Sunborn London Oyj
FINANCIAL STATEMENTS 2016 AND 2015

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Rental income from group companies	5	3 132	3 391
Other operating income	5	132	131
Depreciation	9	-1 505	-1 505
Other operating expenses	6	-261	-113
Operating profit		**1 499**	**1 904**
Finance income	7	414	-
Finance costs	7	-944	-2
Finance income and costs, net		-530	-2
Profit before taxes		**969**	**1 902**
Income tax expense	8	-150	-469
Change in deferred tax	8	-44	88
Profit for the period		**775**	**1 522**
Total comprehensive income for the period		**775**	**1 522**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET

EUR thousand	Note	31 Dec 2016	31 Dec 2015	1 Jan 2015
Assets				
Non-current assets				
Investment property	9	42 422	43 927	45 000
Receivables from group companies	10	26 014	-	-
Cash collateral	14	880	-	-
Total non-current assets		**69 316**	**43 927**	**45 000**
Current assets				
Trade receivables from group companies	15	3 551	1 170	-
Trade and other receivables	10	55	35	31
Cash and cash equivalents		45	3	1
Total current assets		**3 651**	**1 207**	**31**
Total assets		**72 967**	**45 134**	**45 031**

EUR thousand	Note	31 Dec 2016	31 Dec 2015	1 Jan 2015
Equity and liabilities				
Equity	12			
Invested equity		-	36 006	35 269
Share capital		3	-	-
Reserve for invested unrestricted equity		600	-	-
Retained earnings		31 992	-	-
Total equity		32 594	36 006	35 269
Liabilities				
Non-current liabilities				
Borrowings	14	30 546	-	-
Deferred income	9	899	1 027	1 155
Deferred income tax liabilities	11	8 063	8 019	8 108
Total non-current liabilities		**39 508**	**9 046**	**9 263**
Current liabilities				
Trade and other payables	13	117	81	499
Payables to group companies	13	161	-	-
Borrowings	14	560	-	-
Accrued expenses		27	-	-
Total current liabilities		**865**	**81**	**499**
Total liabilities		**40 373**	**9 127**	**9 763**
Total equity and liabilities		**72 967**	**45 134**	**45 031**

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

EUR thousand	Invested equity	Share capital	Reserve for invested unrestricted equity	Retained earnings	**Total equity**
Equity at 1.1.2015	35 269	0	0	0	**35 269**
Profit for the period	1 522				**1 522**
Total comprehensive income	1 522	0	0	0	**1 522**
Transactions with owner:					**0**
Equity transactions with Sunborn International Oy	-232				
Group contribution (net of taxes)	-553				
Total contributions by and distributions to owners of the parent, recognised directly in equity	-784	0	0	0	**-784**
Equity at 31.12.2015	**36 006**	**0**	**0**	**0**	**36 006**
Equity at 1.1.2016	36 006	0	0	0	**36 006**
Profit for the period	468				468
Total comprehensive income	468	0	0	0	**468**
					0
Transactions with owner:					0
Equity transactions with Sunborn International Oy	229				229
Total contributions by and distributions to owners of the parent, recognised directly in equity	229	0	0	0	229
Demerger on April 30, 2016:					
Reclassification of invested equity to borrowings from the parent company in accordance with demerger plan	-4 467				-4 467
Reclassification of invested equity to reserve for invested unrestricted equity and retained earnings	-32 236	0	600	31 636	0
Impact of demerger on April 30, 2016	-36 705	0	600	31 636	-4 467
Equity at 30.4.2016	**0**	**0**	**600**	**31 636**	**32 236**
Equity at 1.5.2016	0	0	600	31 636	32 236
Profit for the period				308	308
Total comprehensive income	0	0	0	308	**308**
					0
Transactions with owner:					0
Payment of share capital		3			3
Group contribution (net of taxes)				48	
Total contributions by and distributions to owners of the parent, recognised directly in equity	0	0	0	48	48
Equity at 31.12.2016	**0**	**3**	**600**	**31 992**	**32 594**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

EUR thousand	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Cash flows from operating activities			
Profit before tax		969	1 902
Adjustments for			
Amortisation of deferred income	9	-132	-131
Depreciation	9	1 505	1 505
Finance income and costs, net	7	530	2
Change of working capital			
Change in trade and other receivables		-2 685	-1 173
Change in trade and other payables		147	-418
Net cash flows from operating activities		**334**	**1 686**
Cash used in investing activities			
Capital Expenditure	9	0	-432
Loans given to related party	15	-25 671	-
Interest received		2	-
Net cash flows used in investing activities		**-25 669**	**-432**
Cash flows from financing activities			
Proceeds from borrowings		32 000	-
Repayment of borrowings from parent company	15	-4 390	-
Cash deposited on escrow account		-880	0
Contribution from/to Sunborn International Oy		67	-1 251
Payment of the share capital		3	-
Transaction costs paid		-933	-
Interest paid		-488	-2
Net cash flows from financing activities		**25 379**	**-1 253**
Cash and cash equivalents at the beginning of period		3	1
Effects of exchange rate changes on cash and cash equivalents		-2	-
Change in cash and cash equivalents		**42**	**2**
Cash and cash equivalents at the end of period		**45**	**2**

The above statement of cash flows should be read in conjunction with the accompanying notes.

