

Orava Residential REIT plc

INTERIM REPORT 13 May 2015 at 8:00 a.m.

ORAVA RESIDENTIAL REIT'S FINANCIAL RESULT 1 JANUARY – 31 MARCH 2015

1 January – 31 March 2015

- Revenue EUR 4.6 million (1 January – 31 March 2014: EUR 4.2 million)
- Comprehensive profit EUR 2.3 million (EUR 2.4 million)
- Earnings per share EUR 0.41 (EUR 0.57)
- Economic occupancy rate 89.8% (82.1%)
- Gross rental yield 6.8% (6.4%)
- Net rental yield 4.0% (3.3%)
- Profit from sales and changes in value: EUR 2.4 million (EUR 3.0 million)
- Total dividends distributed during the period under review: EUR 0.30 per share (EUR 0.28 per share)

Net assets per share of Orava Residential REIT plc was EUR 12.01 from EUR 12.02 (adjusted) at the beginning of the year. The company has continued growing, and the value of its investment properties totalled EUR 152.1 million at the end of the period (31 December 2014: EUR 130.7 million).

CEO's comments:

"Orava Residential REIT's financial result for the first quarter was in accordance with its objectives.

The state of the Finnish housing market has continued to be weak in the first half of the year, and the fair value of the apartments owned by the Residential REIT for the entire quarter fell by 0.7% over the period under review. However, we managed to compensate the weak value development by income arisen from wholesale discounts of successful apartment acquisitions. During the period under review, the company agreed on the acquisition of 162 apartments from eleven different properties at a total of EUR 20.7 million. The fair value of the investment properties owned by the Residential REIT increased from EUR 130.7 million at the end of 2014 to EUR 152.1 million at the end of March.

Immediately after the end of the period, Orava Residential REIT issued a covered bond of EUR 20 million. Involvement in the bond market enables the Residential REIT to obtain diversified liabilities in the future, and, for its part, contributes to the achievement of the REIT's strategic growth target.

The rental income of the portfolio remained at the same level as a year before. We managed to slightly increase the economic occupancy rate, even though half of the apartments acquired during the period were without tenants at the time of purchase.

The difficult situation in the housing market was reflected in apartment sales, the number of which remained low in the period under review.

The maintenance and repair costs of investment properties in relation to the value of the portfolio were 2.7% converted to the annual level, i.e. 0.2 percentage points higher than the figure for the entire previous year. The difference is explained in its entirety by seasonal variation.

The number of Orava Residential REIT's shareholders increased from approximately 5,800 at the end of January to about 6,500 at the end of April. Trading in the company's shares on the Helsinki Stock Exchange has continued to be active; the average daily turnover in January–April 2015 was over EUR 330,000 (EUR 280,000 a year before).

The Annual General Meeting of 19 March 2015 decided to pay a dividend of EUR 0.30 per share in each quarter. This year as well, the dividend will always be paid on the last business day of the quarter. A total of EUR 1.20 per share will be paid in dividends in the current year, or approximately 10 per cent of net assets per share at the beginning of 2015.

The Company continues to estimate that it has reasonably good prerequisites for maintaining good profitability and achieving the targeted total return of 10 per cent on shareholders' equity this year."

Operating environment

National economy

According to advance information, the change in the Finnish GDP remained at -0.1% in the previous year, and it is forecasted to be in the range of +0.1% – +0.9% during the current year. The change in private consumption that has a key impact on the housing market was -0.2% for the past year according to advance information, and the growth forecasted for 2015 is 0.0% – +0.7%. Market interest rates in the euro area have continued to fall, and short-term rates are also expected to remain at less than 1% for approximately the next five years. The estimate is based on the most recent economic forecasts by 15 parties drawing up forecasts on the Finnish economy and the market interest rate expectations calculated on the basis of the euro interest rate curve published by the European Central Bank.

The housing market is estimated to start strengthening slowly as a result of overall economic activity picking up in 2015.

Demand in the housing market

During January–March 2015, households drew down EUR 3.7 billion in new mortgages, or 14% more than a year previously, according to statistics from the Bank of Finland. The euro-denominated mortgage base totalled EUR 89.9 billion at the end of March, and the annual growth in the mortgage base amounted to 1.7%.

