

Crown Energy AB: Interim Report, January-March 2019

PRESS RELEASE 09/05/2019

Q1 – JANUARY-MARCH 2019

- ▶ Revenue amounted to SEK 13,046 thousand (20,599).
- ▶ Operating profit amounted to SEK 3,002 thousand (7,029).
- ▶ Unrealised changes in property values amounted to SEK -30,061 thousand (18,538).
- ▶ Profit before tax was SEK -2,865 thousand (42,287), and profit after tax was SEK -22,239 thousand (9,367), corresponding to SEK -0.05 (0.02) per share.

KEY EVENTS JANUARY-MARCH 2019

- ▶ On February 1, 2019, 40 per cent of the ownership in the Maria property was transferred, from being leased, to Crown Energy. The transfer was made without any consideration paid. The change of ownership means that the Company no longer reports the property in accordance with leasing accounting standards and that a deferred tax liability has been reported referring to the difference between local tax value and fair value.
- ▶ From February 10, 2019, the lease agreement was re-written with the tenant in the Maria property. The new agreement means that the tenant now holds 47 per cent of the areas, unlike the previous 100 per cent. This change has had a negative impact on the rental income for the period. The company will now renovate those parts of the property that are not rented out.
- ▶ As a result of new market reports in March 2019 regarding the Angolan real estate market, lower expectations for 2019 in terms of market rents and growth have been used in the valuation of the Angolan properties. This means that the Company reported an unrealized change in value of SEK -30,061 thousand.
- ▶ During the first quarter of 2019, the Angolan currency kwanza has stabilized, which means that fluctuations in the exchange rate have greatly reduced and resulted in far less effects on the financial reports compared to 2018.

CEO STATEMENT

DEAR SHAREHOLDERS AND INVESTORS,

Naturally, we would like to start by mentioning the sale of the C-View property in Angola, which we completed and issued a press release on in April. This transaction is very good for the Company and fundamentally changes our asset portfolio. As it was the single largest asset in the portfolio but with the lowest occupancy, the sale will have a major impact on our key figures going forward from the second quarter. Simply put, we see this transaction, given the expected payments from the buyer totalling SEK 575.3 million, as if we were to rent out C-View at full occupancy under a long lease with very good conditions. That's how good it is.

As Crown Energy is debt-free, cash will increase by the same amount, which corresponds to a cash infusion of more than SEK 1 per share in the Company over a three-year period. The buyer is the Angolan government through its Ministry of Finance.

C-View did not follow Crown Energy's business model since it did not have a tenant on completion. In the future, tenants will be secured at the start of new construction.

The agreement of the sale of C-View is expected to generate payments corresponding to 155 per cent compared to what Crown Energy paid for the property when we acquired ESI Group and its property portfolio. We see this as proof that this was a good deal with good value for us. Although currency developments in Angola have been turbulent, mainly in 2018, the value is nevertheless strongly validated by this transaction.

We have driven this sale process in parallel with attempts to rent out C-View. But when negotiations became so favourable price-wise, we instead focused on achieving the most economically effective occupancy possible in the property. This means that we actively kept occupancy low to limit costs for buying out tenants before the sale. Since new leases were limited during the first quarter, revenues decreased slightly instead of increasing.

The selling price indicates, in addition to the above, that it currently appears to be a discrepancy between the price level of rents in Angola compared to selling prices. While the rental market has gone down in 2018, prices on transfers of ownership have held at an even level with previous years. It also supports the decision to sell in this market and explains the difference between C-View's carrying value, which at year-end was SEK 421.0 million based on expected future cash flows, and the actual expected cash flow from the transaction of SEK 575.3 million. This is also positive for us as we became the owner of 40 per cent of the Maria property during the quarter, which was contracted with the landowner from the start.

Consequently, we have seen several effects during the quarter concerning the Maria property. Since the completion of construction, we had one tenant for the entire property under a long-term lease, which expired at the end of January. The lease has been renegotiated so that the tenant leases about half the property and our share follows the new 40-per cent ownership. This, as well as the reduced rentals in C-View, is the main reason for the decrease in rental revenue during the first quarter. We have started refurbishing the Maria property and are working to bring in a new tenant to fill the building later this year.

The currency situation in Angola has stabilised significantly in the first quarter of the year compared to 2018. Therefore, the Company's net financial items are not affected to the same extent as in previous periods. This is an indication that the devaluation that was carried out in the first quarter last year, as well as other market measures implemented in Angola, is starting to have positive effects on the country's economy. This development is of course good for the part of Crown Energy's business that is attributable to this market.

Crown Energy continues its efforts to generate new business. Major steps have been taken in a positive direction, leading to gains in both Energy and Asset Development and Management. We hope to capitalise on this soon. The situation has been relatively stable in the oil and gas market and the energy market and we continue to have a very positive outlook on new business and thus on the prospects for substantial growth for the Company.

Our oil and gas projects have generally developed well so far. The price of crude oil has fluctuated between USD 60 and USD 70 per barrel in the first quarter and up to today. Oil prices at such levels can stimulate the market to invest in projects that Crown Energy offers. Investments in the energy sector in general and in the oil and gas industry specifically are expected to increase going forward. For several years, the oil industry has invested considerably less than it had previously. A stable oil price at higher levels could trigger investments in both exploration of new and expansion of existing discoveries. Exactly when such investment increases will kick off is impossible to predict, but we are already reading about several oil and gas fields being put into production and general investments have been announced.

BUSINESS DECISIONS THAT AFFECTED THE COMPANY'S PERFORMANCE

The sale of a large asset after the interim period will contribute capital for future investments in Asset Development and Management. Much time and effort are being invested in establishing Crown Energy's Asset Development concept in new markets, primarily through new customer sales.

OUTLOOK

The Company now continues its progress towards a larger and even more stable foundation to stand on. We will make use of our contacts in the oil industry to generate business in new and existing markets, and future cash flows should ensure faster development of the Company's existing assets. Our capital and organisation are and will be further adapted to accommodate an exciting continuation of Crown Energy's development efforts.

We look forward to continuing our efforts to capitalise on our assets, thus creating value for you, our shareholders.

Andreas Forssell
CEO, Crown Energy

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MORE INFORMATION

Please contact Andreas Forssell, CEO, Crown Energy AB
+46 8 400 207 20
+46 760 15 15 95

ABOUT CROWN ENERGY

Crown Energy is an international group providing customised solutions for housing, offices and associated services, as well as oil and gas exploration in Africa and the Middle East. For more information please visit www.crownenergy.se