

# REPORT FOR THE FORTH QUARTER 2009

26 February 2010



## RomReal Ltd

### Highlights: Q4 2009

- Statutory Net Asset Value (NAV) under IFRS was EUR 0.86 (NOK 7.4) per share at the end of Q4 2009, a reduction of 19% compared to the end of Q3 2009. This was a result of a further downward adjustment in the value of investment properties following the independent valuation carried out by Colliers International at the 2009 year-end.
- Pre-tax loss in Q4 2009 of EUR 10.16 million. Total assets at the end of Q4 2009 were EUR 58.85 million.
- Development cost for Q4 2009 amounted to EUR 473,003. Apart from a small item expected in Q1 2010, the completion of the Corallia project will put an end to cash expenditure for development.
- The hand-over of flats and cash collection from the Corallia apartment buyers have started. Whereas no payments were received in Q4 2009, during Q1 2010 up until the date of reporting, EUR 562,000 out of about EUR 2 million in outstanding contract payments has been collected in cash.

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

*“RomReal is still operating in a Romanian real estate market with very low transaction levels and reduced availability of financing. During the fourth quarter we have had focus on completing all administrative work and regulatory processes to enable the cash collection from the flat buyers in Corallia to commence. The completion of Corallia will see an end to our development expenditure which previously was a large cash outflow for the Company. This combined with the cash collection from the flat buyers will increase our cash position from the current reported level. During the fourth quarter RomReal's management met with Alpha Bank in Romania to discuss a restructuring of the existing loan during the year and we would characterise the meeting as constructive. Furthermore, RomReal will continue to work hard under the prevailing market conditions to complete the sale of the remaining flats at Corallia and divest some of the plots in our land bank.”*

### KEY FIGURES (EUR '000)

	Q4 2009	Q3 2009	Q4 2008	FY 2009	FY 2008
Profit/(loss) before tax	(10,164)	(5,982)	(25,440)	(19,363)	(70,074)
Net assets value	42,163	52,063	60,164	42,163	60,164
NAV (EUR/share)	<b>0.86</b>	<b>1.06</b>	<b>1.22</b>	<b>0.86</b>	<b>1.22</b>
NAV (NOK/share)	<b>7.4</b>	<b>9.1</b>	<b>11.9</b>	<b>7.4</b>	<b>11.9</b>
Cash position	1,862	2,725	6,523	1,862	6,523
Number of plots	16	16	17	16	17
Land bank ('000 sqm)	1,266	1,190			
Number of employees	7	7	16	7	16

## OPERATIONAL OVERVIEW

### Development Project Status - Corallia apartments

The hand-over of flats and cash collection from the Corallia apartment buyers have started. Whereas no payments were received in Q4 2009, during Q1 2010 up until the date of reporting, EUR 562,000 out of about EUR 2 million in outstanding contract payments has been collected in cash.

During Q4 2009 one apartment (163 m<sup>2</sup>) and one commercial area of approximately 50 m<sup>2</sup> were sold, leaving 29 out of 37 apartments and 3 out of 4 commercial areas sold. To strengthen the apartment sales process a showroom has previously been fitted for viewings and other normal marketing activities are ongoing. It is expected that the demand for apartments will pick up during the spring as the number of viewings during the winter usually are lower in Constanta. Adverse weather conditions with periodically closed roads between Constanta and Bucharest have also contributed to fewer people on viewings.

### Corallia pictures February 2010:

Picture 1: View from the balcony



Picture 2: Kitchen fittings



Picture 3: Living room



Picture 4: Entrance/front garden



## The Investment Portfolio

Total size of the property portfolio (“Land Bank”) was 1,266,876 sqm at the end of Q4 2009. This is 76,208 m<sup>2</sup> higher than reported in Q3 2009 and is a result of a review of the un-zoned land plots which now are totalling 865,062 m<sup>2</sup>. This does also correspond with the year-end 2009 Colliers International valuation.

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. The Company is also working on different alternatives to achieve an increased running yield on its plots.

## Movement in Net Asset Value

The IFRS financial statement based Net Asset Value (NAV) was EUR 0.86 (NOK 7.4) per share at end Q4 2009, a reduction of 19% compared to Q3 2009.

The Colliers International valuation report was produced at the year-end 2009 for IFRS accounts purposes and it’s the base for the property portfolio valuation for Q4 2009. Mainly due to the lack of liquidity and comparable transactions in the Romanian real estate market a write-down of the total value of the property portfolio of 17.8% was made by Colliers International.