The average marketing period for old apartments in the country overall, according to the Finnish Etuovi.com marketing service, decreased from 135 days in December to 110 days in April, while it was 96 days in April in the previous year.

The demand for apartments has picked up slightly in the spring, mainly due to normal seasonal variation.

Supply in the housing market

According to the economic review of the Confederation of Finnish Construction Industries RT for March, housing starts of non-subsidised terraced houses and apartment block apartments are anticipated to remain at 10,500 housing units, i.e. 7% lower than a year before. As a whole, the construction volume is forecasted to reduce by 0.5% year-on-year.

According to the May confidence indicator survey of the Confederation of Finnish Industries, the balance figure for construction production for the past three months was -12 points in the first quarter of the year, while it was the same -12 points in the previous quarter and -17 points a year before. The balance figure for the three-month production expectation was +20 points, compared to -10 points in the previous quarter and +18 points a year before. The number of unsold residential apartments compared to normal fell from +30 in the last quarter of the previous year to +24; a year ago, the balance figure was -13 points.

Supply in the housing market has continued at a low level, even though some signs of a potential turnaround can be seen.

Prices, rents and return in the housing market

In the first quarter of 2015, the rents of non-subsidised apartments increased by 2.8 % year-on-year. The change in the prices of apartments during the first quarter was -1.1% compared with the situation a year

previously. The ratio of housing prices to rents is slightly below the long-term average; the ratio calculated from the square metre prices and rents of the first quarter was 15.4. The 40-year average for the ratio of square metre prices to annual rents in Finland is 16.7.

We expect housing prices throughout the country to start rising slightly during the next 12 months and the growth rate in rents of non-subsidised apartments to remain approximately the same if the market interest rate expectations and economic forecasts prove to be accurate with regard to their essential components affecting the housing market.

Rental operations

The occupancy rates of rental operations rose slightly in the period under review compared with the turn of the year. We have managed to increase the occupancy rate as planned with regard to the apartments without tenants acquired during 2014. In the future, any increase in the occupancy rate will be slowed down by the acquisition of apartments without tenants at the end of the period under review and the rental market in Salo, which has continued to be weak.

	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2014
Gross rental yield, %	6.8	6.4
Net rental yield, %	4.0	3.3
Economic occupancy rate, %	89.8	82.1
Operational occupancy rate, %	90.8	82.3
Tenant turnover/month, %	2.2	1.9

The economic occupancy rate, adjusted so that the acquisitions of the past six months have been eliminated, was 94.1%.

At the end of the period, the company had a total of 1,456 residential apartments (Q1 2014: 860). There were 1,208 leases at the end of the period (Q1 2014: 720), and 105 apartments were for sale (Q1 2014: 29). Approximately 97% of the entire lease base for residential apartments is in agreements valid until further notice. A total of 78 agreements were terminated during the period (Q1 2014: 43).

Acquisitions

Acquisitions implemented during the period under review

Time	Property	Debt-free purchase price (EUR million)	Debt (EUR million)	Directed issues (1,000 shares)	Apartments (qty)
9 Feb 2015	Apartments from 2 properties (Mikkeli and Pori)	4.6	3.7	0	22
31 Mar 2015	Apartments from several properties (Tampere, Turku, Oulu, Rovaniemi, Vaasa, Kokkola and Savonlinna)	11.7	9.1	0	53
31 Mar 2015	2 properties (Kaarina, Raisio)	4.4	1.6	244	87
TOTAL		20.7	14.4	244	162

On 9 February 2015, the company acquired 22 apartments through a transaction made with Skanska Talonrakennus Oy. Their aggregate debt-free purchase price was EUR 4.6 million. The apartments are located in a total of 2 properties in Mikkeli (12 apartments) and Pori (10).

