

**Orava Residential REIT Plc**

**Stock Exchange Release 3 September 2018 at 5.00 pm**

**Orava Residential REIT Plc specifies the Stock Exchange Release concerning the impact of the proposed changes**

On 16 August 2018, the Board of Directors of Orava Residential REIT Plc (hereinafter referred to as the “Company”) convened an extraordinary general meeting to decide on changing the Articles of Association and the company name.

The Board of Directors hereby specifies the Stock Exchange Release concerning the impact of the proposed changes as follows:

*Clarification on the impact of the proposed changes on the taxation of the Company and on the application of IFRS*

As the Company has announced earlier, 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.

It follows from the foregoing that any hidden gains related to property assets are the taxable income of the Company if the shares in real estate companies are divested. To date, the Company has not presented any deferred tax liability related to such hidden increases in its balance sheet, as the divestments have mainly been subject to tax exemption. In the future, the Company will present a deferred tax liability in its balance sheet. This change will result in a one-time profit impact. The magnitude of the impact will depend on the development of the valuation of the property portfolio, but the Company provisionally estimated that the amount of deferred tax liability to be booked would amount to about EUR 4 million, thereby reducing the Company's net profit for the current financial year and net assets by an equivalent amount. As the case is about a one-time deferred tax liability, this does not have an immediate cash-flow effect nor does it affect the Company's liquidity. The change would also have no impact on the Company's outlook issued on 14 August 2018 that the Company estimates that its EPRA earnings for 2018

will be better than in year 2017.

Following the proposed amendment of the Articles of Association, the Company would not be such special investment fund whose management fees would be considered as exempt financial services within the meaning of Section 41 of the Value Added Tax Act. The management fees charged from the Company will then be subject to value added tax. If the Company does not have any business with value added tax, the Company cannot deduct value added tax included in the management fees or other purchases. As the Company has terminated the management agreement to expire on 18 December 2018, the Company considers – referring to the current taxation practice – the impact of the change limited.

*Uncertainty about the treatment of issues related to the value added tax*

When considering the above-mentioned impact on value added tax, it is to be noted that the legal status of the services which are considered to be financial services exempted in the aforementioned manner is not clear.

So far, the Company has also had to pay value added tax on services provided by external service providers for financial management, property management and property valuation services. However, based on the case-law of the European Court of Justice, it is possible that the relevant taxation practice will be partly or in whole amended and / or previously paid taxes will be partly or in whole corrected, whereby such services provided to the Company would in future be exempt from value added tax, if the Company continued to operate in the form of a fund. However, as a result of the proposed amendment of the Articles of Association, these services would in any case continue to be subject to value added tax. As the Company is not aware of whether the taxation practice will be changed in this regard and in what ways and whether the Company will be in the future engaged in value-added tax business that would allow the deduction of value added tax related to these services, the economic impact of this potential change cannot be assessed at this stage.

Helsinki, 3 September 2018

Orava Residential REIT plc  
Board of Directors

Additional information

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