ORAVA

ORAVA RESIDENTIAL REAL ESTATE INVESTMENT TRUST PLC

ANNUAL REPORT 2014

including

Board of Directors Report

Consolidated financial statements 1 Jan – 31 December 2014

Auditor's Report

TRANSLATION ONLY

CEO's review

In 2014, Orava Residential Real Estate Investment Trust plc ("Orava Residential REIT") achieved its targeted financial result. As in the previous year, the result was above all achieved by successful property acquisitions which the company carried out at tax-free contract prices totalling more than EUR 46 million.

In 2014, the result of rental operations was affected by a lower occupancy rate than in the previous year, as well as the reduced weight of provincial towns and older properties. The occupancy rate of rental operations was particularly affected by new apartments that were vacant upon purchase.

In general, apartments had a downward price trend in 2014, but the prevailing market situation provided a wholesale buyer like Orava Residential REIT – a company that buys whole buildings and large number of apartments simultaneously – with possibilities to make inexpensive acquisitions. A total of 552 apartments in 20 different properties were acquired during the year. The debt-free selling prices of the acquisitions totalled EUR 46.2 million. The successful apartment acquisitions had a significant impact on the financial result for the year. At the end of 2014, the fair value of the investment properties totalled over EUR 130 million, which means a growth of 65 per cent from the previous year. Regionally, the investment properties were more widely distributed than before, located across 30 towns by the end of the year. In conjunction with the company's strategy work in late 2014, the regional and age distribution targets of the residential portfolio were updated, and the target towns were given growth criteria in addition to size criteria.

The sales of apartments vacated by individual tenants terminating their tenancy were fairly slow in 2014, albeit that the markets picked up somewhat towards the end of the year. In all, 29 apartments were sold from 12 different properties. In addition to apartment sales, the sales from the investment portfolio were supplemented by sales of building plots, bringing the 2014 total sales from the portfolio to EUR 5.7 million.

In 2014, the company increased its shareholders' equity by directed share issues associated with the acquisitions and by concluding convertible bond agreements that the lenders exchanged for shares in the company. The number of Orava Residential REIT shareholders continued to grow and doubled from the previous year. At the end of January 2015, the Residential REIT had over 5,800 shareholders. Trading in the company's share on the Helsinki Stock Exchange also continued to be lively, and the average daily turnover in 2014 exceeded EUR 254,000.

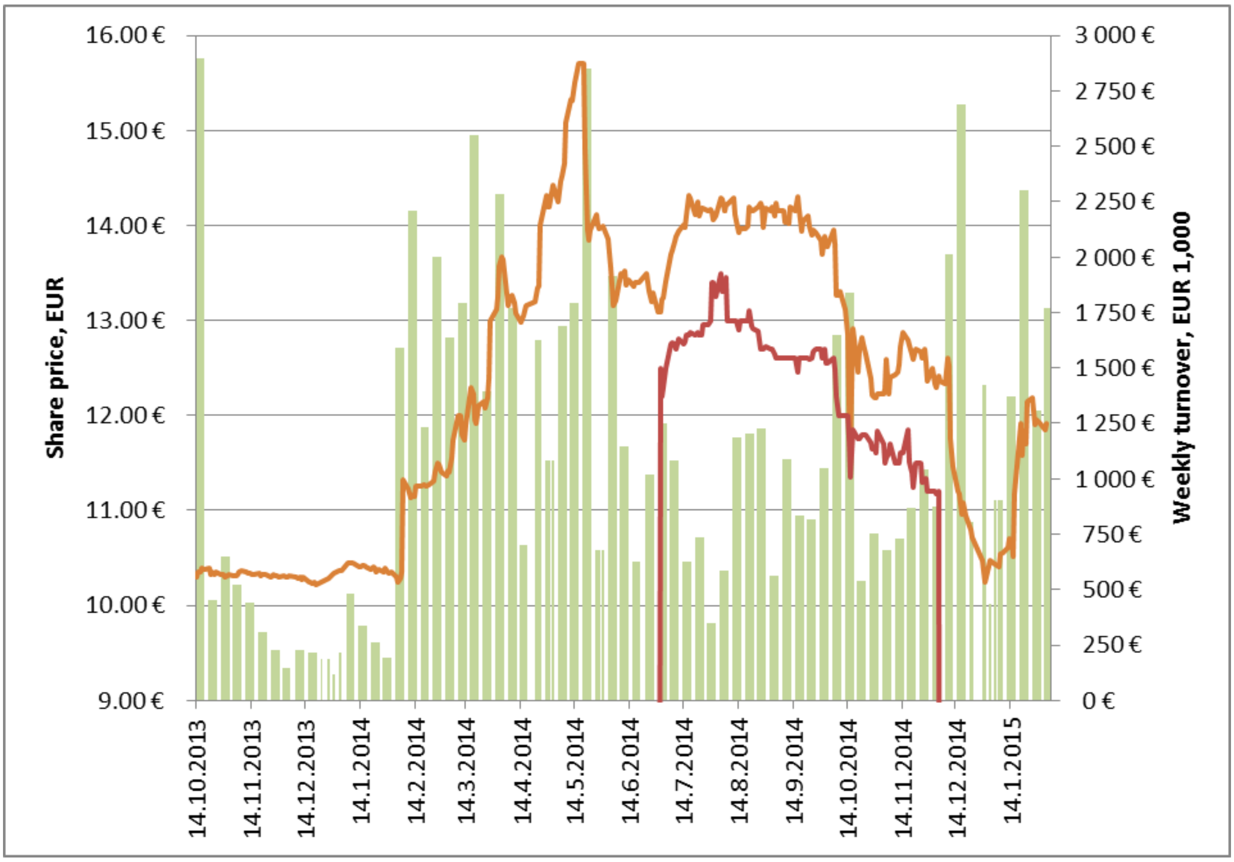
INVESTING IN ORAVA RESIDENTIAL REIT

The company facilitates investments in a professionally managed and distributed residential portfolio. When building up and managing its residential portfolio, the company utilises professionals from across the field, such as Newsec Asset Management Oy, Ovenia Oy, Raksystems Anticimex Oy and Realia Management Oy.

Apartments have traditionally been less sensitive to economic cycles than commercial and office premises, for instance. Residential investments have also historically provided good protection from inflation.

The basic idea of the Tax Exemption Act regulating the operations of Orava Residential REIT is the one-time taxation of profits from real exempted estate business in limited company form, making taxation directly equivalent to the taxation of real estate investment business functions. The company is exempt from paying income tax and capital gains tax provided that certain conditions are met. Among other things, the company must distribute as dividends at least 90% of its financial result excluding unrealised value changes. The company is exempt from capital gains tax provided that it has owned the sold investment property for at least five years.

The price and weekly turnover of the company's shares on the Helsinki Stock Exchange during the period 14.10.2013–5.2.2015



Orange line: Trading code OREIT
Red line: Trading code OREITN0114
Average daily turnover in total EUR 245 thousand

OPERATING ENVIRONMENT

The company invests in apartments available for lease in Finland. The factors affecting the demand for lease apartments include the economic outlook, interest rates, income level and the growth of population in different localities. The factors affecting the supply of apartments include the prices in the residential market, the economic outlook, possible capacity shortage in the construction sector and the government's support actions. The prices, rent levels and maintenance costs of apartments determine the rental income from properties in different localities.

BUSINESS MODEL

The company invests in apartments available for lease in Finland. The factors affecting the demand for lease apartments include the economic outlook, interest rates, income level and the growth of populations in different localities. The factors affecting the supply of apartments include the prices in the residential market, the economic outlook, possible capacity shortage in the construction sector and the government's support actions. The prices, rent levels and maintenance costs of apartments determine the rental income from properties in different localities.

Orava Residential Real Estate Investment Trust plc is a real estate fund taking the form of a REIT (Real Estate Investment Trust), investing mainly in lease apartments. The objective of the company's lease and investment activities is to produce profits for the shareholders in the form of dividends and an increase in the company's share price. The company engages in real estate investment business by leasing, developing, contracting and selling residential apartments, residential real estate properties or housing companies it owns. The company seeks to invest mainly in lease apartments producing a good rental income in major and medium-sized Finnish towns. Although most of the company's investment properties are leasable residential apartments, it can also own commercial premises. In addition, the company seeks to efficiently utilise the liabilities to equity ratio in its portfolio management.

The company's mission is to increase the number of lease apartments by channelling capital into residential investments, and its vision is to be the leading residential fund in Finland by 2020. This includes the best profit, the most satisfied customers and the highest market value.

The company is planning to increase the size of its real estate portfolio in the medium term of 3–5 years to about EUR 300–500 million.

The company's income consists of rental income from investment properties and changes in their value. The company's financial result consists of net rental income from apartments, realised and unrealised changes in value, costs of liabilities and administrative expenses.

In the residential market, prices depend on whether the apartments are acquired one by one or in larger entities. Major investors have been able to utilise the wholesale market where the buyer of a residential property obtains a discount of 10–30 per cent. Orava Residential REIT also operates in the wholesale market and seeks to utilise its price level. There are no guarantees that the discounts in the wholesale market remain at this level. However, as long as the company can acquire investment properties with a wholesale discount, investors in the company's shares can also benefit from these advantages usually available to major investors. As a rule, the wholesale discount is greater as an investment property’s age increases is, and decreases in relation to the size of town is where the investment property is located.

When assessing the fair value of the investment properties, the company uses a method based on reference transactions. The method is typically used for evaluating apartments to be sold as individual apartments. The fair value of the company's investment properties is determined using a computer-assisted mass assessment system based on asking price, agreed price data and multi-variable regression methodologies.

The data used for the reference transaction method consists primarily of the apartments for sale advertised in the Oikotie.fi service of Sanoma Group, continuously obtained from Oikotie in electronic form. Oikotie.fi is one of the largest portals in Finland for advertising apartments for sale, and the service contains, besides the advertisements of real estate agents, also those submitted by private individuals.

The Real Estate Funds Act prescribes that the company must measure real estate properties, other than those in its own use, at fair value on its balance sheet. In addition, the change in fair value of the company's investment properties is entered through profit and loss as measurement gain or loss for the period during which it is created. Legislation also contains detailed provisions regarding the measurement and assessment of the company's assets carried out by an independent, external real estate appraiser.

INVESTMENT PROPERTIES

On 31 December 2014, the total value of investment properties owned by the company was EUR 130.6 million. There were 1,318 apartments in all, and the total floor space of the properties was 82.2 thousand square metres.

Investment properties owned by the company on 31 December 2014 in full or in part by town

Region	Number of properties	Apartments and business facilities (pcs)	Floor space (m^2)	Fair value (€1,000)
Espoo & Kauniainen ***)	2	11	703	3327
Helsinki	1	24	1,436	5204
Järvenpää ***)	3	24	1986	7910
Kerava	1	19	2071	6421
Kirkkonummi ***)	2	104	6973	13834
Nurmijärvi	2	43	3094	6630
Sipoo	1	14	1140	1848
Vantaa *) ******)	3	113	7118	11502
Helsinki Region *) ***)	15	352	24519	56676
Jyväskylä **)	4	20	2130	4455
Lahti	5	73	4,148	5542
Oulu	5	25	1538	3842
Tampere	6	58	3609	11130
Turku	2	18	1287	4397
Major towns	22	194	12712	29367
Hamina	1	16	1040	1329
Heinola	1	20	1164	738
Hämeenlinna	1	11	527	1009
Kokkola	1	4	321	949
Kotka *)	5	197	10888	8101
Lohja	2	62	3892	5719
Pori	2	58	3183	2754
Porvoo ***) ******)	2	42	2662	7247
Riihimäki	1	16	773	745
Rovaniemi	2	80	4587	5362

Salo ****)	1	74	4518	3240
Savonlinna	1	51	2723	2297
Tornio	2	65	3737	2921
Varkaus ******)	3	76	4,915	2103
Major towns	25	772	44927	44514
Total	62	1318	82158	130556

*) As Oy Vantaan Maauunintie 14 and As Oy Kotkan Alahovintie 7 both have one business facility (a day care centre).

**) The apartments in As Oy Jyväskylän Kruununtorni used to be four office facilities and one storage facility.

***) There are 11 business facilities at Kiint Oy Liikepuisto in Porvoo.

****) As Oy Salon Ristinkedonkatu 33 has one business facility and a day care centre.

*****) As Oy Varkauden Ahlströminkatu 12 has two business facilities and two storage facilities also suitable for use as business facility.

******) Includes a total of EUR 1.1 million of financial assets for the sale of building plots

MEASUREMENT OF THE COMPANY'S INVESTMENT POPERTIES

Investment assets are measured at acquisition cost including transaction costs. The acquisition cost of self-constructed or developed investment assets consists of construction costs accumulated by the completion date, capitalised borrowing costs and other expenses. Fair value is used for measurement after the original recognition.

The profit or loss due to changes in fair value is recorded through profit and loss in the period it was created. Fair value was determined in accordance with IFRS 13, Fair Value Measurement, which entered into force on 1 January 2013. The Real Estate Funds Act also requires that changes in fair value are recorded as income or expense.

The fair value of apartments is determined using the price measurement model created by the management company. The model is based on an apartment pricing model where the following factors, among others, are used as the determining parameters:

- Price information available for properties within the same postcode area and for properties located within one square kilometre of the investment property, as well as price information available for the from the investment property itself;
- ownership/lease of the building plot;
- floor area of the apartment;
- age of the real estate property;
- state of repair of the apartment;
- whether the apartment has its own sauna; and
- the type of the real estate property.

An external expert and real estate appraiser audits the management company's assessment process, calculation methods and reporting once a year. In addition, the valuation of an external, authorised real estate appraiser is obtained of the value of the company's real estate assets. Realia Management Oy and Turun Seudun OPKK act as the external experts and authorised real estate appraisers. In line with the framework agreement concluded with both of them they produce a separate valuation certificate or valuation calculation of each investment property held by the company, determining the value of the apartments in that investment property . The value calculations are made either on the basis of a review or as desktop work. The valuation is done by the valuation experts of Realia Management Oy or Turun Seudun OPKK who, as a rule, are authorised real estate appraisers (AKA) and real estate appraisers holding a general authorisation and approval of the Central Chamber of Commerce (KHK). The appraisers are chosen for each property taking into account its location and nature. The nationwide network and expertise of real estate agencies in the Realia Group (Huoneistokeskus, SKV Kiinteistönvälitys and Huom!) and OP-Kiinteistökeskus are utilised in the valuation process.

MANAGEMENT OF THE COMPANY'S INVESTMENT PROPERTIES

The company has signed an agreement with Newsec Asset Management Oy and Ovenia Oy (real estate managers) for apartment management services. The duties of real estate managers include the technical and administrative management of real estate properties, renting and rent administration, as well as the financial administration and reporting of the company's subsidiaries. An annual expense budget is drawn up for all managed real estate properties regarding their maintenance, annual repair and construction contracting activities, approved separately by the company. Members of the management of real estate manager companies are also members of the Boards of Directors of the company's subsidiaries and associate companies.

INVESTMENT STRATEGY

The investment strategy consists of three areas: i) acquisition and divestment of investment properties, ii) investment property strategy and iii) financing strategy.

Acquisition and divestment of investment properties

The company seeks to utilise the wholesale discount often achievable by major investors on the apartment market by mainly acquiring or developing entire properties for its portfolio and by buying units consisting of several apartments. The apartments are sold to the market one by one. The regional distribution of apartment values and ages can also be affected by sales.

INVESTMENT PROPERTY STRATEGY

Location of apartments

The company estimates the income from apartment investments to be better, as a rule, in provincial towns when compared to Helsinki or other major towns. The calculations made by the company indicate that the gross rental yield is currently 2–3 per cent higher in provincial towns than in Helsinki. Once management costs are taken into account, the advantage of provincial towns is reduced to 1–2%.

The differences in the increase of value of apartments in different areas is mainly affected by the growth of population, the economic success of the area and its general attractiveness as a place to live in. The company estimates the increase in value to be slightly better in Helsinki than in in provincial towns. The company estimates that the net rental yield and expected increase in value are together 0.5–1.5 per cent higher in medium-sized provincial towns than in Helsinki. As a rule, major towns are somewhere between these extremes. The third important element of the total yield, wholesale discount, is also typically bigger in smaller towns. On the other hand, the apartments are significantly easier to sell in the Helsinki region and in major towns than in smaller localities. The difference in saleability also increases as the state of apartment market deteriorates.

The company seeks a balance between expected yield and saleability so that the target is to have the same regional distribution in the apartment portfolio as that of the whole apartment mass in Finland. The apartment portfolio is divided into portfolios of the Helsinki region, major towns and the rest of Finland. The strategic weighting according to location is:

i) The Helsinki Region portfolio mainly consists of properties acquired or developed by the company in the capital region and in its surrounding municipalities, and its objectives are good rental yield and the best possible increase in value.
ii) The major towns portfolio consists of properties acquired or developed by the company in the five major towns outside the Helsinki region, i.e. in Tampere, Turku, Oulu, Jyväskylä and Lahti, and its objectives are good rental yield and a good increase in value.
iii) The rest of Finland portfolio consists of investment properties acquired or developed by the company in major or medium-sized towns outside the Helsinki region and the above major towns, and its objective is optimal rental yield.

