

ORAVA RESIDENTIAL REAL ESTATE INVESTMENT TRUST PLC

1 January-31 December 2012

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Business
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Registered

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Helsinki

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Business ID 2382127-4

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Board of Directors' report

Orava Residential Real Estate Investment Trust plc ("Orava Residential REIT", business ID 2382127-4, address Kanavaranta 7, 00160 HELSINKI, Finland) was established on 30 December 2010 as a real estate fund as referred to in the Real Estate Funds Act. Its rules for real estate investment operations were approved by the Finnish Financial Supervisory Authority on 28 January 2011. The rules were amended in summer 2011, and the Finnish Financial Supervisory Authority confirmed the amendments on 17 August 2011. The current rules are appended to the financial statements. Orava Residential REIT is a Finnish public limited company established under the laws of Finland. The year 2012 was the company's second financial period.

The company name in Swedish is Orava Bostadsfastighetsfond Abp and in English Orava Residential Real Estate Investment Trust plc. Orava Asuntorahasto is the company's auxiliary business name. The company's shares are included in the book-entry securities system. The trading code for the share is OREIT.

The purpose of the company as a real estate fund under the Act on Real Estate Funds (1173/1997) is to let apartments and other real estate property which it owns or possesses due to its shareholding, to engage in ordinary housing management and maintenance focusing on its own real estate property, to exercise construction contracting on the company's behalf and to finance all these operations. The operations of the company aim to take advantage of the Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations (the "Tax Exemption Act" 299/2009). The company has been granted an exemption from income tax. The tax exemption started from the beginning of the first tax year on 30 December 2010.

Material events in the second financial period

The Large Taxpayers' Office granted the company an exemption from the payment of income tax on 20 January 2012. According to the decision, the tax exemption started from the beginning of the first tax year on 30 December 2010.

On 27 February 2012, the company's Board of Directors decided to purchase shares in As Oy Jyväskylän Kruununtorni giving entitlement to the possession of four office facilities and one storage facility. The deed of purchase was signed on 27 February 2012, and the payment took place and ownership was conveyed on 1 March 2012. The purchase price was EUR 150,000, and the share in company loans totalled approximately EUR 1,735,000. As a result of the transaction, the company filed an application to become liable to pay value added tax as the assignor of the right to use the property as of 1 March 2012.

The General Meeting of 19 March 2012 resolved to adopt the financial statements and use the distributable funds as follows:

No more than EUR 0.34 per share would be distributed in dividends, i.e. in total EUR 398,390.74, so that

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- EUR 0.10 per share would be distributed in dividends on 30 March 2012, i.e. in total EUR 117,173.60, which is 98.4% of the parent company's profit for the period excluding unrealised value changes,
- EUR 0.08 per share would be distributed in dividends on 8 June 2012, i.e. in total 93,738.88,
- EUR 0.08 per share would be distributed in dividends on 27 September 2012, i.e. in total 93,738.88,
- EUR 0.08 per share would be distributed in dividends on 27 December 2012, i.e. in total 93,738.88,
- at least EUR 4,058.32 would remain in unrestricted shareholders' equity.

The Board of Directors was authorised to decide on the record dates and obligated to supervise solvency before the payment of each dividend and, as necessary, reduce the amount of dividends to be paid in each quarter if the company's solvency were to be endangered due to the distribution of dividends. The dividends were paid in accordance with the decision.

The General Meeting also decided to renew the Board of Directors' share issue authorisation. In the share issues, the maximum number of new shares was 3,000,000. The subscription price of shares could be paid in cash or, instead of cash, in its entirety or partly in subscriptions in kind. The authorisation was valid until 31 March 2013.

On 27 April 2012, an agreement on an assignment to acquire capital was signed between Orava Residential REIT and Pareto Securities Ltd (formerly Pankkiiriliike E. Öhman J:or Suomi Oy). The purpose of the agreement is to improve the listing preconditions of Orava Residential REIT by increasing the investor base and shareholders' equity.

On 20 June 2012, the company's Board of Directors unanimously decided to purchase the entire share capital of As Oy Vantaan Rasinrinne 13 from Etola group at a purchase price of EUR 3.6 million. The transaction was implemented on 21 June 2012, and financed by a loan of EUR 2.58 million granted by Sampo Bank and by Orava Residential REIT's own shares (105,364 shares).

The company's Board of Directors decided on a directed share issue of EUR 1.1 million allocated to Etra Oy included in the Etola group. In the share issue, the number of new shares was 105,364 shares. The subscription price of the shares was paid in its entirety by a subscription in kind, an approximately 30.6% share of the share capital of As Oy Vantaan Rasinrinne 13. The subscription price was EUR 10.44 per share. The new shares subscribed for in the share issue entitle the holder to half of the dividends paid in 2012. The payment of the share subscription and the assignment of the subscription in kind took place on 21 June 2012. The lead manager of the share issue was Orava Funds plc. The increase in share capital was recorded in the Trade Register on 29 June 2012.

On 30 August 2012, the company's Board of Directors decided to implement a transaction on 19 residential apartments in As Oy Tornion Aarnintie 7. The purchase price was EUR 12,100.00, and the debt-free value of the residential apartments was EUR 979,400.00. The seller was Hacmill Oy from Jyväskylä.

A deed of purchase on As Oy Vantaan Rusakko was signed at a Board meeting on 27 September 2012. The debt-free purchase price was EUR 1,300,000. The transaction was financed by a loan of EUR 650,000 granted by Sampo Bank and a loan of EUR 650,000 granted by Avaintalot Oy.

The meeting also decided to sign an agreement with Danske Bank on the increase of the overdraft facility of the bank account from EUR 100,000 to EUR 200,000.

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At its meeting on 25 October 2012, the Board decided on a directed share issue. The number of new shares in the share issue was 89,458. The subscription price of shares could be paid in cash or, instead of cash, in its entirety or partly in subscriptions in kind. The subscription price was EUR 10.85 per share. The subscription price was based on the value of the share on 30 June 2012, calculated by the company. The new shares subscribed for in the directed share issue entitle the holder to 25% of the dividends paid in 2012. The subscribers were Juha Heiskanen, 1,900 shares, and Kiinteistö Oy Kotkan Vuorenrinne, 19, 87,558 shares.

The meeting also decided to implement a transaction on residential buildings. The seller was Kiinteistö Oy Kotkan Vuorenrinne 19, which sold the buildings it owned at Vuorenrinne 19 to a company to be established, Asunto Oy Kotkan Vuorenrinne 19, which is 100% owned by Orava Residential REIT. Of the purchase price of EUR 1.9 million, Orava Residential REIT paid EUR 950,000 by a loan taken out from Danske Bank on behalf of Asunto Oy Kotkan Vuorenrinne 19 and EUR 950,000 by its own shares in accordance with the terms and conditions of the October share issue.

A resident satisfaction questionnaire was sent to all tenants in the autumn. The questionnaire was sent to 269 tenants, and responses were received from 99 tenants. The Board of Directors dealt with the results of the questionnaire at its meeting on 28 November 2012. The average of the answers was 3.4 on a scale of 1-5, where 5 means "very satisfied".

At a Board meeting on 29 December 2011, Orava Funds plc was authorised to sell at least 10% of the value of investment properties on the company's opening balance sheet and no more than the maximum amount allowed by the Large Taxpayers' Office so that apartments released from rental use would be sold individually from housing companies whose fair value compared with the acquisition cost is so low that no capital gains tax needs to be paid. The intention is to discover the maximum amount of annual sales through an application for a preliminary ruling.

A total of 25 apartments were sold during the financial period. The debt-free selling price of the apartments was EUR 1.9 million, which was an average of 3% below their balance sheet value in the previous quarter.

The revenue of the Orava Residential REIT Group amounted to EUR 3,179,600 (EUR 1,307,000 in 2011) and operating profit to EUR 1,883,300 (EUR 650,000). Consolidated operating profit was 59.2% of revenue (49.8%). The consolidated result was EUR 1,424,200 (EUR 448,000). The revenue of the parent company, Orava Residential REIT, amounted to EUR 3,141,300 (EUR 1,302,000) and operating profit to EUR 1,842,100 (EUR 631,000). Operating profit was 58.6% of revenue (48.5%). The parent company result was EUR 1,363,000 (EUR 402,000). The consolidated comprehensive income items from hedging of cash flows were EUR -243,000 (-164,000).

Excluding comprehensive income items, total return per share stood at 10.5%, earnings per share at EUR 1.14 (EUR 0.54), return on equity at 10.2% (5.2%), net assets per share at EUR 11.28 (EUR 10.52), and the equity-to-assets ratio at 47.5% (59.6%) in 2012. Taking comprehensive income items into account, total return per share stood at 9.1%, earnings per share at EUR 1.14 (EUR 0.54), return on equity at 8.5% (3.3%), net assets per share at EUR 10.98 (EUR 10.38), and the equity-to-assets ratio at 46.3% (58.8%) in 2012.

Investment properties and their fair value

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Orava Residential REIT abides by the Real Estate Funds Act. According to section 18 of the Act, the REIT shall measure properties in other than its own use at fair value on its balance sheet.

Orava Residential REIT has applied a fair value model compliant with IAS 40, Investment Property, for measuring its investment properties. In this model, the profit or loss due to changes in fair value is recorded through profit or loss in the period in which it was created. As of 1 January 2013, fair value will be determined according to IFRS 13, Fair Value Measurement, in compliance with the relevant directive. The change has no impact on the result of the Group. The Real Estate Funds Act also requires that changes in fair value are recorded as income or expense.

Changes in fair value are recorded in revenue. As residential apartments are disposed of individually according to Orava Residential REIT's strategy, the value of Orava Residential REIT's investment properties is the sum of the market values of individual apartments calculated using a measurement model.

On 31 December 2012, Orava Residential REIT had a total of 372 apartments (31 December 2012: 243) with a total surface area of 21,422 m² (14,332 m²). The apartments were located at 13 different housing companies, where the company's holding was 100% in four of the cases. The company owns four office facilities and one storage facility, in total 1,232 m², in As Oy Jyväskylä Kruununtorni. The total cash flow from leases was EUR 199,000 per month on 1 January 2013. The fair value of investment properties was EUR 31,992,000 (20,262,000) on 31 December 2012.

Major events after the financial period

The agreement on the assignment to acquire capital between Orava Residential REIT and Pareto Securities Ltd was continued on 31 January 2013. The purpose of the agreement is to improve the listing preconditions of Orava Residential REIT by broadening the investor base and shareholders' equity.

At its meeting on 26 February 2013, the Board of Directors decided to go ahead with the transaction on the shares of eleven residential apartments of As Oy Lahden Vuoksenkatu 4. The purchase price of the shares was EUR 131,000. The shares were subject to a loan share of EUR 624,000. The first instalment of the purchase price, EUR 16,000, was paid through cash flow financing, and EUR 115,000.00 of the purchase price remained as a debt owed by Orava Residential REIT to the seller. A separate loan agreement was drafted for the loan. The seller was Maakunnan Asunnot Oy; this was a related party transaction.

On 18 March 2013, the company's Board of Directors approved the subscriptions for the March 2013 share issue according to the authorisation granted by the General Meeting on 19 March 2012. The number of shares issued was 25,687 and the increase in share capital was EUR 256,870.

Orava Residential REIT has previously prepared financial statements for the period 1 January 2012 – 31 December 2012. The financial statements were prepared in accordance with financial statement provisions valid in Finland, and they were adopted at the General Meeting on 18 March 2013. As the company is considering listing on the main list of the Helsinki Stock Exchange or, alternatively, on the First North list in autumn 2013, the company has to have IFRS-compliant financial statements. These financial statements now prepared, which also include IFRS financial statements, have been prepared to ensure that the company has IFRS

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financial statements for the entire duration of its operations as of 30 December 2010. These financial statements replace the previously prepared and adopted financial statements.

