

Orava Residential REIT Plc

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The Board of Directors of Orava Residential REIT proposes changes to the Articles of Association and the name of the company

The Board of Directors of Orava Residential REIT plc (hereinafter “the Company”) proposes to the general meeting that the Articles of Association and the name of the Company be changed. The proposed name of the Company is Avaro Kiinteistösi joitus Oyj. The goal is to develop Orava Residential REIT into a more profitable real estate investment company. The first part of the new name is Orava spelled backwards.

Once the Articles of Association are changed, the Company would no longer be a REIT and the Act on Alternative Investment Fund Managers would no longer apply to it. Instead, the Company would be able to operate more efficiently through its own organization and without the management company, however, by still continuing to use the same external service providers it has used so far.

By changing from a REIT into a real estate investment company, the Company would also be able to invest more freely in other properties aside apartments. This change offers the opportunity to acquire treasury shares, as this is considered to be in the best interests of the shareholders. As a result, it is also proposed to the general meeting that the Board of Directors be authorised to acquire treasury shares.

“Orava Residential REIT has not be productive enough. Expenses have been high, while the values of apartments have developed unfavourably. By discontinuing the REIT status, we will lose our tax exemption, but gain much more in return. The management of a regulated REIT has been expensive and business activities have been restricted. As a result of this change, we will have wider business opportunities. Now, our aim is to cut costs and increase profit. Being an investment company, we will also be able to acquire treasury shares. The Board of Directors unanimously sees that the proposed change serves current and potential shareholders in the best possible way”, says Petri Roininen, chairman of the Board of Directors.

PROPOSED CHANGES AND THEIR IMPACT

Today on 16 August 2018, the Board of Directors of Orava Residential REIT plc summoned an extraordinary general meeting to decide on making a change in the Company's Articles of Association and revoking the rules of real estate investment operations.

The current purpose of the Company as a REIT under the Act on Real Estate Funds (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.

Should the Company's extraordinary general meeting on 10 September 2018 decide on changing the Company's Articles of Association as proposed by the Board of Directors, a reference to acting as a REIT would be removed from the article defining the purpose of the Company, and the new article would be as follows:

The purpose of the company 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 new name of the Company would be Avaro Kiinteistösijoitus Oyj.

In addition, the section which refers to the rules of real estate investment operations and the Tax Exemption Act would be removed from the Articles of Association.

Impact of the changes to be decided on by the extraordinary general meeting on the Company and its shareholders

General

Once the change in the Articles of Association is registered, the Company would no longer be a REIT and the Act on Alternative Investment Fund Managers would no longer apply to it. Furthermore, the Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations ("the Tax Exemption Act") would no longer apply to the Company. For the aforementioned reasons, the Company's activities would be subject to fewer restrictions resulting from the legislation.

In practice, the release from the aforementioned regulation would enable the Company to become an investment company in accordance with the strategy announced by the Company on 20 March 2018, and it would be able to invest more freely in other properties aside apartments. Therefore, the Company would be able to act, for example, as a project developer and builder and increase active trading on apartments and properties.

Furthermore, the Company would no longer need an alternative investment fund manager as referred to in the Act on Alternative Investment Fund Managers, as a result of which the Company would no longer need management companies and the Company would arrange its management using its own personnel. At the same time, fewer regulations mean that members of the management can focus on improving profitability and developing business activities. The Company considers this a significant change, particularly in the long term.

Impact on the Company's organisation

The management organisation of Avaro Kiinteistösijoitus Oyj would after the amendment of the Articles of Association comprise a CEO who would also take care of the tasks of a CFO, a director responsible for risk management and legal matters, a director responsible for real estate properties, acquisitions, sales and project development, as well as a director responsible for renting and maintenance. The Company has today released a separate stock exchange release with regard to the appointment of the CEO.