In this context, medium-sized town means a town with at least 20,000 inhabitants. As a rule, the properties to be acquired for the Residential REIT shall be located in towns for which Statistics Finland forecasts population growth. If the forecasted population growth of a target town remains materially below the average in the entire country, it is additionally required that the property to be acquired be located in the pedestrian zone in the centre of the town. The target weighting compliant with the company's current investment strategy is 52% for the Helsinki region, 22% for major towns and 26% for the rest of Finland. The intention is to keep the weighting values within about ten percentage points of the target values.

The distribution of fair valus of investment properties by region on 31 December 2014 and 31 December 2013.

Region	**31 Dec 2014**	**31 Dec 2013**
Helsinki region	44 %	38 %
Major cities	34 %	43 %
Minor size cities	23 %	19 %

Age of apartments

The company also seeks to diversify its holdings regarding age distribution. The company estimates that the return of investments made in old apartments is, as a rule, higher than that of investments made in new apartments. The calculations made by the company indicate that the gross rental yield in Helsinki, for example, is about 2 per cent higher for old apartments than for new ones. Once the management costs are taken into account, the difference is reduced to about 1.5 per cent. As ageing has the biggest reducing effect on the price of new apartments, their expected increase in value is lower than that of old apartments. The higher repair costs of old apartments reduce this difference. Wholesale discounts are also typically higher for older properties. On the other hand, property development can also produce substantial savings in the acquisition prices of properties. However, old properties carry bigger risks than new properties. Old properties are often more difficult to sell than new ones, and unexpected repair costs can prove to be a problem. The company is seeking a balance between the higher yield expectations of old apartments and the lower risk of new apartments so that an overweighting of 50 per cent is sought in the portfolio for newer (built in the 1990s and 2000s) apartments compared to the weighting distribution of the entire apartment base. The exact target weighting for newer apartments is 51 per cent measured by market values. The company tries to keep the weighting value within about ten percentage points of the target value.

The distribution of fair values of investment properties by age group on 31 December 2014 and 31 December 2013.

Construction year	31 Dec 2014	31 Dec 2013
1989 and before	42 %	44 %
1990 and after	58 %	56 %

CUSTOMERS

The tenants of investment properties are customers of Orava Residential REIT.

On 31 December 2014, about 93 per cent of tenants were private individuals and 7 per cent companies, some of which had leased the apartment for its employee, and some leased the apartment further as furnished. Of the person-tenants, the average age of main tenants was 41.5 years. 34 per cent of the tenants were less than 30 years old, 48 per cent were 30–60 years old and 18 per cent were over 60 years old. The average duration of the lease was 5.0 years. 37 per cent of the leases were for less than one year, 48 per cent were for 1–10 years, 10 per cent were for 11–19 years and 5 per cent were for over 20 years. On 31 December 2014, the longest continuous lease had lasted for 40.5 years.

Length of the lease	**%**
Less than 1 year	37 %
1 to 10 years	48 %
10 to 20 years	11 %
More than 20 years	5 %

Age of the main tenant	**%**
Less than 30 years	34 %
30 to 60 years	48 %
More than 60 years	18 %

BOARD OF DIRECTORS

The Board of Directors of Orava Residential REIT has six members: Peter Ahlström, 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 Tapani Rautiainen. Four of the members have been on the Board ever since the company was established. During the period under review, the Board of Directors had 23 meetings, 13 of them being telephone meetings. The Board members' rate of attendance at Board meetings was 97%.

Name	Year of birth	Position	On the Board since	Owns the company's shares (pcs)
Jouni Torasvirta	1965	Chairman	2010	7,787 ****
Tapani Rautiainen	1957	Vice Chairman	2010	709,286 *, **
Peter Ahlström	1964	Member	2013	0
Mikko Larvala	1966	Member	2013	0
Veli Matti Salmenkylä	1960	Member	2010	100
Timo Valjakka	1960	Member	2010	719,661 *, ***

* Ownership corporations under the member's control, Länsi-Suomen Vuokratalot Oy (260,423 shares), Avaintalot Oy (160,456 shares) and Maakunnan Asunnot Oy (69,422 shares).

** Ownership through corporation under the member's control, Sysmäläntien Kiinteistöt Oy (218,985 shares).

** Ownership through corporation under the member's control, Godoinvest Oy (229,360 shares).

**** Ownership through a management company (5,687 shares).

Board of Directors' Report

Orava Residential *Real Estate Inetment Trust plc ("Orava Residential REIT", Business ID 2382127-4, address Kanavaranta 7, 00160 HELSINKI) was established on 30 December 2010 as a real estate fund as referred to in the Real Estate Funds Act. Its rules were approved bu the Finnish Financial Supervisory Authority on 28 January 2011. The Finnish Financial Supervisory Authority has confirmed the latest amendments on 25 March 2014. 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 2014 was the company's fourth 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 company's shares are listed on the main list of Nasdaq Helsinki, and the trading code is OREIT.

The purpose of the company as a real estate fund under the Act on Real Estate Funds (1173/1997) is to let residential 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).

Major events during the financial period 1 January – 31 December 2014

A total of 1,366,558 shares in Orava Residential REIT, the dividend rights of which became equal to those of the listed shares in connection with the dividend payment of December, were combined with the old shares in the book-entry system and admitted to trading on 3 February 2014.

After the shares listed in February and admitted to trading, 25,687 shares subscribed in the March 2013 share issue, the dividend rights of which differ from the aforementioned shares, still remained unlisted. The company applied for them to be admitted to public trading on the stock exchange list of the Helsinki Stock Exchange after their dividend rights became equal to those of the listed shares in December 2014.

On 6 February 2014, Orava Residential REIT's Board of Directors elected Pekka Peiponen, M.Sc. (Econ.), as the CEO.

As decided by the General Meeting, a new condition was added to the rules for real estate investment operations concerning the payment of the performance-based management fee (a "high watermark" condition). According to the new condition, the performance-based management fee will only be 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 company acquired a total of 118 apartments through transactions made and an agreement concluded on 31 March 2014. Their aggregate debt-free purchase price was EUR 12.7 million. A residential property of 74 apartments at Maauunintie 14 in Vantaa was purchased from VATROhousing Oy included in the SATO Group. Twenty apartments at Asunto Oy Tampereen Ruuti completed in June 2014 were acquired from Lujatalo Oy In addition, on 30 April 2014, a binding agreement was concluded with Varma Mutual Pension Insurance Company on the purchase of the share capital of Asunto Oy Helsingin Koirasaarentie 1 (24 apartments).

The company concluded a service agreement with Ovenia Oy at the end of June. The service agreement covers housing management, property manager and apartment rental services. Some of the properties acquired at the end of the period and the apartments located in them were given for management by Ovenia Oy according to the agreement.

The company acquired a total of 131 apartments from A. Ahlström Real Estate Ltd and its subsidiaries through transactions implemented on 25 June 2014. Their aggregate debt-free purchase price was EUR 4.1 million. The transaction included the assignment of a contribution in kind of EUR 1.34 million, which was paid with 104,415 new shares issued by the company and the subscription of 206,708 new shares in a directed issue allocated to the seller. The subscription price of the new shares, EUR 12.82 per share, was the average price of the company's share on the Helsinki Stock Exchange during the five trading days preceding 25 June 2014, the date of implementation of the transaction, weighted by share turnover, adjusted for the dividends decided by the Annual General Meeting but not paid (EUR 0.56 per share).

On 26 June 2014, the company concluded a binding agreement on the acquisition of a total of 26 apartments from Pohjola Rakennus Oy Sisä-Suomi at a debt-free purchase price of EUR 4.4 million.

The company concluded a convertible bond agreement of EUR 1 million with Erikoissijoitusrahasto UBView on 26 June 2014. The convertible bond is primarily intended for financing acquisitions of investment properties, and secondarily for the company's general working capital purposes. Under the agreement, both parties have the right to convert the capital of the convertible bond into new shares in the company. The subscription price of the share is the average stock exchange price weighted by the share turnover on the date of presentation of the subscription notice for the new share in trading on NASDAQ OMX Helsinki.

At the end of June, the company implemented directed issues of 418,923 shares, prepared a prospectus and applied for the shares to be admitted to trading on the main list of the Helsinki Stock Exchange (trading code OREITN0114). Trading in the new shares started on 30 June 2014. In the directed issues, A. Ahlström Real Estate Ltd subscribed for 311,123 shares and Nordea Bank Finland Plc for 7,800 shares at the subscription price of EUR 12.82 per share. In addition, the company allocated a charge-free share issue of 100,000 shares to itself.

The acquisition of 26 apartments from Pohjola Rakennus Oy agreed in June 2014 was implemented according to plan on 27 August 2014. The apartments purchased are located in three new properties: As Oy Tampereen Vuoreksen Emilia (14 apartments), As Oy Jyväskylän Ahjotar (8 apartments) and As Oy Jyväskylän Kyläseppä (4 apartments). The apartments were without tenants at the time of the acquisition.

An agreement on the market guarantee for new shares (trading code: OREITN0114) was concluded with Nordea Bank Finland Plc, and the market guarantee according to the agreement began on 7 July 2014. Under the agreement, Nordea Bank Finland Plc will provide a purchase and sale offer for a new 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.

On 6 August 2014, Orava Residential REIT signed a second convertible bond of EUR 1 million in accordance with the terms and conditions of the previous bond (26 June 2014) with Erikoissijoitusrahasto UBView. The 80,000 new shares allocated by Orava Residential REIT to itself in a charge-free issue on 7 August 2014 were recorded in the Trade Register on 15 August 2014. After the issue, the number of the company's shares totalled 4,813,317 shares.

On 29 September 2014, Orava Residential REIT signed a convertible bond of EUR 1 million in accordance with the terms and conditions of the previous bond (26 June 2014) with Erikoissijoitusrahasto UBView.

The company acquired 58 apartments from Skanska at a debt-free price of EUR 13.5 million through a binding agreement concluded on 30 September 2014. The apartments acquired are new and located in Espoo, Kirkkonummi, Järvenpää, Tampere, Lempäälä and Raisio. The apartments were acquired without tenants.

Through a transaction concluded on 30 September 2014, the company acquired 54 apartments from A. Ahlström Real Estate Ltd in Kotka at an aggregate debt-free purchase price of EUR 1.45 million. The transaction was financed through a directed issue allocated to A. Ahlström Real Estate Ltd, where A. Ahlström Real Estate Ltd subscribed for 114,806 new shares issued by the company. The subscription price of the new shares was EUR 12.63 per share, which was the weighted average price during the five days of stock exchange trading preceding the beginning of the subscription period. In addition, the company allocated a charge-free share issue of 80,000 shares to itself. The new shares did not entitle their holders to dividends paid during 2014.

The 114,806 shares allocated by Orava Residential REIT to A. Ahlström Real Estate Ltd on 30 September 2014 in connection with a property acquisition and the 80,000 new shares allocated to the company itself in a charge-free issue were recorded in the Trade Register on 8 October 2014. After the issues, the number of the company's shares totalled 5,008,123. NASDAQ OMX Helsinki Oy ("the Helsinki Stock Exchange") approved Orava Residential REIT's listing application concerning the issued shares. The shares became subject to trading on 10 October 2014. The trading code of the shares on the stock exchange list of the Helsinki Stock Exchange was OREITN0114.

The shares assigned by the company in accordance with the convertible bond agreements concluded by the company in June and August were recorded under the company's equity items on 8 October 2014. The increase in the share capital was EUR 1.6 million, in addition to which the company's reserve for invested unrestricted equity was increased by EUR 0.4 million. After the increases, the company's share capital was EUR 49,057,130.00. After the registration of the number of shares, the imputed net asset value per share was EUR 12.27 calculated using figures at the end of September.

The transaction including 59 apartments agreed with Skanska Rakennus Oy in September 2014 was paid according to plan on 29 October 2014 The apartments purchased are located in six new properties: As Oy Espoon Albert (4 apartments), As Oy Kirkkonummen Tammi (14), As Oy Järvenpään Saundi (8), As Oy Härmälänrannan Nalle (3), As Oy Lempäälän Tikanhovi (17) and As Oy Raision Valonsäde (13). The apartments were without tenants at the time of the acquisition.

On 28 November 2014, the company concluded a binding agreement on the acquisition of Asunto Oy Kirkkonummen Kummikallio. The property includes 84 apartments. The purchase price of EUR 2.7 million will be paid in its entirety with new shares in the company's directed issue allocated to Osuusasunnot Oy. The subscription price of the shares, EUR 11.33 per share, was the weighted average price of the share during the five days of trading on the Helsinki Stock Exchange preceding the date of concluding the agreement.

The company updated its strategy for 2015 on 17 December 2014. 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%. In addition to the financial targets, the main strategic targets are: increasing shareholders' equity to EUR 90 million in 2015 and to EUR 200–300 million in the medium term, diversifying the acquisition of debt financing, raising the economic occupancy rate to more than 95%, dropping property management costs to 5% and repair costs to 10% below the statistical benchmark, and increasing the amount of apartment sales to approximately 10% of the value of investment properties on the opening statement of financial position. In addition, the regional and age distribution targets for portfolio management were updated, and the acquisition criteria for apartments were specified further.

On 31 December 2014, the company concluded a binding agreement on the acquisition of Asunto Oy Rovaniemen Rekimatka 16–18 and Asunto Oy Rovaniemen Rekimatka 29. The properties include a total of 80 apartments. The purchase price of EUR 4.0 million was paid with new shares issued by the company in a directed issue allocated to Royal House Oy. The subscription price of the shares, EUR 10.60 per share, was the weighted average price of the share during the five days of trading on the Helsinki Stock Exchange preceding the date of concluding the agreement.

In the fourth quarter, the company continued concluding convertible bond agreements in accordance with the terms and conditions of the previous convertible bond agreements. Convertible bond agreements were concluded to a total amount of EUR 2.0 million, of which EUR 1.99 million was converted by 31 December 2014. Under the terms and conditions of the convertible bonds concluded by the company, the company has assigned a total of 418,614 of its shares in conversions of its convertible bonds during the period under review. At the end of the period, the company possessed 39,386 treasury shares.

Result of operations and financial position

The Group's revenue for 2014 totalled EUR 15.3 million (2013: EUR 9.7 million). The revenue was divided into income from ordinary operations of EUR 6.5 million (2013: EUR 3.2 million) and capital gains of EUR 8.8 million (2013: EUR 6.5 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 5.4 million (2013: EUR 2.2 million), of which maintenance costs and annual repairs accounted for EUR 2.8 million (2013: EUR 1.5 million) and the performance-based management fee EUR 0.8 million (2013: EUR 0.0 million). The growth in costs is mainly due to the expansion of the operations.

Operating profit amounted to EUR 9.9 million (2013: EUR 7.4 million)
Financial income and expenses stood at EUR –1.4 million (2013: –639,000) and taxes for 2014 at EUR 94,000 (2013: EUR 48,000).

Profit for the period amounted to EUR 8.4 million (2013: EUR 6.8 million). Comprehensive income items totalled –270,000 (2013: EUR 183,000), and comprehensive profit for the period was EUR 8.1 million (2013: EUR 6.9 million).

Business operations

Investment properties and their fair value

Orava Residential REIT abides by the Real Estate Funds Act. According to section 10 of the Act, the company must measure real estate properties, other thant those in its own use, at fair value on its balance sheet.

Orava Residential Real Estate Investment Trust plc uses its own appraisal process and value determination method in the measurement of the fair value of its investment properties. As of 1 January 2013, the fair value has been recognised in accordance with IFRS 13, Fair Value Measurement, which entered into force on 1 January 2013. Accordingly, the profit or loss due to changes in fair value is recorded through profit and loss in the period during which it was created. The Real Estate Funds Act also requires that changes in fair value are recorded as income or expenses.

Changes in fair value are recorded in revenue. In line with the strategy of Orava Residential REIT, apartments are sold individually to the market. The value of investment properties held by Orava Residential REIT is the sum total of market values of individual apatments calculated using the price measurement model.

Rental operations

Over the period under review, occupancy rates in rental operations were at a lower level year-on-year. This was primarily due to the acquisitions made during the period, where the share of new apartments without tenants was higher than in the comparison period. In addition, the prolonged poor economic situation has made letting slightly more difficult.

The economic occupancy rate for the fourth quarter was 88.7%, while it was 89.4% for the entire period under review.

At the end of the period, the company had a total of 1,294 residential apartments (2013: 772) and a total of 1,318 apartments. There were 1,017 leases at the end of the period, and 62 apartments were for sale (2013: 29).

	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013
Gross rental yield,%	6,7	8,0
Net rental yield,%	4,0	4,5
Economic occupancy rate,%	89,4	93,8
Operational occupancy rate,%	88,7	92,5
Tenant turnover/month, %	2,1	2,3

Of the entire lease base for residential apartments, 25 were agreements valid for a fixed term. A total of 237 agreements were terminated during the period (2013: 119).

Rent increase clause

It was decided in April 2013 that from the beginning of June 2013 the rent increase condition for new leases will be the cost-of-living index plus 3.25%.

