Q1

Storm Real Estate ASA
Interim report
January – March 2017

STORM
real estate asa

Storm Real Estate ASA’s business strategy is to acquire and manage real estate. The strategy includes equities and high yield investments.

Highlights

All numbers in mill. USD	3M 2017	3M 2016
Total Comprehensive Income	+2,8	-2,6

Summary of the largest major items:

NOI from investment property	+1,6	+1,2
Value change investment property	+2,1	-0,3
Value change real estate shares	+0,0	-1,5
Other operating expenses	-0,2	-0,6
Return on funds and other liquid investments	+0,0	0,0
Borrowing costs	-0,5	-0,6
Currency gain / loss	+0,0	+0,4
Value change on contract- and interest derivatives	+0,1	-0,7
Taxes	-0,2	-0,1

Return ratios

	Return on Equity (1)	Total Shareholder Return (2)	NAV per share in NOK (3)
Last year (1 year)	+3.0%	-8.7%	+26.6%
Last 3 years (annualised)	-31.9%	-20.1%	-27.2%
Last 5 years (annualised)	-16.3%	-5.0%	-14.2%

(1) Return on Equity = Total Comprehensive Income (IFRS) for the period / brought forward equity (IFRS) for start of the period, annualised.
(2) Total Shareholder Return = Movement in share price, dividend adjusted, annualised using XIRR formula.
(3) NAV per share in NOK = Movement in NAV per share (IFRS) converted to NOK at closing dates, dividend-adjusted, annualised using XIRR formula.

These return rations are Alternative Performance Measures, and are presented in accordance with ESMA's "Guidelines on Alternative Performance Measures" from 2015. These are reliably measured and the company considers these relevant, because different stakeholders might consider different NAV per share in NOK and Total Shareholder Return relevant alternative performance measures.

Financial information

(all following numbers are in USD)

Summary

- The group had a total comprehensive income in Q1 of 2.8 million, compared with -2.6 million for Q1 2016.
- Increase of the carrying value of the investment property Gasfield totals 2.1 million in Q1 2017, according to valuations by independent appraiser, Cushman & Wakefield. This value adjustment is predominately due to the strengthening of the Russian rouble in the period, and cannot be considered recurring.
- Due to the rental situation following the termination notice from the anchor tenant and the current market situation, the future liquidity situation is uncertain. The company has therefore made an arrangement with the lender to ensure longer visibility of cash flows.
- The lender has agreed to waive covenants and amortisations until September 2018, and to extend the maturity of the loan until June 2019. In return, the company has agreed to make an extraordinary amortization of USD 3 million, which will be raised by means of a share issue in June 2017. This has been put forward to the Annual General Meeting on 11 May 2017.
- Revenues from the investment property in Russia were 1.8 million in the quarter. This compares with 1.4 million for the same period last year.
- Borrowing costs were 0.5 million in the quarter (2016: 0.6 million), including interest rate swaps.

Accounting for value change on investment property:

In accordance with international accounting standards (IFRS) the movement in value of investment property are split over two separate posts, explained by the following: Our Russian subsidiaries which own the buildings have Russian roubles as functional currency. According to IFRS, only the part of the fair value adjustment which can be attributed to RUB is presented over the Income Statement. The effect of currency exchange movements between RUB and USD is presented as Other Comprehensive Income and is included in term Total Comprehensive Income. We see Total Comprehensive Income as the most relevant profit measure for the group. In every quarter we present an explanatory statement of the fair value adjustment:

Change in value, million USD	*3M 2017*	*3M 2016*
Over income statement	*-0,2*	*-0,4*
Translation difference over Other Comprehensive Income	*+2,3*	*+0,1*
Sum value adjustments properties	*+2,1*	*-0,3*

Balance sheet

- The investment property Gasfield is recorded at 33.1 million. The building's valuation in accordance with valuation obtained from an independent valuer is 32.6 million. In addition, values of contract derivatives and land leases are recognised with 0.5 million.
- On the closing date, the group had a cash balance of 4.4 million. All other liquid investments were realised in 2016.
- The group has made provisions of 0.9 million in deferred tax. The vast majority of deferred tax relates to the value adjustment on the investment property Gasfield, after acquisition date and measured in Russian roubles. The deferred tax could become payable on a potential realisation of the building, while a potential realisation of shares in the property-owning subsidiaries could result in lower tax or no taxes.
- The group's equity ratio is 36%.
- The Company's NAV per share in NOK is NOK 6.42 per 31 March 2017.

