Sunborn Finance Oyj
INTERIM FINANCIAL REPORT
1 November 2017 - 30 September 2018

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	1 Nov 2017 - 30 Sep 2018	Carve-out 1 Jan - 31 Oct 2017
Revenue	3	3 241	2 871
Changes in fair value of investment property	4	-2 152	-622
Personnel expenses		-235	-86
Operating expenses		-404	-333
Operating profit		**450**	**1 830**
Interest expense on borrowings		-5 045	-5 971
Profit before taxes		**-4 595**	**-4 140**
Income tax expense		-	-
Change in deferred tax		919	370
Profit for the period		**-3 676**	**-3 770**

BALANCE SHEET

EUR thousand	Note	30 Sep 2018	Carve-out 31 Oct 2017
Assets			
Non-current assets			
Investment property	4	63 500	63 500
Total non-current assets		**63 500**	**63 500**
Current assets			
Receivable from related party	6	3 310	601
Other receivables		516	-
Accrued income		17	-
Cash and cash equivalents		2 307	-
Total current assets		**6 151**	**601**
Total assets		**69 651**	**64 101**

EUR thousand	Note	30 Sep 2018	31 Oct 2017
Equity and liabilities			
Invested equity		-	10 192
Share capital		3	-
Reserve for invested unrestricted equity		8 532	-
Retained earnings		-690	-
Total equity		7 844	10 192
Liabilities			
Non-current liabilities			
Borrowings		-	-
Deferred income tax liabilities		7 676	8 595
Total non-current liabilities		**7 676**	**8 595**
Current liabilities			
Borrowings	5	50 000	44 379
Trade and other payables		119	2
Payables to related parties	6	3 608	622
Accrued expenses		403	311
Total current liabilities		**54 130**	**45 314**
Total liabilities		**61 806**	**53 909**
Total equity and liabilities		**69 651**	**64 101**

STATEMENT OF CHANGES IN EQUITY

EUR thousand	Invested equity	Share capital	Reserve for invested unrestricted equity	Retained earnings	**Total equity**
Equity at 1 Jan, 2017 (carve-out)	12 642	0	0	0	**12 642**
Profit for the period	-3 770				**-3 770**
Total comprehensive income	-3 770	0	0	0	**-3 770**
Equity transactions with Sunborn Oy	1 320	0	0	0	**1 320**
Total contributions by and distributions with Sunborn Oy, recognised directly in equity	1 320	0	0	0	**1 320**
Equity at 31 Oct, 2017 (carve-out)	**10 192**	**0**	**0**	**0**	**10 192**
Impact of demerger on November 1, 2017 Reclassification of invested equity to cash and cash equivalents in accordance with the partial merger plan	1 328	0	0	0	**1 328**
Reclassification of invested equity to share capital, reserve for invested unrestricted equity and retained earnings in accordance with the partial merger plan	-11 520	3	8 532	2 986	**0**
Equity at 1 Nov, 2017	0	3	8 532	2 986	**0**
Profit for the period	0	0	0	-3 676	**-3 676**
Total comprehensive income	0	0	0	-3 676	**-3 676**
Equity at 30 Sep, 2018	**0**	**3**	**8 532**	**-690**	**7 844**

STATEMENT OF CASH FLOWS

EUR thousand	Note	1 Nov 2017 - 30 Sep 2018	Carve-out 1 Jan - 31 Oct 2017
Cash flows from operating activities			
Profit before tax		-4 595	-4 140
Adjustments for			
Change in fair value of inventment property		2 152	622
Interest expense on borrowings		5 045	5 971
Change of working capital			
Change in trade and other receivables		-2 242	285
Change in trade and other payables		987	-212
Net cash flows from operating activities		**1 354**	**2 526**
Cash used in investing activities			
Capital Expenditure		-1 000	
Net cash flows used in investing activities		**-1 000**	**0**
Cash flows from financing activities			
Proceeds from borrowings		50 000	-
Repayment of bridge facility		-44 028	-
Contribution from/to Sunborn Oy		-	272
Transaction costs paid		-2 548	-175
Interest paid		-2 692	-2 623
Net cash flows from financing activities		**626**	**-2 526**
Cash and cash equivalents at the beginning of period		1 328	0
Change in cash and cash equivalents		980	0
Cash and cash equivalents at the end of period		**2 307**	**0**

