

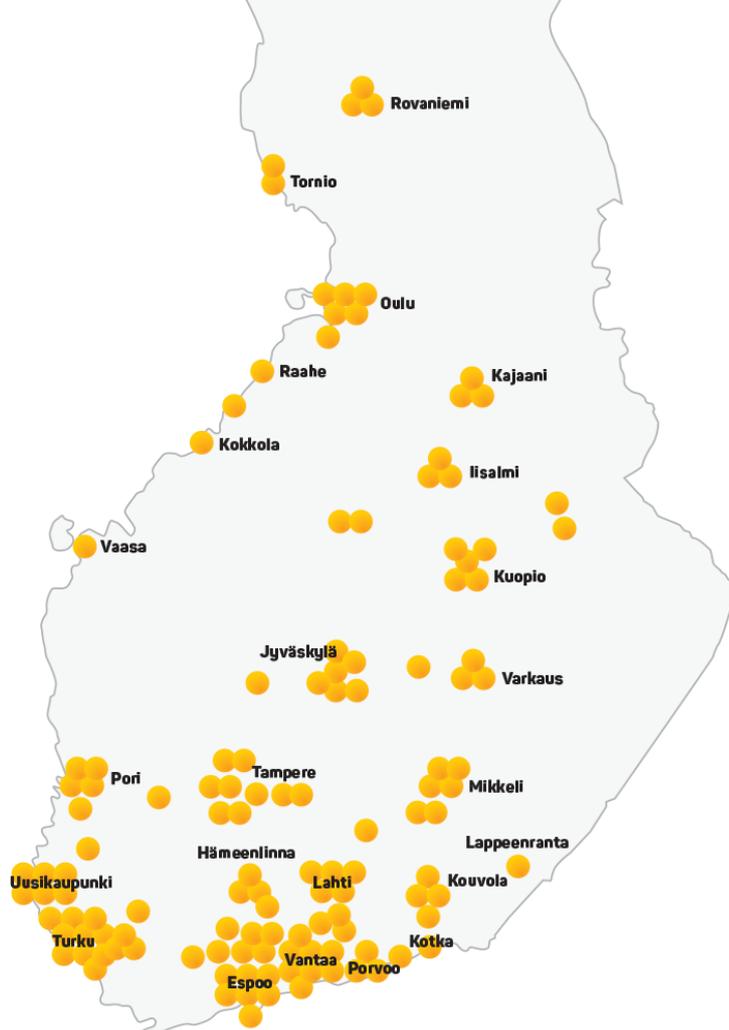
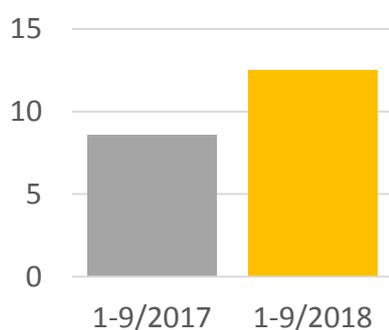
Q3
2018



1-9/2018 (1-9/2017)

Total revenue

12,5 M€
(8,6 M€)



Value of investment properties

310,4 M€
(225,5 M€)

Occupancy rate

100 %
(100 %)

Value of portfolio agreement

399,8 M€
(292,3 M€)

Average maturity of the agreement portfolio

15 v
(14,3 y)

Operating result increased strongly

Business review January–September 2018 (unaudited)

	1-9/2018	1-9/2017	Change-%	2017
Total revenue	12,528	8,571	46.2%	12,373
Profit for the period	21,002	18,989	10.6%	25,504
Operating result	5,186	3,560	45.7%	5,436
Earnings per share, undiluted (EUR)	0.83	0.80	3.7%	1.05
Earnings per share, diluted (EUR)	0.82	0.79	3.8%	1.04
Operating result per share (EUR)	0.20	0.15	33.3%	0.22
Value of investment properties	310,450	225,483	37.7%	247,066
NAV per share (EUR)	6.41	5.33	20.3%	5.67
Value of the agreement portfolio (without index increases)	399,812	292,287	36.8%	316,046
Economic occupancy rate, %	100%	100%	-	100%
Average maturity of the agreement portfolio (years)	15.0	14.3	-	14.4

