



# **REPORT FOR THE THIRD QUARTER 2009**

**13 November 2009**

## RomReal Ltd

### Highlights: Q3 2009

- Statutory Net Asset Value (NAV) under IFRS was EUR 1.06 (NOK 9.4) per share at the end of Q3 2009, a decline of 9.4% compared to the end of Q2 2009.
- Due to the general uncertainty in the Romanian real estate market and a very low number of transactions, the Board have taken the decision to write down the land bank with 8%. This has been done on an asset by asset basis.
- Pre-tax loss in Q3 2009 was EUR 5.98 million. Total assets at the end of Q3 2009 were EUR 70.18 million.
- Ongoing operational expenses (adjusted for extraordinary items) were about 60% lower in Q3 2009 than in Q3 2008, reflecting the reduced number of employees and very firm cost control.
- The construction work on the Corallia apartment project is formally completed as the official hand-over document ("Proces Verbal la Terminarea Lucrarilor") has been signed by representatives of RomReal, Constanta City Hall and the construction company Baumeister.
- Following the hand-over, some small works are being conducted to clean the site and correct minor snags. Going forward, RomReal will proceed to complete all formal administrative filings and then initiate the handover of the flats/commercial areas to the buyers.

#### **Kay Thorkildsen, RomReal's CEO, said:**

*"The overall real estate market in Romania remains at a very low activity level and any short term recovery seems unlikely at present. Investors might be attracted by reduced real estate prices, but the difference between price expectations of buyers and sellers is still wide hence reducing the level of transactions. Potential buyers are also waiting for sellers in distressed situations, contributing to the low activity level. Other factors as reduced availability of credit and higher interest margins are both adding to the pressure on prices. It cannot be ruled out that further negative price corrections for real estate assets will be observed in the market going forward.*

*As a consequence of the low transaction level seen in the Romanian real estate market, the Board of RomReal has decided to take a conservative approach and make some downward adjustments of selected land plot values resulting in an average write-down of the land bank of about 8% during Q3 2009.*

*Rom Real is also pleased that the construction work on the Corallia apartment project was formally completed early November 2009 and we believe this can have a positive effect on flat sales."*

#### **KEY FIGURES (EUR '000)**

	3Q 2009	2Q 2009	3Q 2008	FY 2008	FY 2007
Profit/(loss) before tax	(5,982)	(1,421)	(39,247)	(70,560)	28,251
Net assets value	52,063	57,474	78,577	60,164	121,739
<b>NAV (EUR/share)</b>	<b>1.06</b>	<b>1.17</b>	<b>2.30</b>	<b>1.22</b>	<b>2.47</b>
<b>NAV (NOK/share)</b>	<b>9.4</b>	<b>10.4</b>	<b>18.5</b>	<b>12.0</b>	<b>19.5</b>
Cash position	2,725	3,716	7,488	6,523	15,222
Number of plots	16	16	17	16	19
Land bank ('000 sqm)	1,190	1,190	1,204	1,204	1,233
Number of employees	7	8	24	16	23

## OPERATIONAL OVERVIEW

### Development Project Status - Corallia holiday apartments

#### Construction process

The construction work on the Corallia apartment project was formally completed as the official hand-over document ("Proces Verbal la Terminarea Lucrarilor") was signed by representatives of RomReal, Constanta City Hall and the construction company Baumeister. Currently some small works are being conducted to clean the site and correct minor snags.

Following the formal completion, there are some steps to be taken before payments can be collected from the buyers. During the coming weeks, RomReal will proceed to complete all formal administrative filings with various public entities including the fiscal authorities. The Company will thereafter submit the "cadastral" documentation for registration of the building to the land authorities (registering in the Land Book) followed by a separation (re-sectioning) of the units (both residential/commercial). Finally the flats and commercial area hand-over to the buyers will be held where the final documentation will be signed by the parties. The whole process, assuming no extraordinary events or unforeseen circumstances is estimated to take around two months.

#### Sales progress residential/commercial

During the difficult market conditions in Q3 2009 it was not possible to conclude further sales. Going forward sales activities and discussions are continuing as normal. There are currently 28 flats sold out of a total of 37, and 2 commercial areas sold of a total of 4. As per marketing activities for the remaining unsold flats a showroom will be installed in the completed building during November where potential buyers can visit. In addition marketing activities like banners on the building and along Mamaia Boulevard will be continued.