The General Meeting decided that, from 1 April 2013, a fee of EUR 600 per month will be payable to the members of the Board of Directors and EUR 1,000 per month to the Chairman of the Board. The fee for meetings will be EUR 200 for the members of the Board of Directors and EUR 400 for the Chairman of the Board.

The Board of Directors' meeting held on 29 May 2013 decided to implement a transaction on As Oy Lohjan Koulukuja 14. The purchase price of the shares was EUR 3.1 million. The seller was Maakunnan Asunnot Oy; this was a related party transaction. The greater part of the transaction was financed through a loan of EUR 3.06 million granted by Maakunnan Asunnot Oy.

An advisory agreement concerning the company's listing was signed with Merasco Ltd on 20 May 2013. Merasco will act as the company's financial advisor in the initial public offering project.

On 27 May 2013, Orava Residential REIT also commissioned UB Securities Ltd to conduct the sales and marketing of the initial public offering shares and act as a book runner.

Castrén & Snellman Attorneys Ltd was selected as the company's legal advisor. The commissioning agreement was signed on 17 June 2013.

Operating environment

National economy

The growth in the Finnish GDP over the current year is forecast to amount to 0.2%–1.3%, and over next year to 1.4%–2.5%. The change in private consumption, which has a key impact on the housing market, is estimated to be approximately 0.3%–1.2% in 2013 and 1.1%–1.9% in 2014. The level of market interest rates in the euro area is historically low, and short-term rates are also expected to remain at less than 2% for the next three to four years.

The poor economic outlook, for its part, continues to dampen the housing market, which, however, is still supported by the exceptionally low interest rates.

Demand in the housing market

In December 2012, households took out new mortgages worth EUR 1.3 billion, i.e. EUR 0.3 billion less year-on-year. The euro-denominated mortgage base totalled EUR 86 billion at the end of December, and the annual growth in the mortgage base continued to slow down to 5.6%.

The average marketing period for old apartments in the country overall increased from 81 days in October to 96 days in December, while it was 104 days in December in the previous year.

Overall, demand in the housing market has remained moderate despite the uncertain economic situation.

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Supply in the housing market

In December, building permits for apartment blocks were granted for 563 apartments, which was 39% less than a year previously. Correspondingly, in January–December, a total of 16,769 building permits were granted for apartment block apartments, or 5% less than a year previously.

The construction of 3,078 apartment block apartments began in the fourth quarter of the year, which was 7% less than a year previously. In contrast, 5,229 new apartment block apartments were completed in the fourth quarter, or 4% more than a year previously.

The declining supply trend in the housing market seems set to continue in the near future.

Prices, rents and return in the housing market

In the fourth quarter of 2012, the rents under new leases on non-subsidised apartments increased by 3.8% year-on-year. The rise in the prices of apartments was only slightly more moderate: 3.0% from the previous year. The ratio of housing prices to rents is still in the vicinity of the long-term average; the ratio calculated from the square metre prices and rents of the fourth quarter was 16.0. The 40-year average for the ratio of square metre prices to annual rents in Finland is 16.6.

We expect that, during the next 12 months, the growth rate of housing prices in the whole country and the growth rate in rents under new leases for non-subsidised apartments will remain approximately the same if the market interest rate expectations and economic forecasts prove true with regard to their essential components affecting the housing market.

Outlook for Orava Residential REIT

The rental and housing price developments described above, according to our expectations, if they materialise, would not materially change the company's relative profitability compared with 2012 or improve the company's profitability compared with the first quarter of 2013.

Orava Residential REIT believes that its business operations will grow and its profitability will remain at a good level during the current financial period. The company estimates that rental demand will remain good and that the prices of the apartments it owns will rise moderately during 2013.

The value of housing assets is estimated to grow with the expansion of the ownership base. Orava Residential REIT is involved in a number of ongoing negotiations aimed at increasing shareholders' equity. In addition, the company's shares have to be subject to multilateral trading in the European Economic Area no later than 31 December 2013 under the Tax Exemption Act. Orava Residential REIT estimates that it will become listed on the main list of the Helsinki Stock Exchange during the last quarter of 2013.

The Residential REIT's aim is to build a EUR 50–100 million housing portfolio during 2013, in which the share of debt financing is estimated to be 40–60%.

Account of the scope of research and development operations

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The company continues to invest resources in developing and growing its real estate fund business and in developing other services in cooperation with the management company Orava Funds plc. The extent of development activities is largely based on actual growth and cash flow financing.

Management of the company

Four ordinary members were elected to the Board of Directors on the basis of the company's Memorandum of Association. The following persons have been members of the Board since the company was established: Jouni Torasvirta, chairman (born in 1965, M.Sc. (Econ.), CEO of Orava Funds plc), Tapani Rautiainen, deputy chairman (born in 1957, M.Sc. (Econ.), chairman of the Board of Maakunnan Asunnot Oy), Veli Matti Salmenkylä (born in 1960, M.Sc. (Tech.), CEO of Orava Residential Real Estate Investment Trust plc) and Timo Valjakka (born in 1960, LL.B., CEO of Maakunnan Asunnot Oy). The members of the Board have in aggregate 60 years of experience in the real estate sector and 40 years of experience in the securities market.

The Board convened 12 times during the financial period. Members of the Board participated in an average of 11.75 meetings during the period. Of the Board members, Tapani Rautiainen and Timo Valjakka are independent of the company, and Torasvirta and Salmenkylä are independent of significant shareholders.

The fees of Board members were decided in the Memorandum of Association. The monthly fee has been EUR 300 for the members of the Board of Directors and EUR 500 for the Chairman of the Board. The fee for meetings has been EUR 100 for the members of the Board of Directors and EUR 200 for the Chairman of the Board. Board members are not in an employment relationship with Orava Residential REIT.

The total Board members' fees were as follows in 2012:

Jouni Torasvirta	EUR 8,200.00
Tapani Rautiainen	EUR 4,600.00
Veli Matti Salmenkylä	EUR 4,700.00
Timo Valjakka	<u>EUR 4,700.00</u>
	EUR 22,200.00

Veli Matti Salmenkylä has been the CEO throughout the financial period. Orava Residential REIT does not pay a salary to its CEO.

Management company Orava Funds plc

Orava Residential REIT was established at the initiative of Orava Funds plc. Orava Funds plc was elected as the management company of Orava Residential REIT on 30 December 2010.

Orava Funds has been responsible for the organisation, management and development of the operations and administration of Orava Residential REIT and prepared its business strategy and annual budget.

As compensation for the management services, Orava Residential REIT pays the management company 0.6% of the fair value of the assets of the REIT (+ VAT) as an annual fixed

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management fee, and 20% of the annual return on the REIT exceeding the hurdle rate of 6% (+ VAT) as a performance-based management fee.

The fixed management fee is calculated on a quarterly basis, and the value is considered to be the latest fair value of the assets according to IFRS in the previous quarter. The fixed management fees during the period under review 1 January – 31 December 2012 amounted to EUR 184,200 including value added tax.

The performance-based management fee is calculated on the basis of earnings per share for the financial period and the number of shares at the end of the financial period. Before listing, earnings per share for the financial period are calculated on the basis of net assets per share closing and opening the financial period and the dividends paid for the share during the financial period. On the basis of the financial result for 2012, the performance-based fee totalled EUR 128,300.

The Board meeting held on 26 February 2013 decided to pay half of the performance-based fee of Orava Funds plc for 2012 as part of a directed share issue. Half of the fee, or EUR 64,150, is acknowledged to be paid by new shares issued in the March directed issue against the subscription commitment of Orava Funds plc. The subscription price was EUR 11.28 per share, and the number of shares was 5,687, i.e. EUR 64,149.60 in total. The new shares subscribed for in the March share issue entitle the holder to 75% of the dividends paid in 2012. The ISIN code of the new share is FI4000061072.

Risks and risk management

Risk management at Orava Residential REIT is based on an ability and willingness to bear risks, knowledge of major risks and the decided risk management policy. Risk management is part of daily operations and part of business management.

The goal of risk management is to identify the main uncertainties associated with achieving targets, to measure and assess the risks identified in advance and to decide on the actions to be taken regarding them. Major risks are classified into strategic and operational risks as well as financial and damage risks.

Risks are taken as an inherent part of business, and they are assessed both from the perspective of utilising the possibilities associated with them and from the perspective of mitigating and eliminating them.

Risk management is integrated as part of the strategy process, operations management system and business processes of Orava Residential REIT. The ultimate responsibility for risk management lies with the Board of Directors of Orava Residential REIT. It decides on the objectives of risk management, confirms the general principles of risk management, defines the duties and responsibilities and monitors major risks. Orava Funds, the management company of Orava Residential REIT, is responsible for the organisation, management, development and reporting of risk management. The business organisation is responsible for the identification and assessment of any risks affecting its operations.

The risk management system is based on monthly reporting which monitors the development of the fair value of investment assets, the financial position, revenue, profitability, sales, trade receivables, expenses and, through them, the result trend. As part of risk management, the Board of Directors discusses and approves, at least annually, the document on authorisations regarding access to accounts and other authorisations.

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The risks involved in Orava Residential REIT's business operations are regularly assessed as part of the company's annual planning and strategy process, the preparation and decision-making process concerning agreements related to the acquisition of investment assets and other agreements, and other operational activities. The company seeks to manage risks through risk surveys and actions taken on their basis, as well as through systematic monitoring and market analyses.

Most significant risks of Orava Residential REIT

As part of the annual planning process, the most significant risks for Orava Residential REIT are regularly assessed through a risk survey where key risks are identified, the likelihood of their being materialised and their impact if materialised are estimated and the risk management methods are defined. The risk survey was conducted in the autumn of 2012 as part of the company's annual planning and strategy process.

Strategic risks

Risks related to the operating environment

The weakening of the global economy and the uncertain outlook have an impact on both investors (i.e. equity financing) and the company's external financing. Exceptionally high uncertainty still prevails regarding the future development of the economy. This uncertainty is reflected in investors, who are considering more closely their investment opportunities implemented using either cash or investment properties as subscriptions in kind. Due to the lack of history, it has not been possible for investors to assess the Residential REIT's success on the basis of previous returns. In such a market situation, the amount of potential subscriptions in kind that meet the preconditions of the Tax Exemption Act and the goals set by the Residential REIT may be clearly poorer than during periods of economic growth.

It may also be difficult for a new company to secure external funding of investments on competitive terms and conditions due to the disruptions that have tested the financial market. The financing of property transactions may continue to become more difficult due to a decrease in supply and increased interest rate margins.

There can be no guarantees that the overall economy will grow in the future. The value of real estate typically follows cyclical fluctuations. Many factors affect the value of real estate, such as interest rates, inflation, economic growth, the business environment, availability of credit, taxation and building activity. Any pronounced drop in apartment prices would affect the profitability of the Residential REIT in the future.

A significant part of the management work of the Residential REIT is to make the residential portfolio acquired generate rental income according to the set goals. Forecasting market rents is difficult and market rents may be realised at a lower level than forecasted. Any drop in rental demand in the localities where the apartments are situated or a longer-term fall in rental income would diminish the REIT's returns and weaken its profitability.

During 2013, to entirely or partly finance properties purchased at wholesale discounts, the intention is, in accordance with the strategy and within the constraints of the Tax Exemption Act, to sell at least 10% of the value of investment properties on the company's opening balance sheet or no more than the maximum amount allowed by the Large Taxpayers' Office so that apartments released from rental use will be sold individually from housing companies whose fair value compared with the acquisition cost is so low that no capital gains tax needs to be paid. It is possible that the liquidity of housing transactions deteriorates and becomes

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exceptionally low, in which case apartments cannot be sold at a time when it would be in the interests of the Residential REIT to do so.

Operational risks

It is possible that simultaneous large repair needs may emerge in a number of properties acquired by the Residential REIT and that a number of tenants may cause especially significant damage to apartments, which would result in costs which cannot be recovered from the tenants. Major unexpected repairs and repair costs would result in a weaker ability to pay, a decline in the occupancy rate, and loss of rental income and profitability.

