

Orava Residential REIT plc

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Board of Directors of Orava Residential REIT plc does not recommend Investors House Oyj's exchange offer – Consideration is low in relation to the net asset value of Orava Residential REIT plc's share

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BACKGROUND

Investors House Oyj ("**Investors House**" or the "**Offeror**") announced on 21 August 2017 its voluntary public exchange offer for the shareholders and holders of special rights entitling to shares in Orava Residential REIT plc ("**Orava Residential REIT**" or the "**Company**"), in which the Offeror offer to acquire all issued and outstanding shares and special rights of Orava Residential REIT (the "**Exchange Offer**") not held by Orava Residential REIT or the Offeror. The Offeror announced on 18 September 2017 that it commences the Exchange Offer published on 21 August 2017 and published the combined offer document and prospectus dated 18 September 2017 (the "**Offer Document**").

Orava Residential REIT announced on 24 August 2017 that its Board of Directors had initiated measures required by the takeover code referred to in Chapter 11, section 28 of the Securities Markets Act (the "**Takeover Code**") in order to reach the best possible outcome for shareholders. For this purpose, the Board of Directors began, among others, investigating possibilities to obtain competing bids. On 20 September 2017, Orava Residential REIT announced the preliminary assessment regarding the Exchange Offer of the Offeror, according to which the Board of Directors would not recommend acceptance of the Exchange Offer and the independent members of the Board of Directors of Orava Residential REIT would continue surveying possible competing offers and other alternatives as well as development of independent operations of Orava Residential REIT in order to achieve the best possible outcome for all shareholders. Orava Residential REIT announced on 20 September 2017 that the Board of Directors had received from Elite Varainhoito Oyj an indicative offer for converting Orava Residential REIT into a non-UCITS fund. The release concerning the indicative offer was complemented by a release dated 22 September 2017. Orava Residential REIT announced on 26 September 2017 that it had received information that its shareholders who represent 11.2 per cent of all shares have announced that they consider the exchange offer of Investors House too low to be acceptable. The notifications that Orava Residential REIT has received from its shareholders are not binding.

The Board of Directors of Orava Residential REIT has on 4 October 2017 decided to issue the below statement on the Exchange Offer in the manner required by the Securities Markets Act (746/2012, as amended).

EXCHANGE OFFER IN BRIEF

The Board of Directors of Investors House decided on 18 September 2017, pursuant to the authorisation granted by the Annual General Meeting of 11 September 2017, to offer a maximum of

6,399,274 new shares in Investors House to be subscribed for the shareholders of Orava Residential REIT who accept the Exchange Offer so that each three (3) shares in Orava Residential REIT entitle to subscribe for two (2) new shares in Investors House. In addition, the Board of Directors of Investors House decided to pay a cash consideration of EUR 0.21 for each share in Orava Residential REIT.

The offer period of the Exchange Offer began on 21 September 2017 at 9:00 a.m. and will preliminarily end on 12 October 2017 at 4:00 p.m., unless the offer period is extended pursuant to the terms and conditions of the Exchange Offer.

The Exchange Offer is conditional. The approval of the subscriptions requires that the preconditions for the implementation of the Exchange Offer set forth in the terms and conditions of the Exchange Offer have been fulfilled or that Investors House waives the fulfilment of all or some of the terms and conditions to the extent permitted by law or regulations.

Investors House's purpose is to acquire all shares and special rights entitling to shares in Orava Residential REIT not held by Orava Residential REIT. Investors House will implement the Exchange Offer irrespective of the holding that it achieves through the Exchange Offer. Therefore, the implementation of the Exchange Offer is not conditional upon reaching a certain minimum holding through the Exchange Offer.

Pursuant to the terms and conditions of the Exchange Offer, a shareholder of Orava Residential REIT may, at any time prior to the end of the offer period (including extended or discontinued extended offer period) cancel the acceptance of the Exchange Offer until Investors House has declared the Exchange Offer unconditional.

The terms and conditions to be complied with in connection with the Exchange Offer and other information on the Exchange Offer and its reasons are available in the Offer Document.