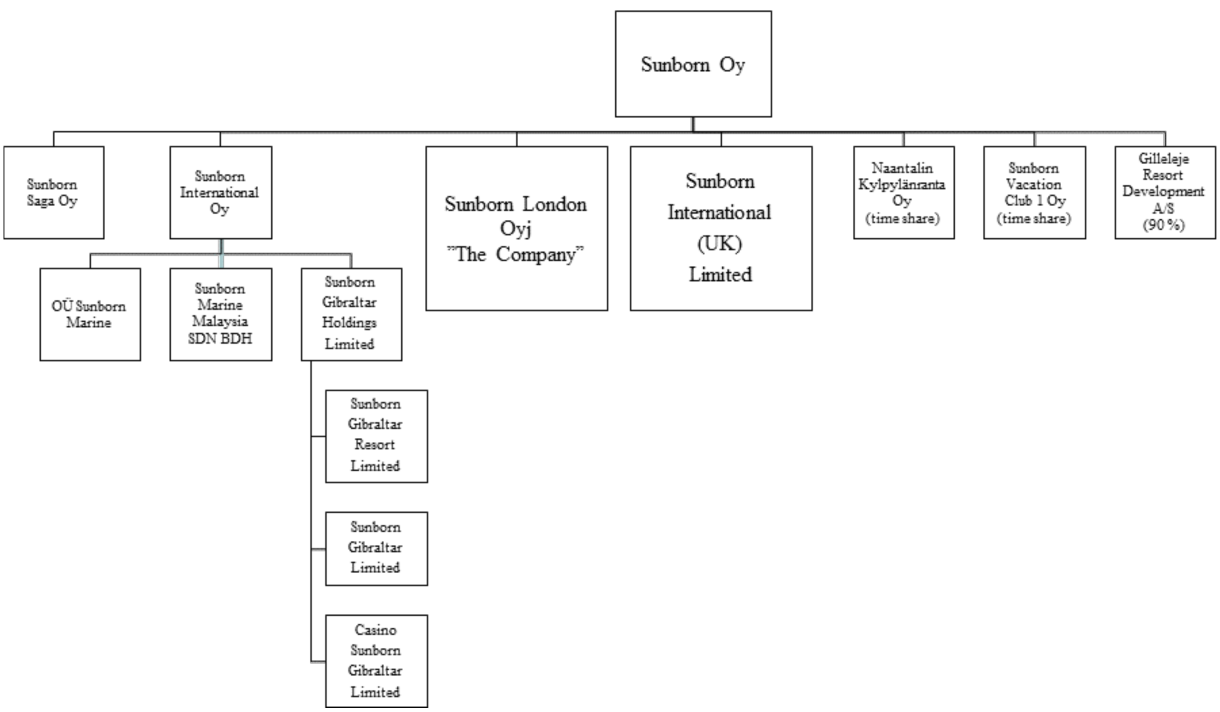
NOTES TO THE FINANCIAL STATEMENTS

1. General information

Sunborn London Oyj is a public limited liability company ("the Company") incorporated in Finland. The registered address of Sunborn London Oyj is Juhana Herttuan puistokatu 23, Turku, Finland. Sunborn London Oyj was established on April 30, 2016 through a demerger of Sunborn International Oy. Sunborn London Oyj owns a luxury yacht hotel "Sunborn London" docked at 'at Royal Victoria Dock in London, the UK ("Yacht hotel"), which it has leased to its sister company Sunborn International (UK) Limited ("Sunborn UK"). The hotel operations of the Yacht hotel Sunborn London are run by management company ISS Facility Services Ltd ("ISS") in accordance with a lease contract between ISS and Sunborn UK. The Yacht hotel is equipped with 138 cabins, including four suites or high class cabins, with a total hotel capacity of 524 persons. There are also conference facilities for up to 200 delegates, restaurant, bar and lounges inside the Yacht hotel. The Company had no employees in 2015 and 2016. Sunborn London Oyj's parent company Sunborn Oy provides management and administrative services to the Company. Sunborn UK's sole operations consist of acting as the lessee and lessor of the Yacht hotel.

Sunborn Oy is the sole owner and parent company of Sunborn London Oyj and Sunborn UK. Sunborn Oy is a Niemi family owned company based in Finland. Sunborn Oy focuses on the development of luxury spa and yacht hotels, restaurants and other high-quality property, and has more than 40 years of experience in the hospitality sector. Sunborn Oy had altogether 13 subsidiaries as at December 31, 2016 ("Sunborn Group"). Sunborn Oy prepares consolidated financial statements under Finnish Accounting Standards. The copies of the consolidated financial statements as well as the Company's standalone financial statements are available at the parent company's head office, Juhana Herttuan puistokatu 23, Turku, Finland.

Sunborn Group structure:



These special purpose financial statements have been prepared for the inclusion in the prospectus in connection with the admission to listing of Sunborn London Oyj's senior secured bonds to the regulated market on Nasdaq Helsinki Ltd.

The financial information presented in these special purpose financial statements for the years ending December 31, 2016 and December 31, 2015 are based on actual figures of Sunborn London Oyj as an independent company after the consummation of the demerger as at April 30, 2016 and carve-out figures prior to the consummation of the demerger. The carve-out financial information presented in these standalone special purpose financial statements reflects the financial performance of the business related to the Yacht hotel Sunborn London within Sunborn International Oy ("Sunborn London business"). Accordingly, the balance sheet as of December 31, 2016, statement of comprehensive income, statement of changes in equity and statement of cash flows for the period May, 1 – December, 31 2016 are based on actual figures as an independent company. The financial information for the periods before April 30, 2016 is based on carve-out financial information of Sunborn London business of Sunborn International Oy.

