

H2

Storm Real Estate ASA
Interim report
January – December 2018



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

	Unaudited 12M 2018	Audited 12M 2017
Total Comprehensive Income	-7.3	-4.2

Summary of the largest major items:

NOI from investment property	+0.2	+1.8
Value change investment property	-5.3	-4.5
Other operating expenses	-1.3	-1.0
Borrowing costs	-1.8	-1.9
Currency gain / loss	-0.1	-0.0
Value change on contract- and interest derivatives	+0.5	+0.6
Taxes	+0.1	+0.5

Return ratios

	Return on Equity ⁽¹⁾	Total Shareholder Return ⁽²⁾
Last 1 year	-73.4%	-32.5%
Last 3 years (annualised)	-36.2%	-48.0%
Last 5 years (annualised)	-32.4%	-31.4%

⁽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 current occupancy rate of the Gasfield building is 86%, divided on 69 lease agreements.
- The previous anchor tenant, Gazprom Tsentrremont, vacated the building 1 June 2017. The tenant occupied 8,756 sq.m. (79% of the building). Since then Storm Real Estate ASA has re-let >7,900 sq.m., across 46 new tenants, of that same office space.
- The company's only income source is the rental income from the Gasfield building in Moscow. Despite high occupancy in the building, the company is not able to meet its debt obligations because the rental rates are too low. The company is still in negotiations with the bank and other relevant stakeholders in order to achieve a long-term financing solution.
- The company has entered a short-term agreement with the bank that expires 30 March 2019. The bank loan has no amortisations, and covenants are waived, as long as the short-term agreement is in effect.

Income statement

- The group had a total comprehensive income in H2 2018 of -1.6 million, compared to -1.9 million in H2 2017.
- The change in carrying value of the investment property Gasfield effected the total comprehensive income by 0.05 million in H2 2018 (H2 2017: -0.6 million).
- Revenues from the investment property Gasfield were 0.9 million in H2 2018. This compares with 0.4 million for the same period last year.
- Borrowing costs were 0.9 million in the period (H2 2017: 0.9 million), including net interest on 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 subsidiary which owns the building uses Russian rubles 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	12M 2018	12M 2017
Over income statement	-0.9	-5.4
Translation difference over Other Comprehensive Income	-4.4	+1.0
Sum value adjustments properties	-5.3	-4.4

Balance sheet

- The investment property Gasfield is recorded at 21.4 million. The building's valuation, in accordance with valuation obtained from an independent valuer, is 21.3 million. In addition, values of land leases are recognised with 0.1 million. In the event of unsuccessful negotiations with the bank and other stakeholders, the board believe that a possible forced sale of the building within a short period of time, will result in a price that is significantly lower than the value presented in the balance sheet. If that would be the case, the board believe that the equity will be lost.
- On the closing date, the group had a cash balance of 0.5 million.
- The group's equity ratio is 11.8% as at 31 December 2018.
- The loan-to-value of the Gasfield bank loan is currently 87.2%.
- The working capital ratio (excl. prepaid tax) is currently at 0.03.
- The Company's NAV per share in NOK is NOK 0.26 per 31 December 2018.

The company's risk is considered very high. The situation in Russia is demanding.

The combination of transformation from USD income to ruble income, loan in USD, weakening of the ruble and increase in vacancy in the office rental market in Moscow, has led to a dramatic decrease of rental income from the Gasfield building since its peak in 2013. As a result, the group is loss-making given the current financing, and is reliant on a positive outcome from the negotiation between the company, the bank and other relevant stakeholders in order to survive. Due to this, there is a significant uncertainty related to the going concern assumption, see also note 2 below.

For further business risks than described above, please refer to the company's annual report for 2017.