STATEMENT OF THE BOARD OF DIRECTORS

1. Background and preparation of the statement

Pursuant to the Securities Markets Act, the Board of Directors of Orava Residential REIT shall prepare a public statement regarding the Exchange Offer. The statement shall include a well-founded assessment of the Exchange Offer from the perspective of Orava Residential REIT and its shareholders as well as of the strategic plans presented by the Offeror in the Offer Document and their likely effects on the operations and employment of Orava Residential REIT.

Deputy Chairman of Orava Residential REIT's Board of Directors Patrik Hertsberg and Board members Petra Thóren and Mikko Larvala have participated in the assessment of Investors House's Exchange Offer and possible other alternatives, as well as in preparing the statement and making the decision of the Board of Directors. The Chairman of Orava Residential REIT's Board of Directors Jouni Torasvirta and Board member Veli Matti Salmenkylä have not participated in the preparation of the matters related to the Exchange Offer or related decision-making.

For the purposes of issuing this statement, the Board of Directors of Orava Residential REIT has read the Offer Document. In preparing its statement, the Board of Directors of Orava Residential REIT has relied on information that the Offeror has provided in the Offer Document, and the Board of Directors of Orava Residential REIT has not independently verified this information. In addition, the Board of Directors of Orava Residential REIT has requested Investors House for a possibility to conduct a due diligence investigation on Investors House in accordance with the Takeover Code, in order for the Board of Directors to make a well-founded assessment of the securities offered as consideration. Investors House has responded to Orava Residential REIT's request concerning the due diligence investigation by forbidding the due diligence investigation, since (i) Inves-

tors House has published after the request an Offer Document which, according to Investors House, includes all up-to-date information on Investors House having a material effect on Investors House's share and required by the Securities Markets Act and other applicable legislation, (ii) the Board of Directors of Orava Residential REIT has already on 20 September 2017 announced its preliminary position, according to which it will not recommend the acceptance of the Exchange Offer, and (iii) Investors House considers Orava Residential REIT its competitor and cannot disclose its business secrets to it. Due to the above-mentioned reasons, Orava Residential REIT could not conduct a due diligence investigation on Investors House. Due to the above-mentioned reasons, the assessment of the Board of Directors of Orava Residential REIT of the Exchange Offer and its effect on the operations and employees of Orava Residential REIT may entail uncertainties.

2. Assessment regarding strategic plans presented by the Offeror and their likely effects on the operations of and employment in Orava Residential REIT

Plans presented by the Offeror in the Offer Document

The Board of Directors of Orava Residential REIT has assessed the Offeror's strategic plans based on the information provided by the Offeror in the Offer Document. Investors House has described the background and effects of the Exchange Offer on Investor House's and Orava Residential REIT's business and assets as well as the future position of the companies' management and employees in section 5 of the Offer Document. Orava Residential REIT has no employees at its service.

In accordance with the Offer Document, Investors House's purpose is to improve the profitability of Orava Residential REIT significantly. The five key means would include the Exchange Offer and changes to Orava Residential REIT's structure, business model, dividend policy and reporting policies. Investors House expects that annual profit and cost synergies generated through changes to the business model and structure will amount to EUR 1.5–2.5 million by 2019. In addition, in the Offer Document Investors House assesses that, if it were to reach a sufficient holding in order to carry out the restructuring measures, such measures could be carried out within 2 years, as estimated, so that their benefits would began to appear as of the end of 2019.

Assessment of the Board of Directors of Orava Residential REIT of the Offeror's strategic plans – general viewpoints

The Board of Directors of Orava Residential REIT deems that the information presented in the Offer Document on the Offeror's strategic plans regarding Orava Residential REIT and on the effect of the Exchange Offer on Orava Residential REIT's operations are general in nature. In accordance with the understanding of the Board of Directors of Orava Residential REIT, the strategic objectives presented by Investors House in the Offer Document (among others, change to the business model, change to the dividend policy, change to value determination and accounting policies and intended cost synergies) are subject to significant uncertainties relating to regulation, taxation and success of the Exchange Offer, as well as other uncertainties, which are described below.

