SUNBORN FINANCE

FINANCIAL STATEMENTS 2019
SUNBORN FINANCE OYJ

sunborn

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REPORT OF BOARD OF DIRECTORS 2019

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EUR thousand	1 Jan – 31 Dec 2019	1 Nov 2017 – 31 Dec 2018
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Operating profit	3 413	386
Investment property (Spa hotels)	65 914	63 500
Total Equity	6 909	6 374
Borrowings	49 130	48 883

Key Figures (FAS) - Operator Sunborn Saga Oy

EUR thousand	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Revenue	27 944	25 672
EBITDA before rent and group admin	4 290	4 115

General

Sunborn Finance Oyj ("the Company") was established 1 November, 2017 through a partial demerger of Sunborn Oy. The Company's operations consist of acting as a lessor of the spa hotels and also providing property and IT related facility services. Sunborn Finance has four employees. The Company operates only in Finland.

Sunborn Finance Oyj owns Naantali Spa hotel located in Naantali by the Baltic Sea and Ruissalo Spa Hotel located in Turku by the scenic archipelago. Both properties have been leased to hotel operator Sunborn Saga Oy ("the operator"). The hotel operations of the spa hotels are run by management company Sunborn Saga Oy under a lease contract.

Naantali Spa Resort has 214 rooms and 40 ancillary time share apartments and Ruissalo Spa Hotel 171 rooms. Both hotels also offer various ancillary facilities and services, such as conference and ball room facilities, spa facilities with treatment rooms and a pool complex with saunas, fully equipped fitness center, rehabilitation facilities, restaurants, bars, cafes and lounges.

Significant renovation of the hotel rooms was made in both spa hotels during 2018 and 2019.

Sunborn Finance Oyj is a SPV with no other purpose than owning the Naantali and Ruissalo spa hotel properties and providing property and IT related facility services.

Financial summary 1 January - 31 December 2019

Sunborn Finance revenue consists of fixed lease income from the operator and other services income. Lease income 2019 was 3.379 M€ (11/2017 – 12/2018: 3.894 M€). The other services income refers to personnel costs for facility services and is a cost/income neutral line item.

According to the valuation reports, the value of the Spa hotels on 31 December 2019 is at Naantali Spa 55.7 M€ (+1.7 MEUR) and at Ruissalo Spa 28.7 M€ (+0.2 MEUR) (1/3 of Ruissalo Spa is owned by Sunborn Finance and shown as its assets).

Notable events during the reporting period

The Company completed the listing of the Senior Secured Floating Rate Bond to Nasdaq Helsinki on 8th of February, 2019.

Business environment

The hotels are leased out to Sunborn Saga Oy through a lease agreement. Sunborn Saga Oy pays Sunborn Finance Oyj a fixed sum per month in lease. The conditions of the local market for hospitality in 2019 were positive and Sunborn Saga had a good year with strong revenue growth, particularly Q4.

Customer satisfaction of the hotels continues to be good.

Notable events after the end of the reporting period and estimate future development

COVID 19 Disruption

Since 13th March 2020, the coronavirus (COVID-19) has led to unprecedented and gradually worsening business situation in the global hospitality sector, including Finland. Between 12th and 25th March 2020 Finnish government issued measures for restrictions of public functions and gatherings, travel and free movement, cessation of KELA programs for the working aged and closure of restaurants and bars. The borders of the country have been closed since the announcement of state of emergency on 19th of March.

COVID-19 impacts Sunborn Finance Oyj through the operator Sunborn Saga Oy's ability to continue operations during national emergency and pay the contractual rental payments, which are the main income for the Company. The operator was forced to temporarily close hotels and restaurant operations while government issued restrictions on travel and on the hospitality sector. The operator has carried out a number of comprehensive measures to reduce costs and adapt operations to the closure and current market conditions. Ruissalo Spa in Turku was closed on the 19th of March and Naantali Spa closed down on the 25th of March, leaving Naantali City Apartments and Naantali Spa Residence operational with limited services and some restaurants continue operation on take away basis. The operator has reduced overall staff costs by more than 95% through layoffs.

IT-related and property management facility services to related parties have been reduced and two of the four employees in the services business have been laid off to reduce costs.

Financial considerations

By the time of publishing the annual report, the government has continued the restrictions until the end of May, and there is no visibility to possible discontinuation of the restrictions. The restrictions are expected to increase domestic travel demand while reducing international travel and the management expects Sunborn group´s hotels and restaurants to gradually open at the end of June, with a recovery period towards year end. Leisure travel is likely to drive the opening and recovery phase for hotels while corporate business travel is likely to return earliest in and during fall.

