



## *Auditor's Report (Translation of the Finnish Original)*

To the Annual General Meeting of Orava Asuntorahasto Oyj

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

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#### *Opinion*

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and 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 the financial statements in Finland and comply with statutory requirements.

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

#### **What we have audited**

We have audited the financial statements of Orava Asuntorahasto Oyj (business identity code 2382127-4) for the year ended 31 December 2017. 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
- the parent company's balance sheet, income statement, statement of cash flows and notes.

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

#### **Independence**

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 have not provided non-audit services to the parent company and to the group companies. We have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

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## Our Audit Approach

### Overview

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- Overall group materiality: € 2.000.000, which represents 1 % of the total assets
  - Audit scope: a statutory audit is performed for all subsidiaries. For the audit of the consolidated financial statements we have audited material balances such as the cash and cash equivalents and the external loans of the subsidiaries.
  - Valuation of the investment properties and the change in fair value booked to the income statement.
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.



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<b>Overall group materiality</b>	€ 2.000.000
<b>How we determined it</b>	1% of total assets
<b>Rationale for the materiality benchmark applied</b>	We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark for the industry. We chose 1% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

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### **How we tailored our group audit scope**

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates. All subsidiaries are real estate companies operating in Finland and are subject to statutory audit. For the audit of the consolidated financial statements we have audited material balances such as the cash and cash equivalents and the external loans of the subsidiaries.

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### **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.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

<b>Key audit matter in the audit of the group</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Valuation of the investment properties and the change in fair value booked to the income statement</i></p> <p><i>Refer to notes 2 and 4 in the financial statements</i></p> <p>The group has two kinds of investment properties; properties that are fully developed and have tenants and properties that are under development and hence do not yet have tenants. The risk associated with these two types of investment properties are different.</p> <p>The valuation of the investment properties is determined using a valuation model that has been defined by management. Management uses an external expert that validates the appropriateness of the model. In addition to this management engages an external expert twice a year to provide a valuation for each property.</p>	<p>We updated our understanding of the valuation models both for fully developed properties and properties under development.</p> <p>We assessed the competence, ability and objectivity and other relationships that might jeopardize the independence of the external experts.</p> <p>We critically assessed the assumptions, methods and input information of cash flow estimates used in the valuation using our knowledge and experience of the fair values of investment properties.</p>

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As the entity discloses in note 4 if the entity would in the future use a valuation method based on external expert's valuations, it is possible that the entity would book a onetime profit or loss.

The valuation of the investment properties to fair value requires significant judgement from the management. Similar assessments and judgements are also required from the external experts. Based on these subjective matters we have determined that the valuation and change of fair value of the investment properties are key audit matters.

The valuation of each investment property requires the knowledge of the underlying factors like location, cash flows and comparable transactions that have occurred in the market. The valuation of investment properties requires adjustments made based on comparable transactions like the range of negotiation and pricing adjustments made for properties built for rental use.

There is also a risk that management affects material judgemental items in the valuations to be able to reach the level of valuation that fulfils the expectations of the market.

This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.]

We reviewed transactions of new properties and assured that the fair value was booked appropriately.

We obtained the external validation used by the management regarding the valuation model.

We reviewed sales transactions of apartments and compared the actual sales price to the fair value of the apartment. We obtained explanations for material differences.

We reviewed the analysis made by the management regarding the material differences and the reason behind them in the valuation method used by the management and the external valuator.

Key audit matter in the audit of the parent company	How our audit addressed the key audit matter
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*Valuation of the investment properties and the change in their fair value*

The key audit matter for the audit of the parent company is the same as for the group.

Audit procedures performed for the group audit covers also the parent company.



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## *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.

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## *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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance 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 to 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*

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### *Appointment*

We were first appointed as auditors by the annual general meeting on 30.12.2010. Our appointment represents a total period of uninterrupted engagement of 7 years.

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### *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.

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
- 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, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 27 February 2018

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Tuomas Honkamäki  
Authorised Public Accountant (KHT)