The management company Orava Funds is responsible for the Residential REIT's operational activities. The ability of the personnel of Orava Funds to deal with their tasks may weaken due to illness, injury or death. Attempts are made to manage these risks through written guidelines, internal training, deputy arrangements and recruitment. Long absences would affect the reliability and result of the operations, as well as growth and profitability.

The operations of the Residential REIT are also materially based on partners, such as the real estate manager and construction companies. The ability of the partners to manage their tasks may deteriorate, they may discontinue their operations or be declared bankrupt. Construction projects may be delayed, and the quality may be poorer than agreed. As a result, the fair values of properties and profitability may weaken.

Damage risks

The properties owned by Orava Residential REIT have full value insurance, and the Group has administrative liability insurance. The business premises of Orava Residential REIT have an alarm system and recording camera surveillance. In addition, Newsec has valid liability insurance for rental and real estate operations. The Group regularly reviews its insurance coverage as part of the overall management of risks. The updating situation regarding rescue plans of properties and the comprehensiveness of maintenance agreements' liability clauses are also regularly reported to the Board of Directors.

There are no court actions pending, and the Board of Directors is also not aware of any other legal risks related to the operations of the Group that would materially affect the result of operations.

Financing risks

A rapid and steep rise in market interest rates would increase the financing costs of new acquisitions by Orava Residential REIT, which would have a negative impact on the company's financial result.

Management of financing risks

In the course of its normal business, Orava Residential REIT is exposed to various financing risks. The objective of Orava Residential REIT's risk management is to minimise the negative effects of changes in financial markets on the company's cash flow, financial result and equity. The Board of Directors of Orava Residential REIT decides on the objectives of risk management, determines the risk management policy and is responsible for monitoring risk management activities. The operational policy observed in financial operations is to avoid risks.

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The ultimate responsibility for risk management lies with the Board of Directors of Orava Residential REIT. It decides on the objectives of risk management, confirms the general principles of risk management, defines the duties and responsibilities and monitors major risks. Orava Funds, the management company of Orava Residential REIT, is responsible for the organisation, management, development and reporting of risk management. The business organisation is responsible for the identification and assessment of any risks affecting its operations. The financial management identifies and assesses risks and acquires the necessary instruments for hedging against risks in cooperation with the operational units. Hedging transactions are implemented in accordance with the written risk management principles approved by Orava's Board of Directors.

Orava Residential REIT's key financing risks are interest rate risks, risks related to the availability of financing, liquidity risks, price risks and credit risks.

The Group's interest rate risk is caused by long-term liabilities. Variable-rate loans expose the Group to a cash flow interest rate risk. The company uses interest rate swaps to even out the impact of changes in market interest rates. The parent company's hedging rate against interest rate risks is 100%. Under the Tax Exemption Act, Orava Residential REIT may hedge against interest rate risks by means of standardised and OTC derivatives when derivatives are only used for hedging purposes. The Group regularly analyses its interest rate position by taking into account refinancing, the renewal of subsidiaries' company loans, alternative financing and hedging.

The risk related to the financing of a relatively new company is decreased by engaging in regular negotiations with a number of bank groups and maintaining the reputation of the company as a reliable partner and debtor. In the loan agreements, ordinary covenants are used to protect the debtor. The most important covenants used are: loan-to-value, loan servicing margin and equity-to-assets ratio.

The liquidity of the Group is monitored by means of forecasts. In addition, the Group has negotiated an overdraft facility for a bank account of EUR 200,000; increasing it will be negotiated, as necessary.

The Group is exposed to the price risk of the investment properties or apartments it owns. The price risk is managed by distributing the investment assets geographically and in terms of age. The distribution takes place in accordance with an approved investment strategy. Any change in the fair value of investment properties is presented under revenue in the income statement, which means that any decrease in fair value directly affects the financial result for the period under review.

The credit risk is related to rental receivables. Rental receivables are regularly monitored. The collection of rental receivables has been outsourced to Intrum Justitia.

Capital management

The objective of capital management is to secure the Group's capability for continuous operation so that it can produce income for its owners and benefits for its other stakeholders. Another objective is to maintain an optimal capital structure, for example, when interest rates change.

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In order to maintain or change its capital structure, the Group may, within the constraints of the Limited Liability Companies Act and the Tax Exemption Act, change the amount of dividends payable to its shareholders, issue new shares or sell apartments it owns in order to reduce its debts.

Capital is monitored on the basis of the loan to value ratio in the same manner as in similar companies where the financing banks require the fulfilment of covenant conditions to be regularly reported. The loan to value ratio is determined by dividing the Group's share of interest-bearing debts taken out from banks by the debt-free value of housing company shares and other assets. In 2013, the Group's strategy entailed keeping the loan to value ratio between 30% and 60%. On 31 December 2012, the Group's loan to value ratio was 49.9%.

Environmental factors

The starting point for the company's environmental work is the legal and operational requirements for its own and its tenants' operating environments. The management of environmental matters in the Group is based on the environmental policy, guidelines and environmental systems of Newsec Asset Management, which acts as the property manager.

Company shares

The shares in Orava Residential REIT were issued in the book-entry system on 28 January 2011. The trading code for the share is OREIT. On 31 December 2012, the company had a total of 1,366,558 shares using three different ISIN codes, which had different rights to dividends for 2012. After the dividend distribution on 27 December 2013, the shares with lower dividend rights of the time of 2012 financial statements will be combined into shares with 100% dividend rights,

ISIN code of the share	Right to dividends	pcs
FI4000019344	100%	1,171,736
FI4000046321	50%	105,364
FI4000049101	25%	89,458
Total		1,366,558

According to the Tax Exemption Act, the company may not purchase its own shares.

Annual General Meeting's decision on distribution of dividends 18 March 2013

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The distributable assets of the parent company under the Limited Liability Companies Act in the financial statements were EUR 1,363,813.69, of which the profit for the financial period was EUR 1,359,747.01.

The Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations (299/2009) ("the Tax Exemption Act") states that, to retain the tax exemption, the company shall distribute at least 90% of the profit for the financial period in the form of dividends for the tax year, which does not include unrealised changes in value. The parent company's profit for the period excluding unrealised value changes is EUR 133,793.69.

In accordance with the Board of Directors' proposal, the Annual General Meeting decided on the use of distributable funds as follows:

The company will pay its distribution of profit for 2012 according to three different rights to dividends. The dividend rights were decided in the terms and conditions of directed share issues according to how much of the financial period the capital investment participated in profit generation. No more than EUR 1.08 per share will be distributed in dividends according to the following table.

ISIN codes of the shares	Right to	Number	Dividend,	Total dividend
	dividends		EUR	
FI4000019344	100%	1,171,736	1.08	1,265,474.88
FI4000046321	50%	105,364	0.54	56,896.56
FI4000049101	25%	89,458	0.27	24,153.66
Total		1,366,558		1,346,525.10

No more than EUR 1,346,525.10 will be distributed in dividends. The Board of Directors is authorised to decide on the amount of dividends in each quarter. The dividend payment dates are:

- 28 March 2013, 28 June 2013, 30 September 2013 and 27 December 2013.

At least EUR 17,288.59 will remain in unrestricted shareholders' equity.

The Board of Directors was obligated to supervise solvency before the payment of each dividend and, as necessary, reduce the amount of dividends to be paid in each quarter if the company's solvency were to be endangered due to the distribution of dividends. The Board of Directors will decide on the dividend record dates at its meetings. The record dates are about five days before the payment dates.

No material changes have taken place in the company's economic situation after the end of the financial period, and the solvency test referred to in chapter 13, section 2, of the Limited Liability Companies Act also does not restrict the distribution of dividends on 28 March 2013. A quarter of the maximum amount of dividends for the whole year was distributed on 28 March 2013. The Board of Directors decided on 17 June 2013 that the same amount will be distributed in dividends in June.

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Shareholders

According to the company's shareholder register, the company had 14 shareholders at year-end, and the holding of any shareholder did not exceed three-tenths (3/10). Of the shareholders, Maakunnan Asunnot Oy is a subsidiary of Avaintalot Oy. The holding of the Avaintalot Group totalled 25.6%. The number of shares was 1,366,558.

The Board meeting held on 26 February 2012 decided to pay half of the performance-based fee of Orava Funds plc for 2012 as part of the March directed share issue. Half of the fee, or EUR 64,150, was acknowledged to be paid by new shares issued in the March directed issue against the subscription commitment of Orava Funds plc. The subscription price was EUR 11.28 per share, and the number of shares was 5,687.

In the March directed issue, the share capital was increased by a total of EUR 256,870. On 31 March 2013, the number of the company's shares was 1,392,245, and there were 24 shareholders. The table shows the largest owners and their holdings on 31 March 2013.

Shareholders on 31 March 2013	pcs	%
Länsi-Suomen Vuokratalot Oy	351,000	25.211%
Avaintalot Oy	247,794	17.798%
Maakunnan Asunnot Oy	102,205	7.341%
Godoinvest Oy	229,360	16.474%
Sysmäläntien Kiinteistöt Oy	229,135	16.458%
Etra Oy	105,364	7.568%
Kotkan Hv-sijoitus Oy	87,558	6.289%
LocalTapiola Mutual Life Insurance Company	12,100	0.869%
Petteri Vaittinen	9,756	0.701%
Orava Funds plc	5,687	0.408%
Inez Backlund	2,200	0.158%
Total shares	1,382,159	99.28%

Board of Directors' valid authorisations

The General Meeting of 19 March 2012 decided to renew the Board of Directors' share issue authorisation. In the share issues, the maximum number of new shares was 3,000,000. The subscription price of shares may be paid in cash or, instead of cash, in its entirety or partly in subscriptions in kind. The authorisation was renewed at the General Meeting of 18 March 2013 after the March share issue. In accordance with the Board of Directors' valid authorisations, the maximum number of new shares is 3,000,000. The authorisation is valid until 31 March 2014.

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A corporate governance statement and the valid rules for real estate investment operations are presented as appendices to the financial statements.

Helsinki, 19 June 2013

Board of Directors

Consolidated income statement, IFRS	Note	1 Jan-31 Dec 2012	30 Dec 2010- 31 Dec 2011
	EUR 1,000		
Revenue			
Income from ordinary operations	6	1,914	1,080
Capital gains	6	1,266	227
Total revenue	6	3,180	1,307
Maintenance expenses	7	-752	-449
Expenses from rental operations	7	-47	-12
Administrative expenses	7	-356	-191
Other operating income and expenses	7	-141	-5
Total expenses		-1,296	-657
Operating profit		1,884	650
Financial expenses (net)	8	-452	-203
Profit before taxes		1,432	448
Direct taxes	9	-11	0
Profit/loss for the period		1,421	448
Profit/loss for the period attributable to the owners of the parent company	10	1,421	448
Earnings per share calculated from the profit attributable to the owners of the parent company			
Earnings per share, EUR	10	1.14	0.54
Other comprehensive income items	16	-243	-164
Comprehensive profit/loss for the period		1,178	284
Comprehensive profit/loss for the period attributable to the owners of the parent company	10	1,178	284

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The notes presented on pages 21-46 form an integral part of the consolidated financial statements.

The General Meeting adopted the financial statements presented on pages 1-48 on 19 June 2013.

Consolidated statement of financial position	Note	31 Dec 2012	31 Dec 2011
	EUR 1,000		
ASSETS			
<u>Non-current assets</u>			
Fair value of investment properties	11	31,992	20,263
<u>Current assets</u>			
Rental, trade and other receivables	12	131	27
Cash and cash equivalents	13	300	403
		<u>432</u>	<u>430</u>
TOTAL ASSETS		32,424	20,692
Equity attributable to the owners of the parent company			
Share capital	14	13,666	11,717
Reserves	14.16	-126	-5
Retained earnings		46	0
<u>Profit for the period</u>		<u>1,421</u>	<u>448</u>
Total equity		15,007	12,159
Liabilities			
Non-current liabilities	15	15,731	7,791
Current liabilities			
Interest-bearing liabilities, borrowings	17	524	410
Trade payables and other current liabilities	17	756	168
<u>Fair value of interest rate hedges</u>	<u>16</u>	<u>407</u>	<u>164</u>
Total liabilities		17,418	8,533
TOTAL EQUITY AND LIABILITIES		32,424	20,692

The notes presented on pages 22-47 form an integral part of the consolidated financial statements.