Acquisitions

Time	Property	Debt-free purchase price (MEUR)	Company loan (MEUR)	Directed issues (shares)	Apartments (number)
31 Mar 2014	2 properties (Helsinki, Vantaa) and apartments from 1 property (Tampere)	12.7	1.7	0	11
25 Jun 2014	4 properties (Kotka, Riihimäki, Savonlinna and Varkaus)	4.1	-	311,123	131
26 Jun 2014	Apartments from 3 properties (Tampere and Jyväskylä)	4.4	3.4	-	26
30 Sep 2014	Apartments from 6 properties	13.5	10.9	-	59
30 Sep 2014	A property from Kotka	1.5	-	114,806	54
28 Nov 2014	A property from Kirkkonummi	6.2	3.5	235,922	84
31 Dec 2014	2 properties from Rovaniemi	4.0	-	368,000	80
TOTAL		**46.4**	**19.5**	**1,029,851**	**552**

In the fourth quarter, the company acquired a property from Osuusasunnot Oy in Kirkkonummi at a debt-free price of EUR 6.2 million through a binding agreement concluded on 28 November 2014. The property includes 84 apartments. The transaction was implemented according to the agreement on 5 January 2015. The transaction was financed through a directed issue allocated to Osuusasunnot Oy, where Osuusasunnot Oy subscribed for 235,922 new shares issued by the company. The subscription price of the new shares was EUR 11.33 per share, which was the weighted average price during the five days of stock exchange trading preceding the day the agreement was concluded.

In addition, the company acquired two properties from Royal House Oy in Rovaniemi at a debt-free purchase price of a total of EUR 4.0 million through a binding agreement concluded on 31 December 2014. The properties include a total of 80 apartments. The transaction was finalized according to the agreement on 9 February 2015. The transaction was financed through a directed issue allocated to Royal House Oy, where Royal House Oy subscribed for 368,000 new shares issued by the company. The subscription price of the shares was EUR 10.60 per share, which was the weighted average price during the five days of stock exchange trading preceding the day the agreement was concluded.

Apartment sales

During the period under review, the company sold a total of 29 apartments from twelve different housing companies. The debt-free selling prices of the apartments totalled EUR 2.9 million. The sales of apartments picked up slightly during the autumn, and the apartment sales during the fourth quarter totalled EUR 0.9 million. In addition, the company sold two plots during the period, the aggregate selling price of which was EUR 2.75 million. The housing companies located on the plots concluded leases with the new owner. The sales from the investment portfolio totalled EUR 5.7 million. The brokerage fees for the sales amounted to EUR 115,000.

In accordance with the company's investment strategy, the aim is to annually sell apartments for 10 per cent of the value of the investment properties on the company's opening statement of financial position. The sales of apartments are implemented by selling apartments released from rental use individually. In 2014, the sales of investment properties corresponded to slightly more than 7% of the value of investment properties on the opening statement of financial position.

Investment properties on 31 December 2014

The fair value of investment properties at the end of the period totalled EUR 130,7 million (31 December 2013: EUR 79.2 million). Orava Residential REIT had a total of 1,318 apartments on 31 December 2014 (31 December 2013: 791), the aggregate leasable surface area of which was approximately 82,2 m2 (31 December 2013: 50,1 m2). The apartments were located at 63 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 (EUR at fair values)

	31 Dec 2014	31 Dec 2013
Newer (1990 ->)	58%	56%
Older (- 1989)	42%	44%
Helsinki Region	43%	38%
Major towns	23%	19%
Medium-sized towns	34%	43%

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, but 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.

Financing

Financial expenses (net) totalled EUR 1.4 million for the period 1 January –31 December 2014 (2013: EUR 639,000), and amortisation of the parent company's loans from financial institutions totalled EUR 3.1 million. 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 long-term interest-bearing loans of Orava Residential REIT and the company loans allocated to the shares in housing companies totalled EUR 58.1 million on 31 December 2014 (31 December 2013: EUR 37.3 million).

In addition to these, the long-term loans on the statement of financial position also include EUR 478,000 in rental deposits paid by tenants (31 December 2013: EUR 251,000).

Major events after the financial period

The 500,000 shares allocated to the company itself in a charge-free directed issue on 17 December 2014 were recorded in the Trade Register on 5 January 2015. The company may use the shares allocated to it to strengthen the capital structure, develop its business operations and expand its ownership base through both acquiring investment properties and issuing convertible bonds. After the issue, the number of the company's shares totalled 5,706,123. On 19 January 2015, the company 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. After the listing, the total number of the company's listed shares was 5,253,923.

On 23 January 2015, the company specified the result estimate for the fourth quarter. Orava Residential REIT estimated in its interim report for the third quarter published on 7 November 2014 that the financial result for the fourth quarter is expected to remain weaker than that for the third quarter. The comprehensive profit for the third quarter was EUR 1.9 million. The company's further specified estimate of the result for the fourth quarter was EUR 1.7–2.3 million.

On 23 January 2015, the company announced that it is investigating possibilities for the implementation of a financing arrangement of an estimated EUR 40 million. The arrangement would consist of a credit facility of an estimated EUR 15 million, which would be used to finance the acquisition of new properties, and a covered bond of an estimated EUR 25 million, which would mainly be directed to domestic institutional investors and whose purpose would be to refinance the company's existing loans and promote the expansion of the company's business operations.

The Financial Supervisory Authority approved the company's prospectus, which is related to the listing of a total of 1,056,122 shares, on 23 January 2015. 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). The company also filed an application with the Helsinki Stock Exchange concerning the admission to trading of the shares subscribed in the directed issue allocated to Osuusasunnot Oy and the charge-free shares allocated to the company itself, in total 688,122 shares, on the stock exchange list of the Helsinki Stock Exchange with the trading code OREIT. Trading in the shares in question started on 27 January 2015. The ISIN code of the shares listed is FI4000068614.

The 368,000 shares allocated to Royal House Oy were recorded in the Trade Register and applied to be admitted to trading on the Helsinki Stock Exchange in connection with the finalization of the transaction on 9 February 2015. In addition, the company allocated a charge-free share issue of 200,000 shares to itself. The shares allocated to the company itself do not entitle their holders to dividends to be paid from the result for 2014 in 2015. After the aforementioned shares have been registered, the number of the company's registered shares totals 6,510,045, and the company's registered share capital is EUR 56,376,500.

On 10 February 2015, the company implemented a transaction for 22 apartments with Skanska Rakennus Oy at a debt-free purchase price of EUR 4.6 million. The apartments purchased are located in two new properties, one in Mikkeli (12 apartments) and the other in Pori (10). The apartments were without tenants at the time of the acquisition.

At its meeting on 11 February 2015, the Board of Directors allocated 39,952 shares to the management company Orava Funds plc. The subscription price of the shares was the weighted average price during the last five days of stock exchange trading in 2014. Orava Funds plc set off the payment of the subscription price against its performance-based management fee receivable of EUR 423,491.20 to be paid in shares.

Operating environment

National economy

Finland's GDP growth is estimated to have settled in the range –0.4% – 0.0% in 2014, and it is forecasted to remain in the range +0.1% – +1.0% in the current year. The change in private consumption that has a key impact on the housing market is estimated to have been approximately –0.4% – +0.2% in the ended year and to be –0.2% – +0.9% in 2015. The market interest rates in the euro area have continued to fall, and short-term rates are also expected to remain at less than one per cent for the next four to 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 the picking up of overall economic activities in 2015.

Demand in housng market

During October–December 2014, households drew down EUR 3.9 billion in new mortgages, or 6% more than a year previously according to statistics from the Bank of Finland. The euro-denominated mortgage base totalled EUR 89.8 billion at the end of December, and the annual growth in the mortgage base was 1.7%.

The average marketing period for old apartments in the country overall according to the Finnish Etuovi.com portal increased from 112 days in September to 135 days in December, while it was 109 days in December in the previous year.

The demand for apartments has continued to be weak during the end of the autumn and beginning of the winter.

Supply in the housig market

According to Statistics Finland, building permits for apartment blocks were granted for 816 apartments in October, which was 15% less than a year previously. Correspondingly, in January–October, a total of 14,840 building permits were granted for apartment block apartments, or 22 % more than a year previously. The annual change in the sliding annual sum of building permits granted for apartment blocks was +25 %.

The three-month change in the housing construction volume index that describes the value of on-going new construction was +12% in August, and the change year-on-year was –17%.

The supply in the housing market has continued at a low level, even though some signs of a potential turn are visible.

Prices, rents and return in the housing market

In the fourth quarter of 2014, the rents of non-subsidised apartments increased by 3.0% year-on-year. The change in the prices of apartments during the fourth quarter was –1.0% year-on-year. 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 fourth quarter was 15.5. The 40-year average for the ratio of square metre prices to annual rents in Finland is 16.7.

During the next 12 months we expect housing prices throughout the country to remain approximately the same or at the end of period start rising slightly 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.

Outlook for Orava Residential REIT

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

The value of the apartments in the investment portfolio is expected to remain at the same level or at the end of period to start increasing moderately as a result of the predicted strengthening of the overall economy. The rental income is estimated to rise slightly, as we believe that we can increase the economic occupancy rate compared with the previous year. The result impact of the acquisition of properties 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.

Research and development

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

Management of the company

The company's Board of Directors has six members. Four ordinary members were elected for the Board of Directors with 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., financial and administrative director of Orava Funds plc) and Timo Valjakka (born in 1960, LL.B., CEO of Maakunnan Asunnot Oy). The extraordinary GM held in June 2013 elected Mikko Larvala (born in 1966, LL.B. M.Sc. Econ., senior counsel at Bird & Bird Attorneys-at-Law), and the extraordinary GM held in September 2013 elected Peter Ahström (born in 1964, B.Sc. Tech., CEO of A. Ahlström Kiinteistöt Oy) as Board members. The members of the Board have in total over 60 years experience in the real estate industry and over 40 years experience in the securities market.

The Board of Directors convened 23 times during the financial period, and the attendance rate during the period was 97%. The Board of Directors assesses that its members Veli Matti Salmenkylä and Jouni Torasvirta are independent of the major shareholders of the company, Tapani Rautiainen and Timo Valjakka are independent of the company, and Mikko Larvala and Peter Ahlström are independent of both the company and its major shareholders.

The AGM held on 18 March 2014 revised the Board members' fees. Until the end of March 2014, the Board members received a monthly fee of €600, the Chairman of the Board a monthly fee of €1,000, and Board members received a fee of €200 per meeting and the Chairman a fee of €400 per meeting. From April 2014, the Board members received a monthly fee of €900, the Chairman of the Board a monthly fee of €1,500, and Board members received a fee of €300 per meeting and the Chairman a fee of €600 per meeting.

The Board members' fees totalled €107,000 in 2014.

	EUR 1,000
Jouni Torasvirta	29
Peter Ahlström	16
Mikko Larvala	16
Tapani Rautiainen	15
Veli Matti Salmenkylä	16
Timo Valjakka	16

Remuneration paid to Board members Board members are not in an employment relationship with Orava Residential REIT.

On 6 February 2014, the Board of Directors of Orava Residential REIT appointed Pekka Peiponen as the CEO. Orava Residential REIT does not pay a salary to its CEO.

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

Management company Orava Funds plc

Orava Residential REIT was established at the initiative of Orava Funds plc. Orava Funds had acted as the management company of Orava Residential REIT ever since it was established on 30 December 2010.

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

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 Orava Residential REIT.
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 as an annual fixed management fee and 20% (plus VAT) of the annual return on the REIT, calculated on the basis of the change in the Trust's share price and the dividends paid, exceeding the hurdle rate of 6% 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 2014) amounted to € 613.5 thousand.

The performance-based management fee will only be paid if the closing stock exchange price for the financial period is higher than the highest dividend, issue and split-adjusted closing stock exchange price for the previous financial periods.

The performance-based management fee for 2014 was EUR 0.8 (2013: EUR 0). On 23 January 2015, the Board of Directors and management company of Orava Residential REIT decided to amend the management agreement so that, in the calculation of the performance-based fee, net assets per share will be used as the closing price instead of the stock exchange price if they are lower than the stock exchange price.

Half of the performance-based management fee can be paid in the REIT's own shares.

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 the 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 operative 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 authorisations regarding access to accounts etc.

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

As part of the annual planning process, the most significant 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 2014 as part of the company's annual planning and strategy process. If materialised, any of the risks described below may have a materially detrimental impact on the company's business operations, financial position, operational result and future outlook.

Risks related to the prevailing macroeconomic situation

The uncertain global economic and financial market conditions may have an unfavourable impact on the company's business operations, operational result, financial position, solvency and sources of capital.

The global debt crisis and the ensuing global recession which started in 2008 have had a negative impact on general business conditions, increased unemployment and reduced the confidence of entrepreneurs and consumers in the economy. Despite the enhanced measures taken by a number of governments, regulatory authorities and central banks round the world, the recovery of the economy has been slow. Recently, the general economic conditions in Europe and elsewhere in the world have increasingly reduced the foresee-ability of the economy. There is also a risk that the global economy will descend into recession.

Even though the result of the company's business operations and the values of investment properties have remained fairly stable until now, the uncertainty in the global economy and the financial market may, however, affect the company. The current uncertainty and lack of foreseeability in the financial market and the macroeconomic conditions have had a detrimental impact on the availability of financing and have increased the price of capital. It may also be hard for the company to secure external financing for its investments on competitive terms and financing may become more difficult due to decreased supply or growth in interest margins. Even though the company believes that its capital structure and financing will generate sufficient liquidity, there can be no certainty that changes in financial markets will not affect the company's solvency and availability of financing, or that the sources of financing will provide sufficient liquidity in all situations and at all times. The continuing European sovereign debt crisis, potential unfavourable development of macroeconomic conditions and the continuing uncertainty in the financial market may have an adverse impact on the company's business operations, financial position, operating result, future outlook and share price.

The uncertain global economic and financial market conditions have had a negative impact on the Finnish economy, A slow-down in the economy or a recession, regardless of its depth, or any other economic development in Finland may impact on the company's business operations in a number of ways by affecting income, assets, solvency, business operations and/or the financial situation of the company and its tenants or potential investors. The value of residential apartments typically follows any fluctuations that occur in the economy The value of residential apartments is impacted by a number of factors, such as interest rates, inflation, economic growth, the business environment, availability of financing, taxation and activity of construction. If the general economic situation weakens or the prices of apartments decline for some reason, it is possible that the value and yield of investment properties and the value of the company decrease. Great uncertainty also prevails in the future development of the economy. The company will not necessarily be able to utilise opportunities resulting from economic fluctuations or adapt to a long-term recession or depression. In addition, even though slow-downs in economic growth and recessions have historically increased the demand for rental apartments in Finland, it is possible that the demand for rental apartments will, however, decrease when the economy slows down or declines.

Risks related to the company's business operations

The company does not necessarily find suitable investment properties or it may be challenging and difficult for the company to acquire investment properties that meet the company's goals. There can also be no guarantees that the investments made by the company will be successful in all circumstances. The opportunities for acquiring investment properties that meet the goals may weaken materially as a result of increased competition in the housing market, for example, in which case the targeted yields may not necessarily be met. There can also be no certainty that it is possible to acquire investment properties within the planned schedule or at all. It is possible that the company cannot acquire apartments from the planned regions. The acquisition region may thereby become considerably smaller than planned, in which case it is not possible to distribute the apartment portfolio in the planned scope. As a result, the regional risk may increase and yield may decline.

The attractiveness of an investment property from the point of view of potential tenants is affected by its location, for example. The regions in which the company's investment properties are located may become less attractive. The appeal of an individual region may change considerably over time, which may have an adverse impact on the yield and rentability of investment properties located in the region in question. As the company's current investment properties are focused on the Helsinki Region and specific major and medium-sized Finnish cities, the company's business operations are dependent on the development of these regions and the general development in the Finnish economy.

The housing market is sensitive to fluctuations in demand and supply. The prices of apartments in Finland have historically followed the macroeconomic development. The cost level of housing and rental housing is impacted by a number of different factors, such as regulation, interest rates, economic growth, the availability of loan financing and taxation. Changes in demand and supply resulting from new production, investors' demand and supply and other factors may also have a material impact on housing costs and rental housing. A decrease in housing costs is likely to have a direct impact on the fair values of the company's apartment portfolio.

It is possible that the liquidity of the investment properties acquired by the company weakens, in which case fewer properties may be sold than planned or they may not be sold at all at the planned prices and on the planned schedule. A number of factors beyond the company's control affect the sales of the company's investment properties, such as the availability of bank financing to potential buyers, interest rates and the demand for and supply of similar apartments. A potential lack of liquidity in the housing market may restrict the company's opportunities to sell its apartments or change its investment portfolio at the right time due to the economic situation or other circumstances. It the market is not sufficiently active or is illiquid, there can be no certainty of whether the company will be able to implement sales as expected or at all.

The company obtains a certificate of valuation and a condition assessment for the investment properties in relation to the acquisition of each investment property. However, when acquiring investment properties, the company's estimate of the condition of the property is only based on the condition of some residential apartments located in the property. Accordingly, there can be no certainty that the condition of all of the residential apartments corresponds to the assessments made in advance, in which case the company may incur additional expenses. After the acquisition of investment properties, Newsec Asset Management Oy or Ovenia Oy inspects the condition of each apartment.

It takes a significant part of the company management work effort to make the acquired apartment portfolio generate rental income according to targets. Forecasting market rents is associated with uncertainty, and market rents may be realised at a lower level than forecasted, in which case the company's yield declines. The demand for rental apartments is also associated with uncertainty. The occupancy rate of the company's properties and tenant turnover depend on general economic factors. The occupancy rate has a signifi cant impact on the company's operations. Tenant turnover incurs costs for the company resulting from the signing of leases or minor renovations usually performed when a tenant moves out, for example. However, the company strives to keep the occupancy rate of investment properties it lets at a high level by performing repairs in the investment properties. In addition, the company may incur losses from unpaid rental receivables.