The company acquired a total of 140 apartments through transactions made and an agreement concluded on 31 March 2015. Their aggregate debt-free purchase price was EUR 16.1 million. A residential property of 36 apartments at Hoviherrankatu 3 in Kaarina and a residential property of 51 apartments at Kunnaankatu 7 in Raisio were purchased from Osuusasunnot Oy. The transaction was partly financed through a directed issue allocated to Osuusasunnot Oy, where Osuusasunnot Oy subscribed for 244,193 new shares issued by the company. Of these shares, 128,461 do not provide entitlement to dividends paid in 2015. The subscription price of the shares was the weighted average price during the five days of stock exchange trading on the NASDAQ Helsinki preceding the subscription. In addition, the company concluded a binding agreement with Skanska Rakennus Oy on a transaction of 53 apartments, which are located in a total of 9 properties in Tampere (11 apartments), Turku (5), Oulu (7), Vaasa (5), Rovaniemi (13), Kokkola (3) and Savonlinna (9). The transaction according to the agreement was implemented on 28 April 2015.

Apartment sales

During the period under review, the company sold a total of nine apartments from eight different housing companies. The debt-free selling prices of the apartments totalled EUR 0.8 million. The sales commissions totalled EUR 31 thousand. In the difficult market situation apartment sales increased compared with the first quarter of 2014, although not in accordance with the growth in the size of the investment and sales portfolio.

In accordance with the company's investment strategy, the company sells apartments at about 10 per cent of the value of investment properties on the company's opening statement of financial position annually so that apartments released from rental use are sold one by one.

Investment properties on 31 March 2015

The fair value of investment properties at the end of the period totalled EUR 152.1 million (31 December 2014: EUR 130.7 million). Orava Residential REIT had a total of 1,478 apartments on 31 March 2015 (31 December 2014: 1,318), the aggregate leasable surface area of which was approximately 91,800 m² (31 December 2014: 82,200 m²). The apartments were located in 76 different housing companies, where the company's holding was 100% in 16 of the cases. More detailed information on the investment properties is presented in the tables section.

Age and regional distributions of the investment portfolio

	31 Mar 2015	31 Mar 2014
Newer (1990–present)	60%	56%
Older (up to 1989)	40%	44%
Helsinki Region	37%	46%
Major towns	27%	18%
Rest of Finland	36%	36%

The values of the apartments owned by the REIT are measured at fair value 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. A more detailed account of the apartment price measurement model is presented in the 2014 financial statements.

Consolidated profit for the period

Consolidated revenue for the period totalled EUR 4.6 million (Q1 2014: EUR 4.2 million). The revenue was divided into income from ordinary operations of EUR 2.2 million (Q1 2014: EUR 1.2 million) and capital gains of EUR 2.4 million (Q1 2014: EUR 3.0 million). Income from ordinary operations includes rental income, compensation for use and other income. Capital gains are made up of profit from sales of investment properties less sales commissions for sold apartments, as well as the change in the fair value of apartments.

Operating expenses totalled EUR 2.0 million (Q1 2014: EUR 1.4 million), of which maintenance costs and annual repairs accounted for EUR 1.0 million (Q1 2014: EUR 0.6 million). The increase in expenses results from the increase in the investment portfolio.

Operating profit amounted to EUR 2.6 million (Q1 2014: EUR 2.9 million)

Financial income and expenses stood at EUR -332 thousand (Q1 2014: -372 thousand) and taxes for the period at EUR 26 thousand (Q1 2014: EUR 16 thousand).

Profit for the period amounted to EUR 2.3 million (Q1 2014: EUR 2.5 million). Comprehensive income items totalled EUR -10 thousand (Q1 2014: EUR -64 thousand) and comprehensive profit for the period totalled EUR 2.3 million (Q1 2014: EUR 2.5 million).

Financing

In the period 1 January – 31 March 2015, financial expenses (net) totalled EUR 322 thousand (Q1 2014: EUR 372 thousand), and the repayments of the parent company's financial institution loans amounted to EUR 115 thousand (Q1 2014: EUR 58 thousand). The parent company's financial institution loans are hedged in their entirety in terms of interest rates through interest rate swaps concluded with Danske Bank.

The interest-bearing loans of Orava Residential REIT and the company loans allocated to the shares in housing companies totalled EUR 74.3 million on 31 March 2015 (31 December 2014: EUR 60.0 million).

In addition to these, the long-term loans on the statement of financial position also include EUR 532 thousand in rental deposits paid by tenants (31 March 2014: EUR 478 thousand).

