.3%
11	THORKILDSEN INVEST AS	829,478	2.0%
12	PERSSON, ARILD	718,000	1.7%

13	GRØNLAND, STEINAR	712,675	1.7%
14	HOEN, ANDERS MYSSSEN	689,557	1.7%
15	Skandinaviska Enskilda Banken S.A.	628,832	1.5%
16	JONAS BJERG PENSION PLAN, NTS TRUSTEES LTD	558,306	1.3%
17	SILJAN INDUSTRIER AS	481,480	1.2%
18	MAGDAHL, AKSEL	476,456	1.2%
19	CLEARSTREAM BANKING S.A.	441,703	1.1%
20	BNP Paribas Securities Services	406,856	1.0%
	Total Top20	36,119,709	87.3%

(1) This is the Top 20 Shareholder list as per 21 Aug. 19

(2) The total issued number of shares issued at end Q2 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 4,332,717 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 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 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.

Since the 1Q 2019 report, important legal progress has materialised in both the on-going EUR 1.7m tax dispute as well as on the expropriation claim of land on the Mamaia North plot by the Navodari City Hall. Even though these legal improvements both are steps in the right direction, the process risk is still existing combined with uncertain timelines.

INFORMATION ON FINANCIAL CONDITION AND OPERATING RESULTS

Accounting Principles

The condensed consolidated interim financial statements for the second 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 Q2 2019 and Q2 2018

The interpretations below refer to comparable financial information for Q2 2019 and Q2 2018. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

Operating Revenue

The operating revenue during Q2 2019 was EUR 41,000 compared to a total of EUR 1,894,000 reported in Q2 2018. This consists of the rent earned by the company in respect of some of the plots.

Operating Expenses

Total operating expenses amounted to a negative EUR 250,000 in Q2 2019 compared to a total negative EUR 201,000 in Q2 2018. The main cost element relates to the general and administrative expenses of EUR 154,000. Of the remaining operating expenses, the payroll costs were EUR 56,000, while the Management fees were EUR 26,000.

Other operating income/ (expense), net

The other operating income/ (expense) during the quarter were a gain of EUR 45,000, reflecting mainly the movement in the EUR/RON exchange rate.

Profit/ (loss) from operations

During Q2 2019, RomReal generated an operating loss of EUR 164,000, compared to a gain of EUR 564,000 in Q2 2018.

Financial Income and expense

Foreign exchange result for Q2 2019 was a net gain of EUR 302,000 compared to a net foreign exchange gain of EUR 1,000 in Q2 2018. During the quarter the RON gained 0.58% 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 Q2 2019 was a gain of EUR 138,000 compared to a gain before tax of EUR 565,000 in Q2 2018.

Cash and cash equivalents

The Company's cash and cash equivalents position at end of Q2 2019 was EUR 3,191,000 compared to EUR 3,217,000 as at end of Q1 2019. In addition, a total of EUR 750,000 in outstanding payments related to binding sales agreements, totalling at about EUR 3.95 million.

RomReal portfolio / sale transactions expected to be completed in 2019

No	Plot name	Location	Plot size (sqm)	Book value December 2018(Eur)	Agreed sale value (EUR)	Installments received@ 02/08/2019	To cash 2019	To cash 2020	To cash 2021
1	Alexandriei plot	Bucharest sector 5	13,263	875,000	1,850,000	1,700,000			150,000
2	Lakeside plot 15	Ovidiu Constanta	302	33,220	58,000	35,372	22,628		
3	Ind Park 3 plots	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	1,948,372	2,372,628	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

	Q2 2019	Q2 2018	YTD 2019	YTD 2018
Rent revenue	41	40	79	80
Revenue from sale of assets	0	1,854	58	8,593
Operating revenue	41	1,894	137	8,673
Payroll expenses	(56)	(46)	(101)	(89)
Management fees	(26)	(25)	(53)	(50)
Inventory (write off)/reversal	(15)	1	25	(4)
General and administrative expenses	(154)	(131)	(283)	(289)
Operating expenses	(250)	(201)	(411)	(432)
	-	-		
Profit/ (loss) before other operating items	(209)	1,693	(274)	8,241
Other operating income/(expense), net	45	(1,128)	179	(7,748)
Profit from operations	(164)	564	(95)	492
Financial income	4	(0)	10	4
Financial costs	(2)	(3)	(7)	(6)
Foreign exchange, net	301	4	(737)	(18)
	-	-		
Result before tax	138	565	(830)	472
Tax expense	0	40	(9)	(15)
Result of the period	138	605	(838)	457

CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	June 30, 2019	December 31, 2018	June 30, 2018
Non-current assets			
Investment properties	10,776	10,222	12,725
Property, plant and equipment	78	85	80
Deferred tax asset	119	121	121
Total non current assets	10,974	10,428	12,927
Current assets			
Inventories	2,492	2,504	2,690
Other short term receivables	971	1,389	1,691
Prepayments	11	29	45
Cash and cash equivalents	3,191	3,469	3,099
Total current assets	6,665	7,391	7,526
Assets held for sale	2,191	2,200	275
TOTAL ASSETS	19,830	20,020	20,727
EQUITY AND LIABILITIES	June 30, 2019	December 31, 2018	June 30, 2018
Equity			
Share capital	103	103	103
Contributed surplus	87,117	87,117	87,117
Other reserves	160	160	160
Retained earnings	(69,210)	(69,450)	(69,450)
Result of current period	(838)	(360)	457
FX reserve	1,912	2,032	1,999
Total equity	19,245	19,603	20,399
Non current liabilities			
Deferred income tax	103	100	114
Total non current liabilities	103	100	114
Current Liabilities			
Other payables	237	124	106
Deferred income	244	193	106
Tax payable	0	0	3
Total current liabilities	482	317	215
TOTAL EQUITY AND LIABILITIES	19,830	20,020	20,728

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Figures in thousand EUR

	June 30, 2019	December 31, 2018	June 30, 2018
Profit for the year	(838)	(339)	457
Other comprehensive income			
Exchange differences on translation of foreign operations	(121)	284	424
Other comprehensive income for the year, net of tax	(121)	284	424
Total comprehensive income for the year, net of tax	(959)	(55)	881

CASH FLOW STATEMENT (UNAUDITED)

Figures in thousand EUR

	June 30, 2019	December 31, 2018	June 30, 2018
Net cash flow from operating activities	(136)	(1,858)	(181)
Net cash flow from investing activities	(142)	1,822	465
Net cash flows from financing activities	-	-	-
Net cash change during period	(278)	(36)	284
Cash at beginning of period	3,469	3,505	3,505
Cash and cash equivalents at end of the period	3,191	3,469	3,789

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in thousand EUR

	June 30, 2019	December 31, 2018	June 30, 2018
Equity at the beginning of the period	19,603	19,930	19,930
Result for the period	(838)	(339)	457
Other changes	480	12	12
Equity at the end of the period	19,245	19,603	20,399

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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

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