

H1

Storm Real Estate ASA
Interim report
January – June 2019



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 6M 2019	Unaudited 6M 2018
Total Comprehensive Income	1,5	-5,7

Summary of the largest major items:

NOI from investment property	+0.7	+0.1
Value change investment property	+2.3	-5.4
Other operating expenses	-0.6	-0.7
Borrowing costs	-0.8	-0.9
Currency gain / loss	-0.1	-0.0
Value change on contract- and interest derivatives	+0.0	+0.1
Taxes	-0.1	+0.7

Return ratios

	Return on Equity ⁽¹⁾	Total Shareholder Return ⁽²⁾
Last 1 year	-56.2%	-42.9%
Last 3 years (annualised)	-33.6%	-42.1%
Last 5 years (annualised)	-43.4%	-36.3%

⁽¹⁾ Return on Equity = Total Comprehensive Income (IFRS) for the period / (brought forward equity (IFRS) as at start of the period + other changes in equity than Total Comprehensive income (IFRS) for 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.

*The formula used to calculate the return on equity stated above has been altered as at 30 June 2019. The former formula (Return on Equity = Total Comprehensive Income (IFRS) for the period / brought forward equity (IFRS) for start of the period, annualised) did not consider other changes in equity than Total Comprehensive income in the period. To show the return on other changes in equity as well, we have included it in the new formula, see note (1) above.

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 95%, divided on 75 lease agreements.
- 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 negotiating with its main creditor Swedbank, to reach a long-term financing solution that will make the company able to continue its operations. Since September 2018 the two parties have agreed on several standstill agreements waving covenants, amortization and interest payments, to create time to achieve this. On 27 June 2019 the parties entered into a conditional agreement. The agreement outlines a long-term financial solution where the company will seek to refinance a share of the current debt to Swedbank in another bank. The remaining part of the debt will then be sold to Aconcagua Management Ltd. Aconcagua Management Ltd is the largest shareholder in Storm Real Estate ASA and is owned by Morten E. Astrup. The agreement is conditional upon achieving satisfactory terms on the financing from the other bank. The agreement will automatically lapse at the latest on 30 September 2019 if the conditions in the agreement are not met. The board has initiated measures to ensure equal treatment of the shareholders. If completed, it is likely that the company would have financial capacity to continue operating.
- The Annual General Meeting adopted a reverse share split on 27 June 2019, see comment under Consolidated Statement of Changes in Equity.

Income statement

- The group had a total comprehensive income in H1 2019 of 1.6 million, compared to -5.7 million in H1 2018.
- The change in carrying value of the investment property Gasfield effected the total comprehensive income by 2.3 million in H1 2019 (H1 2018: -5.4 million).
- Revenues from the investment property Gasfield were 1.4 million in H1 2019 (H1 2018: 0.7 million).
- Borrowing costs were 0.8 million in the period (H1 2018: 0.9 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 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	6M 2019	6M 2018
Over income statement	+0,1	-3.5
Translation difference over Other Comprehensive Income	+2.2	-1.9
Sum value adjustments properties	+2.3	-5.4

Balance sheet

- The investment property Gasfield is recorded at 23.7 million. The building's valuation, in accordance with valuation obtained from an independent valuer, is 23.6 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 0.6 million.
- The group's equity ratio is 16.6% as at 30 June 2019.
- The loan-to-value of the Gasfield bank loan is currently 81.4%.
- The working capital ratio (excl. prepaid tax) is currently at 0,04.
- The Company's NAV per share in NOK is NOK 0.40 as at 30 June 2019 (NOK 4.0 considering the reversed share split with effect from 10 July).

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 2018.

Oslo, 30 August 2019,

The Board of Directors,
Storm Real Estate ASA

The company's investment areas

Real Estate in Russia (Gasfield, Moscow)

Macro snapshot

- Business in Russia is affected by the VAT increase, high cost of money, and low inflationary pressure, resulting in reduced economic growth. Government initiated projects are currently considered to be an important factor for the development of the economy.
- Oxford Economics predicts GDP growth of 1.0% in the upcoming year.
- Unemployment is at 4.38%.
- The Central Bank has reduced the key rate to 7.25%. The key rate is down 4.25 percentage points in 4 years (*The Central Bank of Russian Federation, 30.08.2019*).
- Predicted inflation in 2019 is 4.7%.
- There was a net outflow of EUR 61m of foreign investments in H1 2019.

