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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 Martela Corporation

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

### **Opinion**

We have audited the financial statements of Martela Corporation (business identity code 0114891-2) for the year ended 31 December 2019. The financial statements comprise the consolidated balance sheet, comprehensive income statement, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance 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.

Our opinion is consistent with the additional report submitted to the Audit Committee.

### **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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 4 to the consolidated financial statements.

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. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
<b>Revenue recognition EUR 106.2 million (Basis of preparation and note 1 to the consolidated financial statements)</b>	
<ul style="list-style-type: none"><li>— Martela Lifecycle business model comprises sales of both products as well as services.</li><li>— The amount and timing of revenue recognition reported is dependent on the contents of specific customer contract as well as on related terms and conditions.</li><li>— Reporting of revenues in the financial statements includes the risk of misstated euro-denominated sales proceeds either at inaccurate amounts or in incorrect reporting period.</li></ul>	<ul style="list-style-type: none"><li>— We evaluated the appropriateness of the company's revenue recognition policies as well as performed testing of related internal controls.</li><li>— In order to examine the accuracy of revenue recognition we tested, for example, the recording of deliveries and related invoices in the appropriate accounting period in accordance with the contract terms. In respect of trade receivables, we inspected payments received. Additionally, we matched sales invoices to supporting delivery and customer documentation.</li><li>— We examined completeness of invoicing, credit invoices and sales margins per customer and product groups to detect deviations.</li></ul>

### **Measurement of inventories EUR 8.0 million**

#### **(Basis of preparation and note 14 to the consolidated financial statements)**

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- Inventories account for approximately 14% of the consolidated total assets.
- Application of the inventory measurement principles involves management judgement and reporting may also involve an element of risk owing to human error. The estimates of the inventory obsolescence are based on, among others, inventory cycle counts carried out during the year and turnover analyses on which management compiles the total estimation of the need for possible write downs.
- We assessed the inventory measurement policies established by the company and the consistency of reporting in applying the said policies.
- Our audit procedures included testing of internal controls over inventories as well as substantive procedures.
- We assessed the Group's stocktaking practices and performed recalculations both during the financial year and at year-end. We inspected the completeness of inventory counts by using related inventory count rate reports and analyzed inventory differences in order to detect any deviations.
- We also analyzed negative item balances and slow-moving items using data analyses.
- In addition, we evaluated the inventory write-down principles and the adequacy of the write-downs recognized in the financial statements.

### **Impairment of subsidiary shares and receivables from subsidiaries, EUR 6.3 million, and goodwill EUR 7.4 million**

#### **(Accounting policies for parent company financial statements and notes 11, 12 and 15 to parent company financial statements, FAS)**

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- The equity of the parent company totals EUR 32.3 million, of which the distributable funds amount to EUR 24.1 million.
- A significant proportion of the parent company's assets consist of investments in the subsidiaries. The direct net investments in the parent company's balance sheet amount to EUR 6.3 million and the related goodwill to EUR 7.4 million. The
- We assessed the appropriateness of the cash flow forecasts and the discount rates used. We analyzed critically the considerations underlying the impairment calculations as well as management's assumptions that form the basis on which the future cash flow projections are prepared.

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- measurement of these investments has a material impact on the determination of the parent company's distributable funds.
  - Management of the parent company prepares annually impairment tests for the above-mentioned subsidiary investments. The calculations involve a significant element of management judgment. Based on the calculation an impairment loss of EUR 1.5 million was recognized on the loan receivable from Martela AB.
  - We involved KPMG valuation specialists to assess the technical correctness of the calculations and to compare the assumptions used to the market and industry data.

### **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 a 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 about 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 the 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**

### **Information on our audit engagement**

We were first appointed as auditors of Martela Corporation in 1989, and our appointment represents a total period of uninterrupted engagement of 31 years.

### **Other Information**

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

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.



**Martela Corporation**  
*Auditor's Report*  
12 February 2020

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 other information that we obtained prior to the date of this auditor's report, 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, 12 February 2020

KPMG OY AB

Jukka Rajala  
*Authorized Public Accountant, KHT*