The company's risk is considered very high. The situation in Russia is demanding. Large vacancy in the market combined with expiring leases could lead to a shortfall on future cash flow. Following the notice of termination from the anchor tenant in the Gasfield building, future cash flow and ability to meet future liabilities within maturity dates is dependent on sourcing new tenants, and also a successful raising of new capital to achieve the planned adjustments to the company's bank loan.

For other business risks than described above, please refer to the company's annual report for 2016.

Oslo, 10 May 2017,

The Board of Directors, Storm Real Estate ASA

The Company's Investment areas

Real Estate in Russia (Gasfield, Moscow)

Macro snapshot

- Although the recession is over, the recovery of the Russian economy is modest. Market commentators expect a growth rate of 1.2% in 2017.
- Coinciding with an increase in oil prices, the Russian currency strengthened further in Q1 2017. The Russian Rouble has strengthened against the US Dollar with c.8% since year end. A stronger rouble gives higher revenues for foreign investors.
- Inflation rate is at 4.3% at the end of Q1 2017, the lowest inflation rate since June 2012
- Unemployment is down from 5.3% at the year end to 4.3% at the end of Q1 2017.

Real Estate Market

- 0.6 billion EUR was invested in commercial properties in Q1 2017. For comparison, the invested volume for 2016 was 3.9 billion EUR.
- Prime yields stand at 10.5% for offices.
- Foreign investments have showed signs of returning to the Russian market. In 2016 foreign investors accounted only for 6% of the market. In Q1 2017 their share was 25%.
- Demand for offices exceeds new supply. In Q1 2017 the take-up of offices was 589,000 sq.m., the highest recorded quarterly volume since Q2 2012. New supply continues to be low. Only 21,000 sq.m. new construction was delivered to the market in Q1 2017.
- The small volume of new construction together with the demand for high-quality offices has led to a reduction in vacancy. In Q1 2017 the overall average vacancy rate decreased by 2.8%.
- The vacancy in class B buildings is approx. 13.2%. For class A buildings the vacancy is approx. 19.8%.
- Registered rent levels have been stable since last year.
- Tenants seek rental agreements in Russian roubles instead of US dollar.

Sources market information Russia: Cushman & Wakefield, Trading Economics, Ministry of Economic Development, Oxford Economics

Consolidated Statement of Comprehensive Income

All numbers in 000 USD	Note	Unaudted Q1 2017	Unaudted Q1 2016	Audited 2016
Continuing operations:				
Rental income		1,822	1,438	6,197
Total Income	**3**	**1,822**	**1,438**	**6,197**
Property related Expenses		-264	-286	-1,169
Personnel Expenses		-64	-194	-435
Other Operational Expenses	3	-170	-415	-1,607
Total Operational Expenses		**-498**	**-895**	**-3,212**
Operating Profit (Loss) Before Fair Value Adjustments		**1,324**	**543**	**2,985**
Fair Value Adjustments on Investment Property	**3**	-206	-396	-10,394
Total Operating Profit (Loss)		**1,118**	**147**	**-7,409**
Finance Revenues	5	11	61	573
Finance Expenses	5	-383	-1,236	-2,146
Currency Exchange Gains (Losses)	5	10	-143	-69
Net Financial Gains (Losses)		**-363**	**-1,319**	**-1,643**
	5			
Earnings before Tax (EBT) continuing operations		**756**	**-1,171**	**-9,051**
Income Tax Expenses	7	215	-110	-1,160
Profit (Loss) for the Period from continuing operations		**541**	**-1,062**	**-7,891**
Discontinued operations:				
Profit (Loss) from discontiuned operations		**0**	**-936**	**-2,268**
Profit (loss), attributable to owners of parent		**541**	**-1,998**	**-10,160**
Profit (loss), attributable to non-controlling interests		**0**	**0**	**0**
Other Comprehensive Income:				
Items that are reclassified from Equity to earnings in subsequent periods:				
Translation differences, continuing operations		2,237	-614	5,352
Sum other income and expenses after tax, continuing operations		**2,237**	**-614**	**5,352**
Sum other income and expenses after tax, discontinued operations		**0**	**0**	**0**
Sum other income and expenses after tax		**2,237**	**-614**	**5,352**
Comprehensive income, attributable to owners of parent		**2,778**	**-2,612**	**-4,807**
Comprehensive income, attributable to non-controlling interests		**0**	**0**	**0**
Average Number of Shares (Excluding Treasury Shares)		18,345,623	18,345,623	18,345,623
Basic and diluted earnings per share (USD)		0.03	-0.11	-0.55
Basic and diluted earnings per share (USD) continuing operations		0.03	-0.06	-0.43
Total Comprehensive Income per share (USD)		0.15	-0.14	-0.26

