

Orava Residential REIT plc

Interim report 19 May 2016 at 8:00 a.m.

ORAVA RESIDENTIAL REIT PLC INTERIM REPORT 1 JANUARY – 31 MARCH 2016

1 January – 31 March 2016

- Revenue: EUR 4.8 million (1 January – 31 March 2015: EUR 4.6 million)
- Comprehensive profit: EUR 1.8 million (EUR 2.3 million)
- Earnings per share: EUR 0.23 (EUR 0.41)
- Economic occupancy rate: 90,0% (89.8%)
- Gross rental yield: 6.8% (6.8%)
- Net rental yield: 3.6% (4.0%)
- Profit from acquisitions and changes in fair value: EUR 1.9 million (EUR 2.4 million)
- Total dividends distributed during the first quarter: EUR 0.27 per share (EUR 0.30 per share)

Net assets per share of Orava Residential REIT plc were EUR 11.46 on 31 March 2016 while they were EUR 11.64 at the beginning of the year 2016. The company has continued growing, and the value of its investment properties totalled EUR 207.4 million at the end of the period (31 December 2015: EUR 195.9 million).

CEO's comments:

"The financial result of the first quarter of Orava Residential REIT was reasonable, but lagged slightly behind of the targeted return of 10 per cent on shareholders' equity.

The Finnish housing market has slowly picked up during the early part of the year. For the first time in over two years, the value of apartments previously acquired for the portfolio of the Residential REIT increased during the quarter; however, the value change remained at +0.4%. It is noteworthy in the development of the value change within the quarter that in January–February the prices rose fairly rapidly, but in March the value of the old portfolio of the Residential REIT fell by 0.5%, i.e. by approximately EUR 1 million. The general price development of housing is, above all, secondary in importance; according to the monthly index published by Statistics Finland in April, the price development of old owner-occupied apartments in the whole country fell by 0.4% from the previous month in March.

In the first quarter, the REIT acquired a total of 49 apartments at a debt-free transaction price of EUR 9.6 million. The fair value of the investment properties owned by the REIT increased from EUR 195,9 million at the end of December to EUR 207.4 million at the end of March, while it was EUR 152.1 million at the end of March 2015.

The rental of apartments acquired without tenants at the turn of the year progressed without problems, but it had a slightly declining impact on the rental income. However, the financial occupancy rate rose slightly compared to the previous quarter. The picking up of apartment sales continued, and we made a new sales record of EUR 1.9 million in the quarter. The maintenance and repair expenses of investment properties in relation to the value of the portfolio remained at the level of the previous quarter, i.e. at 3.0 per cent converted to the annual level.

The number of shareholders of Orava Residential REIT has continued to grow to over 8,300. Trading in the company's share on the Helsinki Stock Exchange has remained at a good level; the average daily turnover in early 2016 exceeded EUR 230,000.

The Annual General Meeting of 22 March 2016 decided that the dividends to be distributed in 2016 shall be EUR 1.08 per share, i.e. approximately 9.3 per cent on net assets per share at the beginning of the year. The dividend payments will be EUR 0.27 per share by each quarter.

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 in 2016."

Operating environment

National economy

According to the preliminary information from Statistics Finland, GDP growth remained at +0.5% in Finland last year, and it is expected to settle between +0.5% and +1.0% this year. The growth of private consumption that is central from the point of view of the housing market ended up at +1.4% last year according to preliminary information, while it is forecast to settle between +0.4% and +1.0% in 2016. 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 to six years. The estimate is based on the most recent economic forecasts by 14 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.

We continue to expect the housing market to strengthen during 2016.

Demand in the housing market

In January–March 2015, households drew down EUR 3.7 billion in new mortgages, or 3% more year-on-year, according to statistics from the Bank of Finland. The euro-denominated mortgage base totalled EUR 92.2 billion at the end of March, and the annual growth in the mortgage base amounted to 2.5%.

The average marketing period for old apartments in the country overall, according to the Finnish Etuovi.com marketing service, decreased from 122 days in January to 111 days in April, while it was 110 days in April in the previous year.

The careful recovery of the demand for housing seems to have continued during the early part of the year.

