

Q3

Storm Real Estate ASA
Interim report
January – September 2017



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

	9M 2017	9M 2016
Total Comprehensive Income	-2.7	-4.8

Summary of the largest major items:

NOI from investment property	+2.0	+3.8
Value change investment property	-3.4	-1.8
Value change real estate shares	n/a	-3.0
Other operating expenses	-0,7	-1.8
Return on funds and other liquid investments	n/a	0.0
Borrowing costs	-1,5	-1.6
Currency gain / loss	0.0	+0.3
Value change on contract- and interest derivatives	+0,3	-0.6
Taxes	+0,7	+0.3

Return ratios

	Return on Equity ⁽¹⁾	Total Shareholder Return ⁽²⁾
Last year (1 year)	-30.7%	-57.3%
Last 3 years (annualised)	-37.8%	-35.5%
Last 5 years (annualised)	-20.8%	-17.9%

⁽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.

Calculated using historical share prices as adjusted by Oslo Stock Exchange post rights offering in June 2017.

These return ratios 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 company completed a rights offering for 28 million NOK in June. The net proceeds after costs were USD 3.2 million. This met the bank's minimum requirement of a payment of USD 3.0 million from shareholders. The bank loan now has no amortisations, and major covenants are waived, until Q4 2018.
- As previously reported, the anchor tenant vacated the Gasfield building on 31 May 2017. The tenants accounted for approx. 80% of the lettable area.
- At the date of this report the building is 32% let following re-letting of 1,311 sq.m. across 12 new tenants.
- Due to the rental situation and the current market situation, the future liquidity situation of the company is uncertain.

Income statement

- The group had a total comprehensive income in Q3 of -0.4 million, compared with 0.0 million for Q3 2016. For the first nine months, the total comprehensive income was -2.7 million compared with -4.8 million for the same period in 2016.
- The carrying value of the investment property Gasfield was almost unchanged in Q3 2017 (-0.1 million), according to valuations by independent appraiser, Cushman & Wakefield.
- Revenues from the investment property in Russia were 0.2 million in Q3. This compares with 1.6 million for the same period last year. For year to date, the revenues were 2.8 million (2016: 4.6 million).
- Borrowing costs were 0.4 million in the quarter (2016: 0.9 million), including interest rate swaps. For year to date, borrowing costs were 1.5 million (2016: 1.6 million).

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 subsidiary which owns the building uses 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	9M 2017	9M 2016
Over income statement	-4.9	-6.6
Translation difference over Other Comprehensive Income	+1.0	+4.8
Sum value adjustments properties	-3.9	-1.8

Balance sheet

- The investment property Gasfield is recorded at 27.3 million. The building's valuation in accordance with valuation obtained from an independent valuer is 27.1 million. In addition, values of contract derivatives and land leases are recognised with 0.2 million.
- On the closing date, the group had a cash balance of 3.0 million.
- The group's equity ratio is 36.9% as at 30 September 2017.
- The loan-to-value of the Gasfield bank loan is currently 66.9%, after repayment of the remaining 1.8 million of the proceeds to the bank on 15 July.
- The Company's NAV per share in NOK is NOK 1.03 per 30 September 2017 (calculated using new number of shares).

The company's risk is considered very high. The situation in Russia is demanding. High vacancy in the market combined with the company's own vacancy situation could lead to a shortfall on future cash flow. Given the current 70% vacancy in the building, the group is currently loss-making. Future cash flow and ability to meet future liabilities within maturity dates is dependent on sourcing new tenants.

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

Oslo, 9 November 2017,

The Board of Directors, Storm Real Estate ASA

The company's investment areas

Real Estate in Russia (Gasfield, Moscow)

Macro snapshot

- Following the recession in 2014-2016 the Russian economy is recovering. Macro indicators are exceeding expectations. Market commentators expect a growth rate of 2% in 2017.
- Inflation rate is at 3.0% at the end of Q3 2017, the lowest inflation rate in the post-Soviet era.
- Unemployment is down from 5.3% at the year end to 5.0% at the end of Q3 2017.
- The Central Bank has lowered the key rate to 8.25%, a cut of 4.25 percentage points in 2 years.

Real Estate Market

- 827 million EUR was invested in commercial properties in Q3, bringing the total to 2.4 billion EUR year to date. For comparison, the invested volume for 2016 was 3.1 billion EUR.
- Prime yields remain unchanged 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 2017 their share has been 22%.
- As at 30 September the take-up of offices was 1.3 million sq.m. 2,200 new deals were executed in the first nine months of 2017.
- New supply continues to be low. Only 96,000 sq.m. new construction has been delivered to the market in 2017. Moreover, many planned deliveries are reported as being postponed for up to 3 years. Around 380,000 sq.m of new construction is expected in 2017, of which two skyscrapers in Moscow City account for 240,000 sq.m.
- At the end of Q3 2017 the overall average vacancy rate had fallen to 13.2%. The vacancy in class B buildings is approx. 11.9%. For class A buildings, the vacancy is approx. 17.2%. In our sub-location, the real estate consultancy company ILM estimates the vacancy rate to be 9.1% for class B office buildings.
- Registered rent levels have been stable since last year.