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The General Meeting adopted the financial statements presented on pages 1-49 on 19 June 2013.

INCOME STATEMENT OF PARENT COMPANY

	1.1.2012 - 31.12.2012	30.12.2010 - 31.12.2011
EUR	EUR	EUR
NET TURNOVER	3 141 293,39	1 301 592,92
Other operating income	0,00	0,00
Staff expenses	-22 200,00	-18 800,00
Depreciation, amortisation and reduction in value	0,00	0,00
Other operating expenses	-1 280 308,65	-651 379,87
OPERATING PROFIT (LOSS)	1 838 784,74	631 413,05
Financial income and expenses	-467 857,28	-228 964,13
Financial income from group companies	0,00	0,00
Other interest and financial income	1 041,77	317,01
	1 041,77	317,01
Depreciations on the investments in fixed assets	0,00	0,00
Interest and other financial expenses, group	-123 996,38	-59 452,77
Interest and other financial expenses	-344 902,67	-169 828,37
	-468 899,05	-229 281,14
Total financial income and expenses	-467 857,28	-228 964,13
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	1 370 927,46	402 448,92
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	1 370 927,46	402 448,92
Income taxes	-11 180,45	0,00
PROFIT (LOSS) FOR THE PERIOD	1 359 747,01	402 448,92

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BALANCE SHEET OF PARENT COMPANY	Note	31.12.2012	31.12.2011
ASSETS		EUR	EUR
NON-CURRENT ASSETS			
Intangible assets		110 736,36	45 007,89
Investments		28 890 169,23	17 973 610,99
Holdings in group undertakings		22 921 430,63	17 562 555,99
Other holdings and shares		5 968 738,60	411 055,00
TOTAL NON-CURRENT ASSETS		29 000 905,59	18 018 618,88
CURRENT ASSETS			
		1 357 267,95	252 981,86
Short-term receivables		374 431,21	180 111,46
Cash in hand and at bank		92 073,78	187 450,80
TOTAL CURRENT ASSETS		1 823 772,94	367 562,26
TOTAL ASSETS		30 824 678,53	18 639 163,00
EQUITY AND LIABILITIES			
EQUITY			
Share capital		13 665 580,00	11 717 360,00
Invested unrestricted equity fund		280 924,43	158 524,97
Retained earnings		4 066,68	0,00
Profit (loss) for the financial year		1 359 747,01	402 448,92
TOTAL EQUITY		15 310 318,12	12 278 333,89
LIABILITIES			
Long-term liabilities			
Loans from credit institutions		14 415 967,01	6 051 740,27
Other liabilities		9 785 500,00	5 755 000,00
		4 630 467,01	296 740,27
Short-term liabilities			
Loans from credit institutions		1 098 393,40	309 088,84
Deferred income		249 500,00	145 000,00
Accounts payable		30 532,03	23 302,28
Depts to group companies		10 392,12	17 877,41
Other current liabilities		163 310,11	97 557,82
Accrued liabilities		467 016,82	2 127,00
		177 642,32	23 224,33

EUR 1,000

Consolidated statement of cash flows

	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Cash flows from operational activities		
Cash flows from operational activities before financial items	660	627
Interest paid, net	-538	-209
Taxes paid	0	0
Net cash flows from operational activities	122	418
Cash flows from investment activities		
Acquisition of subsidiaries less acquired cash and cash equivalents	-4,404	-20,041
Acquisition of residential apartment shares	-833	0
Investments in tangible fixed assets	-19	-250
Investments in intangible assets	-120	0
Income from divestitures of tangible fixed assets	1,663	466
Net cash flows used in investments	-3,713	-19,825
Cash flows from financing activities		
Payments received from share issues	21	11,871
Drawdowns of loans	4,280	8,291
Loan repayments	-413	-352
Dividends paid	-398	0
Net cash flows used in financing activities	3,489	19,810
Net decrease (-)/increase (+) in cash and cash equivalents	-103	403
Cash and cash equivalents and accounts with an overdraft facility at the beginning of the period	403	0
Cash and cash equivalents at the end of the period	300	403

The notes presented on pages 21-46 form an integral part of the consolidated financial statements.

The General Meeting adopted the financial statements presented on pages 1-48 on 19 June 2013.

STATEMENT OF CHANGES IN EQUITY

EUR 1,000	Equity attributable to the owners of the parent company					Total equity
	Share capital	Reserve for invested unrestricted equity	Hedge reserve	Retained earnings	Total	
Equity on 31 Dec 2010	5,028				5,028	5,028
Proceeds from shares issued 29 Mar 2011	2,478				2,478	2,478
Proceeds from shares issued 29 Mar 2011	117	3			120	120
Proceeds from shares issued 29 Mar 2011	4,095	156			4,251	4,251
Profit for the period				448	448	448
Comprehensive income items			-164		0	0
Equity on 31 Dec 2011	11,717	159	-164	448	12,159	12,159
Proceeds from shares issued 29 Jun 2012	1,054	46			1,100	1,100
Proceeds from shares issued 31 Oct 2012	895	76			971	971
Distribution of dividends on 30 Mar 2012				-117	-117	-117
Distribution of dividends 28 Jun 2012				-94	-94	-94
Distribution of dividends 27 Sep 2012				-94	-94	-94
Distribution of dividends 27 Sep 2012				-94	-94	-94
Deduction of earnings for non-controlling interest				-4	-4	-4
Profit for the period				1,421	1,421	1,421
Comprehensive income items			-243		-243	-243
Equity on 31 Dec 2012	13,666	281	-407	1,465	15,007	15,007

The notes presented on pages 21-48 form an integral part of the consolidated financial statements.

The General Meeting adopted the financial statements presented on pages 1-48 on 19 June 2013.

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Notes to consolidated financial statements

1. Basic details of the Group

Orava Residential Real Estate Investment Trust plc ("Orava Residential REIT"), business ID 2382127-4, address Kanavaranta 7, 00160 HELSINKI, Finland) was established on 30 December 2010 as a real estate fund as referred to in the Real Estate Funds Act. Its rules for real estate investment operations were approved by the Financial Supervisory Authority on 28 January 2011. The up-to-date rules are enclosed as an appendix to the financial statements.

The purpose of the company as a real estate fund under the Real Estate Funds Act (1173/1997) is to let apartments and real estate which it owns or possesses due to its shareholding, to engage in ordinary housing management and maintenance focusing on its own property, to exercise construction contracting on the company's own behalf and to finance all these operations. The operations of the company aim to take advantage of the Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations (299/2009) ("the Tax Exemption Act"). The company has been granted an exemption from income tax. The tax exemption started from the beginning of the first tax year on 30 December 2010.

Orava Residential REIT has previously prepared financial statements for the period 1 January 2012-31 December 2012. The financial statements were prepared in accordance with Finnish financial statement provisions valid in Finland, and they were adopted at the General Meeting on 18 March 2013. As the company is considering listing on the main list of the Helsinki Stock Exchange or, alternatively, on the First North list in autumn 2013, the company has to have IFRS-compliant financial statements. These financial statements now prepared, which also include IFRS financial statements, have been prepared to ensure that the company has IFRS financial statements for the entire duration of its operations as of 30 December 2010. These financial statements replace the previously prepared and adopted financial statements.

2. Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations (299/2009) ("the Tax Exemption Act")

A limited company generally liable for tax in Finland and engaged in the rental of residential apartments is exempted from paying income tax in the manner prescribed in the Tax Exemption Act.

The main prerequisites for granting exemption from tax are as follows:

- The company may not be engaged in any other business than that of renting residential apartments
- At least 80% of the company's assets shown on the balance sheet is invested in apartments or real estate primarily intended for residential use
- The other assets of the company besides the residential assets are compliant with the Real Estate Funds Act
- The company's liabilities do not exceed 80%.

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- No individual shareholder holds more than 30% of the company's share capital (less than 10% from 2015)
- The Real Estate Funds Act is applicable to the company

In addition to the above, the requirements for maintaining the exemption from tax are broadly as follows:

- At least 90% of the result must be distributed as dividends every year (excluding any unrealised change in value).
- The company's shares are listed on the stock exchange on the third year at the latest.
- The company does not distribute its funds in any other manner than as dividends.

The company becomes partially liable for tax:

- to the extent that its rental income is less than 80% of its total income (excluding disposal prices)
- for capital gains from apartments it has owned for less than five years

3. Accounting principles

The financial statements of the parent company have been prepared in accordance with Finnish generally accepted accounting principles with the exception that Orava Residential REIT complies with the Real Estate Funds Act. According to Section 18 of the Act, the REIT shall measure properties in other than its own use at fair value on its balance sheet.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applying the IAS and IFRS standards and SIC and IFRIC interpretations endorsed for use in the EU and in force on 31 December 2012. The term "International Financial Reporting Standards" refers to the standards and their interpretations in the Finnish Accounting Act and provisions based on this, approved for application in the EU in accordance with the procedure established in EU Regulation No 1606/2002. The notes to the consolidated financial statements also comply with the provisions of Finnish accounting and corporate legislation that supplement the IFRS provisions. In addition, Orava Residential REIT complies with the recommendations of the European Public Real Estate Association (EPRA) of August 2011, as applicable.

The consolidated financial statements were prepared in euros, and they are presented in thousands of euros. All figures have been rounded, so the sum total of the individual figures may differ from the total amount presented.

3.1 Basis of preparation

The consolidated financial statements are based on the acquisition cost method apart from investment properties and interest rate swaps used for hedging cash flows, which are recognised at fair value.

The preparation of IFRS financial statements requires discretion from the management. Discretion influences the selection and application of accounting principles, the amount of reported assets, liabilities, income and expenses, as well as the notes presented. When exercising discretion, the management uses estimates and assumptions based on previous experience and its best view on the closing date concerning the future development of the real

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estate market, in particular. The final outcome may differ from the estimates made. The use of estimates and assumptions is described in more detail in the section "Accounting principles requiring management discretion".

3.2 Consolidation principles

Orava Residential REIT consolidates the wholly-owned housing companies in compliance with IAS 27. Partially owned housing companies are consolidated using the proportionate method in compliance with IAS 31, in which case only the amount of each income statement and balance sheet item of the subsidiaries corresponding to the holding of the Group is consolidated. Accordingly, no minority interest is created in the Group consolidation process.

3.3 Segment reporting

The form of segment reporting used by the company is in accordance with the intended use of the investment properties. According to the Tax Exemption Act, at least 80% of the company's assets shown on the balance sheet must be invested in apartments or real estate primarily intended for residential use and rental income from these must account for at least 80% of the income, excluding the disposal prices of investment properties.

The parent company Board of Directors, which makes strategic decisions, is appointed as the chief operating decision-maker which is responsible for the allocation of resources to the operating segments and the assessment of their result. The geographic distribution of investment properties is also regularly reported to the Board of Directors.

3.4 Investment properties

In accordance with the Tax Exemption Act, Orava Residential REIT does not engage in any operations other than letting premises which it owns or possesses due to its shareholding, ordinary housing management and maintenance focusing on such premises, construction contracting on the company's own behalf and financing required for these.

Under the Tax Exemption Act, at least 80% of the company's assets shown on the balance sheet at the end of the tax year shall be made up of real properties, housing company shares or shares conferring the right to possess a residential apartment in another mutual real estate company which only engages in the ownership and management of the buildings on its real estate which are primarily intended for permanent residential use. Orava Residential REIT possesses such assets to obtain rental income or increase in the value of its assets or both.

In the valuation of its investment properties, Orava Residential REIT applies section 18 of the Real Estate Funds Act and the fair value model according to IAS 40, Investment Property. Any profit or loss from changes in fair value is recognised through profit or loss for the period during which it arises.