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

The financial information presented in these special purpose interim financial statements for the 11-month period ended September 30, 2018, 10-month period ended October 31, 2017, and the balance sheet as at October 31, 2017 are based on actual figures of Sunborn Finance Oyj ("the Company")as an independent company after the consummation of the demerger as at November 1, 2017, 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 properties Naantali Spa and new part of Ruissalo Spa (together "spa hotels") within Sunborn Oy ("Sunborn Finance business"). Accordingly, the balance sheet as of September 30, 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows for the 11-month period November 1, 2017 – September 30, 2018 are based on actual figures as an independent company. The financial information for the 10-month period January 1 – October 31, 2017 and the balance sheet as at October 31, 2017 is based on carve-out financial information of Sunborn Finance business of Sunborn Oy.

These special purpose financial statements are unaudited.

2. Summary of significant accounting policies

Basis of preparation

This condensed interim financial report for nine months ended September 30, 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34 *interim Financial Reporting*, as adopted by the European Union. The interim financial information is based on the same accounting policies and calculation methods as used in the financial statements for the 10 month period ended October 31, 2017.

The condensed interim year financial report does not include all the information and notes that are presented in the annual financial statements. As such, the interim financial report should be read in conjunction with the special purpose financial statements for the 10-month period ended 31 October 2017.

The financial statements are presented in thousands of euros unless otherwise stated. All figures presented have been rounded and consequently the sum of individual figures may deviate from the presented sum figure.

Basis of accounting for the carve-out financial information

As the Company was established through demerger on November 1, 2017, the carve-out financial information of Sunborn Finance Oyj for the nine month period ended 30 September 2017 and for the balance sheet as at October 31, 2017 have been prepared on a carve-out basis from Sunborn Oy's standalone financial information. The carve out interim financial information comply with Finnish Accounting Standards, comprising the historical income and expenses, assets and liabilities and cash flows attributable to the business related to the Spa hotels and are 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 carve-out financial information for the nine month period ended September 30, 2017.

The application of these carve-out conventions has been described more closely in the special purpose financial statements for the period ended October 31, 2017.

3. Revenue

The Company's revenue consists mainly of rental income from its related party Sunborn Saga. In addition, the Company derives service revenue from property management and IT support services.

EUR thousand	1 Nov 2017 - 30 Sep 2018	Carve-out1 Jan - 31 Oct 2017
Rental income from operating leases from related party	3 241	2 782
Service income from related party	182	89
	3 423	**2 871**

4. Investment property

The Company presents the Spa hotels as investment property and measures them using the fair value model. The valuation has been prepared by an independent and recognized professional valuator. Based on the valuation report, fair value of the spa hotels is approximately EUR 63.5 million. The fair value measurement is based on non-observable inputs and accordingly, is classified in Level 3 in the fair value hierarchy. The most significant assumptions used in the calculations have not been changed after the end of the financial period ended October 31, 2017.

EUR thousand	**Spa hotels**
Fair value at January 1, 2017	63 500
Additions	622
Changes in Fair Value	-622
Fair Value at October 31, 2017	**63 500**

EUR thousand	**Spa hotels**
Fair value at November 1, 2017	63 500
Additions	2 152
Changes in Fair Value	-2 152
Fair Value at September 30, 2018	**63 500**

The Spa hotels have had an ongoing major renovation since before the Company's establishment on 1 November 2017. The renovations will continue in year 2019.

5. Borrowings

EUR thousand	30 Sep 2018	31 Oct 2017
Senior secured bond	50 000	
Bank loan – bridge facility		44 379
Total	**50 000**	**44 379**

As at February 9, 2018 the Company issued senior secured bonds ("the bonds") with nominal amount of EUR 50 million (less transaction costs of EUR 1,3 million) to certain qualified institutional investors mainly to refinance the existing debt. The remaining proceeds are used for the capital expenditure purposes.