These special purpose financial statements are not the statutory financial statements of Sunborn London Oyj and they do not include the report of the Board of Directors. The statutory financial statements of Sunborn London Oyj for the eight month period ending December 31, 2016 have been prepared in accordance with the Finnish Accounting Standards (FAS).

The Board of Directors of Sunborn London Oyj has authorised these special purpose financial statements for issue on March 10, 2017.

The special purpose financial statements have been prepared in accordance with the basis of preparation and accounting policies set out below.

2. Summary of significant accounting policies

Basis of preparation

These special purpose financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, conforming with the IAS and IFRS standards as well as SIC and IFRIC interpretations applicable as per December 31, 2016. International Financial Reporting Standards refer to the standards and interpretations applicable by corporations set out by the Finnish accounting ordinance and other guidance set out on the basis of this ordinance enforced for application in accordance with the procedure stipulated in the regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the special purpose financial statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards.

The Company publishes the first financial statements prepared under IFRS standards for the financial period ending December 31, 2016 with comparative information for the financial period ending December 31, 2015. The Company applies in these financial statements IFRS 1 *First-time adoption of International Financial Reporting Standards* standard as of January 1, 2015. As the Company was established through demerger on April 30, 2016, it did not previously prepare financial statements. Accordingly, the requirement to present reconciliation between the previous applied accounting principles and IFRS are not applicable to the Company that would otherwise be required under IFRS 1.

These special purpose financial statements have been prepared primarily under the historical cost convention unless otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The financial statements are presented in thousands of euros unless otherwise stated.

Basis of accounting for the carve-out financial information

The carve-out financial information of Sunborn London Oyj for the year ended December 31, 2015 and for the four month period ended April 30, 2016 has been prepared on a carve-out basis from Sunborn International Oy's standalone financial statements, which comply with Finnish Accounting Standards ("FAS"), comprising the historical income and expenses, assets and liabilities and cash flows attributable to the business related to the Yacht hotel and adjusted to comply with IFRS as adopted by the EU. As IFRS does not provide guidance for the preparation of carve-out financial statements, certain accounting conventions commonly used for the preparation of historical financial information have been applied in preparing the carve-out financial statements for the year 2015 and carve-out financial information for the four month period ended April 30, 2016. The application of these carve-out conventions has been described below.

The carve-out financial information may not be indicative of the Company's future performance and it does not necessarily reflect what its results of operations, financial position and cash flows would have been, had Sunborn London Oyj operated as an independent company and had it presented stand-alone financial statements during the periods presented.

The following summarises the main carve-out adjustments and allocations made in preparing the carve-out financial information. Management of the Company considers that the allocations described below have been made on a reasonable basis, but are not necessary indicative of the costs that would have been incurred if Sunborn London Oyj had been independent company.

Intercompany transactions and related party transactions

Transactions with other Sunborn Group companies and Sunborn London business have been treated as related party transactions. All intercompany receivables and liabilities and income and expenses of Sunborn Group with the counterparty of Sunborn London business have been allocated to the Company.

Invested equity

Sunborn London Oyj did not before the demerger form a separate legal entity and accordingly it is not conceivable to present share capital separately from other equity balances including reserves. The Company's net assets as at December 31, 2015 are represented by capital invested in Sunborn London business and shown in the carve-out financial statement for the year ended December 31, 2015 as "invested equity". Changes in net assets allocated to Sunborn London business are presented separately in the statement of changes in invested equity through line "Equity transactions with Sunborn International Oy" and in the statement of cash flows under "Contribution to/from Sunborn International Oy" reflecting the internal financing between Sunborn London business and Sunborn International Oy during the period presented. The amount of invested equity (net assets) allocated to the Company in the demerger is reflected on line "Demerger on April 30, 2016" in the statement of changes in equity. The net asset allocated to the Company consists mainly of investment property, intercompany receivables and liabilities and net cash and cash equivalents.

Cash Management and Financing

The Company's cash and cash equivalents comprise of bank accounts of Sunborn London business which were transferred to Sunborn London Oyj in connection with the demerger. The working capital needs of Sunborn London business were financed through Sunborn International Oy before the demerger. Also the cash inflows related to Sunborn London business were paid to the bank accounts of Sunborn International Oy. Those bank accounts did not transfer to Sunborn London Oyj in connection with the demerger and movements related to the Sunborn London business in those bank accounts are presented separately in the statement of changes in invested equity through line "Equity transactions with Sunborn International Oy".

Income Tax

While Sunborn London business was part of Sunborn International Oy, they operated as one tax payer. The taxes allocated to Sunborn London business from the demerging Sunborn International Oy have been calculated as Sunborn London business had been a separate taxpayer. Therefore, the income tax for the carve out periods is the amount of tax payable or refundable based on the entity's hypothetical tax returns, and it is presented as current tax expense in the income statement. In the balance sheet these tax entries are presented as transactions through invested equity "as group contribution", because any payable or refundable taxes will not arise to Sunborn London Oyj due to these hypothetical taxes. Deferred taxes on temporary differences are recognised where such temporary differences exist.