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	Unaudited Q3 2017	Unaudited Q3 2016	Unaudited 9M 2017	Unaudited 9M 2016	Audited 2016
Continuing operations:							
Rental income	3		167	1,579	2,807	4,587	6,197
Total Income			167	1,579	2,807	4,587	6,197
Property related Expenses	3		-265	-260	-811	-786	-1,169
Personnel Expenses			-58	-63	-179	-334	-435
Other Operational Expenses			-149	-169	-528	-1,465	-1,607
Total Operational Expenses			-473	-492	-1,519	-2,585	-3,212
Operating Profit (Loss) Before Fair Value Adjustments			-306	1,087	1,288	2,002	2,985
Fair Value Adjustments on Investment Property	3		-737	-6,412	-4,883	-6,608	-10,394
Total Operating Profit (Loss)			-1,043	-5,325	-3,595	-4,606	-7,409
Finance Revenues	5		156	36	260	142	573
Finance Expenses	5		-484	-195	-1,540	-2,165	-2,146
Currency Exchange Gains (Losses)	5		55	-124	46	-455	-69
Net Financial Gains (Losses)			-273	-283	-1,234	-2,478	-1,643
Earnings before Tax (EBT) continuing operations			-1,316	-5,609	-4,828	-7,084	-9,051
Income Tax Expenses	7		-213	164	-737	-483	-1,160
Profit (Loss) for the Period from continuing operations			-1,103	-5,772	-4,091	-6,601	-7,891
Discontinued operations:							
Profit (Loss) from discontinued operations			0	0	0	-2,268	-2,268
Profit (loss), attributable to owners of parent			-1,103	-5,772	-4,091	-8,869	-10,160
Profit (loss), attributable to non-controlling interests			0	0	0	0	0
Other Comprehensive Income:							
<i>Items that are reclassified from Equity to earnings in subsequent periods:</i>							
Translation differences, continuing operations			654	5,800	1,380	4,034	5,352
Sum other income and expenses after tax, continuing operations			654	5,800	1,380	4,034	5,352
Sum other income and expenses after tax, discontinued operations			0	0	0	0	0
Sum other income and expenses after tax			654	5,800	1,380	4,034	5,352
Comprehensive income, attributable to owners of parent			-449	28	-2,711	-4,835	-4,807
Comprehensive income, attributable to non-controlling interests			0	0	0	0	0
Earnings per share (EPS), attributable to owners of parent							
Weighted average number of shares *			88,345,623	18,345,623	42,704,597	18,345,623	18,345,623
Basic and Diluted earnings per share (USD)			-0.01	-0.31	-0.10	-0.48	-0.55
Basic and Diluted earnings per share (USD) continuing operations			-0.01	-0.31	-0.10	-0.36	-0.43
Basic and Diluted Total Comprehensive Income per share (USD)			-0.01	0.00	-0.06	-0.26	-0.26

* Weighted average calculated with issue of 70.000.000 shares on 27.06.2017

Consolidated Statement of Financial Position

All numbers in 000 USD	Note	Unaudited 30.09.2017	Audited 31.12.2016
Investment Property	3	27,295	31,215
Deferred tax asset		75	0
PP&E		5	18
Sum Fixed Assets		27,375	31,233
Other Receivables	10	510	473
Cash and Cash Equivalents	4	3,077	4,371
Total Current Assets		3,587	4,844
Total Assets		30,961	36,078
Share Capital		4,575	1,236
Share Premium		21,036	21,036
Other Paid-in Equity		56,605	56,763
Total Paid-in Equity		82,216	79,035
Other equity		-70,779	-68,069
Total other equity		-70,779	-68,069
Total Equity		11,436	10,966
Loans From Credit Institutions	4	18,084	18,716
Deferred Tax Liabilities		0	864
Financial Derivative Liabilities	4	828	562
Other Long-term Liabilities		241	213
Total non-current liabilities		19,153	20,355
Trade Payables		7	84
Financial Derivative Liabilities		0	973
Loans from Credit Institutions	4	0	2,366
Other Short-term Payables	9	364	1,334
Total Current liabilities		372	4,756
Total Liabilities		19,525	25,111
Total Equity and Liabilities		30,961	36,078

