ORAVA

Orava Residential Real Estate Investment Trust plc

Rules for real estate investment operations

Approved by the Finnish Financial Supervisory Authority on 28 January 2011
Amended at the Board of Directors' meeting on 9 June 2011
Confirmed by the Finnish Financial Supervisory Authority on 17 August 2011

Section 1. Goal of the operations of the Real Estate Investment Trust

Orava Residential Real Estate Investment Trust plc (hereinafter "the Trust") is a public limited company which operates as a real estate fund as referred to in the Real Estate Funds Act (1173/1997). The assets of the Trust are mainly invested in rental apartments in the manner described in these rules for real estate investment operations. The goal of the Trust's investment operations is to engage in apartment rental operations in order to produce returns to the shareholders in the form of both dividends and an increase in the value of the Trust's share. The operations of the Trust aim to take advantage of the Act on the Tax Exemption of Certain Limited Liability Companies Engaging in Apartment Rental Operations ("the Tax Exemption Act") (299/209).

Section 2. Use of an agent

The Trust may use agents for assistance in the management of its operations.

Section 3. Book-entry system

The shares in the Trust are included in the book-entry system.

Section 4. Investment of the assets of the Trust

At least 80 per cent of the Trust's assets shall be invested in real properties mainly in permanent residential use, shares in housing companies or shares providing entitlement to the possession of an apartment in such other mutual real estate company which solely engages in the ownership and management of real estate and the buildings on it (hereinafter "apartment"). This share may be temporarily lower. The apartments that are the objects of investment are to be mainly acquired in large and medium-sized Finnish cities where good rental incomes can be achieved. The investments are diversified taking location, the size of the apartments and the tenant risk into account.

A real property is considered to be mainly in residential use if at least 50 per cent of the aggregate net floor area of the buildings on it comprise apartments. An unbuilt plot determined as a residential plot in the local detailed plan is considered to be mainly in residential use. The Trust may invest in real estate which only generates returns after the implementation of fundamental improvement, land-use planning or construction.

At most 20 per cent of the Trust's assets may be invested in real estate in other than residential use or real estate securities concerning real estate.

The Trust may engage in new building and real estate development operations as referred to in Section 15(5) of the Real Estate Funds Act, such as changing the purpose of use of the real estate by renovation or land use planning, without jeopardising the tax exemption under the Tax Exemption Act. The Trust may invest at most 75 per cent of the Trust's assets in commitments required for the fundamental improvement of rental apartments, acquisitions and new construction.

The assets of the Trust which have not been invested as described above may be used for amortising liabilities or invested in the following investment objects:

1. Shares and equity-linked instruments, such as convertible bonds, warrants, employee stock options, subscription rights and share certificates of deposit, and other securities subject to public or multilateral trading as referred to in the Securities Market Act in Finland or subject to trading in an exchange system comparable to public trading or multilateral trading located or operating in another state.
2. Receivables that are not be considered securities; and
3. Cash or liquid funds comparable to cash, such as short-term debt securities issued by credit institutions or money market funds.

The Trust shall have the cash required for its operations. In order to promote efficient asset management, the Trust may take out loans for its investment operations and cash management. However, the amount of liabilities according to the Trust's consolidated financial statements or, if the Trust does not need to prepare consolidated financial statements, the Trust's financial statements may not exceed 80 per cent of the statement of financial position total. The counterparty risk incurred for using non-standard derivative contracts for hedging credit may not exceed 80 per cent with regard to the same credit institution acting as the counterparty.

The Trust may only use standard and non-standard derivative contracts for other hedging purposes on the basis of a separate decision by the Board of Directors. The underlying instrument for derivatives may be a security, a money market instrument, a fund unit in a mutual fund or a unit in a collective investment undertaking, a deposit with a credit institution, a derivative contract, a financing index, an interest rate, an exchange rate or a currency. Standard derivative contracts are subject to public trading in the marketplace described above in section (1). The counterparty in a non-standard derivative contract may be a credit institution or an investment firm with a registered office in a state included in the European Economic Area. The counterparty risk incurred from the use of non-standard derivative contracts that are not intended for hedging credit may not exceed ten per cent of the Trust's assets with regard to the same credit institution as the counterparty or five per cent with regard to other counterparties.

The Trust may also use insurance policies for hedging the value of its assets.