The leases concluded by the company with its tenants are valid until further notice. The tenant may terminate the rental relationship at one month's notice. Therefore, the agreements valid until further notice include a risk that notice may be given to terminate a significant number of leases within a short period. In such cases, it may be difficult for the company to conclude a sufficient number of replacement leases within a short period.

According to the Real Estate Funds Act, the company shall measure apartments and real estate in other than its own use at fair value on its balance sheet. In addition, the change in the fair value of the company's apartments and real estate is recognised through profit or loss as a valuation gain or loss for the period during which it arises. Due to this, the company may become subject to significant gains or losses from the changes in the fair value of apartments and real estate regardless of whether they are sold. The company may suffer harm due to valuation losses from apartments and real estate, even though the company's business operations are profitable. This may lead to a breach of specific covenants. If it is not possible to change or become released from the covenants of debt obligations, this may have an adverse impact on the terms and conditions of the company's financing.

The company regularly performs renovation and maintenance repairs in apartments and real estate. It is also possible that large repair needs appear simultaneously in a number of apartments and properties acquired by the company.

The costs of modernisation and maintenance repairs are significant and mainly related to pipe repairs, facades, roofs, windows and balcony renovations. The pipes of residential buildings must typically be repaired at approximately 40-50-year intervals, usually including the repair of both water and sewage pipes. Facades, roofs and balconies must be renovated at approximately 25–35-year intervals. The company expects the current repair and maintenance costs of its properties to remain at approximately the same level in proportion to the size of the company's apartment portfolio in the future. In any case, renovation and maintenance repair costs may increase due to apartment energy efficiency requirements, for example, and therefore, there can be no certainty that the amount of investments made by the company in renovation and maintenance costs will not significantly increase from the company's current estimate.

It is also possible that tenants cause significant damage to apartments. If insurance companies or tenants do not indemnify the damage caused, the company may have to bear the liability for potential repair costs. Large unexpected repairs and repair costs may lead decreased solvency, a decline in the occupancy rate, loss of rental income and lower profitability. The company may also become liable to indemnify any damage caused or become involved in legal proceedings, which may harm the company's and its partners' public image.

The fair value of the company's apartment portfolio is determined monthly using a comparable sales multi-variable regression method using asking price material obtained from the Oikotie.fi service and certain other purchase price material. Even though the company attempts to ensure the correctness of its valuation methods by using an external valuer, the company's measurement model is not necessary suitable for all investment properties. There may be errors in the source material for the measurement, or a human error may take place in the measurement. Therefore, there can be no certainty that the company's valuations precisely reflect the value of the company's investment properties and their accessory asset items at any particular time. As a rule, the results of the model cannot be generalised to apply to apartments that deviate from the material used in the measurement in terms of their age, surface area or other key characteristics. It is also possible that the function form common to all cities used in the modelling is not optimal for every submarket to be estimated. Transparency has been emphasised in the choice of the estimation method at the cost of higher technical complexity in the calculation. Finally, it is also possible that there may be a programming error in the software used for estimation, although attempts are made to prevent this by using the latest versions of the software.

According to the general market practice in real estate fund operations, a separate management company provides specific services needed by the company. Due to this, the company has concluded a management agreement with Orava Funds plc. In accordance with the management agreement, the company alone is liable for the risk caused by its investment operations and the risks related to apartments and the company's other assets, and the responsibility of the management company is limited.

The management agreement is valid for a fixed term until the company's shares are subject to trading in a regulated marketplace, after which it continues until further notice with a period of notice of 12 months for both parties. The services provided by the management company are essential from the point view of the continuity of the company's business operations, so the company is to a certain extent dependent on the services provided by the management company.. If notice is given to terminate the management agreement, the company will have to quickly obtain a new service provider. There can also be no certainty that a corresponding service provider is found, or that that the company succeeds to conclude a corresponding agreement regarding the terms and conditions. In addition, the company's main financing bank has the right to call in the loans provided to the company prematurely if the management company or its direct or indirect owners change, and, in such cases, the company is obligated to compensate for the costs incurred by the lender bank from this.

Excluding the CEO, the company has no personnel of its own, due to which the key persons employed by the managing company that act as the company's agent have emphasised significance for the company's success. It is possible that persons employed by the management company change, the expertise of the persons involved in the operations becomes outdated, their ability to manage their tasks deteriorates, or the agreement concluded with the management company expires and the company does not manage to conclude a corresponding replacement agreement.

In its business operations, the company uses service providers it considers reliable. The company has an agreement with Newsec Asset Management Oy and Ovenia Oy on apartment management services, financial administration tasks and apartment rental, and with Realia Management Oy, Newsec Asset Management Oy, Turun Seudun OP-Kiinteistökeskus Oy and Päijät-Hämeen OP-Kiinteistökeskus Oy on the semi-annual appraisal of the real estate securities owned by the company. In addition, the company has mainly used Raksystems Anticimex Oy for making condition assessments.

The ability of service providers to deal with their tasks may deteriorate, or they may discontinue their operations. The company may not necessarily be able to conclude agreements with service providers on acceptable terms and conditions or the quality of the services they provide may not be sufficient. Any of these issues may affect the ability of the company to implement its projects on time and within the agreed budget and cause additional costs to the company.

The investment properties acquired by the company shall be in accordance with the provisions on the environment, health and safety laid down in Finnish legislation and other related regulation. Investment properties may be in conflict with applicable statutory provisions; for example, they may contain construction materials hazardous to health. Any such event or a significant decrease in the value of investment properties which is not known or identifiable when investment properties are acquired or becomes evident at a later stage may have an adverse impact on the company. To ensure lawfulness, it may be necessary to make special investments in the removal, improvement or replacement of construction materials or structures, Correspondingly, the removal or cleaning costs of contamination, damage, stress or an adverse impact may be higher than expected. In addition, incompliance with regulations or the need to comply with new, stricter regulations may lead to higher costs or weaken the development of the company's operations. Even though the company has so far not been held responsible for measures related to the environment, health or safety, there cannot be full certainty that the company could not be held responsible for such measures in the future. Any of the risks described above may, if materialised, have an adverse impact on the company's business operations, financial position, result of operations, future outlook and the value of the company's shares.

In the company's view, its insurance coverage is typical for the industry. For example, all the investment properties owned by the company have valid, full value, real estate insurance. This full value, real estate insurance cover includes property insurance cover, real estate ownership liability cover, the CEO's and

Board of Directors' liability insurance and legal expenses insurance. In addition, the company and the management company have a joint administration liability insurance policy. However, the insurance policy includes releases from liability and limitations of liability with regard to both amount and loss events. The company has no insurance cover for damage that is not insurable or for which insurance policies are not available on financially reasonable terms. There can also be no certainty that notice will not be given to terminate the company's current insurance cover or that it is available on financially reasonable terms in the future. If assets of the company which it has not insured suffer damage or the damage caused exceeds the maximum amount indemnified, the company may have to obtain additional financing to repair or rebuild the damaged asset, or the company may lose the value of the damaged asset in part or in its entirety.

With regard to specific company functions, the company is dependent on information systems developed by third parties. In such cases, the company is also dependent on the ability and willingness of the parties in question to continue developing and maintaining the software and the ability of the company itself to use the information systems in question efficiently and utilise new technology and systems, as well as security and backup systems. Such information systems comprise tel-ecommunication systems and software applications which the company uses to control its business operations, manage its apartment portfolio and risks, prepare operational and financial reports and carry out cash transactions. If malfunctions appear in the information systems, the company may incur considerable financial losses and customer liabilities, the company's reputation may be harmed, and the company may also become subject to measures from the authorities.

The company's ability to attract investors and tenants and implement transactions may decline if the company's reputation is harmed. If the company is not able, or it appears that it is not able, to solve problems potentially causing a risk to its reputation, the company's preconditions for conducting its business may deteriorate materially. A risk to reputation may be caused by conflicts of interest, legislation and regulation, legal risks related to the company's business operations, credit, liquidity and market risks, conflicts with ten ants and other contracting parties and similar issues.

Even though the company complies with documented guidelines and procedures in the identification, supervision and management if risks, these guidelines and procedures do not necessarily recognise all risks, and the risks may be significantly higher than forecasted. A failure to identify, monitor and manage these risks may have an adverse impact on the company's business operations, financial position, result of operations, future outlook and the value of the company's shares.

Risks related to legislation

The company operates in a regulated and supervised industry. Potential changes in regulation that is material from the company's point of view (such as regulation related to health, safety, the environment, company law, auditing or taxation), authorities' measures, requirements set by the authorities, the manner in which the laws, regulations and measures in question are enforced or interpreted and the application and enforcement of new laws and regulations are beyond the company's control. Potential changes may have adverse effects on the company's business operations, operational result and/or financial position. Any changes may require that the company adapt its business operations, assets or strategy. In addition to regulations that directly influence the company's business operations, the company's business operations, operational result and/or financial position may be indirectly affected by additional or stricter regulations that concern the letting of the company's investment properties or the company's operating environment. Potential amendments to the Tax Exemption Act can be referred to as an example.

In its operations, the company strives to comply with the Real Estate Funds Act and the rules for real estate investment operations, as this is a requirement for the tax benefits received by the company. However, there can be no certainty that the company will be able to comply with the Real Estate Funds Act and the requirements set in the rules for real estate investment operations in all market situations the Real Estate Funds Act has as yet been developed in the company's industry.

The threat imposed for any neglect of the obligations and limitations set in the Tax Exemption Act is, by default, elimination from the system, in which case the company would fall within the sphere of normal income taxation. Elimination from the system would cause additional tax consequences for the company, as undistributed earnings and amounts transferred from earnings to other equity items during the tax exemption period less the amount of dividend distributed during the said tax year would be added to the company's taxable income.

In addition to the threat of being eliminated from the system, the law also includes tax sanctions. The company may become partially liable to pay tax (i) if the amount of rental income received by the company from its investment properties during the tax year is less than 80 per cent of the company's total income, excluding disposal prices of assets in residential use; (ii) if a shareholder's holding in the company's share capital is at least 10 per cent on the dividend record date (according to the preliminary ruling issued by the Large Taxpayers' Unit on 5 September 2013, 30 per cent before 31 December 2014); or (iii) if the company disposes of its assets in residential use which the company has owned for less than five years. The company cannot control its shareholdings because the company's shares are subject to public trading and it has no information on the holdings of nominee-registered owners. For this reason, it is possible that the holding of a shareholder exceeds the limit of 10 per cent or that the holdings of nominee-registered shareholders are interpreted to exceed the limit of 10 per cent, which may cause erroneous or unfavourable interpretations of the company's tax treatment.

The intention is to implement the Alternative Investment Fund Managers Directive (2011/61/ EU), i.e. the AFIM Directive, in Finland on estimate in March 2014 through the Alternative Investment Fund Managers Act ("the AFIM Act"). The AFIM Act lays down provisions on the licences, operating preconditions and reporting obligations of alternative investment fund managers. It is the intention of the company's management company to become an alternative investment fund as referred to in the AFIM Act by applying for the necessary licence from the Financial Supervisory Authority within the time limit set in the AFIM Act. The requirements of the AFIM Act have not been specified in Finland, and uncertainty factors associated with the application of the legislation may have a materially detrimental impact on the operations of the management company and thereby also the company, which may have to conclude an agreement with a new management company that has the appropriate licence. The AFIM Act also lays down specific requirements for the organisation of the operations referred to in the Act, the marketing of the alternative investment fund and the custody of the assets, which may increase the costs of the management company.

Financing risks

Even though the company has striven to hedge its loans from financial institutions with interest rate swaps in accordance with its hedging strategy, changes in market interest rates and margins may have an unfavourable impact on the company's business operations. In addition, as the company loans of housing companies are not hedged, they are exposed to changes in interest rates. Even though the company strives to monitor interest rate developments and manage its interest rate risk, the possibility that the company fails to manage its interest rate risk cannot be excluded.

The company's business operations and the maintenance of its ability to pay its debts require a sufficient cash flow which is generated by rental operations and the disposal of investment properties. Even though, at present, the cash flow from operational activities added by the disposal of investment properties generate sufficient assets for the company to meet its debt servicing requirements and the company's ability to acquire new financing is sufficient, there can be no certainty that the company can maintain such cash flow and a sufficient financial structure in the future.

The company's working capital financing is managed through a bank account overdraft facility agreement of €200,000. The company's valid bank loans are five-year bullet-type loans, the first of which falls due on 29 March 2016. In accordance with normal financing practice, the company is negotiating on the refinancing of its loans with providers of financing. However, the company may not necessarily achieve better terms and conditions or even terms and conditions of the current level in the negotiations concerning refinancing. In addition, the availability of new debt affects the company's ability to acquire new investment properties.

The company's loan agreements include financial covenants, such as loan to value, loan servicing margin and equity/assets ratio covenants. Breach of these covenants or inability to achieve the required financial key figures may lead to a situation where the company neglects its debt obligations. Even though the company considers that its financial situation is good, breach of the covenants in question may lead to a situation where the company has to renegotiate its financing, due to which the terms and conditions of financing may weaken or the availability of financing may become more difficult, and this may cause the company to incur additional costs.

The loan to value ratio may have a significant impact on the company's business operations, such as (i) restricting the company's ability to acquire additional financing on corresponding or more favourable financial and other terms and conditions to finance its future working capital needs, investments or other general business needs; (ii) restricting refinancing opportunities, which may, in turn, restrict the company's ability to react to market conditions and economic downturns; (iii) requirements that a significant portion of the cash flow from the company's operational activities is used for paying loan capital and interest, which would reduce the funds and cash flow available for business operations and their development; (iv) exposing the company to unfavourable economic conditions more intensively than its competitors, which might weaken the company's competitiveness; (v) exposing the company to an increase in interest rates; and (vi) restricting the company's opportunity to pay dividends.

If any defaults in payment occur, the company's creditors may call in all the company's unpaid debts with the accrued interest and fees to be repaid immediately. Under these circumstances, the company's loan creditors also have the right to give notice to terminate the commitments concerning the provision of additional financing. If the company is unable to pay its debts when they fall due, the creditors have the right under the loan agreements to realise the collateral lodged with them to repay the debt. If the company's debt under the loan agreements is called in, there can be no certainty that this collateral is sufficient to repay the company's debt.

The uncertainty in the financial market and the increasingly strict regulation of banks may mean that the price of the financing needed for the company's business operations increases and that it is more difficult to obtain financing..

Risks related to the share and dividends

In 2014, the company's shareholders were distributed a total of EUR 4,824,928.92 in dividends for 2013, which corresponded to an annual dividend income of approximately 10 per cent calculated using the stock exchange price of 6 February 2014. However, there can be no certainty that the company will pay similar dividends in the future or that it can comply with its dividend policy. In addition, the company reports its financial result in accordance with IFRS, but the company's distributable funds are determined in accordance with Finnish financial statement practice. According to the Tax Exemption Act, the company shall annually distribute at least 90 per cent of its result for the financial period in dividends, excluding the unrealised change in value of the investment properties (and comprehensive income items according to IFRS). Even though the company's financial result showed a profit excluding the unrealised changes in the value of investment properties, the company may not necessarily be able to distribute dividends, because under the Real Estate Funds Act the company has to recognise unrealised changes in value as income or expenses. This may restrict the company's distribution of dividends, even though the company's business operations otherwise showed a profit, in particular in a situation where an unrealised decrease in value is recognised as an expense, which thus reduces the result for the period and the company's ability to pay dividends.

The company's ability to pay dividends is affected by a number factors, such as the current and forecasted financial situation, working capital needs, cash flows and result, and any potential terms and conditions of a loan agreement binding on the company or its subsidiaries. Dividend distribution may not jeopardise the company solvency under the Limited Liability Companies Act. The Board of Directors shall also ensure the preservation of the company's solvency before it decides on the distribution of dividends. Therefore, there can be no certainty of the amount of dividends or the realisation of dividend payments.

The market price of the company's listed shares may fluctuate considerably, and it is not certain whether an active and/or liquid secondary market will be developed for the shares. The market price of the company's shares may fluctuate significantly due to changes taking place in the attitude of the market to shares and comparable other securities and due to a number of other factors and events, such as changes in legislation affecting the company's operations or changes in the result or development of the company's business. The market price of the company's shares may fall below the subscription price of the shares. The stock exchange value of the company's shares is affected by the subjective views of the company's investors of the value of the company. The company gives no guarantees that, while the public quotation of the shares continues, the market price of the shares will correspond to the price paid by the investors for the shares or that the secondary market for the shares on the stock exchange list will be active.

The share prices and turnover on the stock market may occasionally vary considerably regardless of the development of the company's business or outlook. In addition, the result of the company's business operations and outlook may sometimes fall below the expectations of the stock market, market analysts and investors. Any of these factors may lead to a fall in the market prices of the listed shares and other shares in the company.

The company plans to continue expanding its operations by, for example, organising share issues and issuing directed convertible bonds, due to which the ownership of current shareholders will become diluted by the issue of shares subscribed on the basis of convertible bonds and if they do not subscribe for new shares in future share issues.

