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IXONOS' AUDITOR'S REPORT 2016

Ixonos' Auditor's report 2016 as a whole is published in this release. In addition to the standard format text the report includes additional information related to emphasizing a matter. The Finnish auditor's report was published 3 March 2017.

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 Ixonos

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ixonos Plc (business identity code 0997039-6) for the year ended 31 December 2016. The financial statements comprise the consolidated balance sheet, 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..

Material uncertainty related to going concern basis

We would like to draw attention to the fact that the Group has been generating losses in recent years and its financial position is challenging. The Group has carried out several financing arrangements to strengthen its balance sheet and secure liquidity. On 31 December 2016 the consolidated current liabilities exceeded current assets. In accordance with note 33 the liabilities falling due within next 12 months amounted to EUR 4.8

million at the financial year-end. Consolidated cash flow from operating activities was negative in the financial years 2015 and 2016.

As described in the report of the Board of Directors and in Accounting policies for the consolidated financial statements, section Basis for preparation, subsection Going Concern, on the balance sheet day, the company estimated that its existing working capital may not be sufficient to cover the company's funding needs over the next 12 months. At the time financial statement were prepared the negotiations for restructuring of short-term financing were unfinished. The financial gap in the cash flow forecast in the beginning of the year 2017 can be filled with bridge financing. The Directors believe that financing negotiations will result in a positive solution for the company securing future operations. After the balance sheet day the company has secured a EUR 1 million loan agreement with its main owner and a EUR 1 million commitment for additional loan with its main owner which company's Board of Directors has approved.

As described in Accounting policies for the consolidated financial statements, subsection Going concern, the financial statements have been prepared on a going concern principle taking into account the realised financial arrangements during the financial year 2016 and financial estimations made up for the year 2017. During the past year the company's confirmed orders improved significantly compared to the previous year. In addition to that the cost structure was lightened. There is, however, material uncertainty related to operational profitability, financial position improvements and the end result of the financing negotiations, which may cast doubt upon the company's ability to continue as a going concern.

Furthermore, we would like to draw attention to the fact that the goodwill balance in the consolidated balance sheet amounts to EUR 11.5 million. As described in the previous chapter there is uncertainty related to the Group's ability to continue as a going concern and thus the carrying value of goodwill may not be supported.

Our opinion has not been qualified by this matter

Emphasis of a matter – valuation of subsidiary shares and intra-group receivables in the parent company's balance sheet

The carrying value of the subsidiary shares in the parent company Ixonos Plc's balance sheet totalled

EUR 26.1 million as at 31 December 2016. Furthermore, the parent company's intra-group receivables amounted to EUR 7.7 million. The Group has been generating losses in recent years. As described in the notes to the parent company's financial statements the Group has prepared long-term forecasts to assess the valuations of goodwill and subsidiary shares. The valuation of subsidiary shares and intra-group receivables is highly dependent on the subsidiaries' future result development and the Group's business model. Our opinion has not been qualified by this matter.

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.

In addition to the matters described in the sections *Material uncertainty related to going concern basis* and *Emphasis of a matter – valuation of subsidiary shares and intra-group receivables in the parent company's* *balance sheet* we have found that the key audit matters described below are to be included in our Auditor's Report.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Valuation of Goodwill
(Refer to note 13 to the consolidated financial statements)

— At the financial year-end, the goodwill balance amounted to EUR 11.5 million representing approximately 72 percent of the consolidated total assets. Consequently goodwill is the most significant individual item in the consolidated balance sheet. As at 31 December 2016 the Group's equity was negative amounting to EUR 4.2 million.

— As described in the report of the Board of Directors, the Group's business primarily consists of relatively short-term customer contracts. Forecasting the starting dates and scope of new projects may be challenging from time to time. This may result in unexpected fluctuation in turnover and Group's profitability.

— Preparation of impairment tests requires management apply judgement and make assumptions. Valuations prepared to support the carrying amount of goodwill are highly dependent on the Group's result development and business model.

— We evaluated the company's estimation process and analyzed the assumptions used in the impairment tests for 2015 by comparing to performance in 2016 in respect of turnover and profitability.

— Furthermore, we involved KPMG valuation specialists when analyzing the reasonableness of the assumptions underlying the goodwill impairment tests, and the technical accuracy of the impairment model.

— As part of our audit procedures during the financial year and at year-end, we assessed whether there was any external or internal indication that may warrant preparation of impairment calculations at some other date than the regular date of impairment testing, and result in an impairment.

— At year-end audit we considered the adequacy and appropriateness of the Group's notes in respect of goodwill and impairment testing.

Valuation of Trade Receivables
(Refer to note 16 to the consolidated financial statements)

— Trade receivables, amounting to EUR 2.9 million as at 31 December 2016, make up a significant balance sheet item. Regardless of the fact that there are no significant credit losses incurred in the past, there is a valuation risk associated with the trade receiva-

— We evaluated monitoring routines for trade receivables and tested the effectiveness of the key internal controls. We also analyzed trade receivables and assessed the payments received after the year-end to identify any trade receivables potentially imbles paired.

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 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 scepticism 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, 2 March 2017

KPMG OY AB

Esa Kailiala
Authorised Public Accountant, KHT

IXONOS PLC
Board of Directors

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