#### Corallia formally completed early November 2009:

Picture 1: Street view



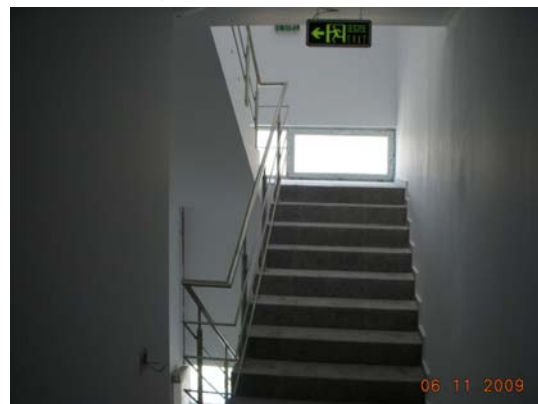
Picture 2: Garden view



Picture 3: Balcony view



Picture 4: Stairway



## The Investment Portfolio

Total size of the Company's Investment Portfolio ("Land Bank") remained constant during the quarter totalling 1,190,300 sqm at the end of Q3 2009.

RomReal is putting a significant effort into releasing some of the cash value in the land bank through asset disposals, although this is a challenging task in the current market environment. It is observed that food chains, discount retail stores and the medical sector are among the few active players looking for suitable development plots. Most of these players mentioned are expanding their networks on a national level, hence also searching for plots in the secondary and tertiary cities.

Property investment in Romania during first half of 2009 reached the lowest figures in the past 5 years. Total recorded property investments amounted to EUR 56 million during the period, which is 17 times lower than in first half of 2008 and 3 times lower than in second half 2008, according to the real estate agency CB Richard Ellis. Furthermore, a study by the real estate consultancy firm DTZ shows that the volume of real estate transactions in Q3 2009 only accounted for 6.5% of the transactions made during the same quarter last year.

## Movement in Net Asset Value

The IFRS based Net Asset Value (NAV) was Euro 1.06 (NOK 9.4) per share at the end of Q3 2009, a 9.4% decline from Q2 2009. The Company has experienced a lack of liquidity in the real estate market and has therefore made a write-down of certain plots in the land bank resulting in a reduction of the total land bank value of about 8%.

Asset base (EUR million)	Q3 2009			Q2 2009		
	EUR	EUR/share	NOK/share	EUR	EUR/share	NOK/share
Investment property	58,459	1.2	10.2	62,798	1.3	11.6
Inventories	6,914	0.1	1.2	6,940	0.1	1.3
Cash	2,725	0.1	0.5	3,716	0.1	0.7
Other Assets / (Liabilities)	(16,035)	(0.3)	-2.8	(15,980)	(0.3)	(3.0)
<b>IFRS Net Asset Value</b>	<b>52,063</b>			<b>57,474</b>		
<b>NAV per share</b>		<b>1.06</b>	<b>9.4</b>		<b>1.17</b>	<b>10.4</b>
<b>NAV Movement in Quarter</b>	<b>-9.4%</b>					

- Number of shares at end of period - 49,247,366

- NOK/share is calculated using closing quarter end exchange rates (EUR/NOK 8.59).

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

### **Accounting Principles**

The financial statements for the Q3 2009 report have been prepared in accordance with IAS 34 – Interim Financial Reporting. The quarterly result has been prepared in accordance with the current IFRS standards and interpretations. The accounting policies applied in the preparation of the quarterly result are consistent with the principles applied in the financial statements for the year to 31 December 2008.

### **Comparative data for Q3 2009 and Q3 2008**

The interpretations below refer to comparable financial information for Q3 2009 and Q3 2008. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

### **Operating Revenue**

The operating revenue for Q3 2009 was EUR 120,000 compared to a total of EUR 192,000 in Q3 2008. This income relates mainly to rent received on some of the land bank assets awaiting development. The reduction in operating revenue in Q3 2009 is due to the termination of sub-letting income from the previous headquarters in Bucharest (which is now closed) and a few tenants terminating lease contracts in the Balada Market plot and the Bus Station plot (both located in Constanta).

### **Operating Expenses**

Total operating expenses amounted to EUR 1,034,000 in Q3 2009 compared to EUR 1.187,000 in Q3 2008.

To compare, the Q3 2009 operating expenses need to be adjusted for extraordinary one-off events. Adjusted on-going operating expenses amounted to EUR 445,000 reflecting the significant decrease in costs following the measures implemented by the Company.