Furthermore, the Company would use external service providers in the current manner so that the Company's accounting and financial processes would continue to be outsourced to Accountor Oy, real estate management to Colliers Oy, management of housing company apartments to Colliers Oy for the subsidiary companies and to respective real estate management companies for other apartments, rental and sales of apartments to several estate agencies in different localities, as well as repairs under long-term plans and other repairs and maintenance of real estate properties to Colliers Oy for the subsidiary companies and to respective real estate management companies for others.

The Company's current Board of Directors with its five members would continue in office in its entirety.

The current management agreement is valid until 18 December 2018, but the above organisation would enter into force immediately following registration of the amendment to Articles of Association.

Investors House Oyj shall continue to be the largest shareholder of the Company with a 25.2 percent share of all the shares of the Company.

Impact on the taxation of the Company and its shareholders

The Company has not requested an advance ruling from the tax authority regarding impact of the change on the taxation of the Company or its shareholders. However, PricewaterhouseCoopers Oy has, at the Company's request, issued a statement of opinion regarding impact of the change on the taxation of the Company and its shareholders. The information shown below is based on that statement.

Orava Residential REIT is within the scope of tax exemption as referred to in the Tax Exemption Act. While the Company has been exempted from taxes, its profit has been fully exempt from corporate tax. In addition, the Company has been obligated, in accordance with the Tax Exemption Act, to distribute at least 90% of profit for each financial period in dividends. Deviating from normal regulations in the tax legislation, these dividends have mainly comprised income subject to tax for the Company's shareholders.

If the Company is no longer within the scope of the Tax Exemption Act, its profit would be normally subject to tax and expenses associated with profit-making would be deductible, starting from 2019. Expenses accrued during the tax exemption period would not initially be deductible.

According to the Tax Exemption Act, profit for the next tax year following the end of the tax exemption period include the undistributed profit the Company holds at the end of the previous tax year and assets transferred from profit to other equity items during the tax exemption period less the amount of dividends distributed over that tax year. The Company has no undistributed profit for 2018. As presented above, these assets could still be distributed in 2019, without the amount of profit being regarded as profit subject to tax.

However, it should be noted that, according to the Tax Exemption Act, if the shareholder's holding of the company's share capital on the record date of the dividend is at least ten percent, the Tax Administration shall order the Company to pay the amount corresponding

to the corporation tax rate calculated from the dividend distributed to such shareholder. As Investors House Oyj's holding is approximately 25.2% of the Company's share capital, the Company would, if the dividend was paid, therefore be taxed in this respect even if the proposed changes would not be made.

At the end of the tax exemption period, the Company would no longer have the aforementioned obligation to distribute 90% of its profit in dividends. In addition, the Company's would be able to engage more freely in investment activities, as requirements regarding the purpose and useful life of properties and development activities as defined in the Tax Exemption Act would no longer apply.

The Company would have no other tax impact from the discontinuation of its exemption from tax.

The end of the exemption from tax would not result in any direct tax impact on the Company's shareholders. Taxation on the distribution of dividends may change regarding certain shareholders. Once the tax exemption period ends, dividends distributed by the Company would still be income subject to tax for their recipients in accordance with normal tax regulations on dividends valid in Finland. However, taxation on dividends depends on the position of each investor. The investor's overall tax burden would naturally be affected by the fact that the Company's income would be ordinarily taxed in the manner described above.

The discontinuation of the exemption from tax would not have any impact on taxation on profit or loss resulting from the sale of the Company's shares.

Impact on the protection of investors

As set out in section 13 of the Real Estate Funds Act, the Company has defined rules for real estate investment operations which the Board of Directors has proposed to be revoked at the same time as the Articles of Association are changed, as the Company would no longer be a REIT.

The purpose of the rules of real estate investment operations is to secure the reliable operation of a REIT in accordance with the Real Estate Funds Act. For example, the rules define how to invest the funds of the REIT, make investment decisions, change the share capital, evaluate, measure and announce the value of the real estate assets of the REIT

and distribute profit, as well as management and maintenance services, risks and risk management. Therefore, revoking the rules of real estate investment operations means that the Company's shareholders will no longer be able to restrict the Company's investment operations through the rules of real estate investment operations. Instead, the Company's Board of Directors elected at each Annual General Meeting will regularly decide on the Company's business operations within the scope of the Limited Liability Companies Act and the Company's Articles of Association.