Consolidated Statement of Financial Position

All numbers in 000 USD	Note	Unaudited 31.03.2017	Audited 31.12.2016
Fixed Assets			
Investment Property	3	33,075	31,215
PP&E	4	18	18
Sum Fixed Assets		**33,093**	**31,233**
Current assets			
Other Receivables	10	482	473
Cash and Cash Equivalents	4	4,418	4,371
Total Current Assets		**4,900**	**4,844**
Total Assets		**37,994**	**36,078**
Paid-in Equity			
Share Capital		1,236	1,236
Share Premium		21,036	21,036
Other Paid-in Equity		56,763	56,763
Total Paid-in Equity		**79,035**	**79,035**
Other equity			
Other equity		-65,291	-68,069
Total other equity		**-65,291**	**-68,069**
Total Equity		**13,744**	**10,966**
Non-current liabilities			
Loans From Credit Institutions	4	18,127	18,716
Deferred Tax Liabilities		886	864
Financial Derivative Liabilities	4	892	562
Other Long-term Liabilities		215	213
Total non-current liabilities		**20,120**	**20,355**
Current liabilities			
Trade Payables		28	84
Financial Derivative Liabilities		275	973
Loans from Credit Institutions	4	2,366	2,366
Other Short-term Payables	9	1,461	1,334
Total Current liabilities		**4,129**	**4,756**
Total Liabilities		**24,249**	**25,111**
Total Equity and Liabilities		**37,994**	**36,078**

Consolidated Statement of Cash Flow

All numbers in 000 USD	Unaudited Q1 2017	Unaudited Q1 2016	Audited 2016
Cash Flow from Operational Activites			
Earnings before Tax, continuing operations	756	-1,171	-9,051
Earnings before Tax, discontinued operations	-	-936	-2,268
Earnings before Tax	756	-2,108	-11,320
Adjusted for:			
Depreciations	2	1	6
Value Adjustments on Invenstment Property	206	396	10,394
Financial Income	-18	1,422	2,774
Financial Expenses	390	1,248	1,774
Net Currency Gains	-8	-512	-958
Cash Flow Before Changes in Working Capital	**1,328**	**447**	**2,670**
Changes in Working Capital:			
Trade Receivables and Other Receivables	-8	-80	-86
Trade Payables and Other Payables	-40	3	-49
Paid Taxes	-230	-226	-1,154
Net Cash Flow From Operating Activities	**1,049**	**144**	**1,381**
Cash Flow From Investment Activities			
Outflows from Investments in Financial Securities	0	0	0
Inflows from Investments in Financial Securities	0	2,644	15,225
Sale of subsidiary, net of cash	0	0	0
Interest Received	12	57	151
Net Cash Flow From Investment Activities	**12**	**2,702**	**15,376**
Cash Flow From Financing Activities			
Repayments of Loans	-591	-2,233	-3,637
Changes in Other Long-term Liabilities	0	0	0
Dividends Paid	0	0	-8,420
Interest Paid	-500	-595	-2,113
Net Cash flow From Financing Activities	**-1,091**	**-2,828**	**-14,170**
Net Change in Cash and Cash Equivalents	**-30**	**17**	**2,587**
Carried Forward Cash and Cash Equivalents	4,371	1,703	1,703
FX movements on opening balance	78	88	82
Cash and Cash Equivalents on Closing Date	**4,418**	**1,807**	**4,371**
Of which restricted Cash and Cash Equivalents	238	238	238