The assets of the Trust may be lodged in full as collateral for credit and derivative contract liabilities.

The aggregate risk involved in the Trust's securities and derivative contracts will be monitored on a daily basis.

The Trust aims for a high return rate on its investment operations by applying the following principles, in particular;

(i) Optimisation of the timing of investments and changes in the crediting rate in accordance with the market development forecast;
(ii) Obtaining high rental income by optimising of the size of the investment objects, such as by investing mainly in one-room and two-room apartments;
(iii) Anticipation of macro-level development factors, such as population forecasts and supply bottlenecks in the selection of the location of the investments;
(iv) Taking into account micro-level development, such as rail transport projects, in the selection of the location of investments; and
(v) After the listing of the Trust, utilising the difference between the net asset value of the share and the share price. According to the restrictions provided in the Limited Liability Companies Act, Securities Market Act and Tax Exemption Act, the Trust may purchase its

own shares when the trading price of the share is undervalued in relation to the net assets and, correspondingly, sell its shareholdings when the share is overvalued.

Section 5. Making investment decisions

The following decisions concerning the Trust's investment operations shall be made by the Trust's Board of Directors:
(i) Acquisition or assignment of the Trust's investment objects if the contract price exceeds ten per cent of the Trust's entire capital;
(ii) Acquisition or assignment of real estate;
(iii) Deciding on taking out liabilities; and
(iv) Entering into service agreements related to the acquisition and management of the Trust's investments or amending them.

The Trust's Board of Directors may authorise the CEO and the management company to make the decisions concerning investment operations referred to in sections ii) – iv) within certain limits. The CEO or a person appointed by him or her is responsible for other investment decisions and the operational management of investment operations, unless otherwise provided in the legislation applicable to the Trust.

Section 6. Changes to the share capital and listing

The Trust may change its share capital in the manner provided in the Limited Liability Companies Act, whereby the number of shares outstanding may be increased or decreased, depending on the content of the decision.

If the Trust increases its share capital by issuing new shares, the new shares can be subscribed for against a contribution in kind. Only such assets in which the company's assets are invested according to Section 4 may be assigned to the Trust as a contribution in kind. The Trust will acquire a statement on the value of the contribution in kind from an approved auditor in advance.

The Trust will apply for its shares to be made subject to trading in a regulated marketplace within the European Economic Area or subject to multilateral trading at the latest in the third tax year from the launch of the Real Estate Investment Trust operations.

Section 7. Measurement, valuation and publication of the value of the Trust's real estate assets

The values of the real estate and real estate securities subject to other than public or multilateral trading owned by the Trust are measured at least on a monthly basis and published at least on a quarterly basis and always when a change in the financial position of the Real Estate Investment Trust or changes in the condition of the real estate have a material impact on the value of the real estate and real estate securities owned by the Real Estate Investment Trust. Real estate and real estate securities subject to other than public or multilateral trading shall be valued when the Trust buys and sells them. Assets assigned to the Trust are also valued when the assets are received as a contribution in kind in connection with a subscription.

The assets are measured at fair value according to the following principles. Investment assets are originally valued at acquisition cost. The acquisition cost of self-developed or constructed investment assets consists of construction costs accumulated by the completion date, capitalised liability expenses and other expenses. Fair value is used in the measurement and valuation after the original recognition. Fair value is the amount of money for which the assets could be exchanged between informed parties willing to enter into the transaction and independent of each other. If a reliable market price is not available, the value may be determined by means of an apartment price measurement model developed by Orava Funds plc. The valuation of the Trust's assets meets the measurement criteria of IFRS and

International Valuation Standards (IVS) and the criteria of good property valuation practice (Authorised Property Valuer (AKA)).

An external expert audits the Trust's measurement process, calculation methods and reporting once a year. In addition to the auditing, the Trust has the material used for the determination of asset value inspected by an external expert at least once a year. The external valuer used in the determination of the value of the assets shall be a property valuer approved by the Finland Chamber of Commerce or a firm of authorised public accountants.

For a special reason, the Trust may value apartments in other than its own use, at other than fair value, or decide not to use a property valuer or a firm of authorised public accountants, in which case the Trust shall justify its conduct in the Board of Directors' report or in the notes to the financial statements.