Supply in the housing market

According to Statistics Finland, building permits for apartment blocks were granted for 2,853 apartments in February, which was 113% more than a year previously. Correspondingly, in January–February, building permits for apartment blocks were granted for a total of 4,051 apartments, or 47% more than a year previously. The annual change in the sliding annual sum of building permits granted for apartment blocks rose to +16%.

The three-month change in the housing construction volume index that describes the value of on-going new construction was -10% in February, and the change year-on-year was +16%.

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 +4 points in the first quarter of the year, while it was the +2 points in the previous quarter and -12 points a year before. The balance figure for the three-month production expectation was +41 points, compared to -21 points in the previous quarter and +20 points a year before. The number of unsold residential apartments compared to normal fell from +10 in the last quarter of the previous year to -5; a year ago, the balance figure was +24 points.

The supply in the housing market has increased significantly during the past winter and spring.

Prices, rents and returns in the housing market

In the first quarter of 2016, the rents of non-subsidised apartments increased by 2.6% year-on-year. In the first quarter of the year, the change in housing prices was +0.8% compared to the previous year. The change in housing prices from the previous quarter was +0.6%, which we estimate to correspond to a rise of approximately 0.2% when evened out seasonally. The ratio of housing prices to rents is slightly below the long-term average; the ratio calculated from the square metre prices of apartment block apartments in the first quarter and the rents of non-subsidised apartments was 15.1. The corresponding 42-year average for the ratio of square metre prices to annual rents in Finland is 16.9.

We continue to expect housing prices throughout the country to start rising slightly during the next 12 months and the growth rate in rents for 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

In the first quarter, the financial occupancy rate of rental operations was 90.0%. The financial occupancy rate was higher than in the previous quarter (89.7%). The economic occupancy rate, adjusted so that the acquisitions in the past six months were eliminated, was 92.5%. Gross rental yield was 6.8%.

	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2015
Gross rental yield, %	6.8	6.8
Net rental yield, %	3.6	4.0
Economic occupancy rate, %	90.0	89.8
Operational occupancy rate, %	90.9	90.8
Tenant turnover/month, %	2.3	2.2

At the end of the period, the company had a total of 1,736 residential apartments (Q1 2015: 1,456). There were 1,408 leases at the end of the period (Q1 2015: 1,208), and 115 apartments were for sale (Q1 2015: 105). Approximately 98% of the entire lease base for residential apartments is in agreements valid until further notice. A total of 102 agreements were terminated during the period (Q1 2015: 78).

Acquisitions

Acquisitions implemented or agreed during the period under review

Time	Property	Debt-free transaction price (EUR million)	Company loan (EUR million)	Directed issues (1,000 shares)	Apartments (qty)
30 Mar 2015	Apartments from a property in Jyväskylä	2.5	-	-	23
31 Mar 2015	Apartments from 14 properties	7.1	4.9	-	26
TOTAL		9.6	4.9	-	49

In the first quarter, the company acquired a total of 49 apartments. On 31 March 2016, the REIT acquired a total of 26 apartments from eleven cities by a binding agreement from YIT Construction Ltd. The apartments acquired were located in 14 properties in Espoo, Hamina, Helsinki, Hyvinkää (2), Jyväskylä,

Lahti, Riihimäki (2), Savonlinna, Tuusula, Vaasa and Vantaa (2). The apartments were without tenants at the time of the acquisition. The REIT acquired 23 apartments at one property in Jyväskylä from Royal House Oy. The debt-free transaction prices of the acquisitions totalled EUR 9.6 million.

Apartment sales

Housing sales grew during the first quarter in the manner of the last quarter of 2015 to a significantly higher level than during the previous quarters. Measured in euros, the quarter was the best in the company's history. The company sold a total of 16 residential apartments from 14 different housing companies in the first quarter. The debt-free selling prices of the apartments totalled EUR 1.9 million. The brokerage fees for the sales amounted to EUR 61 thousand.

Investment properties on 31 March 2016

The fair value of investment properties at the end of the period totalled EUR 207.4 million (31 December 2015: EUR 195.9 million). Orava Residential REIT had a total of 1,736 apartments on 31 March 2016 (31 December 2015: 1,702) with an aggregate leasable surface area of approximately 111,000 m² (31 December 2015: 108,000 m²). The apartments were located at 116 different housing companies, and 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

	1.3.2016	31.3.2015
Newer (1990-present)	67%	60%
Older (up to 1989)	33%	40%
Helsinki Region	39%	37%
Major cities	30%	27%
Medium-sized towns	31%	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 2015 financial statements.

