

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement has been prepared in accordance with the Corporate Governance Code 2015 for Finnish listed companies published by the Securities Market Association.

The purpose of Orava Residential REIT plc 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 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 (299/2009) ("the Tax Exemption Act"). 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.

In addition, Orava Residential REIT complies in its operations with the Finnish Limited Liability Companies Act, other Finnish acts, the Articles of Association of Orava Residential REIT, the governance principles determined by the Board of Directors, the rules for real estate investment operations confirmed by the Financial Supervisory Authority and the rules and guidelines of the Nasdaq OMX Helsinki Stock Exchange. Orava Residential REIT also complies with the Corporate Governance Code for Finnish listed companies published by the Securities Market Association with the exception that the company's Board of Directors does not have any female members and that the Board of Directors has not appointed committees. You may get familiar with the Corporate Governance Code on the Internet at www.cgfinland.fi.

In the preparation of its consolidated financial statements and interim reports, Orava Residential REIT complies with the international financial reporting standards (IFRS) endorsed by the EU, the Real Estate Funds Act, the Securities Markets Act and the applicable standards of the Financial Supervisory Authority and the rules of the Helsinki Stock Exchange. In addition, Orava Residential REIT complies with the Best Practices recommendations of the European Public Real Estate Association (EPRA) of August 2011, as applicable. The Accounting Act and the guidelines and statements of the Accounting Board are complied with in the preparation of the Board of Directors' report and the parent company financial statements.

Governing bodies of Orava Residential REIT

In accordance with the Finnish Limited Liability Companies Act, the highest decision-making powers at Orava Residential REIT are exercised by the shareholders at the General Meeting, the Board of Directors elected by the General Meeting and the CEO.

The General Meeting

The General Meeting of Shareholders is the highest decision-making body in Orava Residential REIT. The Annual General Meeting is held once a year before the end of June in accordance with the Articles of Association. The company aims to organise the Annual General Meeting before the end of March. The company's Board of Directors convenes the Annual General Meeting. The Articles of Association of Orava Residential REIT were accepted at the constitutive meeting on 30 December 2010.

The General Meeting decides on matters that belong to it in accordance with the Limited Liability Companies Act and the Articles of Association, which include, among other things:



- adopting the financial statements;
- using the profit shown by the consolidated statement of financial position;
- deciding on the discharge from liability of the members of the Board and the CEO;
- deciding on the number of Board members and the remuneration of the Board members and the auditor;
- electing the Board members and the auditor;
- deciding on other matters referred to in the notice of the General Meeting.

Board of Directors

The Board of Directors of Orava Residential REIT has three to eight regular members, whom the General Meeting elects at a time for a period that lasts until the close of the following Annual General Meeting. According to the recommendation included in the Corporate Governance Code for Finnish listed companies, the Board of Directors shall include members of both genders. The composition of the company's Board of Directors does not meet the recommendation with regard to the representation of both genders. When the company was established and in the growth phase of the company after its establishment, its key persons have made up the company's Board of Directors together with the main owners. There have not been any women among the key persons and main owners. Considering the nature of the company's operations and its industry, it has been challenging for the company to find suitable candidates for the Board of Directors in accordance with the focus areas of its governance work. It is the company's aim to also meet the recommendation of the Corporate Governance Code with regard to the composition of the Board of Directors.

On 30 December 2010, the Board of Directors approved rules of procedure for itself, which have been revised annually, most recently on 19 March 2015. The rules of procedure steer the work of the Board of Directors and supplement the other provisions complied with in the operations of the Board, the key ones among which are the Limited Liability Companies Act, the Securities Markets Act, the Real Estate Funds Act, the Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations ("the Tax Exemption Act") and the company's Articles of Association.

It is the general task of the Board of Directors to guide the operation of the company so that it generates the best possible added value for shareholders measured in future cash flows. However, the operation of the company shall take other stakeholder groups appropriately into account and manage the implementation of corporate social responsibility. The Board of Directors monitors the development of the Group's operational activities mainly through the CEO's reviews and monthly reports.

The following decisions concerning the REIT's investment operations shall be made by the REIT's Board of Directors:

- Acquisition or assignment of the REIT's investment assets if the contract price exceeds 10% of the REIT's entire capital;
- Acquisition or assignment of real estate;
- Deciding on taking out liabilities;
- Entering into administrative and service agreements related to the acquisition and management of the REIT's investments or amending them.