Consolidated Statement of Changes in Equity

All numbers in 000 USD	Paid-in Equity			Other Equity		
	Share Capital	Share Premium	Other Paid-in Equity	Retained Earnings	Translation Differences on Foreign Operations	Total Equity
1 January 2016	**1,236**	**21,036**	**56,763**	**21,605**	**-78,641**	**22,000**
Profit (Loss) for the Period				-1,998		-1,998
Other Comprehensive Income					-614	-614
Total Comprehensive Income	0	0	0	-1,998	-614	-2,612
31 March 2016	**1,236**	**21,036**	**56,763**	**19,607**	**-79,255**	**19,388**

	Paid-in Equity			Other Equity		
	Share Capital	Share Premium	Other Paid-in Equity	Retained Earnings	Translation Differences on Foreign Operations	Total Equity
1 January 2017	**1,236**	**21,036**	**56,763**	**5,220**	**-73,288**	**10,966**
Profit (Loss) for the Period				541		541
Other Comprehensive Income					2,237	2,237
Sum	0	0	0	541	2,237	2,778
31 March 2017	**1,236**	**21,036**	**56,763**	**5,760**	**-71,051**	**13,744**

SELECTED NOTES TO THE INTERIM FINANCIAL STATEMENT

(Unaudited)

1. Company Information

Storm Real Estate ASA is a public limited liability company domiciled in Norway. The company is listed on Oslo Stock Exchange. The principal activity of the company is investment in yielding properties in Russia and the EEA, including investments in equities and bonds.

2. Basis of Preparation and Accounting Policies

Basis of Preparation

The interim financial statements for the period ending 31 December 2016 are prepared in accordance with IAS 34. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statement of 2015. The interim financial statements are unaudited. The interim financial statement was approved by the Board of Directors on 10 May 2017.

Accounting principles

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for 2016. All notes are in '000 USD, except where otherwise indicated.

3. Investment property

Value as valued by an independent valuer:	31.03.2017	31.12.2016
As at 1 January	30,500	34,700
Value Adjustment Investment *	2,100	-4,200
Disposal Investment Property	0	0
Value per Closing	32,600	30,500

Other assets regognised as part of Investment Property:		
As at 1 January	715	4,250
Changes in carrying value of land plot lease agreements **	14	32
Changes in embedded derivatives contract ***	-254	-3,567
Value per Closing	475	715

Carrying value 01.01	**31,215**	**38,950**
Carrying value per Closing date	**33,075**	**31,215**

* The functional currency of the Russian subsidiaries including the buildings in Russian Rouble. The fair value changes has two elements:

- Changes in the local functional currency (RUB) are presented in the income statement
- Translation differences in the Group presentation currency (USD) are not allowed in the income statement, and are presented in the statement of comprehensive income.

The two effects are presented separately below:

	3M 2017	3M 2016
Change in RUB over Income Statement	-206	-396
Translation Differences over Comprehensive Income	2,306	96
Net Change in Fair Value	2,100	-300

NOI from Properties	3M 2017	3M 2016
Rental Income	1,822	1,438
Direct Property Related Expenses	264	286
NOI from Properties	1,558	1,152

** The Company has capitalised land plot lease agreements in accordance with IAS 40 *Investment Property* and IAS 17 Leases.