Oslo, 7 February 2019,

The Board of Directors,
Storm Real Estate ASA

The company's investment areas

Real Estate in Russia (Gasfield, Moscow)

Macro snapshot

- 2018 has been the best year of the previous five, with an annual GDP growth of 1.8%.
- Oxford Economics predicts GDP growth of 1.4% in the upcoming year.
- Unemployment is at 4.8%.
- The Central Bank has increased the key rate to 7.75%. The key rate is down 4.75 percentage points in 3 years. CPI target is 5.5%.
- The Russian market continues to be dominated by domestic investors. The share of foreign investments in 2018 is 14 % (69 % in The Central and Eastern Europe in the same period).

Real Estate Market

- The new market conjecture indicates a period of lower new construction, minor positive absorption and a moderate increase in rental rates at the indexation level. In real terms, rental rates are expected to be stable.
- The record for the low volume of construction exceeded expectations. Instead of the planned 200,000 sq. m, new construction of office space in Moscow amounted to only 133,000 sq. m in 2018. The net absorption was 415,000 sq. m. New construction in 2019 is estimated to 150,000 sq. m.
- The main demand according to the closed deals, relates to blocks of less than 2,000 sq. m, and only 30% of demand accounted for bigger blocks.
- Prime yields have compressed from 10.5% in 2016 to 9.5% per date for offices, responding to the stabilization of the inflation and the significant reduction in the central bank key rate.
- Due to a consistently low rate of new construction and high take-up, the vacancy rate continued the decline and stood at 10.4 % at the end of 2018, nevertheless, it is still considered high.
- In the coming years the average rental rate is expected to grow by 4-6% per year.

Consolidated Statement of Comprehensive Income

All numbers in 000 USD	Note	Unaudited H2 2018	Unaudited H2 2017	Unaudited 12m 2018	Audited 2017
Continuing operations:					
Rental income	3	901	394	1,581	3,034
Total Income		901	394	1,581	3,034
Property related Expenses	3	-709	-696	-1,335	-1,242
Personnel Expenses		-130	-130	-282	-251
Other Operational Expenses		-467	-370	-969	-749
Total Operational Expenses		-1,306	-1,196	-2,586	-2,242
Operating Profit (Loss) Before Fair Value Adjustments		-405	-802	-1,005	792
Fair Value Adjustments on Investment Property	3	2,567	-1,252	-904	-5,398
Total Operating Profit (Loss)		2,162	-2,054	-1,909	-4,606
Finance Revenues	5	42	471	605	575
Finance Expenses	5	-857	-944	-1,802	-1,999
Currency Exchange Gains (Losses)	5	-54	38	-62	29
Net Financial Gains (Losses)		-868	-435	-1,259	-1,395
Earnings before Tax (EBT)		1,294	-2,489	-3,168	-6,001
Income Tax Expenses	7	577	47	-122	-477
Profit (loss), attributable to owners of parent		717	-2,536	-3,046	-5,524
Profit (loss), attributable to non-controlling interests		0	0	0	0
Other Comprehensive Income:					
<i>Items that are reclassified from Equity to earnings in subsequent periods:</i>					
Translation differences		-2,344	645	-4,287	1,370
Sum other income and expenses after tax		-2,344	645	-4,287	1,370
Comprehensive income, attributable to owners of parent		-1,627	-1,891	-7,334	-4,154
Comprehensive income, attributable to non-controlling interests		0	0	0	0
Earnings per share (EPS), attributable to owners of parent					
Weighted average number of shares		88,345,623	88,345,623	88,345,623	54,208,637
Basic and Diluted earnings per share (USD)		0.01	-0.03	-0.03	-0.10
Basic and Diluted Total Comprehensive Income per share (USD)		-0.02	-0.02	-0.08	-0.08