Main events

- A total of 15 new properties were completed in the review period
- The lease portfolio increased to around EUR 400 million
- The first school project started
- Hoivatilat sold all shares in six properties, with a sales gain of around EUR 1 million

Financial guidance for 2018

Hoivatilat expects its total revenue to be around EUR 17 million in 2018. Its operating result is estimated to be around 40% of revenue. The fair value of its investment properties at the end of 2018 is estimated to be around EUR 330–340 million. The guidance is based on the assumption that, during the remainder of 2018, the company will not make significant purchases or sales of finished investment properties and that the market yields used in the valuation of properties will remain at their current level.

Jussi Karjula, CEO:

The company continues on its strong growth track. During the third quarter, we signed a significant number of new leases, and our lease portfolio increased to around EUR 400 million. The lease portfolio refers to future cash flow from rental properties, or revenue. This strong outlook is supported by the 100% occupancy rate of our properties and the long, 15-year average maturity of the lease portfolio.

During the review period, we sold a portfolio of six properties. This freed up capital for new property projects. Combined with financing from banks, the net assets gained through the transaction enable us to invest around EUR 30 million in properties.

We expect our strong growth to continue over the next few years. For this reason, we are currently studying various options for financing our growth in 2019–2020, including any needs to strengthen equity. The study is based on our previously announced targets: an increase of at least 30% per year in revenue in 2019–2020, with an equity ratio of at least 35% on average.

Day-care centres are typically completed during the third quarter, with new day-care centres starting their operations in August. A total of 15 new properties were completed in the review period. These will generate considerable revenue growth for the remainder of the year.

During the Kuntamarkkinat municipal fair in September, we introduced the Dream Community concept. In the future, our projects will increasingly be more extensive service community projects that combine various age groups' and user groups' needs for services. We have made plot reservations for the Housing Fair Finland events to be held in Tuusula in 2020 and in Lohja in 2021. We will be participating with our Dream Community concept.

Market and economic developments

Urbanisation is increasing and the population is ageing in both Europe and Finland. Over the past two decades, the population of the Uusimaa region has increased by almost 500,000 people. Approximately 70 per cent of the population of Finland is already living in and around its 14 largest cities. Finland has the most rapidly ageing population in Europe. The number of people aged over 75 will nearly double over the next two decades. At the end of 2017, the number of people aged over 75 in Finland was 502,000, and this number is predicted to increase to 925,000 by the end of 2040 (stat.fi).

The laws related to the combined regional government reform and health and social services reform are currently being processed by the Finnish parliament. During the reform, new regions will be established, new tasks will be assigned to the regions, and the structure and funding of health and social services will be reformed. The reform is intended to come into effect on 1 January 2021. With the reform, responsibility for health and social services, rescue operations and growth services will transfer to the regions.

The Freedom of Choice Act is an essential part of the health and social services reform. The purpose of the act is to enable social welfare and healthcare customers to choose their service provider and to improve the availability and quality of services. With the population ageing, the need for housing and nursing services will increase strongly, and private service providers play, and will continue to play, a key role. This trend is likely to gain momentum, regardless of whether or not the health and social services reform is implemented in its intended form.

According to the Ministry of Finance's Economic Survey, construction activity increased strongly during the first half of 2018, and the outlook for the second half is also good, with the possibility of temporary overheating in the residential construction market. According to the RAKSU group, which studies business cycles in the construction sector, business cycle development in 2018 has been stronger than expected. However, the outlook for 2019 remains unchanged: development is expected to slow down. RAKSU expects construction production to increase by 3–4 per cent in 2018 and remain close to the current level in 2019.

In January–June 2018, the total volume of construction permits granted decreased by 10 per cent year-on-year. The volume of permits granted for residential construction decreased by 12 per cent, while their number decreased by only 7.5 per cent. However, there are considerable differences within the construction sector. The construction of new properties has increased strongly, while renovation and infrastructure construction projects have increased at a markedly slower pace. Growth in renovation projects is expected to slow down slightly in 2019, with the overall business cycle becoming weaker. The number of other new residential construction projects will decrease. The strong trend in construction in health and social services and educational services will continue.

