

Orava Residential REIT plc

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ORAVA RESIDENTIAL REIT PLC HALF YEAR FINANCIAL REPORT 1 JANUARY–30 JUNE 2017

1 April–30 June 2017

- Revenue: EUR 2.9 million (1 April–30 June 2016: EUR 2.9 million)
- Result: EUR 34,000 (EUR -0.4 million)*
- Earnings per share: EUR 0.00 (EUR -0.04)
- Comprehensive profit: EUR 34,000 (EUR -0.4 million)
- Economic occupancy rate: 94,1% (90.1%)
- Gross rental yield: 7.0% (6.9%)
- Net rental yield: 4.3% (4.0%)
- Profit from assignments and changes in fair value: EUR -0.5 million (EUR -0.2 million)
- Total dividends distributed during the period under review: EUR 0.03 per share (EUR 0.27 per share)

1 January–30 June 2017

- Revenue: EUR 5.3 million (1 January–30 June 2016: EUR 7.7 million)
- Result: EUR -0.9 million (EUR 1.5 million)*
- Earnings per share: EUR -0.10 (EUR 0.18)
- Comprehensive profit: EUR -0.9 million (EUR 1.4 million)
- Economic occupancy rate: 94,0% (90.0%)
- Gross rental yield: 6.9% (6.8%)
- Net rental yield: 3.9% (3.8%)
- Profit from assignments and changes in fair value: EUR -1.4 million (EUR 1.7 million)
- Total dividends distributed during the period under review: EUR 0.06 per share (EUR 0.54 per share)

* Income statement item Profit/loss for the period.

Adjusted net assets per share of Orava Residential REIT plc amounted to EUR 9.95 on 30 June 2017, while they were EUR 10.11 at the beginning of 2017. The value of the company's investment properties amounted to EUR 205.4 million at the end of the period under review (31 December 2016: EUR 210.9 million).

After the reporting period, apartments of Orava Residential REIT have been sold during the period 1 July–11 August 2017 at debt-free prices totalling EUR 1.0 million.

Orava Residential REIT estimates that its result for 2017 would be positive and in the range of EUR 0 to +3 million. (Previously from EUR +1 million to EUR +4 million). The guidance has been changed due to the modest result of the second quarter.

CEO's comments:

"Despite an improvement in the second quarter, the Orava Residential REIT's result remained modest. Rental operations developed well but there was no positive impact on the result from apartment value change and acquisitions.

The annual increase in the prices of old apartments in the whole country, which is crucial for the financial result of Orava Residential REIT, still remains at no more than approximately 1%. The poor price trends are mainly caused by the slow increase in the household disposable income, the rapid increase in the supply of new housing, and the demand for apartments mainly focussing on new housing production.

The main indicators show positive trends for rental operations: the economic occupancy rate increased to 94,1 per cent, gross rental yield to 7.0 per cent and net rental yield to 4.3 per cent. All of the above indicators showed an improvement compared to both the previous year and the previous quarter. The proportion of investment property maintenance and repair costs of the portfolio value decreased, largely due to seasonal fluctuation (mainly lower heating costs), from 3.1 per cent in the previous quarter to 2.8 per cent. In the second quarter, apartment sales remained at EUR 1.6 million, as the demand on apartments to be sold did not remain on as good level as last winter.

We have investigated the possibility to buy the company's own shares in order to profit from the current low share valuation level. The purpose is to sell apartments at their balance sheet values and then acquire shares in the company at a significantly lower price than their net asset value per share is. The investigations are still ongoing, but based on the current estimate, the company's Board of Directors will apply for authorisation for acquiring shares from an extraordinary General Meeting to be held in the autumn.

The company estimates that its result for 2017 will be in the range of 0 to +3 million euros."

Operating environment

National economy

Finnish GDP growth is expected to be between +1.4% and +2.6% this year and stay between +1.3% and +1.9% next year. The growth of private consumption, very important for the housing market, is expected to be between +1.0% and +1.8% this year, while it is expected to remain between +0.9% and +1.5% next year. The market interest rates in the euro area are still low, and short-term market rates are also expected to remain below one percent for the next three to four years.

The estimate is based on the most recent economic forecasts by 15 parties drawing up forecasts on the Finnish economy, compiled by the Federation of Finnish Financial Services, and the market interest rate expectations calculated on the basis of the euro interest rate curve published by the European Central Bank.

We expect the slow strengthening of the housing market in Finland to continue.