Changes in fair value are recognised under revenue. Investment properties are initially valued at acquisition cost. Fair value is used in the measurement and valuation after the initial recognition. Fair value is the amount of money for which the assets could be exchanged between informed parties willing to enter into the transaction and independent of each other.

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As of 1 January 2013, fair value will be determined according to IFRS 13, Fair Value Measurement. The change has no impact on the result of the Group.

Orava Residential REIT possesses investment properties under construction to obtain rental income or increase in the value of its assets or both in the future. On the closing date, long-term development and construction projects where a new building or new apartments are built are measured at fair value according to IAS 40, Investment Property. Use of fair value requires that the percentage of completion of the project can be reliably estimated. Investment properties under construction also include apartments for which Orava Residential REIT has signed a construction-stage deed of purchase for a residential apartment. As of 1 January 2013, fair value will be determined according to IFRS 13, Fair Value Measurement, in compliance with the relevant directive. The change has no impact on the result of the Group.

As residential apartments are disposed of individually according to Orava Residential REIT's strategy, the value of Orava Residential REIT's investment properties is the sum of the market values of individual apartments calculated using a measurement model.

Individual apartments are derecognised when they are disposed of. Capital gains and losses from apartments are presented in the income statement under revenue. Capital gains and losses from apartments are arrived at by deducting the previous quarter's closing balance sheet value and the estate agent's commission from the debt-free sales price. The share of the apartment of the asset transfer tax paid, the cost of repairs of the apartment and capitalised repairs are deducted in full from the change in fair value.

An external expert annually audits the fair value measurement process and determination method used by Orava Residential REIT. In addition to the audit, an external expert issues a calculation of value on the values of all Orava Residential REIT's investment properties twice a year.

3.4.1 Description of the determination of the fair value of investment properties

Appraisal method

The comparable sales method used by Orava Residential REIT is typically used for appraising apartments when they are being sold as individual apartments. In the comparable sales method, it is possible to rely on manual or automatic (location data, clustering) sampling of comparison observations, and the material may be analysed either manually or automatically (AVM/CAMA).

The fair value of the REIT's portfolio is determined through a computer-assisted mass appraisal (CAMA) system using multi-variable regression based on asking price material.

Material

The material used is housing sales advertisements from the Oikotie.fi service included in the Sanoma Group. The advertisements are received continuously, directly from Oikotie in electronic format, without the identifier information on the advertiser or the information fed into free-form fields. Oikotie.fi is one of Finland's largest housing sales advertisement portals, and its coverage is good in the Helsinki metropolitan area and the largest towns in southern

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Finland, in particular. The Oikotie.fi service includes advertisements from both estate agents and private individuals.

According to the International Valuation Standards, when a market appraisal is made, the information used should be freely available and generally used in decision-making. Private individuals who act as buyers and sellers do not have available actual transaction information on individual apartments, so the apartment asking prices play a significant role in decisions to buy and sell. Accordingly, the asking price material may be considered to be relevant and also more up-to-date data than material on realised transactions for decision-making and thus also the determination of market value.

Inspection and enrichment of the material When the valuation model is prepared, the material is examined and any detected clearly erroneous information is adjusted by means of manual imputation. In imputation, we primarily focus on checking the construction year. If a realised transaction price is available (mainly in the case of the company's own apartments), the asking price is replaced by the transaction price, which is increased by the bargaining range estimated for the time of the transaction. The asking prices for the company's own apartments for sale are not used in the appraisal.

Bargaining range Apartment asking prices typically include a bargaining range; in other words, sellers set their asking prices at a level that is higher than the lowest price at which the seller would be ready to conclude the transaction. The bargaining range must be taken into account in the determination of the fair value – i.e. the expected transaction price. A typical rule of thumb for the realised bargaining range is approximately 5–10%. When fair values are determined for the Residential REIT, the bargaining range is estimated by comparing the postcode-specific average rents on the Oikotie.fi service and with Statistics Finland collected for the latest quarter with each other and taking the arithmetic average value of these average values separately for towns with more and fewer than 100,000 inhabitants. The asking price data for both town types is postponed by approximately two months (corresponding to the average marketing period by apartment type) in relation to the material of Statistics Finland. The estimated bargaining range used in the appraisal for the last quarter of 2012 was 4.89% for large towns and 7.64% for small towns.

Econometric model

The econometric model explaining the asking prices for apartments is estimated with the least squares method using Gretl software (<http://gretl.sourceforge.net>), the currently used version of which is 1.9.9.

$$\ln\left(\frac{P}{ALA}\right) = a + b_1 \cdot ALA + b_2 \cdot ALA^2 + b_3 \cdot ALA^3 + b_4 \cdot IKA + b_5 \cdot IKA^2 + b_6 \cdot IKA^3 + b_7 \cdot D_{Kunto=erinomainen} + b_8 \cdot D_{Kunto=tyydyttävä} + b_9 \cdot D_{Kunto=huonoeritt.huono} + b_{10} \cdot D_{Sauna} + \sum_{t=-24}^{-1} c_t \cdot TD_t + \sum_{i=1}^n d_i \cdot ZIP_i + d_{n+1} \cdot SQKM + d_{n+2} \cdot KOHDE$$

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P = the debt-free selling price

ALA = the surface area of the apartment

IKÄ = the age of the building (= current year – notified construction year)

D = a dummy variable, which receives value 1 when the information indicated in the subscript is true and otherwise 0

TD = a monthly time dummy (the dummy of the appraisal month is left out)

ZIP = a location dummy describing the postcode area

SQKM = a dummy variable that receives value 1 when the observation is located within an area of one square kilometre round the property – the variable is used for appraising the impact of the micro location within the postcode area

KOHDE = a dummy variable which receives value 1 when the observation is located at the same address with the property being appraised

The following delimitations were used (2012q4):

- building type = apartment block (excluding terraced houses, for which the material is 'all building types')
- building class = owner-occupied apartment (i.e. non-rental building) OR new property
- form of housing = owner-occupied apartment OR new property
- the advertisement was submitted at most 24 months before the end of the appraisal month
- $\text{EUR } 400/\text{m}^2 < \text{debt-free square metre price} < \text{EUR } 10,000/\text{m}^2$
- $10 \text{ m}^2 < \text{apartment surface area} < 300 \text{ m}^2$
- $-2 \text{ years} < \text{age of the building} < 150 \text{ years}$

The most central indicators and statistical tests related to regression models, such as t and F tests for the coefficients of the model, are used as the continuous meters for the goodness and meaningfulness of the model. The primary criterion for determining the variables, delimitations and function form is the standard deviation of the remainder terms, and attempts are made to minimise it. In addition, the information criteria (AIC, SIC and HQ) and the adjusted R-squared indicator have been used for the mutual comparison between the models. Examination of residuals, heteroscedasticity tests, VIF tests measuring collinearity and Chow tests were used in the testing of the statistical goodness of the models. The measurement model is continuously developed.

3.5 Financial assets

Loans and other receivables

Loans and other receivables are financial assets not included in derivative assets, the payments related to which are fixed or determinable and which are not quoted on active markets. They are included in current assets, except if they fall due after more than 12 months from the closing date.

The Group's current assets include rental and other receivables and cash in hand and at banks. Rental receivables are recognised on the balance sheet at their initial invoiced value. Rental

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receivables are regularly reviewed. Reminder and collection letters are sent at two-week intervals. An external collection agency manages the collection of rental receivables. A summons is sent to a district court approximately two months after the first due date. At the end of every reported period, it is estimated whether there is proof of impairment of the value of receivables. Impairment of rental receivables is recognised under other operating expenses during the period it is incurred.

Cash in hand and at banks includes cash, bank accounts and liquid investments whose investment period is no more than three months at the time they are made. The overdraft facilities of bank accounts are included in non-current interest-bearing liabilities.

Purchases and sales of financial assets are initially recognised at fair value on the basis of the transaction date, and the transaction costs are expensed in the income statement. Loans and other receivables are later valued at amortised cost.

3.6 Interest rate swaps and hedging

Orava Residential REIT may only use derivatives for hedging the interest rate risk within the limits allowed by the Tax Exemption Act. Through interest rate swaps, variable-rate loans are changed into fixed-rate loans, so the hedging instruments and the underlying objects are consistent as to their critical characteristics (amount, maturity).

The bank's charges for the interest rate swaps are expensed during the period they are incurred.

Changes in the fair value of interest rate swaps are recognised under comprehensive income items and shareholders' equity. The fair values of interest rate swaps are measured on the basis of the zero-coupon euro swap curve published and calculated by Deutsche Bundesbank on the basis of market data for the balance sheet day. The cash flows of each payment transaction of the interest rate swaps are discounted, and the market value of swaps is calculated by linear interpolation using interest rates determined from the above zero-coupon curve.

3.7 Share capital

Shareholders' equity consists of share capital, the reserve for invested unrestricted equity and retained earnings. In share issues, EUR 10.00 of the subscription price of the share is recorded under share capital, while the excess is recognised under the reserve for invested unrestricted equity. Fees related to an increase in the share capital paid to third parties are deducted from shareholders' equity. The company may only distribute its funds as dividends. Under the Tax Exemption Act, acquisition of the company's own shares is prohibited.

3.8 Non-current liabilities

Non-current interest-bearing loans are recognised at fair value less transaction costs at the time of acquisition. Loan arrangement fees are expensed in the income statement over the loan period. A loan is classified as a non-current interest-bearing liability insofar as the

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amortisation of the loan takes place after more than a year from the closing date. The overdraft facilities of bank accounts are included in non-current interest-bearing liabilities.

3.9 Costs of liabilities

Costs of liabilities which arise from the acquisition, construction and manufacture of investment properties the completion of which requires a considerably long period are added to the acquisition cost of the acquisition in question. Capitalisation is continued until the asset items are ready to be rented or sold.

Other costs of liabilities are also expensed during the period they are incurred.

3.10 Current interest-bearing liabilities

A loan is classified as a current interest-bearing liability insofar as the amortisation of the loan takes place within a year from the closing date.

3.11 Other current liabilities

Other current liabilities include trade payables and other liabilities. Trade payables are obligations which result from goods or services acquired from suppliers or service providers in the course of ordinary business operations. If trade payables fall due within over a year, they are disclosed under non-current liabilities.

3.12 Revenue

At Orava Residential REIT, revenue includes:

- Income from ordinary operations
- Capital gains

Income from ordinary operations is divided into gross rental yield, i.e. income from rental of apartments and other facilities, and compensation for use and resident services. Income from ordinary operations is recognised in the income statement in equal instalments on a monthly basis over the lease period.

Gains include realised capital gains and losses from disposals of apartments, transaction fees for sales, i.e. estate agents' commissions, and changes in the fair value of apartments in the reported period. The share of the apartment of the asset transfer tax paid, the cost of repairs of the apartment and capitalised repairs are deducted in full from the change in fair value.

3.13 Expenses

Expenses include the management, maintenance and annual repair expenses of investment properties, expenses for rental operations and the administrative expenses of the Residential REIT. Administrative expenses include the remuneration of the Board of Directors, the fixed fee of the management company and other administrative expenses.

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Land leases are treated as other leases, and the rents paid on their basis are recognised in the income statement under maintenance expenses in equal instalments over the lease period.

3.14 Other operating income and expenses

Other operating expenses include credit losses from rental operations and the performance-based fee of the management company.

The performance-based management fee is twenty per cent (20%) of the annual yield of the Residential REIT exceeding the hurdle rate of six per cent (6%). The management company's performance-based fee is recognised at fair value according to the yield exceeding the hurdle rate during the financial period.

Potential other operating income and expenses include income and expenses which cannot be considered to be directly related to the real estate investment operations of Orava Residential REIT.

3.15 Operating profit

The operating profit of Orava Residential REIT is the net sum arrived at by deducting expenses from revenue, adding other operating income and deducting other operating expenses.