Consolidated profit for the period

Consolidated revenue for the period totalled EUR 4.8 million (Q1 2015: EUR 4.6 million). The revenue was divided into income from rental operations of EUR 2.9 million (Q1 2015: EUR 2.2 million) and capital gains of EUR 1.9 million (Q1 2015: EUR 2.4 million). Income from rental 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 2.3 million (Q1 2015: EUR 2.0 million), of which maintenance costs and annual repairs accounted for EUR 1.6 million (Q1 2015: EUR 1.0 million) and the performance-based management fee for EUR 0 (Q1 2015: EUR 338,000). The increase in expenses is mainly a result of the expansion of our operations.

Operating profit amounted to EUR 2.5 million (Q1 2015: EUR 2.6 million)

Financial income and expenses stood at EUR -629,000 (Q1 2015: -322,000) and taxes for the period at EUR 7,000 (Q1 2015: EUR 26,000).

Profit for the period amounted to EUR 1.9 million (Q1 2015: EUR 2.3 million). Comprehensive income items totalled EUR -53,000 (Q1 2015: EUR -10,000) and comprehensive profit for the period totalled EUR 1.8 million (Q1 2015: EUR 2.3 million).

Financing

Financial expenses (net) totalled EUR 629,000 during the period 1 January – 31 March 2016 (Q1 2015: EUR 322,000).

The interest-bearing loans of Orava Residential REIT and the company loans allocated to the shares in housing companies totalled EUR 108.0 million on 31 March 2016 (31 December 2015: EUR 95.8 million).

In addition to these, the long-term loans on the statement of financial position also include EUR 715,000 in rental deposits paid by tenants (31 December 2015: EUR 660,000).

Shares and shareholders of Orava Residential REIT

On 22 February 2016, the company directed 200,000 shares to itself in a charge-free share issue and applied for the shares to be admitted to trading on the main list of the Helsinki Stock Exchange (trading code OREITN0116). The shares do not provide entitlement to dividends paid from the profit for 2015 during 2016, but they will provide entitlement to dividends in 2017 and subsequent years.

The number of the company's shares in the Trade Register at the end of April was 9,206,619.

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. During the period of 1 January – 31 March 2016, the company has concluded 13 convertible bond agreements worth EUR 4.5 million, and 2.8 million euros were exchanged for 311,238 shares in the company and recorded in the company's shareholders' equity. The company's shareholders' equity was EUR 96.5 million (31 December 2015: EUR 94.3 million). At the end of the period under review, the company had 787,073 shares in its possession which it had directed to itself. More detailed information on shareholders' equity and convertible bonds is presented in the tables part in sections 5.3 and 6.1.

The trading codes of the company's shares were OREIT and OREITN0116 during the period under review. The average daily turnover of shares in January–April was approximately EUR 233,000.

The company had more than 8,300 shareholders at the beginning of May 2016.

LIST OF OWNERS ON 4 MAY 2016, TEN LARGEST

Shareholder	Number of shares	%
Maakunnan Asunnot Oy*	433,664	4.6
Royal House Group***	300,000	3.2
Yli-Torkko Erkki	160,544	1.7
Godoinvest Oy**	129,360	1.4
Ålands Ömsesidiga Försäkringsbolag	100,000	1.1
Vähävara Oy	95,047	1.0
Rannikko Reino	52,000	0.6
Orava Funds plc****	45,639	0.5
Ström Leif	44,846	0.5
Signe och Ane Gyllenbergs Stiftelse SR	43,845	0.5
Total	1,404,945	14.9

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

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*** 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 7% 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 March 2016 amounted to EUR 299,000 (Q1 2015: EUR 205,000), including value added tax.

On the basis of the company's net assets per share, share price and dividend distribution realised in 2016, a performance-based management fee has not been booked (Q1 2015: EUR 338,000). Any performance-based management fee will be paid after the end of 2016, on the basis of the company's realised net assets per share or the adjusted share price in March 2017.