As its other key tasks the Board of Directors:



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- Appoints and dismisses the CEO and decides on the terms and conditions of the CEO's duties;
- Approves the operating policies and values;
- Confirms the strategy and annual budget and monitors their implementation;
- Processes and approves any interim reports and the financial statements;
- Approves the account use and other authorisations;
- Ensures that accounting and the supervision of finances have been appropriately organised;
- Approves significant investments and other particularly significant decisions;
- Approves the dividend distribution policy and makes a proposal to the General Meeting for the distribution of dividends;
- Convenes the General Meeting;
- Monitors the implementation and efficiency of internal control, supervision and risk management;
- Defines the principles for the remuneration of executive management.

In addition, the Board of Directors, if it has not appointed a separate audit committee,

- Monitors the process of financial statement reporting;
- Supervises the financial reporting process;
- Monitors the statutory audit of the financial statements;
- Assesses the independence of the statutory auditor and particularly the offering of auxiliary services to the company;
- Prepares the decision proposal concerning the election of the auditor;
- Deals with other matters which the chairman of the Board and the CEO have agreed to be dealt with by the Board of Directors or which otherwise fall under the decision-making power of the Board of Directors pursuant to the Limited Liability Companies Act, other acts, the Articles of Association or any other provisions.

Orava Residential REIT does not currently have separate committees appointed by the Board of Directors. Taking into account the size of the Group and the scope of its operations, the company has considered that, at least as yet, no separate committees are needed.

The chairman of the Board and the CEO prepare the agenda for the meetings of the Board of Directors and make up the composition that prepares the matters to be introduced to the meetings.

In addition, the special tasks of the chairman of the Board include:

- Participating in the acquisition and assignment of investment properties under the authorisation granted by the Board of Directors;
- Monitoring the statutory audit of the financial statements;
- Leading the work of the Board of Directors so that the Board of Directors manages its tasks as effectively and appropriately as possible;
- Monitoring that the meetings entered in the meeting schedule are appropriately convened;
- Convening additional meetings, as necessary;
- Maintaining regular contact with the CEO also between meetings in order to monitor the operations of the company;
- Maintaining contact with other Board members, as necessary, also between meetings;



- Maintaining contact with other stakeholder groups, as necessary;
- Being responsible for the planning and assessment of operations and the evaluation of the CEO.

The Board of Directors assesses its operations and the operation of the CEO once a year towards the end of its term of office. The previous assessment was performed on 21 October 2015. The Board of Directors elects a chairman and a deputy chairman from among its members.

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.), chairman of the Board of Orava Funds plc) and Timo Valjakka (born in 1960, LL.B., CEO of Maakunnan Asunnot Oy). Mikko Larvala (born in 1966, LL.B. and M.Sc. (Econ.)) has been a member of the Board since June 2013, and Peter Ahlström (born in 1964, M.Sc. (Tech.), INSEAD International Directors' Program) has been a member of the Board from September 2013 to 19 March 2015. Patrik Hertsberg (born in 1963, M.Sc. (Econ.), partner in Merasco Ltd) has been a member of the Board since 19 March 2015.

The members of the Board have in aggregate 60 years of experience in the real estate sector and 40 years of experience in the securities market. The Board has convened a total of 26 times during the financial period 1 January–31 December 2015. The attendance percentage of Board members at meetings during their term of office has been an average of over 97%. Of the Board members, Tapani Rautiainen and Timo Valjakka are independent of the company, Torasvirta and Salmenkylä are independent of the significant shareholders, and Mikko Larvala and Peter Ahlström are independent of the company and significant shareholders.

According to the recommendation included in the Corporate Governance Code for Finnish listed companies, the Board of Directors shall include members of both genders. The composition of the company's Board of Directors does not in this respect meet the recommendation. It is the company's aim to also meet the recommendation of the Corporate Governance Code with regard to the composition of the Board of Directors.

The valid remuneration of the members of the Board was decided at the General Meeting of 19 March 2015. The monthly fee of a Board member is EUR 1,200, and that of the chairman of the Board EUR 2,000. The meeting fee of a Board member is EUR 300, and that of the chairman of the Board EUR 600. The members of the Board are not employed by Orava Residential REIT.