The future plans concerning shares in Orava Residential REIT are affected by the holding in Orava Residential REIT achieved by Investor House through the Exchange Offer. Investors House has announced that it will implement the Exchange Offer irrespective of the holding achieved by it through the Exchange Offer. Therefore, implementation of the Exchange Offer is not conditional upon achieving a certain minimum holding based on the Exchange Offer. In accordance with the Offer Document, the amount of holding sufficient for carrying out the restructuring measures contemplated by Investors House cannot be precisely anticipated, but at least in the case that Investors House would reach a holding over 50 per cent in Orava Residential REIT, it could commence the carrying out of restructuring measures. However, it should be taken into account that decision-making in certain matters within the competence of the General Meeting would require support for

the decision of over two thirds of the shares represented and votes cast at the General Meeting. One example of such matters is the dissolution of Orava Residential REIT's REIT structure and giving up the alternative investment fund manager referred to in the Finnish Act on Alternative Investment Fund Managers (7.3.2014/162) and, thus, the achievement of Investors House's final objective, i.e. changing Orava Residential REIT from a REIT into an investment company.

Investors House's Exchange Offer cannot be realised so that Investors House would acquire over 90 per cent of shares in Orava Residential REIT, if shareholders, who represent 11.2 per cent of the shares and have in a non-binding manner announced that they consider Investors House' Exchange Offer too low to be acceptable, do not accept the Exchange Offer. The Offer Document presents certain pro forma information in order to illustrate the merger, but they have been prepared based on the assumption that the Exchange Offer is realised in full and Investors House's holding would be 100 per cent of all the shares in Orava Residential REIT. A total of 11.2 per cent of Orava Residential REIT's shareholders have announced non-bindingly that they consider the Exchange Offer too low to be acceptable. Therefore, the holding of 100 per cent that constitutes the background assumption of the pro forma calculations presented in the Offer Document cannot be realised in full, based on the sole fact that the shareholders described above would not accept the Exchange Offer.

Investors House has not presented the effects of its plans in situations in which its final objective, i.e. Orava Residential REIT's combination with Investors House is not realised or it is postponed significantly. Upon acceptance of the Exchange Offer, Orava Residential REIT's shareholder cannot know how large Investors House's holding in Orava Residential REIT will be and, thus, it is possible that the benefits presented in the Offer Document remain unrealised either partly or in full.

Investors House's liquidity in stock exchange trading is significantly lower than that of Orava Residential REIT. The trading volume of Orava Residential REIT presented in the Offer Document outweighs that of Investor House by approximately 13 times when measured by number, and by approximately 20 times when measured by euros.

Investors House anticipates profit and cost synergies of EUR 1.5–2.5 million by 2019 with measures that all must be realised. However, the realisation entails uncertainties described in more detail below. Since the terms and conditions of the Exchange Offer do not provide an acceptance limit for the Exchange Offer, the Board of Directors of Orava Residential REIT deems that the realisation of synergies is uncertain.

In addition, when assessing the savings, it must be taken into account that Orava Residential REIT has issued on 1 April 2015 a bond of EUR 20 million, of which EUR 20 million remains unpaid. The bond will mature on 1 April 2020. The bond includes a repurchase clause related to change of control. In accordance with the clause, the bondholders may require that Orava Residential REIT repurchase the bond with 101 per cent of its nominal value, in case control of Orava Residential REIT changes. If the Exchange Offer were to be realised so that Investors House would gain possession of over half of all the shares in Orava Residential REIT or could change the majority of the Board members, this would entitle the bondholders to demand the repurchase. If Orava Residential REIT or a third party specified by it could not in such a situation refinance the amount required for the repurchase, would this have an adverse effect on Orava Residential REIT's financial condition, its future prospects and, consequently, on the value of Orava Residential REIT's share. Investors House has not presented a plan for the refinancing of the bond or bondholders' conditional consent to the change in ownership.