Any potential future share issues implemented by the company may have an adverse impact on the market price of the shares. It is also possible that shares will be used as a means of payment in property transactions potentially made by the company in the future, which may have a negative impact on the market price of the shares.

The demand and supply of the share in question have a direct impact on the liquidity of the shares, and other factors have an indirect impact, such as general stock market conditions and potential market disruptions. If the liquidity of the shares is low, the company has concluded an agreement with Nordea Bank Finland Plc on a market guarantee for the share, the aim of which is to increase the liquidity of the share. Nonetheless, the liquidity of the share may be low, which may have an adverse impact on the value of the share. Investors' opportunity to sell their holdings in the company may weaken in such a situation.

The development of share value is affected by, for example, the general development of the market, information on the company's realised financial development and forecasts on its future development. It is also possible that share price formation in the market will become disrupted, in which case share prices will not reflect all the information available in the market.

Significant price and volume fluctuations have historically been related to the share market generally and the market for shares of smaller companies, in particular, fluctuations that have not always been in proportion to the performance of the companies. Corresponding price fluctuations may have a negative impact on the price of the shares regardless of the actual profitability of the company. Investors should be aware that investing in the company is associated with a high risk and that there can be no certainty of a positive price development of the shares. In addition to the development of operations, a number of external factors may affect the stock exchange price. These may be, for example, the prevailing economic conditions and the market situation.

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, for when interest rates change.

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 outstanding capital of interest-bearing debts withdrawn from banks, including the Group's share of the company loans allocated to owned housing company shares, by the debt-free value of housing company shares and other assets. The Group's strategy is to keep the loan to value ratio between 30 and 60%. On 31 December 2014, the Group's loan to value ratio was 43,9%.

The company announced in January that it is investigating possibilities for the implementation of a financing arrangement of an estimated EUR 40 million. The arrangement would consist of a credit facility of an estimated EUR 15 million, which would be used to finance the acquisition of new properties, and a covered bond of an estimated EUR 25 million, which would mainly be directed to domestic institutional investors and the purpose of which would be to refinance the company's existing loans and promote the expansion of the company's business operations.

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 Oy and Ovenia Oy, 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. According to the Tax Exemption Act, the company may not own its own shares.

A total of 1,366,558 previously unlisted shares of Orava Residential Real Estate Investment Trust plc were combined with old shares in the book-entry system and admitted to trading on 3 February 2014. After this, the total number of the company's shares subject to public trading taking the combination into account was 4,288,707; the trading code is OREIT and the ISIN code is FI4000068614.

After these shares were listed and admitted to trading, 25,687 shares subscribed in the March 2013 share issue, the dividend rights of which differed from the aforementioned shares, still remained unlisted. The company applied for them to be admitted to public trading on the stock exchange list of the Helsinki Stock Exchange after their dividend rights became equal to those of the listed shares in December 2014.

At the end of June, the company implemented directed issues of 418,923 shares, prepared a prospectus and applied for the shares to be admitted to trading on the main list of the Helsinki Stock Exchange (trading code OREITN0114). Trading in the new shares started on 30 June 2014. The subscription price in the directed issues was EUR 12.82 per share, excluding the 100,000 shares allocated to the company itself in a charge-free issue. The shares, whose trading code was OREIT0114, did not entitle their holders to dividends paid in 2014 from the result of 2013.

In the third quarter, the company implemented directed issues of a total of 274,806 shares, and applied for the shares to be admitted to trading on the main list of the Helsinki Stock Exchange (trading code OREITN0114) on 8 October 2014. A. Ahlström Real Estate Ltd subscribed for 114,806 shares in a directed issue at a subscription price of EUR 12.63 per share. In addition, the company allocated charge-free share issues of 160,000 shares to itself.

In the fourth quarter, the company made decisions on directed issues related to a total of 1,056,122 shares. Osuusasunnot Oy was allocated 236,922 shares in a directed issue at a subscription price of EUR 11.33 per share, Royal House Oy was allocated 368,000 shares in a directed issue at a subscription price of EUR 10.60 per share, and the company itself was allocated 500,000 shares in a charge-free issue. The subscription price of the shares was the weighted average price of the share during the five days of trading on the Helsinki Stock Exchange preceding the day the subscription commitment was concluded. A prospectus was prepared for the shares, which was published on 23 January 2015.

After the record date, 12 December 2014, of the dividend paid on 30 December, all shares in the company were combined (ISIN code FI4000068614) and all shares had equal rights to dividends. Trading with the trading code OREITN0114 on the Helsinki Stock Exchange ended on 12 December 2014. The number of the company's shares in the Trade Register at the end of 2014 was 5,206,123.

During the period under review, the company concluded convertible bond agreements in the amount of EUR 5.0 million, of which EUR 4.99 million had been converted by 31 December 2014. Under the terms and conditions of the convertible bonds concluded by the company, the company has assigned a total of 418,614 of its own shares in conversions of its convertible bonds during the period. At the end of the period, the company owned 39,386 treasury shares.

The average daily turnover of the company's shares during the financial period was EUR 254,000, and the weighted average price of the share during the last five days of stock exchange trading was EUR 10.60.

Event	New shares issued (pcs)	Company shares after the event (pcs)	Subscription price in the share issue (EUR)	Share capital after the event (EUR)	Registration date with the Trade Register
31 Dec 2013				43,143,940 €	
Directed share issue I/2014 25 Jun 2014	318,923	4,633,317	12.82 €	46,333,170 €	26 Jun 2014
Directed share issue II/2014 25 Jun 2014	100,000	4,733,317	0.00 €	46,333,170 €	26 Jun 2014
Directed share issue III/2014 6 Aug 2014	80,000	4,813,317	0.00 €	46,333,170 €	15 Aug 2014
Directed share issue IV/2014 30 Sep 2014	114,806	4,928,123	12.63 €	47,481,230 €	8 Oct 2014
Directed share issue V/2014 30 Sep 2014	80,000	5,008,123	0.00 €	47,481,230 €	8 Oct 2014
Convertable bond conversion 30 Sep 2014	0	5,008,123	12.69 €	49,057,130 €	8 Oct 2014
Directed share issue VI/2014 6 Nov 2014	80,000	5,088,123	0.00 €	49,057,130 €	1 Dec 2014
Directed share issue VII/2014 11 Dec 2014	118,000	5,206,123	0.00 €	49,057,130 €	16 Dec 2014
Convertable bond conversion	0	5,206,123	11.72 €	50,337,280 €	23 Dec 2014
Before 31 Dec 2014 decided share issues					
Directed share issue IX/2014	500,000	5,706,123	0.00 €	50,337,280 €	5 Jan 2015

Directed share issue I/2015	235,922	5,942,045	11.33 €	52,696,500 €	23 Jan 2015
Directed share issue II/2015	368,000	6,310,045	10.60 €	56,376,500 €	***

The Annual General Meeting of 18 March 2014 decided to distribute a dividend of EUR 0.28 per share from the profit for 2013 in each quarter of 2014, i.e. in total at most EUR 1.12 per share in 2014 (100% dividend rights). The dividend was paid on the last weekday of each quarter. The distribution of profit for 2013 was paid in 2014 according to two different dividend rights.

Dividends paid in the reported period, EUR per share

	FI4000068614 (100 %)	FI4000061072 (75 %)
31 Mar 2014 1st dividend	0.28 €	0.21 €
30 Jun 2014 2nd dividend	0.28 €	0.21 €
30 Sep 2014 3rd dividend	0.28 €	0.21 €
30 Dec 2014 4th dividend	0.28 €	0.21 €
Total	**1.12 €**	**0.84 €**

A total of € 4,884,928.92 was paid in dividends.

Year 2014

The Board of Directors proposes to the Annual General Meeting that a total of EUR 1.20 per share be paid in dividends from the result for 2014 (EUR 0.30 in each quarter), and that the Board of Directors be authorised to decide on the amount of dividends to be paid in each quarter.

Osakkeenomistajat

The company had more than 5,800 shareholders 30 January 2015. According to the company's shareholder register, the company had 2,306 shareholders on 31 December 2013.

LIST OF OWNERS ON 30 JANUARY 2015, TEN LARGEST

Shareholder	Number of shares	%
Länsi-Suomen Vuokratalot Oy*	260 423	4,72
Osuusasunnot Oy	235 922	4,28
Godoinvest Oy**	229 360	4,16
Sysmäläntien Kiinteistöt Oy***	218 985	3,97
Avaintalot Oy*	160 456	2,91
Pakarinen Janne	100 414	1,82
Yli-Torkko Erkki	100 000	1,81
Livränteanstalten Hereditas	81 000	1,47
Maakunnan Asunnot Oy*	69 422	1,26
Alte Invest Oy	45 698	0,83

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27,23
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* Corporations under the control of Board members Tapani Rautiainen and Timo Valjakka. ** Corporation under the control of Board member Timo Valjakka. *** Corporation under the control of Board member Tapani Rautiainen.

Authorizations of the Board of Directors

On 18 March 2014, the Annual General Meeting decided to grant a share issue authorisation to the Board of Directors so that the Board of Directors was authorised to decide on issues of at most 5,000,000 new shares in the company. The Board of Directors used the granted share issue authorisation with regard to 1,995,651 shares in directed share issues during the period. On 31 December 2014, the unused portion of the share issue authorisation granted by the Annual General Meeting was 3,004,349 shares.

Consolidated financial statements

Consolidated income statement

IFRS	EUR 1,000	Note	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
Revenue				
	Income from ordinary operations	6	6,532	3,153
	Gains from disposals and changes in the fair value of apartments	6	8,794	6,529
Total revenue		6	**15,327**	**9,682**
	Maintenance expences	7	-2,831	-1,452
	Expenses from rental operations	7	-350	-97
	Administrative expenses	7	-1,379	-696
	Other operationg income and expenses	7	-862	2
	Total expenses		**-5,422**	**-2,243**
Operating Profit			**9,905**	**7,439**
	Finance expenses (net)	8	-1,361	-639
Profit before taxes			**8,545**	**6,801**
	Direct taxes	9	-94	-48
Profit/loss for the period			**8,451**	**6,753**
Profit/loss for the period attributable to				
	the owners of the parent company	10	**8,451**	**6,753**
Earnings per share calculated from the profit attributable to the owners of the parent company				
	Earnings per share, EUR	10	1.83	3.19
Other comprehensive income items				
	Items that may in the future be reclassified to profit or loss			
	Derivatives - interest rate swaps	16	-270	183
	Items that are not reclassified to profit or loss		0	0
Comprehensive profit/loss for the period			**8,181**	**6,936**
Comprehensive profit/loss for the period attributable to				
	the owners of the parent company	10	**8,181**	**6,936**
	non-controlling interests	10	0	0

Consolidated statement of financial position

		Note	31 Dec 2014	31 Dec 2013
		EUR 1,000		
ASSETS				
	Non-current assets			
	Fair value of investment properties	11	130,668	79,190
	Current assets			
	Trade and other receivables	12	4,070	203
	Cash and cash equivalents	13	1,990	9,134
			6,059	9,336
TOTAL ASSETS			**136,728**	**88,526**
Equity attributable to the owners of the parent company				
	Share capital	14	50,337	43,144
	Share issue		7,526	0
	Share premium account	14	2,260	0
	Hedge reserve	14	-493	-224
	Retained earnings		1,780	106
	Profit for the period		8,451	6,753
Total equity			69,860	49,780
Liabilities				
	Non-current liabilities			
	Interest-bearing liabilities	15	58,059	35,592
	Other non-current liabilities	15	478	205
	Total non-current liabilities		58,538	35,797
	Current liabilities			
	Interest-bearing liabilities, borrowings	17	1,931	1,730
	Trade payables and other current liabilities	17	5,906	995
	Derivatives	17	493	224
	Total current liabilities		8,330	2,949
Total liabilities			66,868	38,746
TOTAL EQUITY AND LIABILITIES			**136,728**	**88,526**

Consolicated statement of cash flows

EUR 1,000	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
Cash flows from operational activities		
Payments received from sales	7,657	3,236
Payments of operational costs	-4,406	-2,425
Cash flows from operational activities before financial items	3,251	811
Interest paid and other finance expenses, net	-1,990	-656
Taxes paid	*-72*	*-11*
Income from divestituresof tabgible fixed assets	4,381	3,172
Net cash flows from operational activities	**5,570**	**3,316**
Cash flows from investment activities		
Acquisition of subsidiaries less axquired cash and cash equivalents	-13,126	-18,883
Acquisition of residential apartment shares	-3,833	-2,564
Investments in tangible fixed assets	-2,670	-178
Investments in intangible assets	-490	-187
Net cash flows used in investments	**-20,118**	**-21,812**
Cash flows from financing activities		
Payments received from share issues	2,750	27,645
Loan withdrawals	11,334	7,111
Loan repayments	-2,079	-6,081
Dividends paid	-4,600	-1,347
Net cash flows used in financing activities	**7,405**	**27,329**
Net decrease (-) / increase (+) in cash and cash equivalents	**-7,143**	**8,833**
Cash and cash equivalents at the beginning of the period	**9,134**	**300**
Cash and cash equivalents at the end of the period	**1,990**	**9,134**

Statement of changes in equity

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Hedge reserve	Retained earnings	**Total equity attributable to the owners of the parent company**	**Total equity**
Equity on 31 Dec 2012	13,666	281	-407	1,466	**15,007**	**15,007**
Proceeds from shares issued 25 Mar 2013	257	11			**268**	**268**
Proceeds from shares issued 29 Jul 2013	770	10			**780**	**780**
Proceeds from shares issued 27 Sep 2013	2,366	70			**2,436**	**2,436**
Proceeds from share issued to the public	26,085	783			**26,868**	**26,868**
Costs of listing on the stock exchange		-1,155		-15	**-1,170**	**-1,170**
Distribution of divideds 28 Mar 2013				-337	**-337**	**-337**
Distribution of divideds 28 Jun 2013				-337	**-337**	**-337**
Distribution of divideds 30 Sep 2013				-337	**-337**	**-337**
Distribution of divideds 27 Dec 2013				-337	**-337**	**-337**
Profit from the period				6,753	**6,753**	**6,753**
Comprehensive income items			183		**183**	**183**
Equity on 31 Dec 2013	43,144	0	-224	6,859	**49,780**	**49,780**
Proceeds from shares issued 25 Jun 2014	3,189	899			**4,088**	**4,088**
Proceeds from shares issued 30 Sep 2014	1,148	302			**1,450**	**1,450**
Proceeds from shares issued 30 Dec 2014	6,039	535			**6,574**	**6,574**
Conversion of convertible bond 8 Oct 2014	1,576	424			**2,000**	**2,000**
Conversion of convertible bond 23 Dec 2014	1,280	220			**1,500**	**1,500**
Conversion of convertible bond 30 Dec 2014	1,486				**1,486**	**1,486**
Cost to gain equity		-120		-258	**-378**	**-378**
Distribution of divideds 28 Mar 2014				-1,206	**-1,206**	**-1,206**
Distribution of divideds 30 Jun 2014				-1,206	**-1,206**	**-1,206**
Distribution of divideds 30 Sep 2014				-1,206	**-1,206**	**-1,206**
Distribution of divideds 30 Dec 2014				-1,206	**-1,206**	**-1,206**
Profit from the period				8,451	**8,451**	**8,451**
Comprehensive income items			-270		**-270**	**-270**
Equity on 31 Dec 2014	57,863	2,260	-493	10,230	**69,860**	**69,860**

Notes to the 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 company aims 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") in its operations. 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 listed on NASDAQ OMX Helsinki ("the Helsinki Stock Exchange") in October 2013.

The Board of Directors of Orava Residential REIT has approved these financial statements for publication at its meeting held on 11 February 2015.

2. The 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% of total assets.
- 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 prerequisites 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 non-realised 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.

In the initial stage of company operations, residential apartments owned for less than five years are disposed of, so a liability to pay tax may arise from such disposals.

3. Accounting principles

The consolidated financial statements have been prepared in accordance with the 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 2014. The term "International Financial Reporting Standards" refers to the standards and their interpretations in the Finnish Accounting Act and provisions based on this endorsed for application in the EU in accordance with the procedure established in EU Regulation N:o 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 also 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 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 such 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. As of 1 January 2013, fair value has been determined according to IFRS 13, Fair Value Measurement., which entered into force on that date.

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. As of 1 January 2013, on the closing date, long-term development and construction projects where a new building or new apartments are built are measured at fair value. 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 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. Investment properties are disclosed on the statement of financial position at their gross value, in which case the share of debt related to ownership allocated to the property is presented in Orava Residential REIT's consolidated statement of financial position as a liability.

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. The fair value of the Residential REIT's portfolio is determined through a mass appraisal system using multi-variable regression based on asking price and purchase price material.

Material
The main material used are housing sales advertisements from the Oikotie.fi service included in the Sanoma Group. The advertisements are received continuously, directly from Oikotie in electronic format. Oikotie.fi is one of Finland's largest housing sales advertisement portals, and its service includes advertisements from both estate agents and private individuals. In addition, the material includes information on realised sales mainly close to the properties owned by the Residential REIT, delivered by estate agents, and sales information on the apartments sold by the Residential REIT.

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. The benefit from using asking price material is that it is up to date and that all market parties can easily utilise it.