Evaluation of the future impact of new standards and interpretations

Certain new or revised standards and interpretations have been issued that are mandatory for the Company's annual periods beginning on or after 1 January 2017. The most significant ones to the Company are:

- IFRS 9, *Financial instruments (effective date 1 January 2018)*, replaces the multiple classification and measurement models in IAS 39 and it will bring changes to classification and measurement of financial assets, their impairment assessment, and hedge accounting. The Company does not hold financial assets for investing or trading purposes and only has trade and other receivables and loan receivable from its parent company. It does not currently use hedging instruments. Based on the current understanding of the management of the Company, the adoption of IFRS 9 will not have material impact on the Company's financial statements but it has some impact on the notes to the financial statements.

- IFRS 16, *Leases (effective date 1 January 2019)* will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. As the Company is currently acting as lessor in its lease agreements, the standard is expected not to have a material impact on the Company's financial statements. However, there will be new disclosure requirements for the lessor.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the Company is euro. The financial statements are presented in euros, which is the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. All foreign exchange gains and losses are presented in the income statement within finance income or costs.

Investment property

The Company presents as investment property its investment in a Yacht hotel that is leased out under operating lease, and it is operated as Yacht hotel "Sunborn London" by ISS. The Yacht hotel has the physical characteristics of a building. It is a non-propelled vessel that is permanently moored along quayside at Royal Victoria Dock in London, the UK. The Yacht hotel, as it is lacking propels and other standard equipment of a ship, is not readily movable and the future rental cash flows to be earned from the Yacht hotel depend largely upon its permanent location.

An investment property is measured initially at its cost. Directly attributable transaction costs are included in the initial measurement. The Company has measured the investment property at fair value as at 1 January 2015, as the Company has applied the exemption provided in IFRS 1 to use the fair value of the investment property as deemed cost at the date of transition to IFRS. Any improvement costs for the renovation and repair that add value to Yacht hotel are capitalized as additions to the Yacht hotel and depreciated over the shorter of the improvements' estimated useful lives or that of the Yacht hotel.

Subsequently, the investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to allocate the cost to the residual value over their estimated useful lives. The estimated useful life of the Yacht hotel divided to its significant components is presented in the table below:

Yacht	40 years
Yacht, short term components (interior and fittings)	10 years

The Yacht hotel's residual value is estimated to be EUR 5 million. The residual value and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Transfers to and from investment property are made when there is a change in use. Investment property is derecognised on disposal or when the asset is withdrawn from use and no future economic benefits are expected.

Impairment of investment property

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Loans and receivables

The Company classifies all its financial assets in into category "Loans and receivables". Loans and receivables are included in current assets, expect for maturities greater than 12 months after the end of the reporting period in which case they are classified as non-current assets. Loans and receivables are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost less provision for impairment. Loans and receivables are derecognised when the contractual rights to the cash flows from the financial asset expire or the Company transfers the financial asset or the group of financial assets in question. Company's "Loans and receivables" comprise non-current loan given to Sunborn Oy, a parent company of Sunborn London Oyj, current trade and other receivables, which includes mainly rental receivable from the lessee Sunborn UK, related party, reserve account pledged (cash collateral) for the bond trustee, and cash and cash equivalents, which includes cash in hand and deposits held at call with banks.

Impairment of loans and receivables

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other indicators. If there is objective evidence, the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in income statement. The reversal of the previously recognised impairment loss is recognised in the income statement.

Financial liabilities

Financial liabilities of the Company consist of borrowings and accounts and other payable. A financial liability is derecognized when it is extinguished – that is when the obligation is discharged, cancelled or expired. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement as interest expense over the period of the borrowings using the effective interest method. The Company's borrowings consist of senior secured bonds which were withdrawn during 2016. Before that the Company had borrowings from its parent company that arose in connection with the demerger and were subsequently repaid with the proceeds from the bonds.

Accounts and other payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables consist of interest and tax accruals. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Accounts payable are recognised initially at fair value and subsequently measured at amortised cost.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to group contribution that is recognised directly in equity. In this case, the tax is also recognised directly in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Recognition of rental income

The Company recognises rental income from renting out the Yacht hotel “Sunborn London” to Sunborn UK based on fixed monthly payments determined in the lease contract. The lease of the Yacht hotel is classified as operating lease, since the Company retains a significant share of risks and rewards of ownership. Rental income from operating leases is recognised on a straight-line basis over the lease term.

Interest income

Interest income on the loan to the parent company Sunborn Oy is recognised using the effective interest method and presented within finance income in the statement of comprehensive income.

Group contribution

Group contribution given under Finnish Group Contribution Act 1986/825 to the entities in the Sunborn Group in Finland is recognised as a liability or receivable in the Company’s financial statements in the period to which it relates to. Group contribution is deducted directly from equity net of taxes.

Segment reporting

The Company only has one operation (owning and leasing the Yacht hotel), so it constitutes a single operating segment. The chief operating decision maker is determined as the Board of Directors of the Company who monitors the result of the Company after its establishment based on the rental income generated from the lease agreement less operating expenses.

3. Critical accounting estimates and management judgement

The preparation of financial statements in compliance with IFRS requires making estimates and assumptions. Application of accounting policies requires making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and assumptions, and judgements are based on historical experience and various other factors, including projections of future events, which are believed to be reasonable under current circumstances.