Revoking the rules of real estate investment operations and remaining outside the scope of application of the Real Estate Funds Act would mean that there would be fewer restrictions to protect investors and, therefore, investors would have weaker protection. Correspondingly, the Company's Board of Directors and acting management would have more opportunities to steer the Company's operations.

The change would not affect the position of investors in any other respect.

Impact on the application of the IFRS

The change in the Articles of Association would not have any impact on the application of the IFRS to the Company.

In conjunction with the issuance of the interim report on 16 May 2018, the Company announced that it considers it to be possible that it may fully start applying values defined by an external evaluator to the valuation of its real estate assets in 2018 in place of a management company method, and that this potential change may have a non-recurring impact on profit in 2018. However, this aforementioned change is not linked to the change in the Articles of Association. Instead, it results, among other things, from the current method being the property of the management company and the management agreement being terminated to end in December 2018. In addition, the Company considers it to be a better option to rely on an external evaluation. The Company has already announced Jones Lang LaSalle Finland Oy's estimate of the value of real estates on 31 December 2017, but the values used in the company's financial reporting have been based on the management company's method.

Impact on the distribution of dividends

According to the Company's rules of real estate investment operations proposed to be revoked, the REIT must have distributed at least 90% of profit for each financial period, excluding unrealised changes in value, in dividends, unless otherwise defined in the provisions of the Limited Liability Companies Act that limit the distribution of profit on the basis of the amount of the REIT's unrestricted equity or solvency.

Correspondingly, the application of the Tax Exemption Act requires that the Company must distribute at least 90% of its profit for each financial period in dividends over a tax year, excluding unrealised changes in value, unless otherwise defined in the provisions of the Limited Liability Companies Act (624/2006) that limit the distribution of profit on the basis of the amount of the REIT's unrestricted equity or solvency.

Furthermore, according to section 15a of the Real Estate Funds Act, a limited liability REIT that invests funds in rental apartments as its sole or primary business activity must, unless otherwise defined in the Tax Exemption Act, annually distribute at least eight tenths of its profit for the period for all shares, taking into account the duration of shareholding or otherwise in equal proportions, excluding unrealised changes in value.

Because, as a result of these changes, the Real Estate Funds Act or the Tax Exemption Act would no longer apply to the Company and the rules of real estate investment operations would be revoked, the Company would no longer have this obligation to distribute dividends, apart from provisions on minority dividends set out in the Limited Liability Companies Act.

In the future, the Company's Board of Directors would be able to define a dividend distribution policy which the Board of Directors could change at its discretion. The Board of Directors has planned that the Company will continue to pay dividends on the basis of its cash flow-based operating results (EPRA), from which 50–90% will be dividend annually in dividends, provided that this does not put the Company's liquidity at risk and provided that the Company has distributable profits. However, materialisation of the dividends policy or distribution of dividends in general cannot be guaranteed. Instead, it will also be possible in the future that the Company's financial position and liquidity do not allow implementation of the dividends policy as planned.

Other financial impact

The goal of the change in the Articles of Association and the actions this enables is to significantly improve the Company's profitability and investment capacity. With these and earlier implemented actions, the Company seeks to achieve cost savings of approximately EUR 1.5 million compared to the financial period of 2017. These cost savings are expected to be created by giving up the management company, by outsourcing services and subjecting them to competitive tendering, as well as by reducing financial expenses. It is expected that the cost savings would be achieved in full towards the end of the financial period of 2019 so that their full impact would be achieved in the financial period of 2020.

The changes will not have any impact on the Company's current loan terms.