Consolidated Statement of Financial Position

All numbers in 000 USD	Note	Unaudited 31.12.2018	Audited 31.12.2017
Investment Property	3	21,419	26,760
Financial Investments	4	0	0
Deferred tax asset		0	0
PP&E		5	10
Sum Fixed Assets		21,424	26,770
Financial investments	4	0	0
Pre-paid income tax		208	352
Other Receivables	10	144	265
Cash and Cash Equivalents	4	500	2,247
Total Current Assets		852	2,865
Total Assets		22,277	29,634
Share Capital		405	4,575
Share Premium		25,206	21,036
Other Paid-in Equity		56,599	56,605
Total Paid-in Equity		82,210	82,216
Other equity		-79,573	-72,222
Total other equity		-79,573	-72,222
Total Equity		2,637	9,994
Loans From Credit Institutions	4	0	17,836
Deferred Tax Liabilities		112	284
Financial Derivative Liabilities	4	0	528
Other Long-term Liabilities		266	287
Total non-current liabilities		378	18,936
Trade Payables		53	37
Loans from Credit Institutions	4	18,678	300
Other Current liabilities	9	530	367
Total Current liabilities		19,261	705
Total Liabilities		19,639	19,640
Total Equity and Liabilities		22,277	29,634

Consolidated Statement of Cash Flow

All numbers in 000 USD	Unaudited 12M 2018	Audited 2017
Earnings before Tax	-3,168	-6,001
<i>Adjusted for:</i>		
Depreciations	3	4
Value Adjustments on Investment Property	904	5,398
Financial Income	-77	-97
Financial Expenses	1,273	1,522
Net Currency Gains	130	-7
Cash Flow Before Changes in Working Capital	-935	818
<i>Changes in Working Capital:</i>		
Trade Receivables and Other Receivables	283	208
Trade Payables and Other Payables	185	-1,005
Paid Taxes	-40	-461
Net Cash Flow From Operating Activities	-507	-440
Outflows from Investments in Financial Securities	0	0
Inflows from Investments in Financial Securities	0	0
Sale of subsidiary, net of cash	0	0
Inflows from sale of fixed assets	2	
Interest Received	118	79
Net Cash Flow From Investment Activities	120	79
Share issue, payments/costs	-6	3,181
Repayments of Loans	0	-3,000
Interest Paid	-1,267	-1,932
Net Cash flow From Financing Activities	-1,273	-1,751
Net Change in Cash and Cash Equivalents	-1,661	-2,111
Carried Forward Cash and Cash Equivalents	2,247	4,371
FX movements on opening balance	-86	-12
Cash and Cash Equivalents on Closing Date	500	2,247
Of which restricted Cash and Cash Equivalents	238	237

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 2017	1,236	21,036	56,763	5,220	-73,288	10,966
Profit (Loss) for the Period				-5,524		-5,524
Other Comprehensive Income					1,370	1,370
Sum	0	0	0	-5,524	1,370	-4,154
Share issue	3,339		-158			3,181
Sum other capital changes	3,339	0	-158	0	0	3,181
31 December 2017 (unaudited)	4,575	21,036	56,605	-304	-71,918	9,994

	Paid-in Equity			Other Equity		Total Equity
	Share Capital	Share Premium	Other Paid-in Equity	Retained Earnings	Translation Differences on Foreign Operations	
1 January 2018	4,575	21,036	56,605	-304	-71,918	9,994
Reduction of share capital	-4,170	4,170				0
IFRS 9 Application				-18		-18
Issue cost (2017)			-6			-6
Profit (Loss) for the Period				-3,046		-3,046
Other Comprehensive Income					-4,287	-4,287
Sum	-4,170	4,170	-6	-3,064	-4,287	-7,357
31 December 2018 (unaudited)	405	25,206	56,599	-3,368	-76,205	2,637

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.

2. Basis of Preparation and Accounting Policies

Basis of Preparation

The interim financial statements for the period ending 31 December 2018 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 7 February 2019.

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 2017. Two new IFRS standards have been implemented for periods beginning on or after 1 January 2018: IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments). These amendments have not had any material impact on the group's financial statements for 2018. All notes are in '000 USD, except where otherwise indicated.