The fees and attendance percentages at meetings of the Board members were in total as follows between 1 January–31 December 2014:

	(EUR 1,000)	%
Jouni Torasvirta	37	100
Peter Ahlström	4	100
Patrik Hertsberg	17	100
Mikko Larvala	21	100
Tapani Rautiainen	21	96
Veli Matti Salmenkylä	21	100
Timo Valjakka	<u>20</u>	<u>88</u>
Total	142	97



Ownership of Board members and the CEO

The following table shows the ownership of members of the Board and members of the executive group in the company on 24 February 2016:

Name	Year of birth	Position	Owns the company's shares (pcs)
Jouni Torasvirta	1965	Chairman	47,739 ****
Tapani Rautiainen	1957	Vice Chairman	891,771* **
Patrik Hertsberg	1963	Member of the Board	0
Mikko Larvala	1966	Member of the Board	0
Veli Matti Salmenkylä	1960	Member of the Board	100
Timo Valjakka	1960	Member of the Board	563,024* ***
Pekka Peiponen	1962	CEO	100

* Ownership through Maakunnan Asunnot under the member's control (433,644 pcs), ** ownership through the Royal House Group under the member's control (458,107 pcs), *** ownership through Godoinvest Oy under the member's control (129,360 pcs), **** ownership through a holding company (45,639 pcs).

CEO

The CEO manages the company's routine administration in accordance with the objectives, instructions and orders issued by the Board of Directors. The CEO is responsible for ensuring that the company's accounting is in accordance with the law and its finances are reliably organised. The CEO is appointed and, as necessary, dismissed by the company's Board of Directors.

The Board of Directors of Orava Residential REIT has approved the guideline for the CEO at its meeting on 30 December 2010. The Board of Directors will update and change the guideline as necessary. The Board of Directors reviews the guideline after the General Meeting following the election of the Board of Directors. This guideline steers the operation of the CEO and supplements the other provisions to be followed, among which the central provisions are: the Limited Liability Companies Act, the Securities Markets Act, the Real Estate Funds Act, the Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations ("the Tax Exemption Act"), the company's Articles of Association, and the Account Use and Other Authorisations guideline.

The routine administration mainly includes managing and supervising the company's business, making investments and entering into and concluding agreements. The CEO is responsible for the payment and supervision of the company's Board fees and withholding pay-as-you-earn taxes and ensuring that the company pays taxes and public fees levied on it. The CEO shall arrange such an organisation for the company that ensures the management of the duties in question. The CEO may only take unusual or extensive measures considering the scope and nature of the company's activities when authorised by the Board of Directors.

The CEO is responsible for investing the assets to be invested by the REIT in accordance with the rules and acts applicable to the REIT, without jeopardising its tax exemption.

The CEO introduces investment proposals for decision by the REIT's Board of Directors which, in accordance with the rules of the REIT, shall be made by the Board of Directors of the REIT:



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- Acquisition or assignment of the REIT's investment assets if the contract price exceeds 10% of the REIT's entire capital;
- Acquisition or assignment of real estate;
- Deciding on taking out liabilities;
- Entering into administrative and service agreements related to the acquisition and management of the REIT's investments or amending them.

The REIT's Board of Directors may authorise the CEO to make the decisions on investment operations referred to in Sections 2–3 within certain limits. The CEO or a person appointed by the CEO is responsible for other investment decisions and the operational management of investment operations under the authorisations granted by the Board of Directors, unless otherwise provided in the legislation applicable to the REIT.

The CEO manages the practical convening of regular Board meetings and the delivery of meeting material. The CEO's accompanying words, the agenda, the minutes of the previous meeting with their appendices, the latest monthly report and any documents related to the matters on the agenda shall be delivered with the notice of the meeting.

The Employment Contracts Act or provisions on working hours or annual holidays are not applied to the CEO. The CEO is subject to a director agreement approved by the Board of Directors. The management company of Orava Residential REIT, Orava Funds plc, is responsible for content and terms and conditions of the agreement. Orava Residential REIT has no personnel of its own, so the CEO is also a part of the business organisation of Orava Funds plc. Pekka Peiponen was appointed CEO at a Board meeting on 6 February 2014. Orava Residential REIT does not pay a salary or other benefits to its CEO. Pekka Peiponen also acts as a director at the management company Orava Funds plc.

Management company Orava Funds plc

Orava Residential REIT was established on the initiative of Orava Funds plc. Orava Funds was elected as the management company of Orava Residential REIT, and the management agreement was approved on 30 December 2010 and signed after revisions on 1 March 2011. The revisions concerned personnel expenses. The Residential REIT has no personnel of its own. The personnel is part of the business organisation of Orava Funds, and the personnel expenses are included in the management fee.

Orava Funds is responsible for the financial benefits of its personnel. Jouni Torasvirta has also acted as the chairman of the Board of Orava Residential REIT, Veli-Matti Salmenkylä as a Board member and Pekka Peiponen as the CEO in the financial period 2015. The financial benefits they receive are not only based on the tasks related to the administration of the Residential REIT, but also on other tasks of the management company.