Risks associated with the changes proposed to the extraordinary general meeting

The Company has assessed that the following risks are associated with the proposed changes in the Articles of Association and its implementation:

- According to the strategy announced by the Board of Directors, the Company's short-term goal is to improve its profitability and its long-term goal is to expand its business operations profitably. The feasibility and fulfilment of these goals are affected by a number of factors, not all of which can be affected by the Company. If these goals are not fulfilled as expected, they may have an adverse impact on the Company's financial position, the value of its shares and its ability to distribute dividends.
- The aim is to convert the Company into an investment company that can invest more freely in other properties aside apartments. It is possible that the Company is unable to find investment objects that meet its expectations in terms of location, quality and financial results. It is also possible that the terms and conditions of new investments, including their prices, are not as expected. These factors may have an adverse impact on the Company's growth, financial results and the value of its shares.
- According to the Company's strategy, the Company can also act as a project developer and builder. However, it is possible that the Company cannot engage in these activities if no suitable projects or development sites can be identified. Then again, such business operations include risks associated with leasing, technical questions, maintenance and financing, as well as the Company's current business operations, that may present significant costs or liabilities to the Company. If such business operations developed negatively due to any of the aforementioned

factors, this could have an adverse impact on the Company's financial position and the development of the value of its shares.

- As the Company is seeking to improve its profitability and increase its business operations, its functions and organisation need to be developed. It is possible that the Company is unable to identify or carry out such procedures that are as efficient as possible, or that the estimated cost savings are not achieved. This may decrease the Company's financial results and future outlook.
- The Company's administration will be handled by the Company's personnel as a result of the change. Currently, the Company has no personnel. It is possible that the Company fails in its recruitment processes, and this can have an unfavourable impact on the realisation of the change.
- Initially, the Company will employ four people, all of whom will be key employees. Considering the Company's business operations, any loss of key employees would have an adverse impact on the Company if it was unable to replace them in reasonable time. This may have an adverse impact on the Company's financial position and the future development of its business operations.
- Revoking the rules of real estate investment operations and remaining outside the scope of application of the Real Estate Funds Act mean that there will be fewer restrictions to protect investors and, therefore, investors will have weaker protection. Correspondingly, the Company's Board of Directors and acting management will have more opportunities to steer the Company's operations.
- Furthermore, revoking the rules of real estate investment operations and remaining outside the scope of application of the Real Estate Funds Act mean that the Company will not have any specific obligation to distribute dividends, apart from provisions on minority dividends set out in the Limited Liability Companies Act. In the future, the Company's Board of Directors will be able to define a dividend distribution policy which the Board of Directors can change at its discretion. It is possible that the Company can distribute lower dividends than it would have distributed in a similar situation as a REIT.
- The Company's new Articles of Association should be registered with the Trade Register at the same time as the Company's shares are technically delisted from the register and relisted, so that trading in the Company's shares would not be interrupted. The Company seeks to agree on timing of the above actions so that trading is not interrupted. Nevertheless, it is possible that timing of the actions would not occur in the planned manner, e.g. due to reasons related to decision-making by public authorities or IT system problems, in which case trading in the Company's shares might be temporarily interrupted.

Planned schedule and actions related to the change

Should the Company's extraordinary general meeting decide on changing the Articles of Association as proposed by the Board of Directors, the changes will enter into force after the Company's changed Articles of Association have been registered in the Trade Register. The Company estimates that the change in the Articles of Association be registered in the Trade Register in September 2018.

Technically, the Company's shares would be delisted from the stock exchange as a listed REIT and relisted as a listed company in accordance with the Rules of Nasdaq Helsinki Ltd

in connection with making the Trade Register entry. The intention would be to carry out this delisting and relisting primarily outside regular trading hours. Therefore, these actions are not expected to cause an interruption in trading on the Company's shares.

The Financial Supervisory Authority has taken the view that the Company will not be created an obligation to issue a prospectus compliant with the Securities Market Act in connection with the change.

Helsinki 16 August 2018

Orava Residential REIT plc
Board of Directors

Additional information

Petri Roininen, Chairman of the Board, tel. +358 40 761 96 69