Interest rates are expected to remain low in the near future. The Bank of Finland predicts that interest rates will increase slightly over the next few years. According to its forecast, short-term interest rates will remain negative for 2018–2019, and ten-year bond interest rates will remain below 1%.

Material events during the review period

A total of 15 new properties were completed during the review period, with the company's lease portfolio increasing to around EUR 400 million.

On 17 September 2018, the company announced that its first school project had started in Siilinjärvi. The project involves the construction of the Kuuslahti school for the municipality of Siilinjärvi in accordance with the lease model. The investment is worth around EUR 3 million, with a 15-year lease.

On 30 August 2018, the company sold all shares in six properties to Special Investment Fund eQ Care. The debt-free purchase price was EUR 16.4 million. The transaction resulted in a non-recurring sales gain of around EUR 1 million for Hoivatilat. Following the transaction, Hoivatilat further specified its financial guidance for 2018 in terms of revenue and the fair value of its property portfolio.

Financial development

Revenue for the review period was EUR 12.5 million (January–September 2017: EUR 8.6 million), representing an increase of 46.2% year-on-year. The revenue consisted entirely of rental income from properties. The increase in revenue is a result of a significant increase in the number of leases on completed properties. The result for the period after taxes amounted to EUR 21.0 (19.0) million. The operating result for the period was EUR 5.2 (3.6) million. The operating result was 41.4% (41.5%) of revenue. The increase in the operating result was mainly due to growth in rental income. The operating result increased by 45.7% and the result for the period increased by 10.6% year-on-year. Undiluted earnings per share were EUR 0.83 (0.80), and diluted earnings per share were EUR 0.82 (0.79). The operating result per share was EUR 0.20 (0.15).

The value of investment properties at the end of September was EUR 310.4 (225.5) million, representing an increase of 37.7%. On 30 August 2018, the company sold six investment properties, with the debt-free purchase price being EUR 16.4 million. The valuation of investment properties on 30 September 2018 is based on the assumptions and yields applied in the half-year report for January–June 2018. The next comprehensive external valuation of the property portfolio will be carried out on 31 December 2018. Net asset value (NAV) per share was EUR 6.41 (5.33). The equity rate on 30 September 2018 was 46,0% (52,5%) and the loan-to-value was 45,9% (38,6%).

The rental occupancy rate was 100% (100%), with an average maturity of leases of 15.0 (14.3) years. The value of the lease portfolio (excluding index increases) was EUR 399.8 (292.3) million. The divestment of six investment properties during the review period had a negative effect on the value of the lease portfolio. At the end of the review period, the number of properties under construction and in the planning phase was 44 (36). Their investment value was EUR 120.5 (74.0) million.

Properties, 30 September	Completed		In progress and not started*		Total	
	Q3/2018	Q3/2017	Q3/2018	Q3/2017	Q3/2018	Q3/2017
Number of properties	107	83	44	36	151	119.0
Leasable area, thousand floor m ²	93.8	72.4	46.9	31.7	140.8	104.1
Annual rents, EUR million	18.9	14.8	8.9	6.2	27.8	20.9
Investment (acquisition cost), EUR million	209.9	156.6	120.5	74.0	330.4	230.6

* = Properties in progress and not started also include properties for which binding leases or preliminary agreements have been signed, but construction has not yet begun.

Events after the review period

No material events after the review period

Financial targets for 2018–2020

The company seeks to increase its revenue by around 40% in 2018 and by at least 30% per year in 2019–2020. In line with this target, the company expects its operating result to be 40% of revenue on average, with its equity ratio being at least 35% on average.

Financial reporting in 2019

The financial statements bulletin for 2018 will be published on 21 February 2019.

Oulu, 1 November 2018

Suomen Hoivatilat Oyj

Board of Directors

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This is not an interim report in accordance with the IAS 34 standard. The company carries out semi-annual reporting in accordance with the Finnish Securities Markets Act (746/2012) and publishes business reviews for the first three and nine months of the year that outline key information describing the company's financial performance. The information presented in this review is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.