A provision of EUR 589,000 (as an extraordinary event) has been made which relates to a dispute with the Romanian VAT authorities in respect of the sale to third parties of the Central Apartments development and of the one building in the Oasis project. The authorities claim that the Company should have collected (and paid) VAT at a value higher than the selling price of the development (despite an independent valuation report in the case of Oasis). The Company strongly disputes this and has opened a court case against the VAT authorities to reject their claim, but for IFRS accounting purposes has made a provision for the amount requested by the VAT Authority. No cash transfer has been made in this respect. See also “Cash and cash equivalent” below.

Out of the total operating expenses, the main cost items relate to general and administration costs (75% of total operating expenses) and salaries (14% of total operating expenses).

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

The other operating income/(expense) for Q3 2009 relates mainly to the reduction in the value of investment property as a consequence of the write-off. The net of Other Operating Income/(Expense) in Q3 2009 was negative, EUR 5,629,000, compared to EUR 34,903,000 (also negative) in Q3 2008.

### **Profit from operations**

During Q3 2009, RomReal generated an operating loss of EUR 6,543,000, compared to a loss of EUR 35,898,000 in Q3 2008.

## **Financial Income and expense**

Financial income for Q3 2009 was EUR 716,000, while the financial expense in Q3 2009 was EUR 156,000, leading to a net financial gain of EUR 560,000 compared to a net financial loss of EUR 3,349,000 in Q3 2008. The financial net gain relates primarily to the unrealised foreign exchange losses.

## **Result before tax**

The loss before tax in Q3 2009 was EUR 5,982,000 compared to a loss before tax of EUR 39,247,000 in Q3 2008.

During Q3 2009 the RON was relatively stable against EUR with only a slight rise compared to the period ended at 30 June 2009. The main items that generate foreign exchange differences are the inter-company loans and the loan taken from Alpha Bank amounting to EUR 13.7 million. From an operational point of view, the Company's policy is to hedge these effects by retaining as much cash in EUR as possible and also by denominating all receivables in EUR. Although not reflected from an accounting perspective, all contracts are negotiated in EUR and all apartments are sold in EUR. Consequently, the final payments made by the customers when receiving apartments will be made at the exchange rate ruling at the date of payment, hence offsetting in cash terms part of these losses.

## **Cash and cash equivalents**

The Company's cash and cash equivalents position at end Q3 2009 was EUR 2,725,000 compared to EUR 3,716,000 as at end Q2 2009. The main reason for the cash decrease in Q3 2009 is due the final payments being made in connection with the completion of the construction of the Corallia residential project. After the final hand-over to the apartment/commercial area buyers as mentioned under "Construction Process" above, the cash position is expected to increase notably.

The Company has a VAT receivable of approximately EUR 340,000. RomReal is currently working to reclaim this VAT, although the court case described above under "Operating Expenses" may delay this process.

## **Taxation**

The Company is required to calculate its current income tax at a flat rate of 16%. At the beginning of 2009 the fiscal legislation was changed with the companies being required to pay the higher of a minimum income tax based on the turnover of the respective company and the 16% rate applied to the taxable profits. This has not resulted in any material charge for the companies within RomReal group.

The Company accounts for deferred tax on all movements in the fair values of its investment properties at a flat rate of 16%. During Q3 2009 there was a decrease in the deferred tax liability amounting to EUR 460,000 due to the net write-down of the investment property value. With regards to the deferred tax asset, the Company recognises it for the amount of carry forward of unused tax losses and unused tax credits. This to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Where the Company considered that it is not probable enough future taxable profits will be available within the legal time framework of five years to utilized the tax losses against, the Company has not recognized such deferred tax assets.

## **Overview of the Company's debt**

As the end of Q3 2009 the group's consolidated net interest-bearing debt amounted to EUR 13,700,000. This is an asset finance facility taken by the Company in December 2007 with Alpha Bank Romania. The EUR 13.7 million loan had an initial term of 3 years and bears interest at a rate of EURIBOR (1 Month) plus 4.5% margin. Contact has been initiated with Alpha Bank regarding the loan.

The table below shows the total debt for RomReal Ltd as at end Q3 2009 and its maturities:

<b>EUR thousand</b>		<b>End Q3 2009</b>	<b>2009</b>	<b>26 Nov 2010</b>
Alpha Bank		13,700	-	(13,700)

### **Total equity**

The Company's total equity as at end Q3 2009 was EUR 52,063,000, representing 74.2% of total assets at the end of the period.