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. If a realised transaction price is available, 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 per cent. When fair values are determined for the Residential REIT, the bargaining range is estimated by comparing the average prices on the Oikotie.fi service and the postcode-specific average prices with Statistics Finland collected for the latest quarter with each other and taking the arithmetic average value of these average values separately for cities with more and fewer than 100,000 inhabitants. The asking price material for both city 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 2014 was 4.33 per cent for large cities and 6.08 per cent for small cities.

Econometric model

The econometric model explaining the asking prices for apartments is estimated with the least squares method using Gretl software, the currently used version of which is 1.9.91.

$$
\begin{aligned}
\ln\left(\frac{P}{ALA}\right) &= a + b_1 \cdot ALA + b_2 \cdot ALA^2 + b_3 \cdot ALA^3 + b_4 \cdot IKA + b_5 \cdot IKA^2 + b_6 \cdot IKA^3 + \\
& b_7 \cdot D_{Kunto=erinomainen} + b_8 \cdot D_{Kunto=tyydyttävä} + b_9 \cdot D_{Kunto=huono,eritt.huono} + b_{10} \cdot D_{Sauna} + b_{11} \cdot D_{Tontti} + \\
& \sum_{t=-7}^{-1} c_t \cdot TD_t + \sum_{i=1}^{n} d_i \cdot ZIP_i + d_{n+1} \cdot SQKM \cdot LAT + d_{n+2} \cdot SQKM \cdot LON + \\
& d_{n+3} \cdot KOHDE + \sum_{j=n+4}^{q} d_j \cdot HUONEISTO_j
\end{aligned}
$$

P = the debt-free sales 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 ture and otherwise 0
SAUNA = a dummy variable which receives value 1 when there is a sauna in the apartment
TONTTI = a dummy variable which receives value 1 when the property is located on a leased plot (the variable is left out of the model if there are fewer than 15 leased plot observations or if its coefficient is positive)
TD = a quarterly time dummy (the dummy of the valuation quarter is left out)
ZIP = a location dummy describing the postcode area
SQKM = a dummy variable which receives value 1 when the observation is located within an area of one square kilometre round the property (4 square kilometres if there are fewer than 15 properties within the area of one square kilometre) – the variable is used for appraising the impact of the micro location within the postcode area
LAT; LON = the latitude and longitude of the property, which are used to ultiply the 1 km^2/4 km^2 dummy; these factors multiplied by the SQKM dummy inclines the plane set up by the SQKM dummy
KOHDE = a dummy variable which receives value 1 when the observation is located at the same address with the property being appraised
HUONEISTO = a dummy variable which receives value 1 when the observation concertns the apartment being appraised

The following delimitations were used:

- building type = apartment block for apartment blocks and all building types for terraced houses and balcony-access houses

- 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
- €350/m^2 < debt-free square metre price < €15,000/m^2
- 10 m^2 < apartment surface area < 300 m^2
- -2.5 years < age of the building < 150 years

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. The measurement model is being continuously developed.

The model is audited once a year by an external property valuer. Realia Management Oy audited the model in the autumn of 2014. An English-language audit report dated 27 October 2014 is available at http://www.oravaasuntorahasto.fi/wp-content/uploads/en/Admin/AuditOfValuationModel2014.pdf. A Finnish-language summary of the report and audit reports for 2013 are available on the website of the Residential REIT.

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 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, €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 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.

Investment properties are recognised on the statement of financial position at fair value as a gross value, in which case the share of company loans allocated to the shares related to the ownership of the shares is presented as a liability on the statement of financial position.

3.9 Cost 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 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.

Investment properties are recognised on the statement of financial position at fair value as a gross value, in which case the share of company loans allocated to the shares related to the ownership of the shares is presented as a liability on the statement of financial position.

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
- Gains from disposals and changes in the fair value of investment properties

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 Expences

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.

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 expences

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.

3.16 Taxes of the financial period

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 he company will become partially liable to pay tax. A deferred tax liability has not been recognised for potential capital gains from changes in fair value.

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 Oblication 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 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

Orava Residential REIT used the same accounting principles as in the 2013 financial statements, except for the application of new or revised standards and interpretations.

The amendment to IAS 1 influenced the presentation of other comprehensive income items so that items are categorised into those that may be reclassified subsequently to profit or loss and those that are not so reclassified.

The amendment to IAS 12, Income Taxes, is related to the recognition of a deferred tax liability related to an investment property measured at fair value according to IAS 40, Investment Property. The amendment has no material impact on the consolidated financial statements, as the investment properties of Orava Residential REIT can mainly be disposed of in a tax-free manner after the five-year ownership period entitling to tax exemption.

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.

An amendment was made to IFRS 10, Consolidated Financial Statements, relating to the accounting principles applied to the consolidated financial statements for investment entities. The new amendment to the standard was endorsed in the EU on 22 November 2013, and according to the transitional provisions, the new provisions shall be applied at the latest during financial periods beginning on or after 1 January 2014.

The standard defines an investment entity and provides for an exception for the consolidation of certain subsidiaries of the investment entity into the consolidated financial statements. An investment entity does not need to present consolidated financial statements if it shall measure all of its subsidiaries at fair value through profit or loss according to paragraph 31 of IFRS 10. The company will carefully review the requirements of IFRS 10 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 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 IFRS 13, 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 for 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.

3.21 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. Key persons' family members, corporations under the person's control and corporations where the person has significant influence are also included in related parties.

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 an authorisation, may decide to pay at most half of the performance-based fee in shares in the Residential REIT, in which case that share of the monetary liability is recognised under 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 management, determines the risk management policy and is responsible for monitoring risk management activities. The operational policy observed in financial operations is to avoid taking risks. The management of financing risks is discussed in more detail in the Board of Director's report and note 20, Financial instruments.

5. Consolidation

Orava Residential REIT consolidates the wholly-owned housing companies in compliance with IAS 27. The partially owned companies are consolidated in compliance with IFRS 13 using the proportionate method.

6. Segment information

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

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 assets shown on the company's 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 its income, excluding the disposal prices of investment properties. The assets shown on the balance sheet and the income of Orava Residential REIT have consisted of apartments and real estate primarily intended for residential use, so no segment division has been performed.

The revenue of Orava Residential REIT is presented in compliance with the accounting principles, divided into income from ordinary operations and capital gains. The capital gains and losses from apartments are arrived at by deducting the previous quarter's closing balance value from the debt-free selling price. The transaction fees associated with disposals are deducted from the revenue. During the period 1 January – 31 December 2014, a total of 29 apartments were sold.

The apartment's share of the asset transfer tax paid and the apartment repair costs and capitalised repairs as a whole reduce the change in fair value.

Revenue	**1 Jan - 31 Dec 2014**	**1 Jan - 31 Dec 2013**
Income from ordinary operations		
Gross rental yield	6,302	3,054
Compensarion for use and service income	230	98
Gains from disposals and changes in the fair value of apartments		
Disposal prices of apartments less the fair value in the previuos quarter's closing balance	466	-144
Brokerage fees for apartments disposed of	-115	-139
Net gains and losses from changes in the fair alue of investment properties	8,443	6,812
Total	**15,327**	**9,682**

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, Espoo, Kauniainen, Vantaa and the surrounding municipalities, while ampere, Turku, Oulu, Jyväskylä and Lahti are classified as major cities.

Distribution of investment property values by their location, %	**31 Dec 2014**	**31 Dec 2013**
Helsinki Region	43	38
Major cities	23	19
Rest of Finland	34	43
Total	**100**	**100**

Distribution of investment property values by age group, %	**31 Dec 2014**	**31 Dec 2013**
Built in 1989 or earlier	43	44
Built in 1990 or later	57	56
	100	**100**

7. Expenses by type

-	**1 Jan - 31 Dec 2014**	**1 Jan - 31 Dec 2013**
Personnel expenses	-107	-54
Fixed management fee Orava Funds plc	-614	-262
Other administrative expenses	-658	-380
Property maintenance expenses	-2,831	-1,452

Expenses from rental operations	-350	-97
Other operating expenses	-862	2
Total	**-5,422**	**-2,243**

Personnel expenses, Board of Directors' fees	**1 Jan - 31 Dec 2014**	**1 Jan - 31 Dec 2013**
Jouni Torasvirta	-29	-17
Peter Ahlström	-16	-3
Mikko Larvala	-16	-6
Tapani Rautiainen	-15	-9
Veli Matti Salmenkylä	-16	-10
Timo Valjakka	-16	-9
Total	**-107**	**-54**

The Board of Directors convened twentythree times during the period.

Auditor's fees	**1 Jan - 31 Dec 2014**	**1 Jan - 31 Dec 2013**
Audit, parent company	-46	-32
Audit, subsidiaries	-21	-6
Total	**-67**	**-38**

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

Ohter operating expenses	**1 Jan - 31 Dec 2014**	**1 Jan - 31 Dec 2013**
Credit losses	-15	2
Performance-based fee paid to the management company	-847	0
Total	**-862**	**2**

Credit losses in year 2014 were EUR 15,000 (2013: EUR 0). Based on the payment plans an adjustment EUR 2,000 has been made into the year 2013 credit losses. Company will allocate shares to cover half of the performance-based fee. In year 2013 performance-based fee was not paid.

Property maintenance expenses -	**1 Jan - 31 Dec 2014**	**1 Jan - 31 Dec 2013**
Property maintenance expenses less compensation for use	-2,601	-1,354
Property maintenance expenses less compensation for use as percentage of market value, p.a.	-2.5 %	-2.4 %
Average market value of investment properties during the period, EUR 1,000	104,873	55,591

Property maintenance expenses also include the maintenance expenses for residential apartments in the sales portfolio.

8. Finance income and expensed

-	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
Interest expenses and fees for loans and interest rate hedges	-1031	-547
Change in the capitalised amounts of arrangement fees	-15	-1
Share of the capital charges of associated companies expensed	-291	-99
Other finance expenses	-32	-7
Total finance expenses	**-1369**	**-654**
Finance income	8	15
Total	**-1361**	**-639**

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 and the apartment repair expenses and capitalised repairs.

The subsidiaries pay the relevant taxes on their result and capital gains.

	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
Taxes for the period	**-94**	**-48**

10. Earnings per share

	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
(a) Undiluted Undiluted earnings per share are calculated by dividing earnings before comprehensive income items attributable to the company's shareholders by the weighted average number of shares outstanding during the period.		
Profit attributable to the company's shareholders	8,451	6,753
Weighted average number of outstanding shares, 1,000 shares	4,622	2,118
Undiluted earnings per share	**1.83**	**3.19**

(b) Adjusted for dilution effect

The company did not had any potentially diluting shares on 31 December

11. Non-current assets

Investment properties	31 Dec 2014	31 Dec 2013
	Fair value EUR 1,000	
Acquisition cost on 1 Jan	79,190	31,992
Increases including asset transfer tax	45,099	43,607
Decreases	-2,783	-3,429
Change in fair value during the financial period excluding asset transfer tax	9,162	7,020
Fair value on 31 Xxx	**130,668**	**79,190**

The decreases are disposals of residential apartments. A total of 29 apartments were sold during the period 1 January – 31 December 2014.

The change in the value of investment properties included in the investment portfolio throughout the fourth quarter 2014 was -1.2 % or EUR -1.2 million.

Investment properties on 31 December 2014	Registered office	Construction year	Holding
Helsinki region			
Asunto Oy Espoon Albert	Espoo	2014	13.02 %
Asunto Oy Helsingin Koirasaarentie 1	Helsinki	2000	**100.00 %**
Asunto Oy Kauniaisten Venevalkamantie	Kauniainen	2012	24.70 %
Asunto Oy Järvenpään Saundi	Järvenpää	2013	17.57 %
Asunto Oy Järvenpään Terho	Järvenpää	2012	4.90 %
Asunto Oy Järvenpään Tuohi	Järvenpää	2013	88.20 %
Asunto Oy Keravan Ritariperho	Kerava	2011	99.90 %
Asunto Oy Kirkkonummen Kummihovi	Kirkkonummi	1972-73	**100.00 %**
Asunto Oy Kirkkonummen Pomada	Kirkkonummi	2012	32.50 %
Asunto Oy Kirkkonummen Tammi	Kirkkonummi	2013	30.51 %
Asunto Oy Nurmijärven Puurata 15-17	Nurmijärvi	1974-75	58.10 %
Asunto Oy Nurmijärven Soittaja	Nurmijärvi	2013	58.90 %
Bostads Ab Lindhearst Asunto Oy	Sipoo	1982	64.90 %
Asunto Oy Vantaan Maauunintie 14	Vantaa	1975	**100.00 %**
Asunto Oy Vantaan Rasinrinne	Vantaa	1975	75.50 %
Asunto Oy Vantaan Rusakko	Vantaa	1992	75.00 %
Major cities			
Asunto Oy Härmälänrannan Nalle	Tampere	2012	6.98 %
Asunto Oy Jyväskylän Ahjotar	Jyväskylä	2014	35.18 %
Asunto Oy Jyväskylän Kruununtorni	Jyväskylä	2010	36.00 %
Asunto Oy Jyväskylän Kyläseppä	Jyväskylä	2014	21.01 %
Asunto Oy Jyväskylän Tukkipoika	Jyväskylä	2013	12.30 %
Asunto Oy Lahden Helkalanhovi	Lahti	1975	77.20 %
Asunto Oy Lahden Leinikki	Lahti	2013	9.00 %
Asunto Oy Lahden Poikkikatu 4	Lahti	1971	66.10 %
Asunto Oy Lahden Pormestari	Lahti	2012	8.00 %
Asunto Oy Lahden Vuoksenkatu 4	Lahti	1970	44.30 %
Asunto Oy Lempäälän Tikanhovi	Lempäälä	2014	51.73 %
Asunto Oy Oulun Eveliina	Oulu	2011	14.10 %
Asunto Oy Oulun Jatulinmetsä	Oulu	2013	7.70 %
Asunto Oy Oulun Merijalinväylä	Oulu	2012	4.60 %
Asunto Oy Oulunsalon Poutapilvi	Oulu	2010	4.10 %
Asunto Oy Oulun Seilitie 1	Oulu	2009	89.10 %

Asunto Oy Raision Valonsäde	Raisio	2014	48.95 %
Asunto Oy Tampereen Professori	Tampere	2013	11.50 %
Asunto Oy Tampereen Ruuti	Tampere	2014	59.50 %
Asunto Oy Tampereen Vuoreksen Emilia	Tampere	2014	30.50 %
Asunto Oy Tampereen Vuorenpeikko	Tampere	2013	3.10 %
Asunto Oy Turun Michailowinportti	Turku	2013	21.80 %
Medium size cities			
Asunto Oy Haminan Tervaniemi	Hamina	1999	95.80 %
Asunto Oy Heinolan Tamppilahdenkulma	Heinola	1977	**100.00 %**
Asunto Oy Hämeenlinnan Aulangontie 39	Hämeenlinna	1974	48.50 %
Asunto Oy Kokkolan Luotsi	Kokkola	2012	21.90 %
Asunto Oy Kotkan Alahovintie 7	Kotka	1974	**100.00 %**
Asunto Oy Kotkan Alahovintorni	Kotka	1973	96.50 %
Asunto Oy Kotkan Matruusi	Kotka	2013	19.70 %
Asunto Oy Kotkan Mällinkatu 6	Kotka	1958 ja 1974	**100.00 %**
Asunto Oy Kotkan Vuorenrinne 19	Kotka	1973-76	96.70 %
Asunto Oy Lohjan Koulukuja 14	Lohja	1976	94.20 %
Asunto Oy Lohjan Pinus	Lohja	2012	57.20 %
Asunto Oy Porin Kommodori	Pori	2013	8.70 %
Asunto Oy Porin Pihlavankangas	Pori	1973	98.30 %
Asunto Oy Kaivopolku	Porvoo	1993	**100.00 %**
Kiinteistö Oy Liikepuisto	Porvoo	1960	**100.00 %**
Asunto Oy Riihimäen Vuorelanmäki I	Riihimäki	1956	**100.00 %**
Asunto Oy Rovaniemen Rekimatka 16-18	Rovaniemi	1991	**100.00 %**
Asunto Oy Rovaniemen Rekimatka 29	Rovaniemi	1989	**100.00 %**
Asunto Oy Salon Ristinkedonkatu 33	Salo	1975-76	**100.00 %**
Asunto Oy Savonlinnan Välimäentie 5-7	Savonlinna	1977	**100.00 %**
Asunto Oy Tornion Aarnintie 7	Tornio	1974	39.00 %
Asunto Oy Tornion Kuparimarkka	Tornio	1975	89.10 %
Asunto Oy Varkauden Onnela	Varkaus	1920	**100.00 %**
Asunto Oy Varkauden Parsius	Varkaus	1973	**100.00 %**
Asunto Oy Varkauden Ahlströminkatu 12	Varkaus	1954	**100.00 %**

The companies have been consolidated using the proportional method, whereby only the amount corresponding to the Group's holding is consolidated for each income statement and balance sheet item. Accordingly, no minority interests are created in the Group consolidation process.

As Oy Hämeenlinnan Aulangontie underwent a basic renovation in 2003, As Oy Tornion Kuparimarkka in 2000, As Oy Tornion Aarnintie 7 in 1990, As Oy Nurmijärven Puurata 15-17 in 1999, As Oy Riihimäen Vuorelanmäki I in 2003, and As Oy Varkauden Ahlströminkatu 12 in 2005 (pipes).