*** In 2015 The Company signed an agreement on a lease reduction with the anchor tenant in Moscow. Reduction is in practice done by agreeing a ceiling on exchange rate USD/RUB = 45. This arrangement shall in accordance with IFRS be treated as a financial derivative. This derivative is related to the investment property. The company has recognised a financial liability when USD/RUB at the reporting date was unfavourable. A recognition of this currency derivative has no effect on the net asset value, when the size of the asset and liability are equal (see liability in note 4).

Variables for Independent Valuations	31.03.2017	31.12.2016
Discount Rate	12.50%	12.50%
Yield (cap. rate)	11.50%	11.50%
Market rates, RUB/sq.m (net of VAT and op.ex)	18,000	18,000

The investment property is valued accordin to Level 3 of the fair value analysis (see note 4).

4. Financial Assets and Liabilities

Investments in financial securities:	**31.03.2017**	**31.12.**
Value as at 1 January	0	17
Additions	0	
Disposals	0	-15
Change in Fair Value	0	-2
Change in Currency *	0	
Value at closing date	0	

* Investments in TK Development A/S (DKK) were not currency hedged.
Investments in other currencies than USD was largely hedged against USD on the reported balance dates.

Other Financial Assets and Liabilities	**31.03.2017**	**31.12.**
Cash and Cash Equivalents	4,418	4
Interest Rate Swaps	-1,031	-1
Bank Loan	-20,492	-21
Embedded derivatives *)	-275	
Land plot lease agreements	-200	
Net Financial Assets and Liabilities	-17,580	-18

*) see note 3 *Investment Property* for a description of the recognised liability of embedded derivatives.

Bank loan

The company's lender has in its credit committee on 31/03/2017 granted amended terms to the company's loan agreement.

The amended terms include
- postponement of the maturity date to June 2019
- no amortisation up to and including Q3 2018
- waiving of covenants up to and including Q3 2018,
- adjusted covenants for the period Q4 2018 to maturity, adapted to the changed market conditions in Russia.

The covenants from Q4 2018 include an Interest Service Ratio on Russia level of 1.1x, and quarterly amortisations at USD 0.3 million.
LTV and equity ratio covenants remain at 70% and 20%, respectively.

These amendments are subject to that the company obtains new capital of at least USD 3 million, to be paid to the bank as an extraordinary amortisation within 15/07/2017, and also subject to entering into formal documentation.
The Board has made a proposal for a capital increase to the shareholders in a General Meeting on 11 May 2017.
These amended terms provide the company with better visibility and ability to meet its loan obligations.

4. Financial Assets and Liabilities (continues)

Fair value hierarchy

The table below shows an analysis of fair values of financial instruments in the Statement of Financial Position, grouped by level in the fair value hierarchy.

Level 1 - Quoted prices in active markets that the entity can access at the measurement date.
Level 2 – Use of a model with inputs other than level 1 that are directly or indirectly observable market data.
Level 3 - Use of a model with inputs that are not based on observable market data.

Financial liabilities measured at fair value	Level 1	Level 2	Level 3	Sum
Interest rate swaps	-1,031			-1,031
Embedded derivatives on leases	-275			-275
Land plot lease agreements	-200			-200
Sum financial liabilities measured at fair value	**-1,506**	**0**	**0**	**-1,506**

Comparison per class

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
	31.03.2017	**31.12.2016**	**31.03.2017**	**31.12.2016**
Financial assets				
Accounts receivable	1	3	1	3
Other receivables	481	470	481	470
Cash and cash equivalents	4,418	4,371	4,418	4,371
Sum	**4,900**	**4,844**	**4,900**	**4,844**
Financial liabilities				
Interest-bearing loans and borrowings	20,492	21,081	21,143	21,143
Trade liabilities	28	84	28	84
Derivative financial liabilities at fair value	275	529	275	529
Interest rate swaps and FX forward contracts	1,031	1,006	1,031	1,006
Land plot lease agreements	200	186	200	186
Other current liabilities	1,261	1,147	1,261	1,147
Sum	**23,287**	**24,034**	**23,938**	**24,096**

5. Finance income and costs

Finance income and costs from continuing operations:

	3M 2017	3M 2016
Currency		
Currency Gain	1	165
Currency Loss	9	-308
Net Currency Gain (Loss)	10	-143
Finance Revenues		
Interest Revenue	14	61
Fair Value Adjustment, Financial Investments	0	11
Fair Value Adjustment, Derivatives	115	0
Dividend income, Financial Investments	0	1
Other Financial Revenues	3	0
Sum	132	72
Finance Costs		
Interest Costs	-498	-566
Disposal of subsidiary	0	-672
Fair Value Adjustment, Derivatives	0	0
Fair Value Adjustment, Financial Investments	0	
Other Finance Gains (Loss)	-7	-10
Sum	-505	-1,248
Net Finance Gains (Losses) continued operations	-363	-1,319

Finance income and costs from discontinued operations:

Net Currency Gain (Loss)	0	558
Fair Value Adjustment, Financial Investments	0	-1,494
Net Finance Gains (Losses) discontinued operations	0	-936

6. Shareholder information

The 20 largest shareholders as at 31.03.2017

Shareholder	Type *	Country	Shares	%
ACONCAGUA MANAGEMENT LTD		LUXEMBOURG	3,928,855	21.42%
SKANDINAVISKA ENSKILDA BANKEN AB	NOM	SWEDEN	3,648,614	19.89%
J.P. MORGAN BANK LUXEMBOURG S.A.	NOM	UK	852,077	4.64%
QVT FUND LP		BELGIUM	637,817	3.48%
PACTUM AS		NORWAY	579,675	3.16%
BANAN II AS		NORWAY	476,338	2.60%
FINANSFORBUNDET		NORWAY	416,650	2.27%
AUBERT VEKST AS		NORWAY	373,304	2.03%
TDL AS		NORWAY	182,250	0.99%
HYGGEN THORE		NORWAY	181,250	0.99%
MOTOR-TRADE EIENDOM OG FINANS AS		NORWAY	180,000	0.98%
ØRN NORDEN AS		NORWAY	178,060	0.97%
LANGBERG INGRID MARGARETH		NORWAY	173,750	0.95%
ALBION HOLDING AS		NORWAY	155,250	0.85%
SVENSKA HANDELSBANKEN SA	NOM	NORWAY	150,000	0.82%
INVESTERINGSHUSET DA		NORWAY	98,839	0.54%
THE BANK OF NEW YORK MELLON SA/NV	NOM	BELGIUM	71,942	0.39%
KIKUT EIENDOM AS		NORWAY	68,750	0.37%
NINVEST A/S		NORWAY	67,500	0.37%
BACHE AS		NORWAY	65,250	0.36%
SUM 20 LARGEST			**12,486,171**	**68.06%**
OTHER SHAREHOLDERS			5,859,452	31.94%
SUM			**18,345,623**	**100.00%**

* NOM = Nominee Accounts; foreign institutions holding shares on behalf of clients.

The list is as per the shareholders registered in VPS as 31.03.2017
Any broker trades before the closing date reported after the closing date is not reflected in this list.

Shares controlled by board members		Shares	%
Morten E. Astrup	via Aconcagua Management Ltd and Ørn Norden AS	4,106,915	22.4 %
Kim Mikkelsen	via Strategic Investments A/S	3,648,614	19.9 %
Stein Aukner	via Banan AS and Aukner Holding AS	501,338	2.7 %
Sum		**8,256,867**	**45.0 %**

7. Tax Expenses

Tax Expense for period	3M 2017	3M 2016
Current Tax	258	218
Deferred Tax	-43	-328
Total Tax Expense for Period	215	-110

8. Transactions with Related Parties

	3M 2017	3M 2016
Storm Capital Management Ltd. - management fee	103	169
Sum	103	169

9. Other current liabillities

	31.03.2017	31.12.2016
Taxes and duties due	328	314
Advance rents paid by tenants	912	840
Other	221	180
Sum	1,461	1,334

10. Other Current Receivables

	31.03.2017	31.12.2016
Taxes and Duties receivable	299	218
Other Current receivables	183	256
Sum	482	473

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