Consolidated Statement of Cash Flow

All numbers in 000 USD	Unaudited 9M 2017	Unaudited 9M 2016	Audited 2016
Earnings before Tax, continuing operations	-4,828	-7,084	-9,051
Earnings before Tax, discontinued operations	-	-2,268	-2,268
Earnings before Tax	-4,828	-9,352	-11,320
<i>Adjusted for:</i>			
Depreciations	3	5	6
Value Adjustments on Investment Property	4,883	6,608	10,394
Financial Income	-145	2,808	2,774
Financial Expenses	1,425	2,190	1,774
Net Currency Gains	1	-728	-958
Cash Flow Before Changes in Working Capital	1,338	1,530	2,670
<i>Changes in Working Capital:</i>			
Trade Receivables and Other Receivables	-37	74	-86
Trade Payables and Other Payables	-936	547	-49
Paid Taxes	-492	-891	-1,154
Net Cash Flow From Operating Activities	-127	1,260	1,381
Inflows from Investments in Financial Securities	0	13,992	15,225
Interest Received	65	115	151
Net Cash Flow From Investment Activities	65	14,107	15,376
Share issue, payments/costs	3,181	0	0
Repayments of Loans	-3,000	-3,046	-3,637
Dividends Paid	0	-8,420	-8,420
Interest Paid	-1,484	-1,619	-2,113
Net Cash flow From Financing Activities	-1,304	-13,084	-14,170
Net Change in Cash and Cash Equivalents	-1,365	2,282	2,587
Carried Forward Cash and Cash Equivalents	4,371	1,703	1,703
FX movements on opening balance	72	141	82
Cash and Cash Equivalents on Closing Date	3,077	4,126	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		Total Equity
	Share Capital	Share Premium	Other Paid-in Equity	Retained Earnings	Translation Differences on Foreign Operations	
1 January 2016	1,236	21,036	56,763	21,605	-78,641	22,000
Profit (Loss) for the Period				-8,869		-8,869
Other Comprehensive Income					4,034	4,034
Total Comprehensive Income	1,236	21,036	56,763	12,736	-74,608	17,165
Dividends				-8,420		-8,420
Sum other capital changes	0	0	0	-8,420	0	-8,420
30 September 2016 (unaudited)	1,236	21,036	56,763	4,316	-74,607	8,745

	Paid-in Equity			Other Equity		Total Equity
	Share Capital	Share Premium	Other Paid-in Equity	Retained Earnings	Translation Differences on Foreign Operations	
1 January 2017	1,236	21,036	56,763	5,220	-73,288	10,966
Profit (Loss) for the Period				-4,091		-4,091
Other Comprehensive Income					1,380	1,380
Sum	0	0	0	-4,091	1,380	-2,711
Share issue	3,339		-158			3,181
Sum other capital changes	3,339	0	-158	0	0	3,181
30 September 2017 (unaudited)	4,575	21,036	56,605	1,128	-71,908	11,436

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 30 September 2017 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 2017. The interim financial statements are unaudited. The interim financial statement was approved by the Board of Directors on 9 November 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

	30.09.2017	31.12.2016
Value as valued by an independent valuer:		
As at 1 January	30,500	34,700
Value Adjustment Investment *	-3,400	-4,200
Value per Closing	27,100	30,500
Other assets recognised as part of Investment Property:		
As at 1 January	715	4,250
Changes in carrying value of land plot lease agreements **	9	32
Changes in embedded derivatives contract ***	-529	-3,567
Value per Closing	195	715
Carrying value 01.01	31,215	38,950
Carrying value per Closing date	27,295	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:

	9M 2017	9M 2016
Change in RUB over Income Statement	-4,883	-6,608
Translation Differences over Comprehensive Income	963	4,808
Net Change in Fair Value	-3,920	-1,800

NOI from Properties	9M 2017	9M 2016
Rental Income	2,807	4,587
Direct Property Related Expenses	-811	-786
NOI from Properties	1,996	3,801

** 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 (later terminated).

Reduction is in practice done by agreeing a ceiling on exchange rate USD/RUB = 45. This arrangement was 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	30.09.2017	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), main office areas	18,000	18,000

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

4. Financial Assets and Liabilities

Investments in financial securities:	30.09.2017	31.12.2016
Value as at 1 January	0	17,291
Additions	0	0
Disposals	0	-15,214
Change in Fair Value	0	-2,949
Change in Currency *	0	871
Value at closing date	0	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	30.09.2017	31.12.2016
Cash and Cash Equivalents	3,077	4,371
Interest Rate Swaps	-828	-1,006
Bank Loan	-18,084	-21,081
Embedded derivatives *)	0	-529
Land plot lease agreements	-195	-186
Net Financial Assets and Liabilities	-16,030	-18,432

*) 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 were 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 documentation.

A Rights Offering was conducted in earlier this year (Q2). The Rights Offering was fully subscribed and the company paid the bank in Q3 in accordance with the above plan.

