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*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

# Auditor's Report

To the Annual General Meeting of Technopolis Plc

## ***Report on the Audit of the Financial Statements***

### **Opinion**

We have audited the financial statements of Technopolis Plc (business identity code 0487422-3) for the year ended 31 December 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

### **Basis for Opinion**

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Materiality**

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

<b>KEY AUDIT MATTER</b>	<b>HOW THE MATTER WAS ADDRESSED IN THE AUDIT</b>
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<p><b>Valuation of investment properties</b> (Refer to note 12 to the consolidated financial statements)</p> <hr/>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"><li>— Investment properties measured at fair value (EUR 1,646.8 million) represent 90.2 per cent of the consolidated balance sheet total as at 31 December 2016. Changes in the fair values of the investment properties have a significant impact on the consolidated net result for the period and equity.</li><li>— The fair values of investment properties is determined specifically for each property by discounting the estimated net cash flows to the present day.</li><li>— The forecasts used by Technopolis in fair value measurement involve management judgement regarding projected occupancy rate and market rents, among others. The net yield requirement used in the fair value calculations is based on assessments provided by two external real estate valuers.</li><li>— Acquisitions and divestments of investment properties are individually significant transactions.</li></ul> <p>— We evaluated the assumptions requiring management judgement used in the fair value calculations.</p> <p>— In respect of property-specific fair value calculations, we assessed that the yield requirements are based on information provided by external real estate valuers.</p> <p>— We tested the analysis of changes in fair value and the underlying factors prepared by the Group.</p> <p>— We involved KPMG valuation specialists in testing of the technical validity of the property-specific calculations and in comparison of the assumptions used to market and industry data.</p> <p>— As part of our audit procedures performed on the acquisitions and divestments of investment properties we examined significant contracts and documentation on the accounting treatment applied to these transactions.</p> <p>— Furthermore, we assessed the appropriateness of the disclosures provided on the fair values of investment properties.</p>

## **Recognition of rental and service income** (Refer to note 2 to the consolidated financial statements)

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- The Group's net sales primarily consist of real estate rental revenues recognized on a straight-line basis over the lease term and service revenues recognized upon completion of the service performance.
- The number of invoicing transactions linked to rental revenues is considerable.
- Accurate and timely recognition of rental and service revenue is material for rendering a true and fair view of the financial statements.

Our audit procedures included, among others:

- We evaluated internal controls over both the IT environment related to the property rental process and the accuracy of rental invoicing process.
- We tested the accuracy of basic data in the Group's ERP software by comparing to rental agreements and other contracts.
- Furthermore, we tested the accuracy of the recognition process by performing substantive procedures.

## **Financing arrangements** (Refer to note 7 and notes 20–22 to the consolidated financial statements)

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- The total balance of the Group's interest-bearing liabilities is significant, EUR 959.9 million as at 31 December 2016.
- The Group employs derivative instruments that are recognized at fair value. Technopolis uses derivative contracts mainly to hedge interest rate risks and applies hedge accounting to qualifying interest derivative instruments. The nominal value of the derivatives as at 31 December 2016 amounts to EUR 639.2 million.

Our audit procedures included, among others:

- We evaluated the appropriateness of the recognition and measurement policies applied to financial instruments and tested the controls relevant to the accuracy and measurement of financial instruments.
- We assessed the hedge accounting documentation prepared by Technopolis and the principles applied therein.
- We tested the interest accruals of financial liabilities by comparing to external confirmations provided by lenders.
- Furthermore, we assessed the appropriateness of the disclosures provided on financial instruments.

## **Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### ***Other Reporting Requirements***

#### **Other Information**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 21 February 2017

KPMG OY AB

Ari Eskelinen  
*Authorized Public Accountant*