Fair value measurement of the Yacht hotel

As the Company prepares its special purpose financial statements using IFRS, it can use the exemption included in IFRS 1 to measure investment property at fair value and use this fair value as the deemed cost at the date of transition to IFRS. The fair value of the Yacht hotel at the date of transition to IFRS is calculated based on income approach using discounted cash flow analysis. The calculation takes into account different scenarios for determining the residual value after the contractual lease term: its estimated terminal value at the end of the lease term and assumed continuation of the lease contract after the contractual fixed period. Discount rate of 7% is based on hotel yields in London added by inflation of 2%. The payments for the extrapolated period includes adjustment for risk of 1.25%.

Based on the valuation, the Yacht hotel is recognised on the balance sheet at the date of transition at fair value of EUR 45 million. The aggregate adjustment to the carrying amounts reported under FAS calculated in carve out basis was EUR 31 million as at January 1, 2015. The fair value measurement is prepared using unobservable inputs based on the management estimation. The cash flows in the discounted cash flow calculation are based on the fixed payments in the external lease contract with ISS less estimated operating expenses. If the discount rate used in the calculation would be one percentage point lower/higher, the fair value would have been approximately 4.9 million higher / 4.3 million lower.

Useful life and residual value of the Yacht hotel

The Yacht hotel has been built as permanently floating real-estate and hull and structure is designed to have a technical lifespan of over 70 years, subject to normal maintenance and upkeep over the lifespan. In addition to the high technical specification of the hull and its protection systems, the hotel is typically moved only once every 10 to 15 years for refitting and is not normally subjected to adverse sea conditions, salt water, and friction. As a non-moving vessel, it will not be impacted by encounters with land or vessels. The management of the Company has made estimates on the depreciation period and residual value of the Yacht hotel. The management has estimated that the useful life of the Yacht hotel is 40 years for the hull and structure and 10 years for the interior and fittings. The residual value is estimated to be EUR 5 million. Should certain factors or circumstances cause the Company to revise its estimates of the Yacht hotel's useful lives or projected residual values, depreciation expense could be materially higher or lower. If the estimated average Yacht hotel useful life had reduced or increased by one year, depreciation expense for 2016 would have increased by approximately EUR 0.1 million / decreased by 0.1 million. If the Yacht hotel was estimated to have no residual value, depreciation expense for 2016 would have increased by approximately 0.3 million.

Determination of the functional currency of the Company

Determination of the functional currency of the Company requires critical judgement. The management of the Company has prepared the financial statements on the basis of the judgement that the functional currency is the Euro. Management's view is that the Company acts as an extension of its parent entity Sunborn Oy, whose functional currency is euro.

4. Financial risk management

The Company´s financial risks related to business are market risk (including interest rate risk and foreign currency risk), credit risk, liquidity risk and refinancing risk. Financial risk management carried out by the management of the Company aims to protect the Company against unfavourable developments in the financial markets and ensure the performance. The management review financial risks on regular basis to manage financial risk position and decide on necessary actions.

Foreign exchange risk

The objective of foreign exchange risk management is to reduce the uncertainty caused by fluctuations in foreign exchange rates in the Company's profit and loss, cash flows and balance sheet to an acceptable level for the Company. The Company is exposed to foreign currency risk through rental receivables and future cash flows arising from the lease contract of the Yacht hotel that is denominated in GBP. The risk of depreciation of the GBP against EUR and its possible negative impact on the returns is not currently hedged.

The depreciation of the exchange rate should be significant, before it would weaken the Company's debt service capacity going forward. The management of the Company continuously monitors the development of the GBP/EUR exchange rate and decides on necessary actions to be taken. The GBP denominated receivables and cash balances on the balance sheet in the periods presented are as follows:

EUR thousand	**31 Dec 2016**	**31 Dec 2015**	**1 Jan 2015**
Lease receivables	3 551	1 170	-
Cash and cash equivalents	0	3	1
Total	**3 551**	**1 172**	**1**

At December 31, 2016, if the GB Pound strengthened/weakened by 15% against the euro, post-tax profit for the year would have been EUR 426 thousand (2015: EUR 140 thousand) higher/lower.

Interest rate risk

The Company has issued senior secured bonds during year 2016 that carries variable interest rate. The nominal value of the bonds is EUR 32 million in total and they carry interest at rate of 5.5 % as at December 31, 2016 consisting of margin of 5.5% plus 3-month Euribor. Cash and cash equivalents do not carry significant interest. The loan receivable from the parent company Sunborn Oy that amounts to EUR 26 million carries floating interest rate based on 3-month Euribor and is 6.1% as at December 2016, 31. Interest rate risk has not been hedged. The management of the Company monitors changes in the interest rate level and its possible impact on future cash out flows. The need for any hedging activity is assessed continuously. Had interest rates been 1 percentage points higher, the Company's profit after tax would have been EUR 10 thousand lower. Decrease in interest rates would not have any material impact due to the interest rate floor of 0% in the bonds and loan receivable in respect to the reference rate.

Credit risk

Credit risk is the risk that the other party to the loans and receivables will cause a financial loss for the Company by failing to discharge an obligation. Credit risk arises from rental receivables from Sunborn UK, loan to Sunborn Oy, the parent company, and cash and cash equivalents and the cash deposit held (cash collateral) at banks.