Real Estate Market

- Demand: Take-up levels remains at the level of 2018, with a 962 000 sq. m take-up in Moscow in H1 2019 (952 000sq. m in H1 2018). Still, there was a negative absorption of -108 000 sq. m in H1 2019. However, the absorption is expected to be positive in the coming years due to low construction activity.
- Vacancy: Vacancy rate for class B was at 10.5% in H1 2019 (10.2% in 2018)
- Rental rates: Average rental rate for class B was RUB 15 945 in H1 (RUB 15 537 in H1 2018). Expected growth is 4-6% per year.

Sources market information Russia as at 30 June 2019: Cushman & Wakefield, Trading Economics, Ministry of Economic Development, Oxford Economics

Consolidated Statement of Comprehensive Income

All numbers in 000 USD

	Note	Unaudited 6M 2019	Unaudited 6M 2018	Audited 2018
Continuing operations:				
Rental income	6	1,359	680	1,581
Total Income		1,359	680	1,581
Property related Expenses	6	-673	-626	-1,335
Personnel Expenses	16	-162	-152	-282
Other Operational Expenses	15	-402	-502	-969
Total Operational Expenses		-1,237	-1,280	-2,586
Operating Profit (Loss) Before Fair Value Adjustments		122	-600	-1,005
Fair Value Adjustments on Investment Property	6	78	-3,471	-904
Total Operating Profit (Loss)		200	-4,071	-1,909
Finance Revenues	14	4	563	605
Finance Expenses	14	-853	-945	-1,802
Currency Exchange Gains (Losses)	14	17	-8	-62
Net Financial Gains (Losses)		-832	-391	-1,259
Earnings before Tax (EBT)		-632	-4,462	-3,168
Income Tax Expenses	18,19	76	-699	-122
Profit (loss), attributable to owners of parent		-708	-3,763	-3,046
Profit (loss), attributable to non-controlling interests		0	0	0
Other Comprehensive Income:				
<i>Items that are reclassified from Equity to earnings in subsequent periods:</i>				
Translation differences	12,23	2,196	-1,943	-4,287
Sum other income and expenses after tax		2,196	-1,943	-4,287
Comprehensive income, attributable to owners of parent		1,488	-5,706	-7,334
Comprehensive income, attributable to non-controlling interests		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
Basic and Diluted earnings per share (USD)		-0.01	-0.04	-0.03
Basic and Diluted Total Comprehensive Income per share (USD)		0.02	-0.06	-0.08

Consolidated Statement of Financial Position

All numbers in 000 USD	Note	Unaudited 30.06.2019	Audited 31.12.2018
Investment Property	6	23,731	21,419
PP&E	8	5	5
Sum Fixed Assets		23,736	21,424
Pre-paid income tax	18	218	208
Other Receivables	13	195	144
Cash and Cash Equivalents	11	633	500
Total Current Assets		1,046	852
Total Assets		24,782	22,277
Share Capital	20,22	405	405
Share Premium		25,206	25,206
Other Paid-in Equity		56,600	56,600
Total Paid-in Equity		82,211	82,211
Other equity		-78,086	-79,573
Total other equity		-78,086	-79,573
Total Equity		4,125	2,638
Loans From Credit Institutions	12	0	0
Deferred Tax Liabilities	19	161	112
Financial Derivative Liabilities	10	0	0
Other Long-term Liabilities	10	275	266
Total non-current liabilities		436	378
Trade Payables	11	16	53
Loans from Credit Institutions	12	19,317	18,678
Other Current liabilities	17	887	529
Total Current liabilities		20,220	19,261
Total Liabilities		20,656	19,639
Total Equity and Liabilities		24,782	22,277