Section 8. Criteria for calculating and publishing the value of the Trust and its share

The value of the Trust is calculated so that the Trust's liabilities are deducted from the Trust's assets. The value of the Trust and its share is indicated in euros. The value of the share is obtained by dividing the value of the Trust by the number of shares less the number of shares possessed by the company.

The latest published value determined in accordance with Section 7 will be complied with in the valuation of real estate. Other assets under Section 4 included in the Trust are valued according to their valid market value. With regard to shares and equity-linked instruments, the market price is their latest available closing price. With regard to interest-bearing instruments it is the latest trading price or in a market guarantee system the average value of bid quotes. With regard to fund units the market price is defined as the latest trading price and with regard to money market fund units the latest confirmed value. Receivables are valued at their likely assignment price. Cash and cash equivalents and liabilities are measured at nominal value. Other liquid funds comparable to cash are measured at fair value according to the principles confirmed by the Trust's Board of Directors. Derivative contracts are measured at their market value, at the latest available closing price.

The interest accrued on cash and cash equivalents is taken into account as an addition to the Trust's assets and the interest accrued on liabilities as a deduction from the Trust's assets.

The result of the Trust's business operations is calculated on a monthly basis. The Trust's revenue is made up of rental income, compensation for use, capital gains and changes in unrealised value. The management fees and other expenses incurred for the Trust's operations are deducted from the revenue and other operating income. The result of the Trust's business operations is published at least on a quarterly basis.

The values of the Trust and its share are calculated on a monthly basis and published at least on a quarterly basis.

Before the share has been made subject to public or multilateral trading on the Trust's application, the value of the share is calculated at least on a quarterly basis. The value and number of shares are published at the latest on the 15th of the following month on the Trust's website and they are also available from the Trust.

Section 9. Distribution of profit

The Trust distributes at least 90 per cent of the profit for the period excluding unrealised value changes as dividends, unless otherwise provided in the provisions of the Limited Liability Companies Act that limit the distribution of profit on the basis of the amount of the Trust's non-restricted shareholders' equity or solvency.

Section 10. The Trust's duty of disclosure and publication of information about the Trust

The Trust's duty of disclosure and publication of information are determined in accordance with the Real Estate Funds Act.

Section 11. Management service and the fees paid for it

The Trust has agreed on management services and rights of use with Orava Funds plc in the manner defined in more detail in a separate agreement on management services. The management services and rights of use comprise the establishment of the Trust and the organisation of its operations, staffing of the organisation as part of the business organisation of Orava Funds plc, the business idea and its development, the right to use the logo and brand, the processes and guidelines for the Trust's investment operations and support activities, and the right to use the information systems related to the management of the Trust.

As compensation for the aforementioned management services, the Trust pays Orava Funds plc a fee of 0.6 per cent per annum of the value of the Trust's assets determined in accordance with Section 8. The fee is determined 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 management fee is invoiced on a quarterly basis on the 15th day of the first month of each quarter.

As a performance-related management fee, the Trust pays Orava Funds plc twenty per cent (20%) of the Trust's annual return exceeding the hurdle rate of six per cent (6%). The performance-related 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 will be used instead of 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.

The performance-related management fee is invoiced on an annual basis on the 15th day of the first month of the financial period so that at least half of the performance-related fee is paid in money and the Trust has the right to pay half in the Trust's shares. Net assets per share on the closing date and, after listing, the stock exchange price are used as the value of the share.

Any potential value added tax valid at any given time is added to the aforementioned fees.

The Trust is itself responsible for the organisation of its operations to the extent that Orava Funds plc does not offer in the management service as described above. The Trust may organise the operations itself or acquire the services needed from Orava Funds plc or an external party.

Section 12. Organisation of real estate management and maintenance services

The Trust acquires the services it needs mainly from external parties specialising in management and maintenance services for apartments, but it may also organise the operations itself.

Section 13. Risks and risk management

Risk management is an integral part of the Trust's operations. Risk management refers to a systematic process allowing the identification, assessment and management of risks due to factors external to the Trust and the Trust's own operations.

The Trust's Board of Directors confirms the Risk Management Principles which define the objectives and general procedures of risk management as well as the related tasks and responsibilities. The CEO is responsible for the coordination of the risk management. The business organisation is primarily responsible for the identification and assessment of any risks affecting its operations.

The risks involved in the Trust's business operations are regularly assessed as part of the Trust's annual planning and strategy process, the preparation and decision-making process concerning agreements related to the acquisition of investment assets and other agreements, and other operational activities.

