

**AUDITOR'S
REPORT >**

AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Afarak Group Oy

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Afarak Group Oyj (business identity code 0618181-8) 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 position as well as its financial performance and its 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 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.

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 fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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.

1) Goodwill

We refer to accounting principles and notes 1.4 and 13.

The Group is required to annually test the amount of goodwill for impairment. At the balance sheet date 31 December 2016, the value of goodwill amounted to 63,8 M€ representing 24 % of the total assets and 36 % of the total equity (2015: 58,3 M€, 22% of the total assets, 34 % of the total equity). Procedures over management's annual impairment test were significant to our audit due to the complexity of the assessment process and significant judgments and assumptions involved. The Group

management uses assumptions in respect of future market and economic conditions such as, economic growth, discount rates, expected inflation rates, revenue and margin developments.

Our audit procedures included, among others, involving valuation specialists to assist us in evaluating and comparing to the relevant peer group the assumptions and methodologies used by the Group, in particular those relating to the weighted average cost of capital. We compared the market expectations management used to the external market forecast providers to gain an understanding of the assumptions used. We focused on the sensitivity in the available headroom by Cash Generating Unit and whether any reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of managements' estimates but due to the very high volatility and distressed market situation within the industry, we performed also our own sensitivity analysis based on a prolonged poor market conditions.

We assessed the Group's disclosures in notes 1.4 and 13 in the financial statements about the assumptions to which the outcome of the impairment tests were more sensitive.

2) Environmental Obligations

We refer to accounting principles and note 21.

The provision for rehabilitation and decommissioning costs relates to mines and processing facilities. At the balance sheet date 31 December 2016, the value of the provision amounted to 9,6 M€ (2015: 8,2 M€). The calculation of the provisions require significant management's judgment because of the inherent complexity in estimating future costs. These costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The provisions are subject to the effects of any changes in local regulations, management's expected approach to decommissioning and discount rates, along with the effects of changes in exchange rates.

As at 31 December 2016, we reviewed the assumptions used by management in their calculations and inspected the calculations and assessed the assumptions used. We also recalculated the provision based on these assumptions used by management for the discount rates, areas to be rehabilitated, the nature of expenses to be incurred (i.e. related to asset or expense). We assessed the competence of the work of management's expert, who produced the cost estimates.

We assessed the Group's disclosures in the financial statements in respect of environmental and rehabilitation provisions.

3) Valuation of inventory

We refer to accounting principles and note 15.

The total value of inventory as of December 31, 2016 amounted to 48,4 M€ representing 19 % of the total assets (2015: 45,2 M€, 17 % of the total assets). Inventories are measured the lower of cost and net realisable value, taking into consideration also the usage based depreciation of the mineral resources originating from the business combination. The inventory is material to our audit because the inventory is exposed to price and exchange rate fluctuation due to which the net realisable value of inventory can fluctuate significantly, increasing the risk of inventory overvaluation. Inventory costing was considered a significant risk also because variable and fixed costs are allocated to inventory.

Our audit procedures involved assessing the Group's accounting policies over recognizing inventory in compliance with applicable accounting standards. We tested the costing of the inventory and performed net realizable value testing to assess whether the cost of the inventory exceeds net realizable value and whether the variable and fixed costs are allocated to the inventory based on normal capacity of the production. An analytic review was also performed on inventory.

We assessed the Group's disclosures in the financial statements in respect of inventory.

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 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 company 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 report thereon. We obtained the report of the Board of Directors prior to the date of the auditor's report, and the Annual Report is expected to be made available to us after the date of the 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 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, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki 30 March 2017

Ernst & Young Oy
Authorized Public Accountant Firm

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Authorized Public Accountant