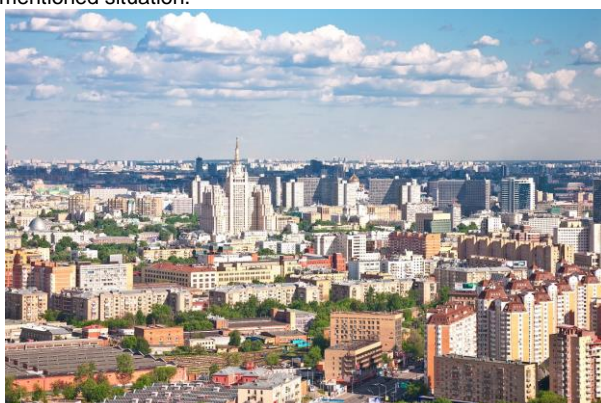
Going concern

The interim reporting is prepared under the assumption of going concern, on the basis that no concrete decision to liquidate the company has been made. However, a liquidation can be forced by the bank within a short period of time, if the company does not reach an agreement with the bank on the long-term financing of the company.

Loans from credit institutions as at 31 December amounts to USD 18 678 282, divided on the principal amount of USD 18 142 85 and accumulated interests of USD 535 432. The interest is set to LIBOR plus a margin of 6%. There are no longer any interest swap agreements.

As at 31 December the group had a deposit of cash and cash equivalents of USD 500 006, of which restricted cash and cash equivalents amounts to USD 238 266. Thus, the company is not able to fulfil its debts obligations given the current situation.

However, given that the company succeeds in its cost cutting program and manage to restructure the company's financing, the board believe the Group can become cash flow positive. And therefore, financial statements are prepared under the going concern assumption. But there is significant uncertain due to the above-mentioned situation.



3. Investment property

	31.12.2018	31.12.2017
Value as valued by an independent valuer:		
As at 1 January	26,580	30,500
Value Adjustment Investment *	-5,280	-3,920
Value per Closing	21,300	26,580
Other assets recognised as part of Investment Property:		
As at 1 January	180	715
Changes in carrying value of land plot lease agreements **	-61	-6
Changes in embedded derivatives contract ***	0	-529
Value per Closing	119	180
Carrying value 01.01	26,760	31,215
Carrying value per Closing date	21,419	26,760

* The functional currency of the Russian subsidiaries including the buildings in Russian Ruble

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:

	12M 2018	12M 2017
Change in RUB over Income Statement	-904	-5,398
Translation Differences over Comprehensive Income	-4,437	943
Net Change in Fair Value	-5,341	-4,455

NOI from Properties	12M 2018	12M 2017
Rental Income	1,581	3,034
Direct Property Related Expenses	-1,335	-1,242
NOI from Properties	246	1,792

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

Variables for Independent Valuations	31.12.2018	31.12.2017
Discount Rate	14.00%	14.50%
Yield (cap. rate)	10.00%	10.50%
Market rates, RUB/sq.m (net of VAT and op.ex), main office areas	16,000	18,000

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

4. Financial Assets and Liabilities

Other Financial Assets and Liabilities	31.12.2018	31.12.2017
Cash and Cash Equivalents	500	2,247
Interest Rate Swaps	0	-528
Bank Loan	-18,678	-18,136
Land plot lease agreements	-119	-180
Net Financial Assets and Liabilities	-18,297	-16,597

Bank loan

The company's lender has in H2 2018 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 30 March 2019
- waiving of covenants up to and including 30 March 2019
- termination of all interest rate swap agreements

The purpose of these amended terms is to give the company and the bank time to negotiate a long-term financing solution for the company.

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. Storm Real Estate ASA terminated all interest swap agreements in 2018.

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	0			0
Land plot lease agreements	119			119
Sum financial liabilities measured at fair value	119	0	0	119

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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Financial assets				
Accounts receivable	28	37	28	37
Other receivables	109	228	109	228
Cash and cash equivalents	500	2,247	500	2,247
Sum	638	2,512	638	2,512
Financial liabilities				
Interest-bearing loans and borrowings	18,678	18,136	18,678	18,143
Trade liabilities	53	37	53	37
Interest rate swaps	0	528	0	528
Land plot lease agreements	119	180	119	180
Other current liabilities	530	367	530	367
Sum	19,380	19,249	19,380	19,256

In the case of a forced sale of the Gasfield building within a short period of time, the board believe that the bank will not recover the total amount of the debt.