Asset base (EUR million)	Q4 2009			Q3 2009		
	EUR	EUR/share	NOK/share	EUR	EUR/share	NOK/share
Investment property	48,058	1.0	8.2	58,459	1.2	10.2
Inventories	8,323	0.2	1.4	6,914	0.1	1.2
Cash	1,862	0.0	0.3	2,725	0.1	0.5
Other Assets / (Liabilities)	(16,080)	(0.3)	-2.7	(16,035)	(0.3)	(2.8)
<b>IFRS Net Asset Value</b>	<b>42,163</b>			<b>52,063</b>		
<b>NAV per share</b>		<b>0.86</b>	<b>7.4</b>		<b>1.06</b>	<b>9.1</b>
<b>NAV Movement in Quarter</b>	<b>-19.0%</b>					

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

- NOK/share is calculated using the closing rate at the end of the quarter

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

### **Accounting Principles**

The financial statements for the Q4 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 Q4 2009 and Q4 2008**

The interpretations below refer to comparable financial information for Q4 2009 and Q4 2008. They are prepared for RomReal on a consolidated basis and use consistent accounting policies and treatments.

### **Operating Revenue**

The operating revenue for Q4 2009 was EUR 92,000 compared to a total of EUR 250,000 in Q4 2008. This income relates to rent received on some of the land bank assets awaiting development. The reduction is due to the previously announced closing of the Bucharest office which received some income from subletting arrangements.

### **Operating Expenses**

Total operating expenses amounted to EUR 292,000 in Q4 2009 compared to EUR 983,000 in Q4 2008. The reduction in costs was a result of a substantial cost cutting program actively pursued by the Company and has been realised both at payroll level and general and administrative expenses. The payroll expenses were reduced by around 76%, mainly as a result of a decrease in the number of employees from 16 at the end of Q4 2008 to 7 at the end of Q4 2009.

Also, the administrative costs of the Company were tightly managed, resulting in a decrease of 75% as compared to the similar period of 2008.

Out of the total operating expenses, the main cost items relate to general and administration costs (58% of total operating expenses) and salaries (24% of total operating expenses).

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

The other operating income/(expense) for Q4 2009 relates chiefly to the change in the value of investment property as a consequence of the downward adjustment of the value of the Company's land bank following the end-of-year valuation by Colliers International.

The net of Other Operating Income/(Expense) in Q4 2009 amounted to minus EUR 8,861,000, compared to minus EUR 18,836,000 in Q4 2008.

### **Profit from operations**

During Q4 2009, RomReal generated an operating loss of EUR 9,062,000, compared to a loss of EUR 19,569,000 in Q4 2008.

### **Financial Income and expense**

Financial income for Q4 2009 was EUR 3,297,000, while the financial expense in Q4 2009 was EUR 4,399,000, leading to a net financial expense of EUR 1,102,000 compared to a net financial expense of EUR 5,871,000 in Q4 2008. The net financial expense relates primarily to the unrealised foreign exchange losses resulting from the revaluation of the EUR denominated loans. Out of the total net financial expense, the interest expense in Q4 2009 was EUR 175,000 and it relates to the interest paid to Alpha Bank.

## **Result before tax**

The loss before tax in Q4 2009 was EUR 10,164,000 compared to a loss before tax of EUR 25,440,000 in Q4 2008. The loss in Q4 2009 reflects mainly the downward adjustment in the value of the Company's land bank. During Q4 2009 the RON was relatively stable against EUR with a slight decline compared to the period ended at 30 September 2009 of 1%. The main items that generate foreign exchange differences are the inter-company loans and the loan 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, as it is the case with the prices for the apartments, which are EUR denominated. Although not reflected from an accounting perspective, all final payments made by the customers when receiving apartments are 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 Q4 2009 was EUR 1,862,000 compared to EUR 2,725,000 as at end Q3 2009. The main reason for the cash decrease in Q4 is related to the development expenses to complete the Corallia apartment project. The completion of Corallia will see an end to the development cash expenditure amounting to EUR 473,003 in Q4 2009.

The hand-over of flats and cash collection from the Corallia apartment buyers have started. Whereas no payments were received in Q4 2009, during Q1 2010 up until the date of reporting, EUR 562,000 out of about EUR 2 million in outstanding contract payments has been collected in cash. This cash collection and the completion of Corallia will strengthen the cash position from the current reported level.

The Company has a receivable of EUR 200,000 representing VAT from the State Budget and is currently working to partially reclaim it and partially offset it against VAT payable in Q1 2010.

## **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 Q4 2009 there was a decrease in the deferred tax liability amounting to EUR 1.44 million due to the net decrease in the value 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 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 utilize the tax losses against, the Company has not recognized such deferred tax assets. At the end of Q4 2009, the Company has made an assessment of whether there is evidence that such taxable profits will be available and has according to IFRS reduced the deferred tax asset where such evidence was not conclusive.