The bonds are denominated in euros and mature on 9 February 2023. The bonds shall be fully redeemed on maturity date at nominal amount. The Company has the right to early repayment also. The contractual interest is 4.85 % plus 3-month Euribor. The effective interest rate is 5,45 %.

Before the issuance of the bonds the Company had short term bridge financing, which had contractual interest consisting of cash interest 7,0 % plus 3-month Euribor (min 1,0 %) and capitalised interest 3,5 %. The facility, together with the capitalised interest, was repaid when bond was issued.

Fair value of the borrowings approximate the carrying amounts as the bonds were withdrawn during the year at market terms and they are all current liabilities.

Collaterals and guarantees given

The bonds are secured by a 1st lien mortgage in the Spa hotels. Moreover, the the Company has pledged all cash flows generated by the lease agreement on the Spa hotels, as well as the lease receivables. Insurance proceeds are also assigned to bond holders. The normal bank accounts of the Company have been pledged to secure the bond repayments, however they can be used by the Company in the ordinary course of business if no event of default occurs. The bond agreement sets some restrictions on the activities of the Company.

The Company's obligations of the bonds are secured with an on demand guarantees from the Operator and Sunborn Oy. Sunborn Oy's guarantee is limited to an amount corresponding the paid dividend. Furthermore Operator's and Sunborn Oy's guarantee is limited in the mandatory provisions of the Finnish Companies Act.

The bonds are also secured by a 1st lien floating charge (in Finnish: yrityskiinnitys) registered on the Company's and Sunborn Saga's movable assets in accordance with the Floating Charge Act. Sunborn Saga's cash flows, as well as its bank accounts have been pledged and insurance proceeds are assigned to bond holders as security of the bonds.

Moreover, Niemi Family has pledged its shares in the Company and Sunborn Oy has pledged its shares in Sunborn Saga to secure the repayment of the bonds. Pekka and Ritva Niemi have pledged all the existing and future lease receivables which they have from Sunborn Saga Oy.

The bond terms include an asset cover ratio covenant, which requires the Company to maintain the asset cover ratio of minimum 130.0 %. The covenant is calculated based on the market value of the Spa hotels calculated by approved valuator appointed by the Company and approved by the bond trustee, divided by financial net indebtedness of the Company.

The bond terms include also a cash requirement covenant, which requires the Company to maintain the cash minimum of upcoming 3 months interest payment. The bond terms include an interest cover ratio covenant, which requires the Company to generate EBITDA minimum of 1,1 times the interest and a lease payment coverage covenant, which requires the Operator to generate EBITDA minimum of 1,0 times the lease payment. The covenants are tested on a quarterly basis.

In accordance with the bond terms bond holders may declare outstanding bonds due and payable among others if the Company fails to pay an amount at the due date under the bond terms and conditions related to other agreements, the Company or Sunborn Saga fails to comply with the covenants, any net financial indebtedness of the Company or Sunborn Saga is not paid when due provided that amount due is less that EUR 2,000 thousand and provided that it does not apply to any loans from the shareholders and Sunborn Saga fails to make a lease payment to the Company under the Spa hotels' lease agreement.

The Spa hotels have had an ongoing major renovation since before the Company's establishment on 1 November 2017. Since then, the Company relied on the Operator to manage and complete these major renovations. Accordingly, as of the Company's establishment and through Q3 2018, the Company has accrued and waived Sunborn Saga's requirement to make lease payments to the Company in light of Sunborn Saga extending its funds for purposes of this major renovation. Pursuant to the parties' agreement regarding this major renovation, the parties reconciled and set-off their respective payment obligations as of 30 September 2018, which set-off is in an amount equal to the amount due in lease payments as of same date.