Investment properties on 31 December 2014

Region	**No of properties**	**Apartments and business facilities (pcs)**	**Floor area(m^2)**	**Valuation**
Espoo & Kauniainen ***)	2	11	703	3,327
Helsinki	1	24	1,436	5,204
Järvenpää ***)	3	24	1,986	7,910
Kerava	1	19	2,071	6,421
Kirkkonummi ***)	2	104	6,973	13,834
Nurmijärvi	2	43	3,094	6,630

Sipoo	1	14	1,140	1,848
Vantaa *) ******)	3	113	7,118	11,502
Helsinki region *) ***)	15	352	24,519	56,676
Jyväskylä **)	4	20	2,130	4,451
Lahti	5	73	4,148	5,542
Oulu	5	25	1,538	3,842
Tampere	6	58	3,609	11,158
Turku	2	18	1,287	4,397
Major cities	22	194	12,712	29,391
Hamina	1	16	1,040	1,329
Heinola	1	20	1,164	738
Hämeenlinna	1	11	527	1,009
Kokkola	1	4	321	949
Kotka *)	5	197	10,888	8,101
Lohja	2	62	3,892	5,719
Pori	2	58	3,183	2,754
Porvoo ***) ******)	2	42	2,662	7,335
Riihimäki	1	16	773	745
Rovaniemi	2	80	4,587	5,362
Salo ****)	1	74	4,518	3,240
Savonlinna	1	51	2,723	2,297
Tornio	2	65	3,737	2,921
Varkaus *****)	3	76	4,915	2,103
Medium size cities	25	772	44,927	44,602
Total ***)	**62**	**1,318**	**82,158**	**130,668**

*) As Oy Vantaan Maauunintie 14 and As Oy Kotkan Alahovintie 7 both have one business facility (a day care centre).

**) The apartments in As Oy Jyväskylän Kruunutorni were four office facilities and one storage facility.

***) There are 11 business facilities at Kiint Oy Liikepuisto in Porvoo.

*****) As Oy Salon Ristikedonkatu 33 has one business facility and a day care entre.

*****) As Oy Varkauden Ahlströminkatu 12 has two business facilities.

******) From the sale of plots a total amount of EUR 1.1 million of financial assets is included

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 (31 Dec 2014: apartments in 50 properties) and Turun seudun OPKK (31.12.2014: apartments in 11 properties), external appraisers, provide calculations of the value of the investment properties owned by Orava Residential REIT every six months. The appraisal of the external appraisers on 31 December 2014 was 0.1% higher than the fair value on the balance sheet on 31 December 2014. The valuation certificates for Asunto Oy Rovaniemen Rekimatka 16-18 and Rovaniemen Rekimatka 29 were unfinished.

12. Trade and other receivables

-	31 Dec 2014	31 Dec 2013
Rental and trade receivables	138	106
Other receivables	3,897	90
Prepaid expenses and accrued income	35	7
Total other receivables	**4,070**	**203**

No credit losses were booked for rental receivables during the period.

13. Cash and cash equivalents

	31 Dec 2014	31 Dec 2013
Cash and cash equivalents held in accounts	1,990	9,134
Total	**1,990**	**9,134**

In addition, the company had an overdraft facility of EUR 200,000 at its disposal.

14. Share capital and share premium account

-	31 Dec 2014	31 Dec 2013
Share capital on 1 January	43,144	13,666
Increase in share capital, paid	7,193	29,478
Share capital on 31 Xxx	**50,337**	**43,144**
Share issue	**7,526**	**0**
Share premium account	2,260	0
Total share capital and share premium account	**60,123**	**43,144**

The number of share on 31 December 2011 was 1,171,736.
The number of share on 31 December 2012 was 1,366,588.
The number of share on 31 December 2013 was 4,314,394.
The number of share on 31 December 2014 was 5,206,123.

15. Non-current liabilities

-	31 Dec 2014	31 Dec 2013
The parent company's loans from financial institutions	32,646	23,553
Overdraft facility	0	0
apitalisation of loan arrangement fees	-31	-46
Long-term security deposits received	478	251
Non-current loans from owneers of the parent company	0	0
Share of debt attributable to shares held bu the parent company	25,445	12,039
Total non-current liabilities	**58,538**	**35,797**

<u>Parent company's loans from financial institutions</u>	**31 Dec 2014**	**31 Dec 2013**
Danske Bank Plc, transferred 29 Mar 2011	2,127	2,185
capital repayments for the next 12 months included in current liabilities	-58	-58
Danske Bank Plc, transferred 7 Sep 2011	1,859	3,325
capital repayments for the next 12 months included in current liabilities	-88	-88
Danske Bank Plc, transferred 21 Jun 2012	2,451	2,515
capital repayments for the next 12 months included in current liabilities	-65	-65
Danske Bank Plc, transferred 10 Oct 2012	618	634
capital repayments for the next 12 months included in current liabilities	-16	-16
Danske Bank Plc, transferred 1 Nov 2012	903	926
capital repayments for the next 12 months included in current liabilities	-24	-24
Danske Bank Plc, transferred 27 Sep 2013	800	820
capital repayments for the next 12 months included in current liabilities	-21	-21

Danske Bank Plc, transferred 17 Dec 2013	2,496	2,560
capital repayments for the next 12 months included in current liabilities	-62	-64
Danske Bank Plc, transferred 31 Mar 2014	2,280	0
capital repayments for the next 12 months included in current liabilities	-57	0
Danske Bank Plc, transferred 30 Apr 2014	2,350	0
capital repayments for the next 12 months included in current liabilities	-58	0
Danske Bank Plc, transferred 25 Jun 2014	1,500	0
capital repayments for the next 12 months included in current liabilities	-38	0
Limit of the bank account with an overdraft facility	0	0
Total loans	**16,896**	**12,631**

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. In addition, the company had an overdraft facility of EUR 200,000 at its disposal on 30 September 2014.

16. Derivatives – interesrate 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.

Instrument	EUR 1,000	Fixed interest	Maturity
OTC interest rate swap	2,127	2.95	15 Apr 2016
OTC interest rate swap	3,237	1.87	7 Sep 2016
OTC interest rate swap	2,451	1.13	21 Jun 2017
OTC interest rate swap	618	0.87	10 Oct 2017
OTC interest rate swap	903	0.86	1 Nov 2017
OTC interest rate swap	800	1.15	27 Sep 2018
OTC interest rate swap	2,496	1.03	18 Dec 2018
OTC interest rate swap	2,280	0.88	31 Mar 2018
OTC interest rate swap	2,350	0.88	30 Apr 2018
OTC interest rate swap	1,500	0.64	25 Jun 2019

Fair value	31 Dec 2014	31 Dec 2013
At the end of the period, the fair value of interest rate swaps was	-493	-224
Change in fair value during the period, EUR 1,000	-270	183

17. Lyhytaikainen vieras pääoma

-	31 Dec 2014	31 Dec 2013
Group's loans from financial institutions	817	334
Current loans from related parties	295	1,095
Current loans from other parties	550	0
Share of debt attributable to the shares held by the parent company	269	301
Advance payments received	128	66
Trade payables	284	84
Other liabilities	305	69
Accrued expensec and deferred income	5,145	758
Interest liabilities	44	18
Fair value of interest rate hedges	493	224
Total current liabilities	**8,330**	**2,949**

18. Related party transactions in 2014

The company acquired a total of 131 apartments from A. Ahlström Real Estate Ltd and its subsidiaries through transactions implemented on 25 June 2014. Their aggregate debt-free purchase price was EUR 4.1 million. The transaction included the assignment of a contribution in kind of EUR 1.34 million, which was paid with 104,415 new shares issued by the company and the subscription of 206,708 new shares in a directed issue allocated to the seller. The subscription price of the new shares, EUR 12.82 per share, was the average price of the company's share on the Helsinki Stock Exchange during the five trading days preceding 25 June 2014, the date of implementation of the transaction, weighted by share turnover, adjusted for the dividends decided by the Annual General Meeting but not paid (EUR 0.56 per share).

A. Ahlström Real Estate Ltd made a subscription commitment for 114,806 shares at a price of EUR 12.63 per share in the directed issue in September. The subscription of 114,806 shares was accepted at the meeting of the Board of Directors on 30 September 2014. The share-specific subscription price of new shares could be paid it is entirety or partly in subscriptions in kind, instead of cash. The transaction of As Oy Mällinkatu 6 was implemented in its entirety as a share exchange. The subscription price was the average stock exchange price on the Helsinki Stock Exchange, weighted by the turnover during the five trading days preceding the subscription period.

On 31 December 2014, the company concluded a binding agreement on the acquisition of Asunto Oy Rovaniemen Rekimatka 16–18 and Asunto Oy Rovaniemen Rekimatka 29. The properties include a total of 80 apartments. The purchase price of EUR 4.0 million was paid with new shares issued by the company in a directed issue allocated to Royal House Oy. The subscription price of the shares, EUR 10.60 per share, was the weighted average price of the share during the five days of trading on the Helsinki Stock Exchange preceding the date of concluding the agreement.

The fixed management fee of the management company Orava Funds plc was EUR 613,500 and the performance-based management fee was EUR 847,000, of which no more than half will be paid in shares and approximately half in cash. In addition, Orava Funds has received EUR 20,000 in share issue management fees.

19. Collateral and contingent liabilities

	31 Dec 2014	31 Dec 2013
Debts for which mortgages to real estate have been pledged		
In total	34 523	1 790
Loans for which shares have been pledged		
Loans from financial institutions	32 645	14 060
Total fair value of the pledged shares	63 620	

As Oy Vantaan Maauunintie 14 and the Porvoo-based Kiint Oy Liikepuisto and As Oy Kaivopolku in Porvoo sold the plots they owned in October 2014. In the same connection, they entered into leases of 60 years.

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 acquisitions. The loans are hedged with interest rate swaps. On 31 December 2014, the hedging rate of loans was a bit over 100% (31 December 2013: 100%) because the company shorted one of it's long-term loans by EUR 1.363 million at the last quarter of year 2014. 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

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 2014, the average maturity of the parent company's bank loans was 3.3 years (31 December 2013: 3.7 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 does not have any significant concentrations of receivable or credit risks. On 31 December 2014, rental receivables totalled EUR 138,000 (31 December 2013: 106,000), of which EUR 83,000 had been referred for debt collection (31 December 2013: EUR 71,000). Receivables in collection less than two months old amounted to EUR 46,000, and receivables more than two months old to EUR 37,000.

Capital management

The objective of capital management is to secure the Group's capability for continuous operations 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. On 31 December 2014, the equity-to-assets ratio was 51.1 % (31 December 2013: 56.2 %).

The Group's bank loans not included in derivative liabilities and other interest-bearing liabilities were as follows at the end of the period under review, shown by contractual periods of maturity. The amounts disclosed are non-discounted cash flows of loan repayments based on loan agreements.

December 31 2014	less than 1 year	1-5 years	over 5 years
Interest bearing loans, EUR 1,000	1,931	26,200	31,859

21. Assesment 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 on 31 Dec 2014	-	126,986	3,682
Investment properties on 31 Dec 2013	-	76,594	2 596
Investment properties on 31 Dec 2012	-	31,992	-
Investment properties on 31 Dec 2011	-	20,263	-
Liabilities			
Interest rate hedging contratcs on 31 Dec 2014	-	-493	-
Interest rate hedging contratcs on 31 Dec 2013	-	-223	-
Interest rate hedging contratcs on 31 Dec 2012	-	-407	-
Interest rate hedging contratcs on 31 Dec 2011	-	-164	-

22. Events after reported period

The 500,000 shares allocated to the company itself in a charge-free directed issue on 17 December 2014 were recorded in the Trade Register on 5 January 2015. The company may use the shares allocated to it to strengthen the capital structure, develop its business operations and expand its ownership base through both acquiring investment properties and issuing convertible bonds. After the issue, the number of the company's shares totalled 5,706,123. On 19 January 2015, the company 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. After the listing, the total number of the company's listed shares was 5,253,923.

On 23 January 2015, the company specified the result estimate for the fourth quarter. Orava Residential REIT estimated in its interim report for the third quarter published on 7 November 2014 that the financial result for the fourth quarter is expected to remain weaker than that for the third quarter. The comprehensive profit for the third quarter was EUR 1.9 million. The company's further specified estimate of the result for the fourth quarter was EUR 1.7–2.3 million.

On 23 January 2015, the company announced that it is investigating possibilities for the implementation of a financing arrangement of an estimated EUR 40 million. The arrangement would consist of a credit facility of an estimated EUR 15 million, which would be used to finance the acquisition of new properties, and a covered bond of an estimated EUR 25 million, which would mainly be directed to domestic institutional investors and whose purpose would be to refinance the company's existing loans and promote the expansion of the company's business operations.

The Financial Supervisory Authority approved the company's prospectus, which is related to the listing of a total of 1,056,122 shares, on 23 January 2015. 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). The company also filed an application with the Helsinki Stock Exchange concerning the admission to trading of the shares subscribed in the directed issue allocated to Osuusasunnot Oy and the charge-free shares allocated to the company itself, in total 688,122 shares, on the stock exchange list of the Helsinki Stock Exchange with the trading code OREIT. Trading in the shares in question started on 27 January 2015. The ISIN code of the shares listed is FI4000068614.

The 368,000 shares allocated to Royal House Oy were recorded in the Trade Register on 11 February 2015 and applied to be admitted to trading on the Helsinki Stock Exchange in connection with the finalization of the transaction on 9 February 2015. In addition, the company allocated a charge-free share issue of 200,000 shares to itself. The shares allocated to the company itself do not entitle their holders to dividends to be paid from the result for 2014 in 2015. After the aforementioned shares have been registered, the number of the company's registered shares totals 6,510,045, and the company's registered share capital is EUR 56,376,500.

On 10 February 2015, the company implemented a transaction for 22 apartments with Skanska Rakennus Oy at a debt-free purchase price of EUR 4.6 million. The apartments purchased are located in two new properties, one in Mikkeli (12 apartments) and the other in Pori (10). The apartments were without tenants at the time of the acquisition.

At its meeting on 11 February 2015, the Board of Directors allocated 39,952 shares to the management company Orava Funds plc. The subscription price of the shares was the weighted average price during the last five days of stock exchange trading in 2014. Orava Funds plc set off the payment of the subscription price against its performance-based management fee receivable of EUR 423,491.20 to be paid in shares.

Financial indicators for the group

	1 Jan - 31 Dec 2014	**1 Jan - 31 Dec 2013**	**1 Jan - 31 Dec 2012**
Revenue, EUR 1,000	15,327	9,682	3,180
Operating profit, EUR 1,000	9,905	7,439	1,884
Financial result for the period, EUR 1,000	8,451	6,753	1,421
Comprehensive profit for the period, EUR 1,000	8,181	6,936	1,178
Earnings per share, EUR	1.83	3.19	1.14
Maximum dividends to be paid during the financial period per share, EUR	1.20	1.12	1.08
Dividends / Comprehensive profit ratio, %	87.8 %	69.6 %	114.3 %
Return on equity, % p.a. (ROE)	14.7 %	33.4 %	10.2 %
Total return per share, % p.a.	13.9 %	14.9 %	9.1 %
Weighted average number of shares adjusted	4,622,183	2,117,600	1,337,387

for share issues

	31 Dec 2014	31 Dec 2013	31 Dec 2012
Balance sheet total, EUR 1,000	136,728	88,526	32,424
Equity/assets ratio, %	51.1 %	56.3 %	46.3 %
Loan to value ratio, %	43.9 %	42.2 %	51.3 %
Net asset value per share, EUR, NAV	13.52	11.54	10.98
Adjusted net asset value per share, EUR, NAV	12.02		
Net gearing, %	83.0 %	56.6 %	113.3 %
Number of shares 31. Dec	5,206,123	4,314,394	1,366,588
Adjusted number of shares 31 Dec	5,810,611	-	-
Market capitalisation 31 Dec, EUR 1,000	53,362	44,345	-

	31 Dec 2014	31 Dec 2013	31 Dec 2012
Economic occupancyu rate, %, (EUR)	89.4 %	93.8 %	96.7 %
Operational occumancy rate, %, (m^2)	88.7 %	92.5 %	96.5 %
Tenant turnover/month	2.1 %	2.3 %	3.0 %
Gross rental yield, % of fair value	6.7 %	8.0 %	8.0 %
Net rental yield, % of fair value	4.0 %	4.5 %	4.8 %
EPRA Earnings, EUR 1,000	1,972	908	1,115
EPRA Earnings per share, EUR	0.43	0.43	0.90
EPRA Net Asset Value, EUR, 1,000	70,353	50,004	15,413
EPRA Net Asset Value per share, EUR	12.11	11.59	11.28
EPRA Net Initial Yield (NIY), %	4.0 %	3.9 %	5.4 %
EPRA Vacancy Rate	10.6 %	6.2 %	5.6 %

Formulas for financial indicators

Earnings per share, EUR = $\dfrac{\text{Financial result for the period attributable to the shareholders of the parent company}}{\text{Weighted average number of shares during the reported period}}$

Return on equity, % (ROE) = $\dfrac{\text{Profit/loss for the period x 100}}{\text{Equity (average during the reported period)}}$

Total return per share, % per year = $\left\{ \dfrac{\text{Net assets per share at the end of year + dividends paid per share}}{\text{Net assets per share at he beginning of the year}} -1 \right\} \times 100$