### Overview of the Company's debt

As the end of Q4 2009 the group's consolidated net interest-bearing debt amounted to EUR 13,700,000. This is an asset finance facility entered 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.

The table below shows the total debt for RomReal Ltd as at end Q4 2009 and its maturities:

EUR thousand		End Q4 2009	26 Nov 2010
Alpha Bank		13,700	(13,700)

### Total equity

The Company's total equity as at end Q4 2009 was EUR 42,163,000, representing 72% of total assets at the end of the period.

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

Figures in thousand EUR

	Q4 2009	Q4 2008	Year to 31 December 2009	Year to 31 December 2008
Rent revenue	92	250	539	812
Revenue from sale of assets	-	-	646	-
<b>Operating revenue</b>	<b>92</b>	<b>250</b>	<b>1,185</b>	<b>812</b>
Payroll expenses	(69)	(286)	(343)	(1,317)
Depreciation and amortization	(27)	21	(110)	(193)
Management fees	(25)	(25)	(100)	(100)
General and administrative expenses	(172)	(693)	(1,970)	(3,092)
<b>Operating expenses</b>	<b>(292)</b>	<b>(983)</b>	<b>(2,522)</b>	<b>(4,702)</b>
	-	-	-	-
<b>Profit/ (loss) before other operating items</b>	<b>(201)</b>	<b>(733)</b>	<b>(1,338)</b>	<b>(3,890)</b>
Other operating income/(expense), net	(8,861)	(18,836)	(12,406)	(56,662)
	-	-	-	-
<b>Profit from operations</b>	<b>(9,062)</b>	<b>(19,569)</b>	<b>(13,744)</b>	<b>(60,552)</b>
Financial income	3,297	881	5,747	2,933
Financial expense	(4,399)	(6,752)	(11,366)	(12,454)
	-	-	-	-
<b>Result before tax</b>	<b>(10,164)</b>	<b>(25,440)</b>	<b>(19,363)</b>	<b>(70,073)</b>
Tax expense	6	2,564	323	7,935
<b>Result of the period</b>	<b>(10,158)</b>	<b>(22,876)</b>	<b>(19,040)</b>	<b>(62,138)</b>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

Figures in thousand EUR

ASSETS	December 31, 2009	December 31, 2008
<b>Non-current assets</b>		
Intangible fixed assets	5	16
Investment properties	48,058	62,798
Property, plant and equipment	197	367
Deferred tax asset	-	1,463
<b>Total non current assets</b>	<b>48,261</b>	<b>64,645</b>
<b>Current assets</b>		
Inventories	8,323	7,371
Other short term receivables	349	1,099
Prepayments	57	146
Cash and cash equivalents	1,862	6,523
<b>Total current assets</b>	<b>10,591</b>	<b>15,139</b>
<b>TOTAL ASSETS</b>	<b>58,851</b>	<b>79,784</b>
<b>EQUITY AND LIABILITIES</b>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Equity</b>		
Share capital	85,746	85,746
Other reserves	425	425
Retained earnings	(23,305)	38,151
Result of current period	(19,040)	(61,456)
FX reserve	(1,663)	(2,703)
<b>Total equity</b>	<b>42,163</b>	<b>60,164</b>
<b>Non current liabilities</b>		
Non current debt	-	13,700
Other non current liabilities	0	27
Deferred income tax	878	2,774
<b>Total non current liabilities</b>	<b>878</b>	<b>16,501</b>
<b>Current Liabilities</b>		
Other debt	13,703	9
Other payables	948	2,179
Deferred income	1,135	932
Tax payable	25	(0)
<b>Total current liabilities</b>	<b>15,811</b>	<b>3,120</b>
<b>TOTAL LIABILITIES</b>	<b>58,851</b>	<b>79,784</b>

## CASH FLOW STATEMENT (UNAUDITED)

<b>Figures in thousand EUR</b>		
	<b>December 31, 2009</b>	<b>December 31 2008</b>
Net cash flow from operating activities	(3,961)	(9,469)
Net cash flow used in investing activities	-	4,877
Net cash flows from financing activities	(700)	(4,107)
Net cash change during period	(4,661)	(8,699)
Cash at beginning of period	6,523	15,222
<b>Cash and cash equivalents at end of the period</b>	<b>1,862</b>	<b>6,523</b>

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

<b>Figures in thousand EUR</b>		
	<b>December 31, 2009</b>	<b>December 31 2008</b>
Equity at the beginning of the period	60,164	121,739
Result for the period	(19,040)	(61,456)
Other changes	1,039	(120)
<b>Equity at the end of the period</b>	<b>42,163</b>	<b>60,164</b>

There has been no change in the share capital of the Company during Q4 2009. The total issued number of shares at end Q4 2009 was 49,247,366.