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Figures in EUR '000

	Q3 2009	Q3 2008	Year to 30 September 2009	Year to 30 September 2008
Rent revenue	120	192	447	562
Other revenue	-	-	-	-
<b>Operating revenue</b>	<b>120</b>	<b>192</b>	<b>447</b>	<b>562</b>
Payroll expenses	(61)	(439)	(274)	(1,031)
Depreciation and amortization	(26)	(58)	(83)	(214)
Management fees	(25)	(25)	(75)	(75)
General and administrative expenses	(922)	(665)	(1,798)	(2,399)
<b>Operating expenses</b>	<b>(1,034)</b>	<b>(1,187)</b>	<b>(2,230)</b>	<b>(3,719)</b>
	-	-	-	-
<b>Profit/ (loss) before other operating items</b>	<b>(914)</b>	<b>(995)</b>	<b>(1,783)</b>	<b>(3,157)</b>
Other operating income/(expense), net	(5,629)	(34,903)	(2,899)	(37,827)
	-	-	-	-
<b>Profit from operations</b>	<b>(6,543)</b>	<b>(35,898)</b>	<b>(4,682)</b>	<b>(40,984)</b>
Financial income	716	-	2,450	2,052
Financial costs	(156)	(3,349)	(6,967)	(5,702)
	-	-	-	-
<b>Result before tax</b>	<b>(5,982)</b>	<b>(39,247)</b>	<b>(9,198)</b>	<b>(44,634)</b>
Tax expense	818	5,917	317	5,371
<b>Result of the period</b>	<b>(5,164)</b>	<b>(33,330)</b>	<b>(8,881)</b>	<b>(39,263)</b>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in EUR '000

ASSETS	September 30, 2009	December 31, 2008	September 30, 2008
<b>Non-current assets</b>			
Intangible fixed assets	7	16	21
Investment properties	58,459	62,798	76,929
Property, plant and equipment	234	367	953
Deferred tax asset	1,398	1,463	18
<b>Total non current assets</b>	<b>60,098</b>	<b>64,645</b>	<b>77,921</b>
<b>Current assets</b>			
Inventories	6,914	7,371	9,493
Other short term receivables	390	1,099	3,713
Prepayments	54	146	123
Cash and cash equivalents	2,725	6,523	7,488
<b>Total current assets</b>	<b>10,083</b>	<b>15,139</b>	<b>20,817</b>
<b>TOTAL ASSETS</b>	<b>70,180</b>	<b>79,784</b>	<b>98,738</b>
<b>EQUITY AND LIABILITIES</b>			
	September 30, 2009	December 31, 2008	September 30, 2008
<b>Equity</b>			
Share capital	85,746	85,746	85,746
Other reserves	425	425	479
Retained earnings	(23,305)	38,151	32,079
Result of current period	(8,881)	(61,456)	(33,721)
FX reserve	(1,922)	(2,703)	(6,006)
<b>Total equity</b>	<b>52,063</b>	<b>60,164</b>	<b>78,577</b>
<b>Non current liabilities</b>			
Non current debt	13,700	13,700	13,528
Other non current liabilities	120	27	8
Deferred income tax	2,317	2,774	4,579
<b>Total non current liabilities</b>	<b>16,137</b>	<b>16,501</b>	<b>18,115</b>
<b>Current Liabilities</b>			
Other debt	4	9	7
Other payables	873	2,179	806
Deferred income	1,099	932	1,230
Tax payable	4	(0)	3
<b>Total current liabilities</b>	<b>1,981</b>	<b>3,120</b>	<b>2,046</b>
<b>TOTAL LIABILITIES</b>	<b>70,180</b>	<b>79,784</b>	<b>98,738</b>

## CASH FLOW STATEMENT (UNAUDITED)

Figures in EUR '000

	Sept 30, 2009	December 31 2008	Sept 30, 2008
Net cash flow from operating activities	(3,271)	(9,469)	(6,532)
Net cash flow used in investing activities	-	4,877	2,729
Net cash flows from financing activities	(527)	(4,107)	(1,601)
Net cash change during period	(3,798)	(8,699)	(5,404)
Cash at beginning of period	6,523	15,222	15,222
<b>Cash and cash equivalents at end of the period</b>	<b>2,725</b>	<b>6,523</b>	<b>9,818</b>

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Figures in EUR '000

	Sept 30, 2009	December 31 2008	Sept 30, 2008
Equity at the beginning of the period	60,164	121,739	121,739
Result for the period	(8,881)	(61,456)	(39,263)
Other changes	781	(120)	(3,899)
<b>Equity at the end of the period</b>	<b>52,063</b>	<b>60,164</b>	<b>78,577</b>

There has been no change in the share capital of the Company during Q3 2009. The total issued number of shares at end Q3 2009 was 49,247,366.