5. Finance income and costs

Finance income and costs:

	12M 2018	12M 2017
Currency		
Currency Gain	97	47
Currency Loss	-160	-19
Net Currency Gain (Loss)	-62	29
Finance Revenues		
Interest Revenue	96	76
Fair Value Adjustment, Financial Investments	0	0
Fair Value Adjustment, Derivatives	528	478
Dividend income, Financial Investments	0	0
Other Financial Revenues	22	21
Sum	646	575
Finance Costs		
Interest Costs	-1,802	-1,942
Fair Value Adjustment, Derivatives	0	0
Fair Value Adjustment, Financial Investments	0	0
Other Finance expenses	-41	-57
Sum	-1,843	-1,999
Net Finance Gains (Losses)	-1,259	-1,395

The 20 largest shareholders as at 31.12.2018

The list is as per the shareholders registered in VPS as 31.12.2018:

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%
JPMorgan Chase Bank, N.A., London	Nominee	UK	22,127,626	25.05%
J.P. Morgan Bank Luxembourg S.A.	Nominee	UK	6,375,172	7.22%
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.	Nominee	UK	2,129,779	2.41%
ØSTLANDSKE PENSJONISTBOLIGER AS		Norway	1,452,635	1.64%
ØRN NORDEN AS		Norway	1,082,286	1.23%
HYGGEN		Norway	931,250	1.05%
SAMSØ AS		Norway	891,690	1.01%
MOTOR-TRADE EIENDOM OG FINANS AS		Norway	866,811	0.98%
ALBION HOLDING AS		Norway	747,625	0.85%
Svenska Handelsbanken AB	Nominee	Norway	722,343	0.82%
LANGBERG		Norway	700,000	0.79%
TDL AS		Norway	476,250	0.54%
FINANSFORBUNDET		Norway	416,650	0.47%
IFG HOLDING AS		Norway	415,000	0.47%
BLAKSTAD MASKIN AS		Norway	338,162	0.38%
LKG EIENDOM AS		Norway	303,911	0.34%
SUM 20 LARGEST			72,040,271	81.54%
OTHER SHAREHOLDERS			16,305,352	18.46%
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	22,127,626	25.0 %
Stein Aukner	via Banan II AS and Aukner Holding AS	3,047,235	3.4 %
Sum		50,137,546	56.8 %

7. Tax Expenses

Tax Expense for period	12M 2018	12M 2017
Current Tax	-6	142
Deferred Tax	-116	-619
Total Tax Expense for Period	-122	-477

8. Transactions with Related Parties

	12M 2018	12M 2017
Storm Capital Management Ltd.	377	394
Sum	377	394

9. Other current liabilities

	31.12.2018	31.12.2017
Taxes and duties due	173	56
Advance rents paid by tenants	225	183
Other	132	128
Sum	530	367

10. Other Current Receivables

	31.12.2018	31.12.2017
Taxes and Duties receivable	69	50
Other Current receivables	68	215
Sum	137	265

Statement from the Board and general manager

We confirm that the financial statement for the period 1 January to 31 December 2018 to the best of our knowledge, is prepared in accordance with *IAS 34 Interim Report* and that the above report give a true and fair view of the Group's and Company's assets, liabilities, financial position and result of operations.

The Interim report gives, to the best of our knowledge, a fair overview of important events during the accounting period and their impact on the financial statements and a summary of significant transactions with related parties.

We confirm that, to the best of our knowledge, the interim report includes a fair review of the information mentioned in the Securities Trading Act section §5-6, fourth paragraph.

Oslo, 7 February 2019

The Board and general manager in Storm Real Estate ASA,

Stein Aukner
Chairman

Morten E. Astrup
Board member

Nini H. Nergaard
Board member

Kim Mikkelsen
Board member

Anna M Aanensen
Board member

Kristoffer Holmen
Interim General Manager