The Company has leased the Yacht hotel to its sister company Sunborn UK which further has leased the yacht hotel to ISS Facility Services Ltd under a long term lease contract. The lease receivables from Sunborn UK amounted to approximately EUR 3.5 million on 31.12.2016 (EUR 1.2 million on 31.12.2015). The Company agreed with Sunborn UK on a longer payment period for the lease receivables to set off the receivables with outstanding liabilities of Sunborn International Oy to London UK. However, due to the demerger, the receivables and liabilities could not be offset. These receivables are expected to be repaid during 2017.

The lease receivables create a credit risk concentration to the Company. The credit risk is managed by continuously monitoring the performance of the ultimate lessor, ISS, and the financial position of Sunborn UK. ISS A/S, the ultimate Group parent of ISS Facility Services Ltd, was rated in September 2016 by Standard & Poors as BBB rating.

The most significant receivable is the loan granted to the parent company Sunborn Oy in 2016. The loan carry normal credit risk related to intra-group receivables. The credit quality of the loan depends on the financial performance of the parent company. Financial activities of the group companies are directed by common management. The amounts and terms and conditions of the loans and receivables from group companies are presented in note 15.

Cash and cash equivalents and the cash deposit (cash collateral) are held in reputable Nordic banks, whose credit ratings are strong.

There are no past due or impaired receivables on the Company’s balance sheet.

Liquidity risk and refinancing risk

Liquidity risk is the risk that existing funds and borrowing facilities become insufficient to meet the Company’s business needs or high extra costs are incurred for arranging them. Refinancing risk is the risk that refinancing of the existing borrowings and/or raising new funding will not be available, or is available at high price.

Prudent liquidity risk management implies maintaining sufficient cash, and the availability of adequate funding. In the long–run the principal source of liquidity is expected to be the cash flow generated by the lease agreement. The Company’s liquidity position is monitored by the management of the Company. The business related to the Yacht hotel has been historically profitable and the non-cancellable lease term in accordance with the lease agreement between the ISS and Sunborn UK is for over 12 years as at December 31, 2016. The lease contract can be early terminated only upon the occurrence of remote contingencies.

A summary table with maturity of the financial liabilities is presented below. The amounts disclosed in the tables below are the contractual undiscounted cash flows including the interest payments. The interest payments are calculated based on the interest rate level on December 31, 2016.

31 Dec 2016

EUR thousand	**< 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Total**
Payables to group companies	161	-	-	-	161
Trade and other payable	117	-	-	-	117
Senior secured bonds	560	608	672	30 160	32 000
Senior secured bonds, interest payments	1 777	1 744	1 719	2 854	8 094
Total	**2 615**	**2 352**	**2 391**	**33 014**	**40 372**

31 Dec 2015

EUR thousand	< 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Total
Trade and other payables	81	-	-	-	81
Total	**81**	**-**	**-**	**-**	**81**

1 Jan 2015

EUR thousand	< 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Total
Trade and other payables	499	-	-	-	499
Total	**499**	**-**	**-**	**-**	**499**

The refinancing risk is managed by securing the refinancing early enough. The management of the Company believes it is able to refinance the bonds at or before maturity due to the profitable, long term lease contract of the Yacht hotel with the long term, reliable partner, ISS. The committed lease contract period continues after the maturity of the bonds for approximately 8 more years.

Capital management

Capital of the Company as monitored by the management consists of borrowings and equity as shown in the balance sheet.

The capital management is based on the evaluation of essential risks concerning the Company. The management of the Company monitors equity ratio. Capital of the Company is managed through group contributions or equity instalments. In accordance with bond terms of bonds issued by the Company and guaranteed by Sunborn UK, as described in note 14 Borrowings, the Company is not permitted to raise new external debt, however intra-group financing is allowed if needed either in form of equity or debt instruments.

The bond terms include an asset cover ratio covenant, which requires the Company, together with the guarantor, to maintain the asset cover ratio of minimum 120.0%. The covenant is calculated based on the market value of the yacht hotel calculated by approved shipbroker appointed by the Company and approved by the bond trustee, divided by financial indebtedness of the Company. The Company has not breached the covenant.

5. Rental income from related parties and other income

The Company’s rental income consist of rental income from its sister company Sunborn UK.

Future minimum lease payments from the lease contract translated at exchange rate prevailing on each balance sheet date are as follows:

EUR thousand	31 Dec 2016	31 Dec 2015	1 Jan 2015
No later than 1 year	3 013	3 515	3 184
Later than 1 year and no later than 5 years	12 054	14 061	13 249
Later than 5 years	22 098	11 717	14 354
Total	**37 165**	**29 294**	**30 787**

Other income relates to the payments received from ISS to renovate and repair the yacht hotel before the commencement of the lease in 2014. The payments received are recognised as other income over the time of the depreciation of the improvements.