	Salaries	Retirement age *)	Period of notice	Pay for the notice period
Jouni Torasvirta	163,220	-	3 months	3 months' salary
Veli Matti Salmenkylä	155,747	-	1 month	1 month's salary
Pekka Peiponen	126,683	-	1 month	1 month's salary

*) The retirement age and supplementary pension have not been agreed upon.

The salaries include both fixed monthly salaries and incentive bonuses. Orava Funds has in use an incentive bonus system, which the company's Board of Directors confirms annually. The maximum

incentive bonus is 40% of the fixed salary. The incentive bonus is determined on the basis of the percentage of achieved personal objectives and the company's operating profit percentage.

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.

Orava Funds offers the following services for the Residential REIT, and provides the REIT with the following rights to use the information systems it needs in its administration:

- The company's business idea and its development;
- The establishment of the REIT and the organisation of its management and operations;
- The right to use the management company's Orava name, logo and brand;
- The preparation of the company's investment strategy, including participation in making investment proposals and proposals concerning abandonment of investments and decisions in accordance with the rules for real estate investment operations;
- Planning, guidance and organisation of the company's investment operations and support function processes;
- The right to use the information systems, such as financial administration, human resources management, portfolio management, value calculation, agreement management and customer management information systems, offered by the management company related to the administration of the company.

As compensation for the management services, Orava Residential REIT pays the management company 0.6% (+ any VAT) of the fair value of the assets of the REIT as an annual fixed management fee and 20% (+ any VAT) of the annual return on the REIT 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 2015 amounted to EUR 967,000.

The performance-based management fee is calculated on the basis of earnings per share for the financial period and the number of shares at the end of the financial period. Before listing, earnings per share for the financial period are calculated on the basis of net assets per share closing and opening the financial period and the dividends paid for the share during the financial period. After listing, the stock exchange price of the share shall be used in the calculation instead of net assets per share, if the stock exchange price of the share is lower than net assets per share. The performance-based management fee is only paid if the closing stock exchange price for the financial period is higher than the highest dividend, issue and split-adjusted closing stock exchange price for the previous financial periods.

No more than half of the performance-based management fee can be paid in the REIT's own shares. The performance-based management fee was not paid in 2015.

The management company reports to the Board of Directors on the development of the business operations on a monthly basis, compared to the annual plan and the budget. The development of the fair value of investment assets, financial position, revenues, profitability, sales, sales receivables, expenses and, through them, the result is supervised on a monthly basis, and measures taken due to deviations are reported on.

Technical and administrative property management of the real estate



The technical and administrative property management of the real estate and the leasing of apartments is outsourced to Newsec Asset Management Oy (Newsec) and Ovenia Oy. The service agreement with Newsec was signed on 31 December 2010 and with Ovenia on 25 June 2014. The Board of Directors has authorised Newsec and Ovenia by a separate power of attorney to conclude a service agreement and perform duties according to a separate task list. In 2015, Newsec and Ovenia were paid EUR 790,000 for financial administration and other support activities and the leasing operations for apartments.

Boards of Directors of subsidiaries

The Boards of Directors of the subsidiaries ensure that all Group companies of Orava Residential REIT are managed in accordance with the valid acts, provisions, agreements and principles of Orava Residential REIT. As a rule, Pekka Peiponen has acted as the chairman of the Board of Directors of the companies, Veli-Matti Salmenkylä as a member, plus one member from either Newsec Asset Management Oy or Ovenia Oy.

Auditing

According to the Articles of Association, Orava Residential REIT has one auditor, which shall be an auditing company approved by the Finland Chamber of Commerce. The auditor has been PricewaterhouseCoopers Oy, Authorised Public Accountants, with Eero Suomela, APA, as the chief auditor until August 2015. Since August 2015, the chief auditor has been Tuomas Honkamäki, APA. The fees related to auditing during the period under review have been:

- auditing of the parent company and the Group EUR 78,000
- auditing of the subsidiaries EUR 35,000

Main characteristics of internal control and risk management

The aim of internal control is to ensure that the operations of Orava Residential REIT are in accordance with the acts, provisions, agreements and principles of Orava Residential REIT, that the operations are effective and aimed to achieve the set objectives, and that the financial and operational reporting is reliable.

The aim of risk management is to support the strategy of Orava Residential REIT and the achievement of its objectives by anticipating and controlling potential threats and opportunities in its business operations. The task of the Board of Directors is to monitor the implementation and efficiency of internal control, supervision and risk management. The Board of Directors has most recently performed a risk assessment on 16 September 2015. The company has reported its most significant risks in its annual report for 2015.