Orava Residential REIT has been, in accordance with the Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations (299/2009) (the "**Tax Exemption Act**") and with exceptions mentioned therein, exempt from income tax for its operations, since it is a so-called REIT. Due to this, the Company has not recognised deferred taxes for changes in fair value of the apartments entered through profit and loss. The dissolution of REIT

intended by Investors House and changing it into real estate investment company would shift Orava Residential REIT from single taxation (taxation of dividends) to double taxation (taxation of dividends and taxation of company profit) and, in addition, all disposals of apartments, for which Orava Residential REIT as a REIT has not paid taxes, would become taxable. By 30 June 2017, the cumulative changes in fair value for previous financial periods specified in the Offer Document amounted to EUR 25,736,000, of which the deferred tax liability, when calculated with the prevailing tax rate of 20 per cent, amounts to EUR 5,147,000.

Assessment of the Board of Directors of Orava Residential REIT of the Offeror's strategic plans – assessment of the Offeror's specific strategic means

1. Simplification of the structure by giving up a separate management company

Orava Residential REIT is a fund in accordance with the Real Estate Funds Act, which must have a manager in accordance with the Act on Alternative Investment Fund Managers (the “**AIFM Act**”, 7.3.2014/162). The Alternative Investment Fund Manager may be external, such as the current management company Orava Funds plc (“**Orava Funds**”), or the fund may be internally managed. In the case of Orava Residential REIT, both cases require an authorisation. Investors House does not have a separate management company with an AIFM authorisation, and Investors House itself does not have an AIFM authorisation. Investors House has announced that it aims to simplify, after the Exchange Offer, the structure of Orava Residential REIT so that the separate management company of Orava Residential REIT is given up, which Investors House assesses to bring clear cost savings. This would mean that the current management agreement between the management company and Orava Residential REIT would be terminated so that Investors House could, during a termination period of 12 twelve months, assign the tasks to Orava Residential REIT's own administration to be hired during the notice period. However, according to Orava Residential REIT's assessment, this entails costs that Investors House has not anticipated in the Offer Document. Currently, Orava Residential REIT has no own personnel but the tasks are handled by persons at the service of Orava Funds, whose salary costs are included in the management fee. Orava Residential REIT could itself apply for an AIFM authorisation, but no investigations on the alternative cost structure have been presented and granting of the authorisation entails uncertainties.

In addition, Investors House has not presented another alternative with AIFM authorisation for Orava Funds, the current AIF manager, or for possible cost savings in this respect. It can also be not guaranteed that Investors House will find another AIF manager for the Company or that the Company would obtain approval for the change of the manager. In addition, finding a new manager would generate costs for the Company and could diminish the intended synergy benefits. In the understanding of the Board of Directors of Orava Residential REIT, Investors House has not presented concrete plans or calculations for the synergy benefits or costs savings to be achieved in either of the situations.

In terms of structure, Investors House intends that it could change Orava Residential REIT into an investment company and, thus, give up a separate management company. Changing Orava Residential REIT into an investment company would require a qualified majority of two thirds at Orava Residential REIT's General Meeting.

There are no experiences in Finland of dissolution of a REIT structure and, in accordance with the Offer Document, it is not possible for Investors House to assess the costs resulting therefrom or the timetable. Due to this, dissolution of the structure might result in significant costs for the Company, and carrying out the restructuring measures contemplated by Investors House in this respect could be delayed from what is assessed. In addition, it is possible that the operations of Orava Residential REIT cannot be changed so that it would not meet the elements of an alternative investment fund and require an authorisation.

2. Change of business model through bringing into Orava Residential REIT, similarly to Investors House, several profit sources, i.e. housing, business premises and service/management functions

Investors House proposes a change to business model and, in this connection, bringing of so-called service/management functions into Orava Residential REIT. When calculated based on pro forma figures presented in the Offer Document, the service/management operations correspond approximately 6 per cent of the turnover and 0.3 per cent of the comprehensive profit for the period. Therefore, according to understanding of the Board of Directors, the change of the business model presented in the Offer Document would not have a significant effect on Orava Residential REIT's result.