6. Operating expenses

Operating expenses are presented in the table below:

Operating expenses

EUR thousand	**1 Jan - 31 Dec 2016**	**1 Jan - 31 Dec 2015**
Administrative expenses	185	113
Management fee	67	-
Maintenance expenses	9	1
Total	**261**	**113**

Auditor's fee

EUR thousand	**1 Jan - 31 Dec 2016**	**1 Jan - 31 Dec 2015**
Statutory fees	2	1
Other services	0	1
Total	**2**	**2**

7. Finance income and costs

Finance income and costs are presented in the table below:

EUR thousand	**1 Jan - 31 Dec 2016**	**1 Jan - 31 Dec 2015**
Finance income:		
Interest income on loan given to parent company	398	-
Interest income on cash collateral	2	-
Foreign exchange gains	13	-
Total finance income	414	-
Finance expenses:		
Interest expenses on borrowings	-514	-2
Interest expenses on borrowings from the parent company	-116	-
Other finance costs	-31	-
Foreign exchange losses	-283	-
Total finance costs	-944	-2
Finance income and costs, net	**-530**	**-2**

Foreign exchange losses relate to the lease receivables from Sunborn UK which are denominated in GBP. Terms and conditions on loan given and borrowings from the parent company are described in note 15 Related party transactions.

8. Income tax expense

The effective tax rate in 2016 and 2015 was 20%. There are no reconciling items between income tax expense as recognised in the statement of comprehensive income or tax expense calculated using the Finnish tax rate (20%).

Income tax expense

EUR thousand	**1 Jan - 31 Dec 2016**	**1 Jan - 31 Dec 2015**
Current tax	-150	-469
Change in deferred taxes	-44	88
Total	**-194**	**-380**

9. Investment property

The Company has used the fair value of the Yacht hotel as deemed cost for the investment property as at 1 January 2015. The valuation prepared by the Company is based on discounted cash flow analysis and it is described in more detail in note 3. Fair value of the yacht hotel was approximately 43 million EUR on 31.12.2016 (2015: 48 million EUR). The fair value measurement is based on unobservable inputs and accordingly, is classified in Level 3 in the fair value hierarchy. The volatility in the fair value is mainly due to fluctuation of the GBP/EUR exchange rate.

The Yacht hotel is registered in Finland but located in London, United Kingdom, where it is leased under a lease agreement to Sunborn UK. Sunborn UK has leased the Yacht hotel to ISS, which runs the hotel operations of the Yacht hotel. ISS is responsible for the maintenance, the mooring fee, certain insurances, marketing of the vessel and any other such operational costs for operating the Yacht hotel. The Company has thus no risk on operating the Yacht hotel, being only responsible for certain insurances and maintaining the hull. The highest and best use of the investment property does not differ from its current use.

The deferred income recognised in the balance sheet relates to payments received from ISS to renovate and repair the Yacht hotel before the commencement of the lease in 2014. Costs of renovation are included in the fair value of the Yacht hotel. The deferred income is recognised as other income over the time of the depreciation of the improvements.

EUR thousand	**Yacht hotel**
Cost at January 1, 2016	45 432
Cost at December 31, 2016	**45 432**
Accumulated depreciation at January 1, 2016	1505
Depreciation	1505
Accumulated depreciation and impairment at December 31, 2016	**3 010**
Net book value at January 1, 2016	43 927
Net book value at December 31, 2016	42 422

EUR thousand	**Yacht hotel**
Deemed cost at January 1, 2015	45 000
Additions (resulting from subsequent expenditure)	432
Cost at December 31, 2015	**45 432**
Depreciation	1505
Accumulated depreciation and impairment at December 31, 2015	**1 505**
Net book value at January 1, 2015	45 000
Net book value at December 31, 2015	43 927

Rental income and direct operating expenses related to Yacht hotel recognised in the comprehensive income statement are as follows:

EUR thousand	**1 Jan - 31 Dec 2016**	**1 Jan - 31 Dec 2015**
Rental income	3 132	3 391
Direct operating expenses	143	105

10. Trade and other receivables

The trade and other receivables in the balance sheets in the periods presented consist solely of trade receivables.

11. Deferred income tax

EUR thousand	**31.12.2016**	**31.12.2015**	**1.1.2015**
Deferred tax assets:			
Payment received for the improvements of the Yacht hotel	180	205	231
Total	180	205	231
At January 1	205	231	
Recognized in the income statement	-26	-26	
Book value at December 31	180	205	
Deferred tax liabilities:			
Depreciation difference on investment property	8 064	8 225	8 339
Measurement of the borrowings using effective interest method	178		
Total	8 243	8 225	8 339
At January 1	8 225	8 339	
Recognized in the income statement	18	-114	
Book value at December 31	8 243	8 225	
Deferred tax assets and liabilities, net	**8 063**	**8 019**	

12. Equity

Number of the shares has been 200 shares since the establishment of the Company. Shares have no nominal value. The Company has not distributed any dividend and the bond agreement set some restrictions for distribution of dividend. However group contributions are allowed. Sunborn London Oyj was established in the demerger of Sunborn International Oy on April 30, 2016. Thus, it is not possible to present share capital or an analysis of equity reserves for the financial year 2015. The net assets of Sunborn London business are represented by capital invested in Sunborn London, presented under “invested equity” on the balance sheet in 2015. The group contribution recognised directly to equity amounted to EUR 691 thousand and was recognised as a liability in 2015 and as a receivable of EUR 60 thousand in 2016.

13. Trade and other payables and payables to group companies

The trade and other payables in the balance sheets in the periods presented consist solely of trade payables.