Equity/assets ratio, % = $\dfrac{\text{Equity x 100}}{\text{Balance sheet total less advance payments received}}$

Loan to value ratio, % Loan to Value = $\dfrac{\text{The Group's share of outstanding capital of interest-bearing loans}}{\text{Debt-free value of housing company shares and other assets}}$

Net asset value per share, EUR NAV = $\dfrac{\text{Equity attributable to the shareholders of the parent company}}{\text{Number of shares at the end of the reported period}}$

Net gearing, % = $\dfrac{\text{Interest-bearing liabilities - liquid assets x 100}}{\text{Equity}}$

economic occupancy rate, % (EUR) = $\dfrac{\text{Gross rental income for the reported period per the number of months}}{\text{Potential gross rental income for the reported period per the number of months}}$

Operational occupancy rate, % (m^2) = $\dfrac{\text{Square meters let on the last day of the month during the reported period per the number of months}}{\text{Square meters available for letting on the last day of the month during the reported period per the number of months}}$

Tenant turnover = $\dfrac{\text{Expired agreements per month}}{\text{Number of apartments available for letting on the last day of the month}}$

Gross rental yield, % = $\dfrac{\text{Gross rental income x 100}}{\text{Market value of the rent portfolio at the end of the reported period}}$

Calculated on a monthly basis; the figure for the reported period is the average of the monthly figures

Net rental yield, % = $\dfrac{\text{Gross rental income less expenses = net income x 100}}{\text{Market value of the rent portfolio at the end of the reported period}}$

Calculated on monthly basis; value for the period is the average of monthly values

FORMULAS FOR EPRA INDICATORS

EPRA Earnings (Operational result) =
Net rental income
- marketing and administrative expenses
+/- other operating income and expenses included in operations

EPRA Earnings per share (Operational result per share) = $\dfrac{\text{EPRA Earnings}}{\text{Weighted average number of shares during the reported period}}$

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)	=	EPRA Net Asset Value / Undiluted number of shares at the end of the reported period
EPRA Net Initial Yield (NIY), % (Initial yield)	=	Annualised rental income including indexation adjustments on 31 xxxx / Invetment properties less properties under development on 31 xxxx
EPRA Vacancy Rate	=	Potential rent from vacant apartments / Potential rent from apartments available for letting

Parent company financial statements 1 Jan – 31 Dec 2014

Parent company income statement

	Note	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
		EUR	EUR
REVENUE	**2.1.**	**15,383,703.85**	**9,686,184.76**
Other operating income		0.00	0.00
Personnel expenses	2.2.	-107,288.00	-53,599.20
Depreciation an pmpairment losses	2.3.	-253,879.30	-64,562.92
Other operating expenses	2.4.	-5,717,410.42	-2,280,478.32
OPERATING PROFIT/LOSS		**9,305,126.13**	**7,287,544.32**
Finance income and expenses	2.6.	-2,091,853.81	-907,907.19
Returrn on holdings in Group companies		0.00	0.00
Other interest and finance income		6,201.68	16,865.89
		6,201.68	16,865.89
Impairment losses from investments in fixed assest		0.00	0.00
Interest expenses and other finance expenses to Group companies		-454,182.11	-406,442.74
Interest expenses and other finance expenses		-1,643,873.38	-518,330.34
		-2,098,055.49	-924,773.08
Total finance income and expenses		-2,091,853.81	-907,907.19
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS		**7,213,272.32**	**6,379,637.13**
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		**7,213,272.32**	**6,379,637.13**
Income taxes		-42,809.80	-47,517.26
PROFIT/LOSS FOR THE PERIOD		**7,170,462.52**	**6,332,119.87**

Parent company balance sheet

	Note	31 Dec 2014	31 Dec 2013
ASSETS		**EUR**	**EUR**
NON-CURRENT ASSETS			
Intangible assets	3.1.1.	1,498,677.21	1,361,802.13
Investments	3.1.3.	71,011,289.33	47,061,415.55
Holdings in group undertakings		63,619,674.46	43,396,342.81
Other holdings and shares		7,391,614.87	3,665,072.74
TOTAL NON-CURRENT ASSETS		**72,509,966.54**	**48,423,217.68**
CURRENT ASSETS			
		17,603,603.34	8,465,296.04
Short-term receivables	3.1.4.	4,242,602.17	304,805.16
Cash in hand and at bank		1,468,940.15	8,809,255.09
TOTAL CURRENT ASSETS		**23,315,145.66**	**17,579,356.29**
TOTAL ASSETS		**95,825,112.20**	**66,002,573.97**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		50,337,280.00	43,143,940.00
Invested unrestricted equity fund		3,535,587.59	1,155,758.69
		7,525,329.93	
Retained earnings		1,524,467.35	17,288.58
Profit (loss) for the financial year		7,170,462.52	6,332,119.87
TOTAL EQUITY	**3.2.1.**	**70,093,127.39**	**50,649,107.14**
LIABILITIES			
Long-term liabilties		17,387,698.29	12,881,802.63
Loans from credit institutions		16,910,023.07	12,631,500.00
Other liabilities		477,675.22	250,302.63

Short-term liabilities		8,344,286.52	2,471,664.20
Loans from credit institutions		487,250.00	334,000.00
Deferred income		118,549.37	61,695.85
Accounts payable		82,371.05	2,666.53
Depts to group companies		1,255,404.06	227,945.52
Other current liabilities		1,106,630.20	1,154,800.47
Accrued liabilities		5,294,081.84	690,555.83
TOTAL LIABILITIES	**3.2.3.**	**25,731,984.81**	**15,353,466.83**
TOTAL EQUITY AND LIABILITIES		**95,825,112.20**	**66,002,573.97**

Notes to the income statement of the parent company

2.1 Revenue

	Parent company 1 Jan - 31 Dec 2014	**Parent company 1 Jan – 31 Dec 2013**
Revenue		
Rental income	6 266 795,74	3 037 542,93
Compensation for use	204 113,41	97 453,21
Capital gains and changes in fair value	8 912 794,70	6 551 188,62
Total Revenue	**15 383 703,85**	**9 686 184,76**

2.2 Notes on personnel

	Parent company 1 Jan - 31 Dec 2014	**Parent company 1 Jan – 31 Dec 2013**
Salaries, remuneration and pension costs for the period		
Salaries and remuneration	-107 288,00	-53 599,20
Pension costs	0,00	0,00
Salaries, remuneration and pension costs for the period	**-107 288,00**	**-53 599,20**
Management salaries and remuneration		
Memebers of the Board of Directors	-107 288,00	-53 599,20

2.3 Other operating expenses

	Parent company 1 Jan - 31 Dec 2014	**Parent company 1 Jan – 31 Dec 2013**
Other operating income		
Management fees	-1 460 489,00	-261 529,29
Administrative expenses	-614 966,52	-362 326,08
Property maintenance expenses	-3 285 403,57	-1 562 366,14
Expenses from rental operations	-342 102,64	-96 751,51
Credit losses	-14 448,69	2 494,70
Total other operating income	**-5 717 410,42**	**-2 280 478,32**

2.5 Auditor's fees

Authorized Public Accountants	Parent company 1 Jan - 31 Dec 2014	Parent company 1 Jan – 31 Dec 2013
PricwaterhouseCoopers Oy		
Audit fees	-45 784,32	-31 707,89
Total	**-45 784,32**	**-31 707,89**

1

2.6 Finance income and expenses

	Parent company 1 Jan - 31 Dec 2014	Parent company 1 Jan – 31 Dec 2013
Other interest and finance income		
From Group companies	-	-
From others	6 201,68	16 865,89
Total other interest and finance income	6 201,68	16 865,89
Total finance income	**6 201,68**	**16 865,89**
Interest expenses and other finance expenses		
To Group companies	-454 182,11	-406 442,74
To others	-1 643 873,38	-518 330,34
Total interest expenses	-2 098 055,49	-924 773,08
Total finance expenses	**-2 098 055,49**	**-924 773,08**
Total finance income and expenses	**-2 091 853,81**	**-907 907,19**

3. Notes to the balance sheet

3.1.1. Investment properties

	Parent company 31 Dec 2014	31 Dec 2013
Investment properties	89 156 474,20	56 888 513,72

3.1.2 Breakdown of receivables

Current receivables	Parent company 31 Dec 2014	31 Dec 2013
Receivables from Group companies		
Maintenance charge receivables and receivables for compensation for use	193 383,76	97 814,08
Total	**193 383,76**	**97 814,08**

Receivables from others		
Rental receivables	124 001,43	99 912,74
Other receivables	3 901 260,18	104 180,68
Prepaid expenses and accrued income	23 956,80	2 897,66
Total	**4 049 218,41**	**206 991,08**
Total current receivables	**4 242 602,17**	**304 805,16**

3.2 Notes to equity and liabilities

3.2.1Shareholder's equity

	Parent company 31 Dec 2014	31 Dec 2013
Share capital		
Share capital 1.1.	43 143 940,00	13 665 580,00
Transfer as an increase in share capital	7 193 340,00	29 478 360,00
Share capital 31.12.	**50 337 280,00**	**43 143 940,00**
Total share capital	**50 337 280,00**	**43 143 940,00**
Unrestricted equity		
Share issue	7 525 329,93	0,00
Reserve for invested unrestricted equity 1.1.	1 155 758,69	280 924,43
Reserve for invested unrestricted equity, increase	2 379 828,90	874 834,26
Total other reserves 31.12.	**3 535 587,59**	**1 155 758,69**
Retained earnings (losses) 1.1.	6 349 408,45	1 363 813,69
Distribution of funds from retainded earnings	-4 824 941,10	-1 346 525,11
Retained earning 31.12.	**1 524 467,35**	**17 288,58**
Profit/loss for the period	**7 170 462,52**	**6 332 119,87**
Total unrestricted equity	**19 755 847,39**	**7 505 167,14**
Total equity	**70 093 127,39**	**50 649 107,14**

3.2.2 Statement of distributable funds

	Parent company	
	31 Dec 2014	**31 Dec 2013**
Retained earnings/losses	6 349 408,45	1 363 813,69
Decrease in earnings	-4 824 941,10	-1 346 525,11
Profit for the period	7 170 462,52	6 332 119,87
Other reserves	3 535 587,59	1 155 758,69
Total distributalble funds	**12 230 517,46**	**7 505 167,14**

3.2.3 Liabilities

	Parent company	
	31 Dec 2014	**31 Dec 2013**
Non-current liabilities		
Loans from financial institutions	16 910 023,07	12 631 500,00
Unused overdraft facility	0,00	0,00
Other non-current liabilities	0,00	0,00
Long-term security deposit received	477 675,22	250 302,60
Total non-current liabilities	**17 387 698,29**	**12 881 802,60**
Current liabilities		
Loans from financial institutions	487 250,00	334 000,00
Advance payments received	118 549,37	61 695,85
Trade payables	82 371,05	2 666,53
Liabilities to Group companies		
Maintenance charge liabilities to Group companies	1 255 404,06	227 945,52
Total liabilities to Group companies	1 255 404,06	227 945,52
Other liabilities	1 106 630,20	1 154 800,47
Accrued expenses and deferred income	5 273 130,25	671 898,18
Interest liabilities	20951,59	18 657,65
Total current liabilities	**8 344 286,52**	**2 471 664,20**
Total liabilities	**25 731 984,81**	**15 353 466,80**

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

The Board of Directors' proposal for profit distribution

The distributable funds of the parent company in accordance with the Companies Act and the Tax Exemption Act in the consolidated financial statement amounted to EUR 8,694,929.87, of which profit for the year is EUR 7,170,462.52.

The Board of Directors proposes that the Board of Directors is authorised to decide on distribution of profit for 2014 before 31 December 2015 as follows: No more than EUR 1.20 per share will be paid in dividends for shares (ISIN code FI4000068614) not in the company's possession and issued in the book-entry system no later than on 19 March 2015 according to the following table.

ISIN code of the share	FI4000068614
Dividend right	100 %
Shares (pcs)	5,984,262
Dividend/year (EUR)	1.20
Total/year (EUR)	7,181,114.40

In addition, according to the possible authorisation in article 15 of the notice of Annual General Meeting 26 February 2015*, the company may also issue shares through directed issues that entitle to dividend as of the beginning of April 2015.

ISIN code of the share	FI4000068614
Dividend right	100 % as of 1 April 2015
Shares (pcs)	1,500,000
Dividend/year (EUR)	0,90
Total/year (EUR)	1,350,000.00

No more than EUR 8,531,114.40 will be distributed in dividends. The dividends will be paid in four instalments of EUR 0.30. The dividend payment dates are 31 March 2015, 30 June 2015, 30 September 2015 and 30 December 2015.

A minimum of EUR 163,815.47 to be left in the unrestricted equity.

The Board of Directors will be 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 be authorised to decide at its meetings on the dividend record dates, which will be two days from the decision of the Board of Directors and approximately five days before the payment dates.

List of accounting books and voucher types and storage methods

REPORTS OF TIKON FINANCIAL ADMINISTRATION SOFWARE AS COMPUTER PRINTOUTS

Annual accounts 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
Bank vouchers	voucher type	13-14	digital
Bank vouchers	voucher type	16-17	digital
Fair value change vouchers	voucher type	7	digital
Adjustments to subsidiaries' reports	voucher type	12	digital
Rent vouchers	voucher type	11	digital
Rent vouchers	voucher type	20	digital
Purchase invouces (WorkFlow)	voucher type	35	digital
Other purchase invoices	voucher type	32	digital
Purchase invoice payments	voucher type	37	digital
Changes in debt ratio	voucher type	70	digital
IFRS-adjustments	voucher type	85	digital
Other adjustments in Group	voucher type	90	digital

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

STORAGE METHOD OF ACCOUNTING BOOKS AN VOUCERS

Accounting books shall be stored 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 in shich the financial period ends.

Signatures for Financial statements and Board of Director's report

Helsinki, 11 February 2015

Jouni Torasvirta
Chairman of the Board

Veli Matti Salmenkylä
Member of the Board

Peter Ahlström
Member of the Board

Mikko Larvala
Member of the Board

Tapani Rautiainen
Member of the Board

Timo Valjakka
Member of the Board

Pekka Peiponen
CEO

The Auditor's Note

Our auditors' report has been issued today.

Helsinki, 26 February 2015

PricewaterhouseCoopers Oy
Authorized Public Accountants

Eero Suomela
KHT

AUDITOR'S REPORT

To the General Meeting of Orava Residential Real Estate Investment Trust plc

We have audited the accounting, financial statements, Board of Directors' report and administration of Orava Residential Real Estate Investment Trust plc for the financial period 1 January – 31 December 2014. The financial statements include the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, as well as the parent company balance sheet, income statement, cash flow statement and notes.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for preparing the financial statements and the Board of Directors' report and ensuring that the consolidated financial statements provide a true and fair view in accordance with the International Financial Reporting Standards (IFRS) endorsed for use in the EU and that the financial statements and the Board of Directors' report provide a true and fair view in accordance with the provisions concerning the preparation of financial statements and Board of Directors' report valid in Finland. The Board of Directors is responsible for the appropriate organisation of the supervision of accounting and financial affairs, and the CEO is responsible for ensuring that the accounting is in accordance with the law and that the financial affairs are organised in a reliable manner.

Duties of the auditor

It is our duty to issue an opinion on the financial statements, consolidated financial statements and Board of Directors' report on the basis of the audit conducted by us. The Auditing Act requires that we comply with the principles of professional ethics. We have conducted the audit in accordance with the good auditing practice followed in Finland. Good auditing practice requires that we plan and perform the audit to acquire reasonable assurance as to whether there are material misstatements in the financial statements or the Board of Directors' report and whether the members of the parent company Board of Directors or the CEO are guilty of an act or neglect that may result in a liability to pay damages to the company or whether they have breached the Limited Liability Companies Act or the Articles of Association.

The audit includes measures to acquire auditing evidence on the figures included in the financial statements and the Board of Directors' report and on other information presented in them. The choice of measures used is based on the auditor's discretion and includes the assessment of the risks of material misstatement due to malpractice or error. When assessing these risks, the auditor takes into account internal control, which is significant in the company when examining the preparation of the financial statements and determining whether the Board of Directors' report provides a true and fair view. The auditor assesses internal control in order to be able to plan appropriate auditing measures in view of the circumstances, but not for the purpose of giving an opinion on the efficiency of internal control within the company. The audit also includes the assessment of the appropriateness of the accounting principles applied, the reasonableness of the accounting estimates made by the operational management and the general manner of presentation of the financial statements and the Board of Directors' report. In our view, we have acquired the necessary amount of appropriate auditing evidence to form the basis for our opinion.

Opinion on the consolidated financial statements

It is our opinion that the consolidated financial statements provide a true and fair view of the financial position of the Group, the result of its operations and its cash flows in accordance with the International Financial Reporting Standards (IFRS) endorsed for use in the EU.

Opinion on the financial statements and the Board of Directors' report

It is our opinion that the financial statements and the Board of Directors' report provide a true and fair view of the operational result of the Group and the parent company and their financial position in accordance with the provisions concerning the preparation of financial statements and Board of Directors' report valid in Finland. There are no conflicts between the information in the Board of Directors' report and the financial statements.

Helsinki, 26 February 2015

PricewaterhouseCoopers Oy

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Eero Suomela

Authorised Public Accountant