Shares and shareholders of Orava Residential REIT

In the first quarter, the company implemented directed issues of a total of 444,193 shares, and applied for the shares to be admitted to trading on the main list of the Helsinki Stock Exchange (trading codes OREIT and OREITN0115). The company allocated 200,000 shares to itself in a charge-free share issue on 9 February 2015. In addition, in a directed issue related to an acquisition, Osuusasunnot Oy subscribed for 244,193 shares on 31 March 2015. The subscription price of the shares was the weighted average price during the five days of stock exchange trading on the NASDAQ Helsinki preceding the subscription. Of the shares subscribed for in the issues, 328,461 shares do not provide entitlement during 2015 to dividends paid from the profit for 2014, but they will provide entitlement to dividends in 2016 and subsequent years.

The trading codes of the company's shares are OREIT and OREITN0115. During the period under review, the average turnover of shares was over EUR 330 thousand.

The company had approximately 6,500 shareholders at the end of April.

LIST OF OWNERS ON 30 April 2015, TEN LARGEST

Shareholder	Number of shares	%
Royal House Group***	547,925	8.1
Godoinvest Oy**	229,360	3.4
Osuusasunnot Oy	227,830	3.4
Länsi-Suomen Vuokratalot Oy*	176,450	2.6
Yli-Torkko Erkki	100,000	1.5
Livränteanstalten Hereditas	81,000	1.2
Pakarinen Janne	78,083	1.2
Maakunnan Asunnot Oy*	69,422	1.0
Alte Invest Oy	45,698	0.7
Orava Funds plc****	45,639	0.7
Total	1,601,407	23.7

* Companies under the control of Board members Tapani Rautiainen and Timo Valjakka

** Company under the control of Board member Timo Valjakka

*** Company under the control of Board member Tapani Rautiainen

**** Company under the control of Board member Jouni Torasvirta

Management of the Residential REIT

Orava Residential REIT was established on the initiative of Orava Funds plc. Orava Funds is responsible for the organisation, management and development of the operations and administration of the Residential REIT. The Residential REIT has no personnel of its own.

As compensation for management services, Orava Residential REIT pays the management company 0.6% of the fair value of the assets of the REIT as an annual fixed management fee and 20% of the annual return on the REIT exceeding the hurdle rate of 6% as a performance-based management fee. The stock exchange price is used in the calculation of the performance-based management fee if it is lower than net assets per share. The performance-based management fee is only paid if the closing stock exchange price for the financial period is higher than the highest closing stock exchange price for the previous financial periods, adjusted for dividends, issues and splits.

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 1 January – 31 December 2015 amounted to EUR 205 thousand (Q1 2014: EUR 133 thousand), including value added tax.

On the basis of the company's net assets per share, share price and dividend distribution realised in 2015, a performance-based management fee of EUR 337 thousand has been booked (Q1 2014: EUR 434 thousand). The performance-based management fee will be paid at March 2016 on the basis of the company's net assets per share or adjusted share price realised at the end of the year 2015.

During the period, Newsec Asset Management Oy and Ovenia Oy were paid EUR 105 thousand for financial administration and other support activities and a total of EUR 123 thousand for apartment rental operations and administrative services, including value added tax.

Personnel

The personnel of Orava Residential REIT are part of the business organisation of the management company. The management company is responsible for the personnel expenses incurred from the operational activities of the Residential REIT.

Board of Directors and auditors

Orava Residential REIT's Board of Directors is composed of six members: Tapani Rautiainen, Veli Matti Salmenkylä, Jouni Torasvirta, Timo Valjakka, Mikko Larvala, Patrik Hertsberg (since 19 March 2015) and Peter Ahlström (until 19 March 2015). The Chairman of the Board is Jouni Torasvirta, and the Vice Chairman is Tapani Rautiainen. The Board of Directors convened a total of seven times during the period under review. The Board members' rate of attendance at Board meetings was 98%.

Orava Residential REIT's auditor is PricewaterhouseCoopers Oy, with Eero Suomela, APA, as the chief auditor. The auditor is paid a fee in accordance with the invoice.

Authorisations of the Board of Directors

The Board of Directors has an authorisation for a share issue of 6,000,000 shares given by the Annual General Meeting on 19 March 2015. On 31 March 2015, 5,755,807 shares remain of the share issue authorisation.