The set-off structure under FAS may not meet the IFRS requirements and accordingly, management has decided to present the bonds as current borrowings as at 30 September 2018. As a result of classifying the bonds as current liabilities, the bonds are presented at their nominal amount, which is the amount at which the Company could be required to redeem the bonds at the end of the reporting period in accordance with bond terms. The difference between the carrying amount before and after the reclassification as current liability is recognized as a finance expense in the income statement (representing the deferred transaction costs). After the end of the reporting period, in December 2018, the outstanding obligations of the counterparties in the set-off structure have been settled and the bonds will be reclassified back to non-current liabilities at 2018 year-end.

6. Transactions with related parties

The Company is owned by Niemi Family. Company's related parties are entities under the common control of Niemi Family, the board of directors and key management of the Company, together with their close family members, and companies controlled by these individuals. Sunborn Group is controlled by Niemi Family.

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

	1 Nov 2017 - 30 Sep 2018				**30 Sep 2018**	
EUR thousand	**Rental income from the operating lease**	**Service income**	**Management fee**	**Purchases**	**Receivables**	**Payable**
Sunborn Saga Oy	3 241			-2 151	3 278	3 290
Other related parties		182			32	
Sunborn Oy			-36			312
Total	**3 241**	**182**	**-36**	**-2 151**	**3 310**	**3 603**

EUR thousand	Carve-out 1 Jan - 31 Oct 2017 Rental income from the operating lease	Service income	Purchases	31 Oct 2017 Receivables	31 Oct 2017 Payable
Sunborn Saga Oy	2 871		-622	601	622
Other related parties		81			
Total	**2 871**	**81**	**-622**	**601**	**622**

The rental income of the Company arises from a lease contract related to the Spa hotels. Sunborn Finance has leased the Spa hotels to Sunborn Saga with a long term operative non-cancellable lease contract with a maturity date on November 1, 2027. A new 10-year lease contract for the Spa hotels was signed between Sunborn Saga and the Company as at November 1, 2018. The old lease contracts were cancellable by both parties with 3 and 6 months' term of notice for Ruissalo and Naantali spas respectively. The rent in the contracts is set at market level.

The Company has paid management fee to Sunborn Oy as presented in the table above.

Under the Spa hotel lease agreement, Sunborn Saga is required to make lease payments to the Company on a monthly basis, and the Company is required to make payments for the Spa hotels' major renovations. An agreement between the Company and Saga related to a specific major renovation of the Spa hotels allows both parties to accrue and waive their respective payments under the lease agreement until either party elects to set-off such payments upon certain conditions.

As of the Company's establishment and through Q3 2018, Sunborn Saga has undertaken these renovations and investments into the properties on behalf of and for the Company. The Company has in return accrued and waived Sunborn Saga's requirement to make lease payments to the Company in light of Sunborn Saga extending its funds for purposes of this major renovations. The Company has paid prepayments related to the renovations and investments total of EUR 1,0 million which is included in the receivables from related party.

The set-off structure under FAS described above may not meet the IFRS requirements and the respective payment obligations are therefore presented on gross basis in the balance sheet as receivables from and payables to related parties. The amounts subject to the set-off structure are EUR 3,3 million as at 30 September 2018. Subsequent to the reporting period, the Company and Sunborn Saga have settled the obligations.

Sunborn Saga has guaranteed the senior unsecured bonds of the Company. Detailed information on the guarantee is given in note 5. Borrowings.

7. Subsequent events

After the end of the reporting period, in December 2018, the Company and Sunborn Saga have paid in full their respective amounts outstanding in respect of the set-off structure described in note 6. The amounts settled include an amount that is also in compliance with the per annum minimum aggregate amount stated in the bonds' terms and conditions. Therefore the bonds are subsequently reclassified as long term including deferring the transaction costs with positive profit and loss statement impact before the year-end 2018.

The Company decided to change the legal form of the Company from private limited company to public limited liability company in December 2018. At the same time, the Company 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). Share capital was increased from reserves of the invested unrestricted equity by EUR 77 500 in December 2018. After this transaction, the Company's share capital amounts to EUR 80 thousand.

As at 27 December Sunborn Finance Oy acquired dormant subsidiary for administrative purposes thus became the parent company of the group.