3. Renewal of reporting policies so that the handling of value changes corresponds to that applied in other listed real estate companies

As a REIT, Orava Residential REIT must comply in its reporting with the Real Estate Funds Act, the Government Decree and international IFRS standards. In the Offer Document, Investors House has not precisely described what it means by the change of reporting policies and what kind of effect this would have on Orava Residential REIT's result and financial condition.

In connection with possible integration, Investors House would harmonise the assessment policies of Investors House and Orava Residential REIT. It is possible that change in assessment policies after the realisation of the Exchange Offer would result in a change in values of the investments held by Orava Residential REIT, which could have an adverse effect on the value Orava Residential REIT's share.

4. Change of dividend policy so that payment of dividend is based, similarly to Investors House, on so-called operational result, unrealised changes in value would no longer provide a basis for the payment of dividend

Currently, Orava Residential REIT must distribute, in accordance with the Tax Exemption Act, a minimum of 90 per cent of its operational result (result excluding unrealised value changes) as dividends. Investors House would like to re-adjust Orava Residential REIT's dividend policy so that payment of dividends would be based on cashflow-based operational result (EPRA), similarly to Investors House. In the Offer Document, Investors House has told that it distributes as dividends 50-90 per cent of its operational result, which would be in conflict with the above-mentioned obligation of the Tax Exemption Act that Orava Residential REIT complies with. If Orava Residential REIT's REIT status were given up, less than 90 per cent of operational result could be distributed as dividends, which could diminish the amount of dividend to be distributed to the shareholders.

Assessment of the Board of Directors of Orava Residential REIT of the effects of the Exchange Offer on employment at Orava Residential REIT

The Exchange Offer will not have an effect on the employment at Orava Residential REIT, since Orava Residential REIT has no employees under employment relationship. The Exchange Offer will have an indirect effect on the employment of Orava Funds, since the Exchange Offer contemplates the termination of the management agreement with Orava Funds. Orava Residential REIT's operations are handled by persons at the service of Orava Funds, whose salary costs are included in the management fee charged by Orava Funds.

3. Assessment of the Board of Directors from the perspective of Orava Residential REIT and its shareholders

Introduction

In evaluating the Exchange Offer, analysing alternative opportunities available to Orava Residential REIT and concluding on its statement, the Board of Directors has considered several factors, such as both Orava Residential REIT's and Investors House's recent financial performance, current position and future prospects, and the development of historical trading price of shares of both companies as well as the difference between the trading price and the companies' IFRS net asset value based on the interim report as at and for the six months ended 30 June 2017. The Board of Directors of Orava Residential REIT has requested Investors House for a possibility to conduct a due diligence investigation on Investors House in accordance with the Takeover Code, in order to determine the value of the shares in Investors House offered as consideration in Exchange Offer. As mentioned under section 1, Investors House has not allowed Orava Residential REIT to conduct this investigation at Investors House.

The Board of Directors of Orava Residential REIT is aware that the parties related to Investors House in the manner referred to in Chapter 11, section 5 of the Securities Markets Act, including Royal House Oy, Maakunnan Asunnot Oy, Godoinvest Oy, Core Capital Oy, Petri Roininen and Penser Oy, held on the publication date of the Exchange Offer 10.4 per cent of the shares in Orava Residential REIT and deem that the Exchange Offer is beneficial and have undertaken to accept the Exchange Offer. The Board of Directors of Orava Residential REIT is also aware that shareholders of Orava Residential REIT, who represent a total of 11.2 per cent of the shares and votes in the Company, consider that Exchange Offer is too low to be acceptable, as announced by Orava Residential REIT on 26 September 2017. The notifications that Orava Residential REIT has received from its shareholders are not binding.

In order to support its assessment of the Exchange Offer, the Board of Directors of Orava Residential REIT has received a fairness opinion, dated 4 October 2017, regarding the Exchange Offer (the "**Fairness Opinion**") from Orava Residential REIT's financial advisor, HLP Corporate Finance Oy. The Fairness Opinion is attached as Appendix 1 to this statement.