Payables to group companies

EUR thousand	31 Dec 2016	31 Dec 2015	1 Jan 2015
Trade payables to parent company	83	-	-
Borrowings from parent company	78	-	-
Total	**161**	**0**	**0**

14. Borrowings

EUR thousand	31 Dec 2016
Non-current:	
Senior secured bonds	30 546
Current:	
Senior secured bonds	560
Total	**31 106**

As at 26 September 2016 the Company issued senior secured bonds with nominal amount of EUR 32 million to certain qualified institutional investors mainly to finance the existing debt of its sister company Sunborn UK in the amount of EUR 23.8 million and to provide additional financing to its parent company Sunborn Oy in the amount of EUR 6.5 million. The amount of EUR 0.9 million equivalent of 6 months interest was deposited in a reserve account in the bank (cash collateral). The remaining proceeds were used for general corporate purposes.

The bonds are denominated in euros and mature by 27 September 2021. The bonds are repaid by the Company in 5 small instalments and the remaining amount will be fully redeemed on maturity date at nominal amount. The contractual interest is 5.5% plus 3-month Euribor. The effective interest rate is 6.15%.

Fair value of the bonds equals the carrying amount as it was withdrawn during the year at market terms.

Collaterals and guarantees given

The bonds are secured by a 1st lien mortgage in the Yacht hotel and the cash collateral discussed above. Moreover, the issuer has pledged all cash flows generated by the lease agreement on the yacht hotel, as well as the loan receivable from the parent company and other intragroup receivables. The normal bank accounts have been pledged to secure the bond repayments, however they can be used by the Company in the ordinary course of business. The bond agreement sets some restrictions on the activities of the Company as described note 4 Financial risk management, section Capital management and note 12 Equity.

The bonds are also secured by an on demand guarantee (In Norwegian: “påkravsgaranti”) from Sunborn UK, which were issued under the bond agreement and by a 1st lien floating charge (in Finnish: yrityskiinnitys) registered on the Company’s movable property in accordance with the Floating Charge Act. Sunborn UK’s sole operations consist of acting as the lessor and lessee of the Yacht hotel. Its revenue consist of rental income. Also Sunborn UK’s cash flows and receivables from ISS, as well as their bank accounts have been pledged as security of the bonds.

Moreover, Sunborn Oy has pledged its shares in the Company and Sunborn UK to secure the repayment of the bonds. The financial covenant is further described in note 4, section Capital Management.

15. Related parties

Transactions with related parties

The Company’s related parties are its parent company Sunborn Oy, other Sunborn Group entities, the board of directors and key management of the Company and the Board of Directors and management of the parent company, together with their close family members, and companies controlled by these individuals.

The following table summarises the Company’s transactions and outstanding balances with related parties during or at the end of the years presented:

	1 Jan - 31 Dec 2016				1 Jan - 31 Dec 2015
EUR thousand	Rental income from the operating lease	Management fee	Interest income	Interest expenses	Rental income from the operating lease
Parent company Sunborn Oy	-	-67	398	-116	-
Sister company Sunborn UK	3 132	-	-	-	3 391
Total	**3 132**	**-67**	**398**	**-116**	**3 391**

	31 Dec 2016		31 Dec 2015
EUR thousand	Receivables	Liabilities	Receivables
Parent company Sunborn Oy	26 014	161	-
Sister company Sunborn UK	3 551	-	1 170
Total	**29 565**	**161**	**1 170**

The rental income of the Company arises from a lease contract related to the Yacht hotel with its sister Company, Sunborn UK. The Lease contract (“Bareboat agreement”) is in force until terminated by either party subject to six months' prior notice. Sunborn UK has leased the Yacht hotel to ISS under a long term non-cancellable lease contract with a maturity date on April 30, 2029. The lease term of the contract was extended from 10 to 15 years in September 2016. The terms of the senior secured bonds issued by the Company require that the Bareboat agreement is continued for a minimum period of the lease between Sunborn UK and ISS.

The Company has paid for the management fee and received interest income from and incurred interest expenses to Sunborn Oy, the parent company. The interest income arises from the loan granted to the parent as described below. The interest expenses arose from the borrowings of 4.4 million from the parent entity that arose in connection with the demerger. The borrowings was repaid with the proceeds received from the bonds in 2016. The accrued interest related to the borrowings was netted against receivables from the parent company. Sunborn Oy also paid the initial share capital of EUR 2.5 thousand of Sunborn London Oyj in connection with the establishment of the Company.

The loan granted to the parent company Sunborn Oy in September 2016 matures in September 2021. The loan receivable accumulates interest income at 6.1% p.a. and is recognised as receivable from the parent company. Fair value of the loan receivable approximates its carrying amount, as it was given to the parent in October 2016 and carries interest rate based on market rate.

The lease receivables from Sunborn UK amounted to approximately EUR 3.5 million on 31.12.2016 (EUR 1.2 million on 31.12.2015). These receivables are expected to be repaid during 2017. Fair value of the receivables approximate their carrying amount as the impact of discounting is not significant.

Credit risk of the intra group receivables is discussed in note 4. Financial risk management.

Sunborn UK has guaranteed the senior unsecured bonds of the Company. Detailed information on the guarantee is described in note 13 Borrowings.

16. Events after the balance sheet date

Sunborn Oy decided to change the legal form of the Company from private limited company to public limited liability company in February 2017. At the same time, Sunborn Oy decided to increase the share capital of the Company to meet the requirements of a public limited liability company under Finnish Companies Act (624/2006). Borrowings of EUR 77.500 from Sunborn Oy was converted to the share capital of the Company. After this transaction, the Company's share capital amounts to EUR 80 thousand.