Consolidated Statement of Cash Flow

All numbers in 000 USD	6M 2019	2018
Cash Flow from Operational Activities		
Earnings before Tax	-632	-3,168
<i>Adjusted for:</i>		
Depreciations	1	3
Value Adjustments on Investment Property	-78	904
Financial Income	-4	-77
Financial Expenses	853	1,273
Net Currency Gains	-65	130
Cash Flow Before Changes in Working Capital	74	-935
<i>Changes in Working Capital:</i>		
Trade Receivables and Other Receivables	-61	283
Trade Payables and Other Payables	321	184
Paid Taxes	-41	-40
Net Cash Flow From Operating Activities	293	-508
Cash Flow From Investment Activities		
Inflows from sale of fixed assets	-1	2
Interest Received	4	118
Net Cash Flow From Investment Activities	3	120
Cash Flow From Financing Activities		
Share issue, payments/costs	0	-6
Repayments of Loans	0	0
Interest Paid	-172	-1,267
Net Cash flow From Financing Activities	-172	-1,273
Net Change in Cash and Cash Equivalents	123	-1,661
Carried Forward Cash and Cash Equivalents	500	2,247
FX movements on opening balance	9	-86
Cash and Cash Equivalents on Closing Date	633	500
Of which restricted Cash and Cash Equivalents	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 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	0	-3,064	-7,357
31 December 2018	405	25,206	56,600	-3,368	-76,205	2,638

	Paid-in Equity			Other Equity		Total Equity
	Share Capital	Share Premium	Other Paid-in Equity	Retained Earnings	Translation Differences on Foreign Operations	
1 January 2019	405	25,206	56,600	-3,368	-76,205	2,638
Reduction of share capital						0
IFRS 9 Application						0
Profit (Loss) for the Period				-708		-708
Other Comprehensive Income					2,196	2,196
Sum	0	0	0	0	-708	1,488
31 December 2019	405	25,206	56,600	-4,077	-74,009	4,125

On 27 June 2019 the Annual General Meeting adopted a reverse share split reducing the number of shares from 88 345 623 to 8 834 563. The reverse share split came into effect on 10 July 2019, hence the number of shares as at 30 June 2019 was unchanged since 31 December 2018. The reverse share split was done in order to be compliant with the requirements of the Continuing obligations of stock exchanged listed companies, stating that the company must implement measures if the value of its shares has been lower than NOK 1 for a six-month period. The reverse share split did not affect the value of each shareholder's position.

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 30 June 2019 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 2018. The interim financial statements are unaudited. The interim financial statement was approved by the Board of Directors on 30 August 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 2018. 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 2019. All notes are in '000 USD, except where otherwise indicated.

Going concern

Given the current income level the company is not able to meet its debt obligations. The company is negotiating with its main creditor Swedbank, to reach a long-term financing solution that will make the company able to continue its operations. Since September 2018 the two parties have agreed on several standstill agreements waving covenants, amortization and interest payments, to create time to achieve this. On 27 June 2019 the parties entered into a conditional agreement. The agreement outlines a long-term financial solution where the company will seek to refinance a share of the current debt to Swedbank in another bank. The remaining part of the debt will then be sold to Aconcagua Management Ltd. Aconcagua Management Ltd is the largest shareholder in Storm Real Estate ASA and is owned by Morten E. Astrup. The agreement is conditional upon achieving satisfactory terms on the financing from the other bank. The agreement will automatically lapse at the latest on 30 September 2019 if the conditions in the agreement are not met. The board has initiated measures to ensure equal treatment of the shareholders. If completed, it is likely that the company has a financial fundament to continue operating.

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. See also note 4.



3. Investment property

	30.06.2019	31.12.2018
Value as valued by an independent valuer:		
As at 1 January	21,300	26,580
Value Adjustment Investment *	2,300	-5,280
Value per Closing	23,600	21,300
Other assets recognised as part of Investment Property:		
As at 1 January	119	180
Changes in carrying value of land plot lease agreements **	12	-61
Changes in embedded derivatives contract ***	0	0
Value per Closing	131	119
Carrying value 01.01	21,419	26,760
Carrying value per Closing date	23,731	21,419

* 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:

	6M 2019	6M 2018
Change in RUB over Income Statement	78	-3,471
Translation Differences over Comprehensive Income	2,234	-1,923
Net Change in Fair Value	2,312	-5,394

NOI from Properties	6M 2019	6M 2018
Rental Income	1,359	680
Direct Property Related Expenses	-673	-626
NOI from Properties	686	54

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

Variables for Independent Valuations	30.06.2019	31.12.2018
Discount Rate	14.00%	14.00%
Yield (cap. rate)	10.00%	10.00%
Market rates, RUB/sq.m (net of VAT and op.ex), main office areas	16,000	16,000

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

4. Financial Assets and Liabilities

Financial Assets and Liabilities	30.06.2019	31.12.2018
Cash and Cash Equivalents	633	500
Other financial assets	195	
Interest Rate Swaps	0	0
Bank Loan	-19,317	-18,678
Land plot lease agreements	-131	-119
Other financial liabilities	-1,047	
Net Financial Assets and Liabilities	-19,668	-18,297

Bank loan

The company's lender has in H1 2019 granted amended terms to the company's loan agreement.