Board assessment

The Board of Directors of Orava Residential REIT believes that the consideration offered by the Offeror to the shareholders is low based on an assessment of the issues and factors, which the Board of Directors has concluded to be material in evaluating the Exchange Offer. These include, amongst other factors:

- In its entirety, the consideration offered in the Exchange Offer only corresponds to half of Orava Residential REIT's assets, i.e. offered share values one share in Orava Residential REIT in accordance with the closing price of 3 October 2017 at approximately EUR 5.38, corresponding to approximately EUR 54 per cent of the net asset value of the share in Orava Residential REIT based on Orava Residential REIT's unaudited interim report as at and for the six months ended 30 June 2017.
- Based on closing price of 3 October 2017, Investors House's share given as consideration of the Exchange Offer is valued at 104 per cent of the share's net asset value on 30 June 2017. Thus, the consideration, i.e. the valuation of Investor House's share, exceeds the net asset value announced by Investors House.
- In its Offer Document, Investors House has announced that it plans to enter a one-off profit of approximately EUR 39 million for measuring the shares in Orava Residential REIT's shares at fair value, provided that Investor House obtains all shares in Orava Residential REIT which, in accordance with the Board of Director's understanding, shows that the consideration is low.
- The realisation of synergies presented in the Offer Document entails significant uncertainties related to the control to be achieved through the Exchange Offer as well as significant uncertainties related to regulation and taxation.

- Changing a REIT benefitting from the tax exemption into a housing investment company subject to double taxation in the manner aimed by Investors House would significantly diminish the profitability of the investment activities. In addition, in terms of unrealised value change, the loss of tax exemption would also concern previous financial years.
- Information and assumptions on the business operations and finances of Orava Residential REIT at the date of this statement and their expected future development, while taking into account the Company's own development plans.
- The general valuation level of REITs is internationally clearly higher than the valuation level of the Exchange Offer; and
- HLP Corporate Finance Oy's Fairness Opinion, according to which the offered consideration is not reasonable for Orava Residential REIT's shareholders.

4. Recommendation of the Board of Directors

The Board of Directors of Orava Residential REIT has carefully assessed the Exchange Offer and its terms and conditions based on the Offer Document, the Fairness Opinion and other available information.

Based on the foregoing, the Board of Directors of Orava Residential REIT deems that the Exchange Offer and the amount of the offer consideration offered for the shares and special rights are under the prevailing circumstances not fair to Orava Residential REIT's shareholders and that the offered consideration is low in relation to Orava Residential REIT's net asset value based on Orava Residential REIT's unaudited interim report as at and for the six months ended on 30 June 2017. In addition, the Board of Directors of Orava Residential REIT assesses that the implementation of the strategic plans of general nature presented in the Exchange Offer and their estimated positive impacts entail significant uncertainties.

Given the above, the Board of Directors of Orava Residential REIT has unanimously decided that it does not recommend the acceptance of the Exchange Offer for its shareholders. Orava Residential REIT has not issued special rights entitling to shares.

The Board members mentioned above under section 1 "Background and preparation of the statement" have participated in the preparation and decision-making concerning the statement.

5. Other Issues

Orava Residential REIT has undertaken to comply with the Takeover Code concerning procedures to be complied with in public takeover bids.

This statement of the Board of Directors does not constitute investment or tax advice, and the Board of Directors cannot be required to specifically evaluate herein the general price development or the risks relating to investing in general. Shareholders must independently decide whether to accept or reject the Exchange Offer, and they should take into account all relevant information available to them, including information presented in the Offer Document and this statement as well as any other factors affecting the value of the shares.

Orava Residential REIT is being advised by HLP Corporate Finance Oy as financial advisor and Castrén & Snellman Attorneys Ltd as legal advisor.

Helsinki, 4 October 2017

Orava Residential REIT plc

Board of Directors

Further information:

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APPENDIX: HLP's Fairness Opinion

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