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	-828			-828
Embedded derivatives on leases	0			0
Land plot lease agreements	-195			-195
Sum financial liabilities measured at fair value	-1,023	0	0	-1,023

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	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016
Financial assets				
Accounts receivable	19	3	19	3
Other receivables	491	470	491	470
Cash and cash equivalents	3,077	4,371	3,077	4,371
Sum	3,587	4,844	3,587	4,844
Financial liabilities				
Interest-bearing loans and borrowings	18,084	21,081	18,143	21,143
Trade liabilities	7	84	7	84
Derivative financial liabilities at fair value	0	529	0	529
Interest rate swaps and FX forward contracts	828	1,006	828	1,006
Land plot lease agreements	195	186	195	186
Other current liabilities	170	1,250	170	1,250
Sum	19,285	24,137	19,344	24,198

5. Finance income and costs

Finance income and costs from continuing operations:

	9M 2017	9M 2016
Currency		
Currency Gain	71	0
Currency Loss	-25	-456
Net Currency Gain (Loss)	46	-456
Finance Revenues		
Interest Revenue	68	130
Fair Value Adjustment, Derivatives	178	0
Dividend income, Financial Investments	0	25
Other Financial Revenues	14	13
Sum	260	167
Finance Costs		
Interest Costs	-1,486	-1,553
Fair Value Adjustment, Derivatives	0	-557
Other Finance Gains (Loss)	-54	-79
Sum	-1,540	-2,190
Net Finance Gains (Losses) continued operations	-1,234	-2,478

Finance income and costs from discontinued operations:

Net Currency Gain (Loss)	0	706
Fair Value Adjustment, Financial Investments	0	-2,975
Net Finance Gains (Losses) discontinued operations	0	-2,268

6. Shareholder information

The 20 largest shareholders as at 30.09.2017

The list is as per the shareholders registered in VPS as 30.09.2017
Any broker trades before the closing date reported after the closing date is not reflected in this list.

The company's web site www.stormrealestate.no shows an updated top 20 list.

Shareholder	Type *	Country	Shares	%
ACONCAGUA MANAGEMENT LTD		LUXEMBOURG	23,880,399	27.03%
SKANDINAVISKA ENSKILDA BANKEN AB	NOM	SWEDEN	22,177,036	25.10%
J.P. MORGAN BANK LUXEMBOURG S.A.	NOM	UK	6,560,151	7.43%
BANAN II AS		NORWAY	2,895,281	3.28%
PACTUM AS		NORWAY	2,791,494	3.16%
AUBERT VEKST AS		NORWAY	2,495,907	2.83%
J.P. MORGAN BANK LUXEMBOURG S.A.	NOM	UK	2,326,118	2.63%
ØSTLANDSKE PENSJONISTBOLIGER AS		NORWAY	1,909,578	2.16%
ØRN NORDEN AS		NORWAY	1,082,286	1.23%
SAMSØ AS		NORWAY	976,617	1.11%
THORE HYGGEN		NORWAY	931,250	1.05%
MOTOR-TRADE EIENDOM OG FINANS AS		NORWAY	866,811	0.98%
INGRID MARGARETH LANGBERG		NORWAY	850,000	0.96%
ALBION HOLDING AS		NORWAY	747,625	0.85%
SVENSKA HANDELSBANKEN AB	NOM	NORWAY	722,343	0.82%
TDL AS		NORWAY	476,250	0.54%
FINANSFORBUNDET		NORWAY	416,650	0.47%
BLAKSTAD MASKIN AS		NORWAY	338,162	0.38%
EILERTSEN		NORWAY	303,911	0.34%
LKG EIENDOM AS		NORWAY	303,911	0.34%
SUM 20 LARGEST			73,051,780	82.69%
OTHER SHAREHOLDERS			15,293,843	17.31%
SUM			88,345,623	100.00%

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

Shares controlled by board members		Shares	%
Morten E. Astrup	via Aconcagua Management Ltd and Ørn Norden AS	24,962,685	28.3 %
Kim Mikkelsen	via Strategic Investments A/S	22,177,036	25.1 %
Stein Aukner	via Banan AS and Aukner Holding AS	3,047,235	3.4 %
Sum		50,186,956	56.8 %

7. Tax Expenses

Tax Expense for period	9M 2017	9M 2016
Current Tax	242	863
Deferred Tax	-979	-1,346
Total Tax Expense for Period	-737	-483

8. Transactions with Related Parties

	9M 2017	9M 2016
Storm Capital Management Ltd.	231	323
Sum	231	323

9. Other current liabilities

	30.09.2017	31.12.2016
Taxes and duties due	48	314
Advance rents paid by tenants	163	840
Other	153	180
Sum	364	1,334

10. Other Current Receivables

	30.09.2017	31.12.2016
Taxes and Duties receivable	259	218
Other Current receivables	324	256
Sum	582	473