Management

Pekka Peiponen is the CEO of Orava Residential REIT. The management of Orava Residential REIT is part of the business organisation of the management company Orava Funds plc. The management company is responsible for the costs of personnel and management incurred from the REIT's operational activities.

Regulation

The valid rules for real estate investment operations are available on the company's website at www.oravaasuntorahasto.fi.

Near-term risks and uncertainties

Orava Residential REIT estimates that the key risks and uncertainties for the company in the near future will be related to the acquisition of investment properties, changes in the value of apartments and repair costs.

It may be challenging and difficult for the company to acquire investments that meet the company's goals. In addition, it may be difficult for the company to secure debt financing for investments under competitive terms and conditions.

Major unexpected repairs and repair costs would result in a decline in the occupancy rate of apartments, loss of rental income and a decline in profitability.

Major events 1 January – 31 March 2015

The 500,000 shares that Orava Residential REIT plc allocated to itself in the charge-free share issue on 17 December 2014 were recorded in the Trade Register on 5 January 2015. The company may use the shares allocated to itself to strengthen its capital structure, develop its business and widen its ownership base through both acquisition of investment properties and the issue of convertible bonds. After the issue, the number of the company's shares totalled 5,706,123.

On 19 January 2015, Orava Residential REIT submitted a listing application for 47,800 shares to be admitted to trading on the stock exchange list of the Helsinki Stock Exchange as of 20 January 2015. The shares are included in the 500,000 shares recorded in the Trade Register on 1 January 2015. The trading code of the shares is OREIT, and the ISIN code is FI4000068614. After the listing, the total number of the company's listed shares was 5,253,923.

On 23 January 2015, the Financial Supervisory Authority approved the company's prospectus, which is related to the listing of a total of 1,056,122 shares. The shares are related to the directed issue allocated to Osuusasunnot Oy (235,922 shares), communicated by the company on 28 November 2014, the directed issue allocated to Royal House Oy (368,000 shares), communicated on 31 December 2014, and the charge-free directed issue allocated to the company itself (500,000 shares, of which 47,800 shares were listed on 20 January 2015), communicated on 5 January 2015. In the directed issues subject to a payment, the subscription price of new shares was the average stock exchange price on the Helsinki Stock Exchange weighted by the share turnover during the five trading days preceding the subscription. The subscription price of Osuusasunnot Oy was EUR 11.33 per share, and the subscription price of Royal House Oy was EUR 10.60 per share.

The 368,000 new shares allocated by Orava Residential REIT plc to Royal House Oy in connection with a property acquisition on 31 December 2014 and the 200,000 shares allocated to the company itself in a charge-free share issue on 9 February 2015 were recorded in the Trade Register on 12 February 2015. The company may use the new shares allocated to itself to strengthen its capital structure, develop its business and widen its ownership base through both acquisition of investment properties and issue of convertible bonds. After the issues, the number of the company's shares recorded in the Trade Register totalled 6,510,045.

The Helsinki Stock Exchange approved Orava Residential REIT's listing application concerning the aforementioned 568,000 shares, and the new shares have been subject to trading on the stock exchange list as of 13 February 2015. The trading code of the 368,000 shares allocated to Royal House Oy is

OREIT and the ISIN code is FI4000068614. The trading code of the 200,000 shares allocated by the company to itself is OREITN0115 and the ISIN code is FI4000148036. The shares with the trading code OREITN0115 do not provide entitlement to dividends paid from the profit for 2014 during 2015, but they will provide entitlement to dividends in 2016 and subsequent years. After these issues, the number of the company's listed shares totalled 6,510,045.

The company's Annual General Meeting was held on 19 March 2015. The AGM decided to change the company name to Orava Residential REIT plc (previously Orava Residential Real Estate Investment Trust plc). The related amendment to section 1 of the Articles of Association was recorded in the Trade Register on 31 March 2015.

The AGM decided to make a specification in the rules for investment operations concerning the payment of the performance-related management fee so that the stock exchange price of the share shall be used in the calculation of the management fee if it is lower than net assets per share. According to the decision of the AGM, the rules for investment operations (section 11, paragraph 3) were specified with regard to the determination of the management fee. The clause "if the stock exchange price of the share is lower than net assets per share" was added to the end of the sentence, "After listing, the stock exchange price of the share shall be used in the calculation instead of net assets per share." in section 11, paragraph 3.