3. Income taxes

After Orava Residential REIT met the requirements under the Tax Redemption Act on 31 December 2012, it was released from paying income tax as set out in the Tax Exemption Act. Under the Tax Exemption Act, the company becomes partially liable to pay tax insofar as the amount of rental income is less than 80% of income (excluding capital gains) and for realised capital gains from apartments it has owned for less than five years. Capital gains and losses may not be offset. Income tax is only recognised if it is known that the company will become partially liable to pay tax.

3.17 Earnings per share

Earnings per share are calculated by dividing the result for the period attributable to the owners of the parent company by the weighted average number of shares outstanding.

3.18 Obligation to distribute dividends

Under the Tax Exemption Act, at least 90% of the profit for the period shall be distributed annually, excluding any unrealised change in the fair value of investment properties. On the other hand, the Tax Exemption Act restricts the distribution of funds for the distribution of profit only. The dividends that the Board of Directors proposes to be distributed are not

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recognised before the General Meeting approves them. Dividend distribution is recorded on the consolidated statement of financial position for the period during which the dividend is approved at the General Meeting. If the General Meeting authorises the Board of Directors to decide on the distribution of dividends, the distribution of dividends is recognised on the consolidated statement of financial position for the period during which the dividends are approved at a Board meeting.

3.19 New IFRS standards and interpretations

New standards, amendments to standards and interpretations that have been published but which are not in force during the financial period starting on 1 January 2012 have not been adopted prematurely. IASB has published the following new standards, which the Group has not complied with. The Group will adopt the new standards from the date they enter into force.

IFRS 13 Fair Value Measurement will enter into force in financial periods starting on 1 January 2013 or afterwards.

The purpose of IFRS 13 Fair Value Measurement is to increase uniformity and reduce complexity. Fair value is defined precisely and single requirements are determined for the measurement of fair value and notes, which apply to all IFRS standards. The requirements according to IFRS and US GAAP have now been largely harmonised. The use of fair value is not expanded, but guidelines are given on its determination when its use is allowed or required in other IFRS or US GAAP standards. The adoption of IFRS 13 has no impact on the financial result of Orava Residential REIT, and it has been introduced in the financial period that started on 1 January 2013.

IFRS 11 Joint Arrangements will replace the IAS 31 standard as of 1 January 2014. The company will carefully review the requirements of IFRS 11 concerning valuation and notes to assess the treatment of housing companies in financial statements as of 1 January 2014.

3.20 Accounting principles requiring management discretion

The management of Orava Residential REIT exercises discretion when it makes decisions on the choice of accounting principles and their application. This concerns cases where the IFRS norms include alternative recognition, valuation or disclosure methods, in particular. Any estimates and assumptions are based on earlier experience and the best view on the closing date. Estimates are always associated with uncertainty factors, and the final outcome may differ from the estimates made. The discretion and estimates by the management of Orava Residential REIT are mainly related to the measurement of investment properties at fair value.

The fair value of the apartment portfolio of Orava Residential REIT is monthly determined with a comparable sales multi-variable regression method using asking price material obtained from the Oikotie.fi service. The bargaining range – i.e. the difference between asking prices and transaction prices – is estimated using the material of Statistics Finland as a baseline. The measurement model is continuously developed. The uncertainty in the appraisal of the fair value of investment properties is reduced by obtaining an appraisal by an external valuer every six months and by selling apartments.

In the company management's view, every acquisition of an investment property must be processed, and it must be separately assessed whether the terms and conditions for the

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definition of business operations are met or whether the company only presents the part it manages as an investment property in its consolidated financial statements.

As a rule, Orava Residential REIT consolidates the wholly-owned housing companies in compliance with IAS 27. Partially owned housing companies are consolidated using the proportionate method in compliance with IAS 31, in which case only the amount of each income statement and balance sheet item of the subsidiaries corresponding to the holding of the Group is consolidated.

The variable-rate loans of the parent company have all been converted into fixed-rate loans using interest rate swaps in compliance with the risk management policy approved by the Board of Directors. The counterparty of the interest rate swaps is Danske Bank Plc. The critical terms (i.e. amounts and dates) of the hedging instruments and the underlying objects are identical. The derivative contracts have been concluded for the purpose of hedging the loan portfolio, and they are measured at fair value in the financial statements. The fair value represents the result that would have been created had the derivative positions been closed on the balance sheet date. The company management measures fair values on the basis of the zero-coupon euro swap curve published and calculated by Deutsche Bundesbank on the basis of market data for the balance sheet day. The cash flows of each payment transaction of the interest rate swaps are discounted, and the market value of the swaps is calculated by linear interpolation using the interest rates determined from the above zero-coupon curve.

3.2.1 Related parties

According to IAS 24, a party is a related party of a corporation when he or she owns a share in the corporation that gives him or her significant influence or he or she is a member of the key management personnel of the corporation or its parent company. Related parties also include the family members of key persons.

Any business transactions implemented with related parties and fees paid to related parties are presented in the notes.

3.22 Share-based payments

The Group has no share-based reward systems directed at personnel, but the management agreement between the Group and the management company includes a clause about a performance-based management fee. The performance-based management fee is twenty per cent (20%) of the annual yield of the Residential REIT exceeding the hurdle rate of six per cent (6%). Any performance-based fee is recognised during the financial period and disclosed in the financial statements as a monetary liability. The General Meeting or the Company's Board of Directors on the basis of its authorisations may decide to pay no more than half of the performance-based fee as shares in the Residential REIT, whereby that share of the monetary liability is recognised in shareholders' equity.

4. Management of financing risks

In the course of its normal business, Orava Residential REIT is exposed to various financing risks. The objective of Orava Residential REIT's risk management is to minimise the negative effects of changes in financial markets on the company's cash flow, financial result and equity. The Board of Directors of Orava Residential REIT decides on the objectives of risk

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management, determines the risk management policy and is responsible for monitoring risk management activities. The operational policy observed in financial operations is to avoid risks.

The ultimate responsibility for risk management lies with the Board of Directors of Orava Residential REIT. It decides on the objectives of risk management, confirms the general principles of risk management, defines the duties and responsibilities and monitors major risks. Orava Funds, the management company of Orava Residential REIT, is responsible for the organisation, management, development and reporting of risk management. The business organisation is responsible for the identification and assessment of any risks affecting its operations. The financial management identifies and assesses risks and acquires the necessary instruments for hedging against risks in cooperation with the operational units. Hedging transactions are implemented in accordance with the written risk management principles approved by Orava's Board of Directors.

Orava Residential REIT's key financing risks are interest rate risks, risks related to availability of financing, liquidity risks, price risks and credit risks.

The Group's interest rate risk is caused by long-term loans. Variable-rate loans expose the Group to a cash flow interest rate risk. The company uses interest rate swaps to even out the impact of changes in market interest rates. The parent company's interest rate risk hedging rate is 100%. Under the Tax Exemption Act, Orava Residential REIT may hedge against interest rate risks by means of standardised and OTC derivatives when derivatives are only used for hedging purposes. The Group regularly analyses its interest rate position by taking into account refinancing, the renewal of subsidiaries' company loans, alternative financing and hedging.

The risk related to the financing of a relatively new company is decreased by engaging in regular negotiations with a number of bank groups and maintaining the reputation of the company as a reliable partner and debtor. In the loan agreements, ordinary covenants are used to protect the debtor. The most important covenants used are: loan to value, loan servicing margin and equity-to-assets ratio.

The liquidity of the Group is monitored by means of forecasts. In addition, the Group has negotiated an overdraft facility for a bank account, increasing which will be negotiated on, as necessary.

The Group is exposed to the price risk of the investment properties or apartments it owns. The price risk is managed by distributing the investment assets geographically and in terms of age. The distribution takes place in accordance with the approved investment strategy. Any change in the fair value of investment properties is presented under revenue in the income statement, which means that any decrease in fair value directly affects the financial result for the period under review.

The credit risk is related to rental receivables. Rental receivables are regularly monitored. The collection of rental receivables has been outsourced to Intrum Justitia.

Capital management

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The objective of capital management is to secure the Group's capability for continuous operation so that it can produce income for its owners and benefits for its other stakeholders. Another objective is to maintain an optimal capital structure, for example, when interest rates change.

In order to maintain or change its capital structure, the Group may, within the constraints of the Limited Liability Companies Act and the Tax Exemption Act, change the amount of dividends payable to its shareholders, issue new shares or sell apartments it owns in order to reduce its debts.

The amount of liabilities is monitored on the basis of the loan to value ratio in the same manner as in similar companies where the financing banks require the fulfilment of covenant conditions to be regularly reported. The loan to value ratio is determined by dividing the Group's share of interest-bearing debts taken out from banks by the debt-free value of housing company shares and other assets. In 2012, the Group's strategy entailed keeping the loan to value ratio between 30% and 60%. On 31 December 2012, the Group's loan to value ratio was 49.9%.

5. Consolidation

Orava Residential REIT consolidates housing companies where the company's holding is 100% in accordance with IAS 27. Partially owned companies are consolidated in compliance with IAS 31 using the proportionate method.

6. Segment information

The Group's chief operational decision-maker is the Board of Directors. Segment information is based on monthly reports, which the Board of Directors uses for allocating resources and assessment of profitability.

Orava Residential REIT lets apartments and real estate which it owns or possesses due to its shareholding and engages in ordinary housing management and maintenance focusing on its own property.

The form of segment reporting used by the company is in accordance with the intended use of the investment properties. According to the Tax Exemption Act, at least 80% of the company's assets shown on the balance sheet must be invested in apartments or real estate primarily intended for residential use, and rental income from these must account for at least 80% of income, excluding the disposal prices of investment properties. During 2012, the assets shown on the balance sheet and the income of Orava Residential REIT consisted of apartments and real estate primarily intended for residential use.

The revenue of Orava Residential REIT is presented in accordance with the accounting principles. Capital gains and losses from apartments are arrived at by deducting the previous quarter's closing balance sheet value and the estate agent's commission from the debt-free selling price. A total of 25 apartments were sold during the financial period.

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The share of the apartment of the asset transfer tax paid, the cost of repairs of the apartment and capitalised repairs are deducted in full from the change in fair value.

Revenue	2012	2011
<u>Income from ordinary operations</u>		
Gross rental yield	1,853	1,047
Compensation for use and service income	61	33
<u>Capital gains</u>		
Disposal prices of apartments less the fair value in the previous quarter's closing balance	-64	-28
Brokerage fees for apartments disposed of	-80	-23
Net gains and losses from changes in the fair value of investment properties	1,410	278
Total	3,180	1,307

The fair value of investment properties by region and their age distribution are also regularly reported to the Board of Directors of the Group. The Helsinki Region includes Helsinki and its surrounding municipalities, while Tampere, Turku, Oulu, Jyväskylä and Lahti are classified as major towns.

Distribution of investment property values by their location, %	2012, %	2011, %
Helsinki Region	49	41
Major towns	21	27
Rest of Finland	30	32
Total	100	100

Distribution of investment property values by age group, %	2012, %	2011, %
Built in 1969 or earlier	0	0
Built in 1970–1989	75	91
Built in 1990 or later	25	9
Total	100	100

7. Expenses by type	2012	2011
Personnel expenses	-22	-22
Management fee Orava Funds plc	-184	-85
Other administrative expenses	-150	-84
Property maintenance expenses	-752	-449
Expenses from rental operations	-47	-12
Other operating expenses	-141	-5
Total	-1,296	-657

<u>Personnel expenses</u>	2012	2011
Board of Directors' fees	-22	-19
House manager of the subsidiary	0	-3
Total	-22	-22

<u>Board of Directors' fees</u>	2012	2011
Jouni Torasvirta	-8	-7
Tapani Rautiainen	-5	-4
Veli Matti Salmenkylä	-5	-4
Timo Valjakka	-5	-4
Total	-22	-19

The Board of Directors convened twelve times during the period.