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

The Board of Directors of Orava Residential REIT has six members: Patrik Hertsberg, Mikko Larvala, Tapani Rautiainen, Veli Matti Salmenkylä, Jouni Torasvirta and Timo Valjakka. The Chairman of the Board is Jouni Torasvirta, and the Vice Chairman is Patrik Hertsberg. The Board of Directors convened a total of six times during the period under review. The Board members' rate of attendance at Board meetings was 100%.

Orava Residential REIT's auditor is PricewaterhouseCoopers Oy, with Tuomas Honkamäki, 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 22 March 2016. On 31 March 2016, a total of 6,000,000 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 current rules for real estate investment operations are available on the company's website at www.oravaasuntorahasto.fi, and they are included as an appendix.

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 2016

The Board Of Directors of Orava Residential REIT plc has confirmed the company's updated strategy for 2016. The strategic financial objectives remained unchanged: the targeted total return on the share shall be at least 10% p.a., the targeted dividend return shall be 7–10% p.a. on net assets per share, and the crediting rate shall be approximately 50%.

Alongside financial targets, the main strategic objectives were confirmed to be:

- increasing equity to at least EUR 110 million in 2016 and maintaining annual growth of at least 20% over the medium term
- diversifying the acquisition of debt financing further
- increasing the economic occupancy rate to over 95%
- reducing property maintenance costs to 5% and repair costs to 10% below the statistical benchmark, and
- maintaining apartment sales at 5–10% of the value of investment properties of the opening balance sheet.

The regional and age distribution objectives for portfolio management were updated. According to the updated regional distribution objective, 53% of the market value of apartments shall be located in the Helsinki region, 22% in major cities and 25% in medium-sized towns with a variation range of plus minus approximately 10%. According to the updated age distribution objective, the weighting of properties completed in the 1990s and afterwards shall be 51%, and the weighting of properties completed before 1990 shall be 49 % plus minus approximately 10% calculated from the market value of the investment portfolio.

The Board of Directors of the company and the management company Orava Funds plc agreed on a change in the performance-based management fee on 17 February 2016. The hurdle rate of the performance-based management fee was increased from 6 per cent to 7 per cent.

The 200,000 shares that Orava Residential REIT plc allocated to itself in a charge-free share issue on 17 February 2016 were recorded in the Trade Register on 22 February 2016. 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. The ISIN code

of the shares the company directed to itself is FI4000197942 (trading code OREITN0116). The shares do not provide entitlement to dividends paid from the profit for 2015 during 2016, but they will provide entitlement to dividends in 2017 and subsequent years. After the issue, the number of the company's shares totalled 9,206,619. The aforementioned 200,000 shares were listed on the stock exchange list of the Helsinki Stock Exchange, and they have been subject to trading since 23 February 2016.

The company concluded a market making agreement with Nordea Finland Plc on 9 March 2016 concerning the market making of the new shares in Orava Residential REIT (trading code OREITN0116). Under the agreement, Nordea Bank Finland Plc will provide a purchase and sale offer for a share in Orava Residential REIT so that the largest allowed difference between the purchase and sale offer is 4% of the purchase offer. The offers shall include at least a number of shares the value of which corresponds to EUR 4,000. The market making according to the agreement started on 10 March 2016.

The Annual General Meeting of 22 March 2016 decided to authorise the Board of Directors to decide on the distribution of dividends of no more than EUR 1.08. A total of no more than EUR 8,993,772.36 may be distributed in dividends. The dividends paid by quarter shall be no more than EUR 0.27 per share in each instalment. The dividend payment dates are 4 April 2016, 30 June 2016, 30 September 2016 and 30 December 2016. The Board of Directors was authorised to decide on the amount of dividends and their payment by quarter within the framework of the aforementioned restraints provided that the company's solvency is not jeopardised as a result of the payment of dividends. The Board of Directors was authorised to decide on the record dates of dividend payments.