Demand in the housing market

During April–June, households drew down EUR 4.9 billion in new mortgages, or 6% less than a year previously according to statistics from the Bank of Finland. The euro-denominated mortgage base totalled EUR 95.0 billion at the end of December, and the annual growth in the mortgage base slowed down to 2.1 per cent. According to OP Financial Group, housing companies' mortgages increased by 13 percent between 1 January 2016 and 1 January 2017.

According to the January-June statistics of the Central Federation of Finnish Real Estate Agencies, the change in the number of transactions regarding old apartments was -0.6 per cent compared to the corresponding period in the previous year. According to the Federation, the first quarter of 2017 saw an increase in the number of transactions in old apartments, but the second quarter sunk into the red. In June, there was a decrease in the year-over-year number of transactions in old apartments.

The average marketing period for old apartments in the country overall increased from 66 days in April to 81 days in July according to the Finnish Etuovi.com marketing service, while it was 74 days in July in the previous year.

The increase in the demand on old apartments in the country overall came to a halt in the second quarter.

Supply in the housing market

According to Statistics Finland, building permits for apartment blocks were granted for 3,910 apartments in May, which was 48% more than a year previously. Correspondingly, in January–May, building permits for apartment blocks were granted for a total of 14,217 apartments, or 2% less than a year previously. The annual change in the sliding annual sum of building permits granted for apartment blocks rose to +27%.

The three-month change in the housing construction volume index, which describes the value of on-going new construction, was +6% in May, and the change year-on-year was +15%.

According to the July confidence indicator survey of the Confederation of Finnish Industries, the balance figure for construction production for the past three months was +34 points in the second quarter of the year, while it was +23 points in the previous quarter and +32 points a year before. The balance figure for the three-month production expectation was +20 points, compared to +34 points in the previous quarter and +23 points a year before. The number of unsold residential apartments compared to normal fell from -18 in the first quarter to -23 in the second quarter; a year ago, the balance figure was -50 points.

The supply in the housing market has continued growing during the second quarter.

Prices and rents in the housing market

According to Statistics Finland, in the second quarter of 2017, the rents of non-subsidised apartments increased by 2.4% year-on-year and by 0,6% from the first quarter.

The change in housing prices in the second quarter according to the housing price index from Statistics Finland was 1.2% year-on-year. The change in the housing price index from the previous quarter calculated by Statistics Finland was +1.5%, which we estimate to correspond to a change of approximately +0.7% when seasonally adjusted. The twelve-month change, based on the average square metre prices reported by Statistics Finland, was +2.0% and the change from the previous quarter was +1.1%. Correspondingly, based on the monthly data from Statistics Finland, the change from March to June in the housing price index was +0.7%, and the change in the average square metre prices during the same period was +0.1%.

The Orava 20 index, which describes the price trend for apartment block apartments in 20 major towns in Finland based on the average prices per square metre in advertisements on Oikotie.fi, increased between 30 June 2016 and 30 June 2017 by 1.4% and decreased between 31 March 2017 and 30 June 2017 by 1.7%. The twelve-month change in square metre prices, based on the average asking prices for all types housing in the country overall calculated by Etuovi.com, was -4.1% in July and -2.2% between March and June.

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 fourth quarter and the rents of non-subsidised apartments was 15.2. The 43-year average for the ratio of square metre prices to annual rents in Finland is 16.9.

We still expect housing prices in the country as a whole to increase by 1 to 3 per cent during the next 12 months, and the growth rate in rents for non-subsidised apartments to remain approximately the same if the market's interest rate expectations and economic forecasts are correct with regard to their essential components affecting the housing market.

Future outlook (changed)

Orava Residential REIT estimates that its result for 2017 would be positive and in the range of EUR 0 to +3 million. (Previously from EUR +1 million to EUR +4 million). The guidance has been changed due to the modest result of the second quarter.

The change in the value of current apartments in the investment portfolio is expected to be slightly positive during the second half of the year. The gross and net rental yield is expected to remain approximately at their present levels, and the volume of acquisitions is expected to be modest in the

second half of the year. The ratio of maintenance and repair costs to the value of investment properties is expected to close to the figures for the first half of the year. Due to the low predictability of the change in the value of current apartments, the company's guidance has significant uncertainty.

The whole Half year financial report 1 January – 30 June 2017 and 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.

Helsinki, 16 August 2017

Orava Residential REIT plc
Board of Directors

Additional information:

Pekka Peiponen, CEO, tel. +358 (0)10 420 3104

Veli Matti Salmenkylä, CFO, tel. +358 (0)10 420 3102

Appendix:

Half year financial report 1 January – 30 June 2017

Rules for real estate investment operations