<u>Auditor's fees</u>	2012	2011
Audit, parent company	-6	-3
Audit, subsidiaries	-5	-2
Tax consultancy, PwC	-2	0
Total	-13	-4

The auditor's fees are included in other administrative expenses.

<u>Other operating expenses</u>	2012	2011
Credit losses	-13	-5
Performance-based fee to the management company	-128	0
Total	-141	-5

The performance-based management fee is calculated on the basis of earnings per share for the financial period and the number of shares at the end of the financial period. Before listing, earnings per share for the financial period are calculated on the basis of net assets per share closing and opening the financial period and the dividends paid for the share during the financial period. Half of the performance-based management fee, EUR 64,200, may be paid in the Residential REIT's own shares in March 2013.

<u>Property maintenance expenses</u>	2012	2011
Property maintenance expenses less compensation for use	-691	-416
Property maintenance expenses less compensation for use as percentage of market value	-2.5%	-2.6 %
Average market value of investment properties during the reported period, EUR 1,000	27,979	16,250

<u>8. Financial income and</u>	2012	2011
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expenses

Interest expenses and fees for loans and interest rate hedges	-463	-238
Capitalised amounts of arrangement fees deducted	12	35
Total financial expenses	-451	-203
Financial income	1	0
Total	-452	-203

9. Income taxes

The Large Taxpayers' Office granted the company an exemption from the payment of income tax on 20 January 2012. According to the decision, the tax exemption started from the beginning of the first tax year on 30 December 2010.

However, pursuant to the Tax Exemption Act, the company has to pay tax for capital gains from apartments it has owned for less than five years. Capital losses from apartments may not be deducted from capital gains.

For taxation purposes, a capital gain is created when the disposal price exceeds the sum total of the original acquisition price, the asset transfer tax paid, the estate agent's fee, the apartment repair expenses and capitalised repairs. The capital gains amounted to EUR 45,000.

	2012	2011
Capital gains tax for sales of apartments	11	0

10. Earnings per share

2012 **2011**

(a) Undiluted

Undiluted earnings per share are calculated by dividing earnings attributable to the company's shareholders by the weighted average number of shares outstanding during the year.

Profit attributable to the company's shareholders	1,421	448
Weighted average number of shares outstanding, 1,000 shares	1,243	835
Undiluted earnings per share	1.14	0.54

(b) Adjusted for dilution effect

The company has no potentially diluting shares outstanding.

11. Non-current assets

2012 **2011**

Investment properties

Fair value

Acquisition cost on 1 Jan	20,263	0
Increases including asset transfer tax	12,324	20,538
Decreases	-1,960	-478

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Activated repairs of assigned apartments	-45	-23
Change in fair value during the period	1,410	227
Fair value on 31 Dec	31,992	20,263

The decreases are disposals of residential apartments. A total of 25 residential apartments were sold during the period under review.

Investment properties on 31

December 2012

	Domicile	Construction year	Holding
Asunto Oy Lahden Helkalanhovi	Lahti	1975	81.7%
Asunto Oy Lahden Poikkikatu 4	Lahti	1971	78.4 %
Asunto Oy Tornion Kuparimarkka	Tornio	1975	97.0 %
Asunto Oy Hämeenlinnan Aulangontie 39	Hämeenlinna	1974	78.2%
Asunto Oy Haminan Tervaniemi	Hamina	1999	100.0%
Bostads Ab Lindhearst Asunto Oy	Sipoo	1987	80.8%
Asunto Oy Nurmijärven Puurata 15-17	Nurmijärvi	1975	97.4%
Asunto Oy Vantaan Rasinrinne	Vantaa	1975	100.0%
Asunto Oy Vantaan Rusakko	Vantaa	1992	100.0%
Asunto Oy Kotkan Vuorenrinne 19	Kotka	1975	100.0%

As Oy Hämeenlinnan Aulangontie 39 underwent a basic renovation in 2003, As Oy Tornion Kuparimarkka in 2000 and As Oy Nurmijärven Puurata 15-17 in 1999.

Investment properties on 31

December 2012

	Apartments	Leased area	Fair value
Asunto Oy Lahden Helkalanhovi	35	2,052	2,110
Asunto Oy Lahden Poikkikatu 4	31	1,952	2,722
Asunto Oy Tornion Kuparimarkka	52	2,916	2,787
Asunto Oy Hämeenlinnan Aulangontie 39	18	1,087	1,551
Asunto Oy Haminan Tervaniemi	17	1,085	1,533
Bostads Ab Lindhearst Asunto Oy	18	1,755	2,294
Asunto Oy Nurmijärven Puurata 15-17	47	3,042	4,242
Asunto Oy Jyväskylän Kruununtorni	5	1,232	1,695
Asunto Oy Tornion Aarnintie 7	19	1,138	1,144
Asunto Oy Vantaan Rasinrinne	41	2,156	4,414
Asunto Oy Vantaan Rusakko	9	512	1,540
Asunto Oy Kotkan Vuorenrinne 19	75	4,026	2,845
Asunto Oy Kauniaisten Venevalkamantie 3	10	618	3,115
Total	377	23,571	31,992

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The apartments in As Oy Jyväskylän Kruununtorni were four office facilities and one storage facility.

The values of the apartments owned by the REIT are measured at least on a monthly basis, and are published at least on a quarterly basis, and always when a change in the REIT's economic situation requires it, or when changes in the condition of the real estate have a material impact on the value of the holdings of the REIT.

Realia Management Oy, an external appraiser, provided a value calculation on the value of the investment apartments of Orava Residential REIT's Group companies on 31 December 2012. The appraisal was 1.6% lower than the fair value on the balance sheet.

<u>12. Trade and other receivables</u>	2012	2011
Rental receivables	55	8
Other receivables	66	14
Prepaid expenses and accrued income	10	4
Total other receivables	131	27

A total of EUR 13,000 was recognised as credit losses under other operating expenses during the financial period.

<u>13. Cash and cash equivalents</u>	2012	2011
Cash and cash equivalents held in accounts	300	403
Total	300	403

<u>14. Share capital and share premium account</u>	2012	2011
Share capital on 1 January	11,717	5,028
Increase in share capital, recorded in the Trade Register	1,949	6,690
Share capital on 31 December	13,666	11,717
Share premium account	281	159
Total share capital and share premium account	13,947	11,876

The number of shares on 31 December 2012 was 1,366,558.

The number of shares on 31 December 2011 was 1,171,736.

<u>15. Non-current liabilities</u>	2012	2011
The Group's loans from financial institutions	10,946	7,429
Overdraft facility	200	100
Capitalisation of loan arrangement fees	-47	-35
Long-term collateral received	120	83

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Share of debt attributable to the shares held by the parent company	4,511	214
Total non-current liabilities	15,731	7,791

Parent company's loans from financial institutions	2012	2011
Danske Bank Plc, drawdown 29 Mar 2011	2,243	2,300
amortisation for the period in current liabilities	-58	-58
Danske Bank Plc, drawdown 7 Sep 2011	3,412	3,500
amortisation for the period in current liabilities	-88	-88
Danske Bank Plc, drawdown 21 Jun 2012	2,580	0
amortisation for the period in current liabilities	-65	
Danske Bank Plc, drawdown 10 Oct 2012	650	0
amortisation for the period in current liabilities	-16	
Danske Bank Plc, drawdown 1 Nov 2012	950	0
amortisation for the period in current liabilities	-24	
Limit of the bank account with an overdraft facility	200	100
Total loans	9,784	5,754

The main covenants of the loans are tied to the ratio of debt to the value of housing company shares, the equity-to-assets ratio and the loan servicing margin.

16. Derivatives - Interest rate swaps

In accordance with the risk management policy approved by the Board of Directors, the parent company's variable-rate loans have all been converted into fixed-interest loans using interest rate swaps. The counterparty of the interest rate swaps is Danske Bank Plc. The critical terms (i.e. amounts and dates) of the hedging instruments and the underlying objects are identical. The bank's charges for the derivative contracts are expensed during the period they are incurred.

Instruments	EUR 1,000	Fixed interest	Maturity		
OTC interest rate swap	2,300	2.95	15 April 2016		
			7 September 2016		
OTC interest rate swap	3,500	1.87	21 June 2017		
OTC interest rate swap	2,580	1.13	10 October 2017		
OTC interest rate swap	650	0.87	1 November 2017		
OTC interest rate swap	950	0.86			
				2012	2011

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Fair value of interest rate swaps, EUR 1,000	-407	-164
Change in fair value, EUR 1,000	-243	-164

17. Current liabilities

	2012	2011
The Group's loans from financial institutions	524	410
Advance payments received	20	23
Trade payables	53	39
Other liabilities	476	26
Accrued expenses and deferred income	182	51
Interest liabilities	27	29
Total current liabilities	1,280	578

18. Related party events

Of the transactions implemented in 2012, the transactions regarding As Oy Jyväskylän Kruununtorni and As Oy Vantaan Rusakko were related party transactions. The purchase price of As Oy Jyväskylän Kruununtorni was EUR 150,000, and the share in company loans totalled approximately EUR 1,735,000. The seller was Salonkirakentajat Oy. As a result of the transaction, the company filed an application to become liable to pay value added tax as the assignor of the right to use the property as of 1 March 2012.

The debt-free purchase price of As Oy Vantaan Rusakko was EUR 1,300,000. The transaction was financed by a loan of EUR 650,000 granted by Sampo Bank and a loan of EUR 650,000 granted by Avaintalot Oy, which was the seller. Other current liabilities include EUR 400,000 in loans received from related parties on 31 December 2012.

The party to the transactions was a corporation under the control of a Board member, who is a related party.

To implement the transaction regarding As Oy Vantaan Rasinrinne 13, Orava Residential REIT concluded an agreement with Maakunnan Asunnot Oy. Maakunnan Asunnot assigned a third party pledge to Orava Residential REIT as supplementary collateral for Danske Bank. The REIT paid 1.0% p.a. as compensation for the collateral value of the supplementary collateral. The supplementary collateral was returned on 29 April 2013.

19. Collateral and contingent liabilities

	2012	2011
<u>Debts for which mortgages on real estate have been pledged</u>		
Loans from financial institutions	1,790	2,039
Mortgage on real estate	0	3,800
<u>Loans for which shares have been pledged</u>		
Loans from financial institutions	9,845	5,800

Pledged shares, all shares in the following housing companies owned

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Asunto Oy Lahden Helkalanhovi
Asunto Oy Lahden Poikkikatu 4
Asunto Oy Tornion Kuparimarkka
Asunto Oy Hämeenlinnan Aulangontie 39
Asunto Oy Haminan Tervaniemi
Bostads Ab Lindhearst Asunto Oy
Asunto Oy Nurmijärven Puurata 15-17
Asunto Oy Vantaan Rasinrinne
Asunto Oy Vantaan Rusakko
Asunto Oy Kotkan Vuorenrinne 19
Asunto Oy Kauniaisten Venevalkamantie 3

Total fair value of the pledged shares on 31 December
2012

15,792

In addition, supplementary collateral of Maakunnan Asunnot Oy of EUR 1,250,000 was given as security for a liability

20. Financial instruments

Management of financing risks

The objective of Orava Residential REIT's risk management is to minimise the negative effects of changes in the financial markets on the company's cash flow, financial result and equity. The Board of Directors of Orava Residential REIT decides on the objectives of risk management, determines the risk management policy and is responsible for monitoring risk management activities. The operational policy observed in financial operations is to avoid risks.

Interest rate risk

Orava Residential REIT uses variable-rate loans from financial institutions to finance its operations. The loans are hedged with interest rate swaps. On 31 December 2012, the hedging rate of loans was 100% (31 December 2011: 100%). The derivative contracts have been concluded for the purpose of hedging the loan portfolio, and they are measured at fair value in the financial statements. The fair value represents the result that would have been created had the derivative positions been closed on the balance sheet date. The derivative contracts are measured on the basis of the zero-coupon euro swap curve published and calculated by Deutsche Bundesbank on the basis of market data for the balance sheet day. The cash flows of each payment transaction of the interest rate swaps are discounted, and the market value of swaps is calculated by linear interpolation using the interest rates determined from the above zero-coupon curve and valuation methods commonly used on the market. The net losses/gains for the financial period, recorded in other comprehensive income items, are shown under the consolidated statement of comprehensive income. A change of one percentage point in short market interest rates will not affect the financial result of the company.