The Annual General Meeting of 22 March 2016 decided that a specification concerning the payment of the performance-based management fee will be made in the rules for real estate investment operations so that the hurdle rate will be increased from 6 per cent to 7 per cent. According to the decision of the AGM, the rules for real estate investment operations (section 11, paragraph 3) were specified with regard to the determination of the management fee. The first sentence of the amended section 11, paragraph 3, reads as follows: As a performance-related management fee, the REIT pays Orava Funds plc twenty per cent (20%) of the REIT's annual return exceeding the hurdle rate of seven per cent (7 %). The performance-related 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.

The AGM of 22 March 2016 decided that a correction be made in section 14, second paragraph, of the rules for real estate investment operations due to the amendment to the Real Estate Funds Act, according to which amendments to the rules enter into force after a month from their communication to shareholders by publishing the information in the manner required in the case of information falling within the sphere of the REIT's duty of disclosure and the publication of the information concerning the REIT in accordance with Section 10. In addition, it was decided that an unnecessary sentence shall be removed from section 14, second paragraph, which refers to the time prior to listing. The amended section 14, second paragraph, reads as follows: Amendments to the rules enter into force after a month from their communication to shareholders by publishing the information in the manner required in the case of information falling within the sphere of the REIT's duty of disclosure and the publication of the information concerning the REIT in accordance with Section 10.

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 which do not give entitlement to dividends during 2016. The authorisation is valid until the next AGM, and it revokes the previous authorisation issued on 19 March 2015.

At its meeting held after the AGM, the Board of Directors of Orava Residential REIT plc elected Jouni Torasvirta as the Chairman and Patrik Hertsberg as the Vice Chairman from among its members. According to the authorisation given by the AGM, the Board of Directors decided that the dividends paid on the share in Orava Residential REIT plc (trading code OREIT, ISIN code FI4000068614) on 4 April 2016 shall be EUR 0.27, the dividend detachment date shall be 23 March 2016 and the record date shall be 24 March 2016. The total amount of dividends shall be EUR 2,248,443.09.

Orava Residential REIT plc acquired 23 residential apartments on 30 March 2016 and concluded on 31 March 2016 a binding purchase agreement on the acquisition of 26 residential apartments at debt-free transaction prices of a total of EUR 9.6 million. Thirty-one per cent of the value of the acquired apartments is located in the Helsinki Region, 50% in Jyväskylä and Lahti, and the remaining 19% in

medium-sized towns. The acquisition included 26 new, non-rented apartments at a debt-free transaction price of EUR 7.1 million.

Events after the financial period

On 18 April 2016, the company concluded a loan agreement of EUR 10 million with Collector Bank AB both to finance acquisitions and refinance old loans. By the end of April, EUR 6.4 million has been drawn down of the loan.

The 200,000 shares that Orava Residential REIT plc allocated to itself in a charge-free share issue on 20 April 2016 were recorded in the Trade Register on 22 April 2016. 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. The ISIN code of the shares the company directed to itself is FI4000197942 (trading code OREITN0116). The shares do not provide entitlement to dividends paid from the profit for 2015 during 2016, but they will provide entitlement to dividends in 2017 and subsequent years. After the issue, the number of the company's shares totalled 9,406,619. The aforementioned 200,000 shares were listed on the stock exchange list of the Helsinki Stock Exchange, and they have been subject to trading since 26 April 2016.

Dividend

Year 2016

The Annual General Meeting of 22 March 2016 decided to distribute dividends of EUR 0.27 per share from the profit for 2015 in each quarter of 2016, i.e. a total of at most EUR 1.08 per share in 2016.

Dividends per share paid during the period under review:

	FI4000068614
4 April 2016 1st dividend	EUR 0.27
Total	EUR 0.27

Future outlook

Orava Residential REIT continues to estimate that it has reasonably good prerequisites for maintaining good profitability in 2016 and achieving the targeted total return of 10 per cent on shareholders' equity.

The change in the value of the current apartments in the investment portfolio is expected to become slightly positive during the current year. The gross and net rental yields are estimated to remain approximately at the level of last year. The result impact of the acquisition of properties in euros is expected to remain in the size category of the year 2015. In addition no material change is expected to take place in the maintenance and repair costs in relation to the value of investment properties with regard to last year.

Helsinki, 18 May 2016

Orava Residential REIT plc
Board of Directors

Additional information:

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Appendix:
Interim report 1 January – 31 March 2016
Rules for real estate investment operations