The AGM decided to grant a share issue authorisation to the Board of Directors so that, on the basis of the authorisation, the Board may decide to issue no more than 6,000,000 new shares in the company (of which no more than 1,500,000 shares provide entitlement to dividends as of 1 April 2015 and 4,500,000 shares do not provide entitlement to dividends during 2015).

The company acquired a total of 140 apartments through transactions made and an agreement concluded on 31 March 2015. Their aggregate debt-free purchase price was EUR 16.1 million. The company concluded a binding agreement with Skanska Talonrakennus Oy on a transaction of 53 apartments, which are located in a total of 9 properties in Tampere (11 apartments), Turku (5), Oulu (7), Vaasa (5), Rovaniemi (13), Kokkola (3) and Savonlinna (9). In addition, a residential property of 36 apartments at Hoviherrankatu 3 in Kaarina and a residential property of 51 apartments at Kunnaankatu 7 in Raisio were purchased from Osuusasunnot Oy. The transaction was partly financed through a directed issue allocated to Osuusasunnot Oy, where Osuusasunnot Oy subscribed for 244,193 new shares issued by the company. Of these shares, 128,461 do not provide entitlement to dividends paid in 2015. The subscription price of the shares was the weighted average price during the five days of stock exchange trading on the NASDAQ Helsinki preceding the subscription.

Events after the financial period

Orava Residential REIT issued a secured bond of EUR 20 million on 1 April, and communicated its decision to issue the bond on 26 March 2015. The bond will fall due on 1 April 2020, and fixed interest of 4.25% will be paid on it. The bond was listed on the regulated market of the Helsinki Stock Exchange on 2 April 2015. Danske Bank Plc acted as the lead manager in the issue of the bond, and Castrén & Snellman Attorneys Ltd acted as the legal advisor in the arrangement.

The 244,193 new shares allocated by Orava Residential REIT plc to Osuusasunnot Oy in connection with an acquisition on 31 March 2015 were recorded in the Trade Register on 17 April 2015. After the issue, the number of the company's shares recorded in the Trade Register totals 6,754,238. Of the shares allocated to Osuusasunnot Oy, the ISIN code of 115,732 shares is FI400068614 (trading code OREIT), and the ISIN code of 128,461 shares is FI4000148036 (trading code OREITN0115). The shares whose trading code is OREITN0115 do not provide entitlement to dividends paid from the profit for 2014 during 2015, but they will provide entitlement to dividends in 2016 and subsequent years. The submitted a listing application to the Helsinki Stock Exchange concerning the aforementioned 244,193 shares, and the new shares have been subject to trading on the stock exchange list as of 21 April 2015. After the listing, the number of the company's listed shares totals 6,754,238.

The transaction of 53 residential apartments agreed with Skanska Rakennus Oy in March 2015 was implemented as planned on 28 April 2015.

Dividend

The Annual General Meeting of 19 March 2015 decided to distribute a dividend of EUR 0.30 per share from the profit for 2014 in each quarter of 2015, i.e. in total at most EUR 1.20 per share in 2015 (100% dividend rights). The dividend will be paid on the last business day of each quarter.

Dividends per share paid during the period under review:

	FI4000068614
	(100%)
31 Mar 2014 1st dividend	EUR 0.30
Total	EUR 0.30

Future outlook

Orava Residential REIT estimates that it has reasonably good prerequisites for maintaining good profitability and achieving the targeted total return of 10 per cent on shareholders' equity in 2015.

The change in value of apartments in the investment portfolio is expected to remain close to zero in the second half of the year. Rental income is estimated to rise slightly, as we believe we can increase the economic occupancy rate compared with the previous year and the first quarter. The result impact of property acquisitions is expected to remain at the level of the previous year. The ratio of maintenance and repair costs to the value of investment assets is also expected to remain approximately at the level of the previous year.

Helsinki, 12 May 2015

Orava Residential REIT plc
Board of Directors

Additional information:

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Appendix: Interim Report Q1 2015