The amended terms include

- postponement of the maturity date to 30 September 2019
- no amortisation up to and including 30 September 2019
- waiving of covenants up to and including 30 September 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.

Reference is given to the public announcement published on 27 June 2019, where the company informed that it had signed a conditional agreement with Swedbank AB, containing new loan covenants mentioned above. The agreement outlines a long-term financial solution where the company will seek to refinance a share of the current debt to Swedbank in another bank. The remaining part of the debt will then be sold to Aconcagua Management Ltd. Aconcagua Management Ltd is the largest shareholder in Storm Real Estate ASA and is owned by Morten E. Astrup. The agreement is conditional upon achieving satisfactory terms on the financing from the other bank.

The agreement will automatically lapse at the latest on 30 September 2019 if the conditions in the agreement are not met.

The board has initiated measures to ensure equal treatment of the shareholders.

If completed, it is likely that the company has a financial fundament to continue operating.

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
Land plot lease agreements	131			131
Sum financial liabilities measured at fair value	131	0	0	131

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.

In accordance with IFRS 9	Carrying amount		Financial assets at amortised cost		Fair value	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Financial assets						
Accounts receivable	27	28	27	28		
Other receivables	168	116			168	116
Cash and cash equivalents	633	500			633	500
Sum	828	644	27	28	801	616

In accordance with IFRS 9	Carrying amount		Debt instruments at amortised cost		Fair value	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Financial liabilities						
Interest-bearing loans and borrowings	19,317	18,678			19,317	18,678
Trade liabilities	16	53			16	53
Land plot lease agreements	131	119	131	119		
Other financial liabilities	1,031	676			1,031	676
Sum	20,495	19,527	131	119	20,364	19,407

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:

	6M 2019	6M 2018
Currency		
Currency Gain	49	312
Currency Loss	-33	-320
Net Currency Gain (Loss)	17	-8
Finance Revenues		
Interest Revenue	3	6
Fair Value Adjustment, Financial Investments	-	0
Fair Value Adjustment, Derivatives	-	538
Dividend income, Financial Investments	-	0
Other Financial Revenues	0	18
Sum	4	563
Finance Costs		
Interest Costs	-806	-945
Fair Value Adjustment, Derivatives	-	0
Fair Value Adjustment, Financial Investments	-	0
Other Finance expenses	-46	0
Sum	-853	-945
Net Finance Gains (Losses)	-832	-391

The 20 largest shareholders as at 30.06.2019

The list is as per the shareholders registered in VPS as 30.06.2019:

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	22,132,626	25.05%
SIX SIS AG	Nominee	Norway	8,554,951	9.68%
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%
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		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%
EILERTSEN		Norway	303,911	0.34%
SUM 20 LARGEST			72,399,182	81.95%
OTHER SHAREHOLDERS			15,946,441	18.05%
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	56.75 %

7. Tax Expenses

Tax Expense for period	6M 2019	6M 2018
Current Tax	11	-6
Deferred Tax	65	-693
Total Tax Expense for Period	76	-699

8. Transactions with Related Parties

	6M 2019	6M 2018
Storm Capital Management Ltd.	175	186
Surfside Holding AS*	18	0
Sum	193	186

*Surfside Holding AS is owned by Morten E. Astrup. The company is providing accounting services during the refinancing of the Group.

9. Other current liabilities

	30.06.2019	31.12.2018
Taxes and duties due	258	173
Advance rents paid by tenants	329	225
Other	300	132
Sum	887	529

10. Other Current Receivables

	30.06.2019	31.12.2018
Pre-paid income tax	218	208
Trade receivables	27	28
Inventory	2	3
Other Current receivables	166	113
Sum	413	352

Statement from the Board and general manager

We confirm that the financial statement for the period 1 January to 30 June 2019 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, 30 August 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