Liquidity risk

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The Group seeks to constantly assess and monitor the amount of financing required for business operations in order to ensure that the Group has sufficient liquid funds to finance its operations. The risk regarding the availability of financing has been mitigated through regular negotiations with several providers of financing. The company expects to be able to renew the loans maturing in the coming years. On 31 December 2012, the average maturity of the parent company's bank loans was 4.2 years (31 December 2011: 4.5 years).

Credit risk

Credit risk arises from the possibility that the counterparty to an agreement fails to meet its contractual obligations. On the balance sheet date, the major credit risks faced by the Group were due to rental receivables. The Group has no significant concentrations of receivable or credit risks. Rental receivables fallen due on 31 December 2012 totalled EUR 26,000 (31 December 2011: EUR 14,000). Less than one month old receivables amounted to EUR 17,000, 1-2-month-old receivables to EUR 3,000 and over 2 month-old receivables to EUR 6,000.

Capital management

The objective of capital management is to secure the Group's capability for continuous operation so that it can produce income for its owners and benefits for its other stakeholders. Another objective is to maintain an optimal capital structure, for example, when interest rates change.

In order to maintain or change its capital structure, the Group may, within the constraints of the Limited Liability Companies Act and the Tax Exemption Act, change the amount of dividends payable to its shareholders, issue new shares or sell apartments it owns in order to reduce its debts.

The equity-to-assets ratio excluding comprehensive income items was 47.5% on 31 December 2012 (31 December 2011: 59.6%),

The amount of liabilities is monitored on the basis of the loan to value ratio in the same manner as in similar companies where the financing banks require the fulfilment of covenant conditions to be regularly reported. The loan to value ratio is determined by dividing the Group's share of interest-bearing debts taken out from banks by the debt-free value of housing company shares and other assets. In 2012, the Group's strategy entailed keeping the loan to value ratio between 30% and 60%. On 31 December 2012, the Group's loan to value ratio was 49.9% (31 January 2011: 37.7%).

The Group's bank loans not included in derivative liabilities were as follows in accordance with the contractual term to maturity on the closing date: The amounts disclosed are non-discounted cash flows of loan repayments based on loan agreements.

<u>less than 1</u> <u>year</u>	<u>1-5 years</u>	<u>over 5 years</u>
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Bank loans (EUR 1,000) 31 Dec 2012	524	10,338	608
Bank loans (EUR 1,000) 31 Dec 2011	410	6,634	795

21. Assessment of fair value

The following table shows assets and liabilities measured at fair value broken down by the valuation method in thousands of euros. The levels used are defined as follows:

Level 1 Prices of totally identical assets or liabilities quoted on active markets

Level 2 Input information, other than the quoted prices included in Level 1, that is observable for the asset item concerned

Level 3 Input information regarding the asset item or liability which is not based on any observable market information

	Level 1	Level 2	Level 3
Assets			
Investment properties 31 Dec 2012	-	31,992	-
Investment properties 31 Dec 2011	-	20,263	-
Liabilities			
Interest rate hedging contracts 31 Dec 2012	-	-407	-
Interest rate hedging contracts 31 Dec 2011	-	-164	-

22. Events after the period under review

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The agreement on the assignment to acquire capital between Orava Residential REIT and Pareto Securities Ltd was continued on 31 January 2013. The purpose of the agreement is to improve the listing preconditions of Orava Residential REIT by increasing the investor base and shareholders' equity. The current agreement is valid until 31 March 2013.

At its meeting on 26 February 2013, the Board of Directors decided to go ahead with the transaction regarding the shares of eleven residential apartments of As Oy Lahden Vuoksenkatu 4. The purchase price of the shares was EUR 131,000. The shares were subject to a loan share of EUR 624,000. The seller was Maakunnan Asunnot Oy; this was a related party transaction.

On 18 March 2013, the company's Board of Directors approved the subscriptions for the March 2013 share issue according to the authorisation granted by the General Meeting on 19 March 2012. The number of shares issued was 25,687 and the increase in share capital was EUR 256,870.

The General Meeting of 18 March 2013 resolved to adopt the financial statements and use the distributable funds in accordance with the proposal of the Board of Directors.

It was resolved to distribute the profit for 2012 according to three different dividend rights. The dividend rights were decided in the terms and conditions of directed share issues according to how much of the financial period the capital investment participated in profit generation. At most EUR 1.08 per share will be distributed in dividends according to the following table.

ISIN code of the share	Dividend right	pcs	Dividend/year	Total/year
FI4000019344	100%	1,171,736	1,08	1,265,474.88
FI4000046321	50%	105,364	0,54	56,896.56
FI4000049101	25%	89,458	0,27	24,153.66
Total		1,366,558		1,346,525.10

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The General Meeting decided that from 1 April 2013, a fee of EUR 600 per month will be payable to the members of the Board of Directors and EUR 1,000 per month to the Chairman of the Board. The fee for meetings will be EUR 200 to the members of the Board of Directors and EUR 400 to the Chairman of the Board.

The Board of Directors' meeting held on 29 May 2013 decided to implement a transaction on As Oy Lohjan Koulukuja 14. The purchase price of the shares was EUR 3.1 million. The seller was Maakunnan Asunnot Oy; this was a related party transaction. The greater part of the transaction was financed through loan of EUR 3.06 million granted by Maakunnan Asunnot Oy.

An advisory agreement concerning the company's listing was signed with Merasco Ltd on 20 May 2013. Merasco will act as the company's financial advisor in the initial public offering project.

On 27 May 2013, Orava Residential REIT also commissioned UB Securities Ltd to conduct the sales and marketing of the initial public offering shares and act as a book runner.

Castrén & Snellman Attorneys Ltd was selected as the company's legal advisor. The commissioning agreement was signed on 17 June 2013.

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FORMULAS FOR FINANCIAL INDICATORS

		2012	2011
Earnings / share, €	= 	1.14	0.54
Return on Equity, % (ROE)	=	10.2	5.2
Total return per share, % p.a.	=	10.5	5.2
Equity / assets ratio, %	=	46.3	58.8
Loan to value ratio, %	=	49.9	37.7
Net asset value per share NAV	= 	11.28 	10.52
Economic Occupancy, % (€)	=	96.7	98.2
Operational Occupancy, % (m2)	=	96.5	98.1
Tenant turnover/ month	=	3.0	2.0
Gross rental Yield, %	=	8.0	7.9
Net rental Yield, %	=	4.8	4.8
Average monthly rent / apartment, €	=	546	553
Average monthly rent / m2	= 	9.54 	9.43

Formulas for financial indicators

Earnings per share, EUR	=	$\frac{\text{Financial result for the period attributable to the shareholders of the parent company}}{\text{Weighted average number of shares during the reported period}}$	
Return on equity, % (ROE)	=	$\frac{\text{Profit/loss for the period} \times 100}{\text{Equity (average during the reported period)}}$	
Total return per share, % per year	=	$\left[\frac{\text{Net assets per share at the end of year} + \text{dividends paid per share}}{\text{Net assets per share at the beginning of the year}} - 1 \right] \times 100$	
Equity/assets ratio, %	=	$\frac{\text{Equity} \times 100}{\text{Balance sheet total less advance payments received}}$	
Loan to value ratio, % Loan to Value	=	$\frac{\text{The Group's share of outstanding capital of interest-bearing loans}}{\text{Debt-free value of housing company shares and other assets}}$	
Net asset value per share, EUR NAV	=	$\frac{\text{Equity attributable to the shareholders of the parent company}}{\text{Number of shares at the end of the reported period}}$	
Net gearing, %	=	$\frac{\text{Interest-bearing liabilities} - \text{liquid assets} \times 100}{\text{Equity}}$	
economic occupancy rate, % (EUR)	=	$\frac{\text{Gross rental income for the reported period per the number of months}}{\text{Potential gross rental income for the reported period per the number of months}}$	
Operational occupancy rate, % (m ²)	=	$\frac{\text{Square meters let on the last day of the month during the reported period per the number of months}}{\text{Square meters available for letting on the last day of the month during the reported period per the number of months}}$	
Tenant turnover	=	$\frac{\text{Expired agreements per month}}{\text{Number of apartments available for letting on the last day of the month}}$	
Gross rental yield, %	=	$\frac{\text{Gross rental income} \times 100}{\text{Market value of the rent portfolio at the end of the reported period}}$	Calculated on a monthly basis; the figure for the reported period is the average of the monthly figures
Net rental yield, %	=	$\frac{\text{Gross rental income less expenses} = \text{net income} \times 100}{\text{Market value of the rent portfolio at the end of the reported period}}$	Calculated on monthly basis; value for the period is the average of monthly values

EPRA INDICATORS		2012	2011
EPRA Earnings, EUR 1,000 (Operational result)	=	1,115	619
EPRA Earnings per share, EUR (Operational result per share)	=	0.90	0.74
EPRA Net Asset Value, EUR 1,000 (Net assets)	=	15,413	12,323
EPRA Net Asset Value per share, EUR (Net assets per share)	=	11.28	10.52
EPRA Net Initial Yield (NIY), % (Initial yield)	=	5.4%	5.2%
EPRA Vacancy Rate	=	5.6%	2.6 %

FORMULAS FOR EPRA INDICATORS

EPRA Earnings (Operational result)	=	Net rental income - marketing and administrative expenses +/- other operating income and expenses included in operations +/- financial income and expenses from operations
EPRA Earnings per share (Operational result per share)	=	$\frac{\text{EPRA Earnings}}{\text{Weighted average number of shares during the reported period}}$
EPRA Net Asset Value (Net assets)	=	Equity attributable to the shareholders of the parent company - any other equity reserve
EPRA Net Asset Value per share (Net assets per share)	=	$\frac{\text{EPRA Net Asset Value}}{\text{Undiluted number of shares at the end of the reported period}}$
EPRA Net Initial Yield (NIY), % (Initial yield)	=	$\frac{\text{Annualised rental income including indexation adjustments on 31 Dec}}{\text{Investment properties less properties under development on 31 Dec}}$
EPRA Vacancy Rate	=	$\frac{\text{Potential rent from vacant apartments}}{\text{Potential rent from apartments available for letting}}$

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Signatures to the financial statements and Board of Directors' report

Helsinki, 17 June 2013



Jouni Torasvirta
Hallituksen puheenjohtaja



Veli Matti Salmenkylä
Toimitusjohtaja ja hallituksen jäsen



Tapani Rautiainen
Hallituksen jäsen



Timo Valjakka
Hallituksen jäsen

AUDITOR'S NOTE

A report on the audit conducted has been issued today.

Helsinki, [day] [month] 2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Eero Suomela

Orava Residential Real Estate Investment Trust plc
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**LIST OF ACCOUNTING BOOKS
AND VOUCHER TYPES AND STORAGE METHODS**

REPORTS OF TIKON FINANCIAL ADMINISTRATION SOFTWARE AS COMPUTER
PRINTOUTS

Balance sheet book			bound
General journal			digital
Nominal ledger			digital
Rent ledger invoice and payment journals			digital

VOUCHER TYPES USED

Memorandum vouchers	voucher type	9	digital
Bank vouchers	voucher type	2-6	digital
Rent vouchers	voucher type	15	digital
Purchase invoices (WorkFlow)	voucher type	35	digital
Other purchase invoices	voucher type	32	digital
Payments of purchase invoices	voucher type	37	digital

Newsec Asset Management Oy is responsible for the storage of the accounting material.

STORAGE METHOD OF ACCOUNTING BOOKS AND VOUCHERS

The accounting books will be retained for at least ten years from the end of the financial period and vouchers for at least six years from the end of the year during which the financial period ends.