The risk management system is based on monthly reporting which monitors the development of the fair value of investment assets, the financial position, revenue, profitability, sales, trade receivables, expenses and, through them, the result trend of the Trust. The monthly internal reporting is implemented at the meetings of the Trust's management as part of their business review.

The knowledge and skill of the Trust's Board of Directors and management and their partners in implementing and managing investments play a crucial role from the point of view of the return on the Trust. Two material risks are related to this:

Acquisition risk: It may be challenging and difficult for the Trust to acquire investment objects that meet the Trust's goals. It is also uncertain whether the objects potentially acquired from the market are suited to the Trust's strategy.

Rental income risk: A significant part of the management work is to make the residential portfolio acquired generate returns according to the set goals. Forecasting market rents is difficult and lower market rents may be realised than forecasted, in which case the return on the Trust will decline.

Other significant risks include:

A non-diversified portfolio
It is possible that apartments cannot be acquired for the Trust in the planned areas; instead, the acquisition area may turn out to be considerably smaller than planned and less diversified.

Management risk
The Trust's success is affected by the expertise of its management and Board of Directors. It is possible that persons change or the expertise of persons involved in the operations becomes outdated or their ability to manage their tasks deteriorates.

Liquidity risk
The Trust may acquire apartments whose liquidity is relatively low as investment objects. It is possible that the liquidity deteriorates and becomes exceptionally low, in which case apartments cannot be sold at a time when it would be in the interests of the Trust to do so.

Partner risk
The operations of the Trust are also in material respects based on its partners. The ability of the partners to manage their tasks may deteriorate, they may discontinue their operations or be declared bankrupt.

Damage risk
It is possible that apartments acquired by the Trust are destroyed and the insurance company does not indemnify the damage. It is also possible that tenants cause particularly high damage to apartments, which causes costs that cannot be collected from the tenants.

Interest rate risk

Market interest rates vary, and it is difficult to predict future interest rates on the basis of the interest rates of the past few years. A rapid and radical change in market interest rates and margins may have a negative impact on the Trust's business operations.

General economic risks
There can be no guarantees that the general economy will grow or that the prices of apartments will rise in the future. The value of real estate typically follows cyclical fluctuations. Many factors affect the value of real estate, such as interest rates, inflation, economic growth, the business environment, availability of credit, taxation and building activity.

Share valuation risk
It is possible that the market price of the Trust's share deviates considerably from the value of the net assets per share. The investor may have to sell his or her shares on the stock exchange at a price that is lower than the net assets per share.

Share liquidity risk
It is possible that the share in the Trust has such poor liquidity that the sale of shares becomes time-consuming or even impossible.

Legislation risk
The Trust has been built on the basis of valid laws, and it is one of the first trusts according to the Tax Exemption Acts. It is possible that the laws change or that new laws will enter into force.

Lack of history
The Trust was established just before the launch of the Trust's operations, and the investor has not had the opportunity to assess the return on investment or the success of the Trust on the basis of previous returns. The Trust, its partners or their background parties are not responsible for the non-achievement of the anticipated returns or the risks involved in investment.

The objective of risk management is to minimise the detrimental effects of risks on the Trust's results.
The risk management methods include risk avoidance, risk elimination and diminishing the likelihood of risks materialising.

It is sought to manage risks through risk surveys, systematic monitoring and market analyses.

Section 14. Amendment of the rules for real estate investment operations

The General Meeting decides on the amendment of the rules for real estate investment operations according to a proposal by the Board of Directors. The General Meeting may issue an authorisation to the Board of Directors to amend the rules for real estate investment operations within the limits of the authorisation referred to in the decision.

Amendments to the rules enter into force after a month from their approval by the Finnish Financial Supervisory Authority and their communication to shareholders by publishing the information in the manner required in the case of information falling within the sphere of the Trust's duty of disclosure in accordance with Section 10. Before the share has become subject to public or multilateral trading according to the Trust's application, the amended rules are communicated to the shareholders by e-mail to the addresses in the Trust's shareholder list and on the Trust's website, and they are also available from the Trust.

Section 15. Applicable law

The operations of the Trust are governed by Finnish law.

Changes and additions

31 May 2011	The name of the management company changed to Orava Funds plc	VMS
	Addition of the performance-related fee of the management company	VMS