Nevertheless, the ability of the operator to pay rents normally during the closure and the subsequent recovery period has been negatively affected and as a result, Sunborn Finance Oyj has appointed DNB Markets to lead the discussions with the bondholders for adapting coupon payments bond terms and conditions and operator rental payments to the COVID-19 disruption. The expected reliefs in the interest payments and covenants related to lease payments will be directly used to support the operations of Sunborn Saga by allowing more payment time for the rents for the remainder of year 2020, starting from April. This amendment process in ongoing and it is expected to receive agreement with the bondholders in early May. The management expects an agreement with the bondholders will be reached, and accordingly has not required rent payment from Sunborn Saga during April 2020 as the operator in unable to operate the properties as per the lease agreement. Further, low visibility over full or partial removal of the government's restrictions due to COVID-19 and the impact on consumers' use of services in travel and hospitality sector provide significant uncertainty over future development and working capital adequacy of the Company.

In addition to amendments to the terms of the long term financing, Sunborn group has begun processes to tap into governmental fiscal support programs providing working capital and raising development subsidies for the operator. Sunborn Saga has received initial supporting decision on working capital loan from the bank and the parent company is in process of injecting further funds into the operator. These will provide additional liquidity during and after the closures. The processes are ongoing and expected to be finalized in May. The Company has also agreed on payment holidays to the lease payments on the land and water areas of Naantali Spa, which are leased from the city of Naantali.

While the COVID-19 situation is an unprecedented scenario, the management is confident the properties are well placed to soon continue operations normally regardless of the temporary closure and subsequent changes in the operating environment. Management is also confident, that the Company and the operator have the financial resources to weather through this difficult time and our long term lenders will support the company in its management of the crisis.

Short-term risks and uncertainties

The COVID-19 outbreak is severely and negatively affecting the tourism market in Finland. As the company is reliant on the ability of the property operator to pay rent, recent temporary closure of the underlying business and the subsequent forecasted recovery period is likely to affect the performance of the operator in the short and medium term. Without the certainty of acceptance of the requested amendments to the bond, the Company's ability to service bond liabilities or adhering to terms and conditions may be at risk. Failure to agree amendment to bond terms could result in default and if not remedied by the Company or its parent entity, the bond could become repayable on demand and create material uncertainty over the Company's ability to continue as going concern.

Prolonged COVID-19 restrictions could further impact the Company's business through continued negative impact on the operator. The impact of the unprecedented crisis is difficult to predict and it is unknown when the recovery and normal opening of the affected businesses will take place. Prolonged crisis could also in the long term impact the fair value of the hotels the Company holds as investment property.

Sunborn Finance's financial risks related to business are credit risk, liquidity risk, refinancing risk, interest rate risk and business interruption due to incidents relating to environmental and / or public health risks. Floating interest rate risk has not been hedged, and it is not considered currently significant.

Financial risk management carried out by the management of the Company aims to protect the Company against unfavorable 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.

Company’s shares

Total number of Company´s shares is 400 and the Company has two classes of shares. A-shares have 20 votes per share and B-shares have one vote per share, otherwise the terms are the same. Shares have no nominal value.

Corporate Governance

Sunborn Finance Oyj's ownership, corporate structure, operational activities and related party transactions are described in notes to the financial statements.

The governance of Sunborn Finance Oyj is based on the Finnish Limited Liability Companies Act and Sunborn Finance Oyj's articles of association. The company's shares are not listed for public trading. Sunborn Finance Oyj has issued a secured bond that is listed by NASDAQ Helsinki Oy, and the company complies with its rules and regulations for listed bonds, the Securities Markets Act as well as the Financial Supervisory Authority's regulations.

The Annual General Meeting is the highest decision-making body in Sunborn Finance Oyj, deciding on matters laid down in the Finnish Limited Liability Companies Act. The AGM is held once a year, in June at the latest, on a date determined by the company's Board of Directors.

The Board of Directors of Sunborn Finance Oyj consists of three ordinary members, elected by the AGM for one year at a time. The Board of Directors decides on significant matters concerning the company strategy, investments and finance. In the reporting the Board had 2 meetings.

Members of the Board of Directors in 2019 were Ritva Niemi, Pekka Niemi ja Hans Niemi. There has not been any remuneration for the Board of Directors in 2019. Sunborn Finance Oyj has no committees.

Sunborn Finance Oyj’s Board of Directors appoints the Chief Executive Officer. The CEO Pekka Niemi is responsible for the company's financial performance and for organizing business operations and administration according to legislation as well as instructions and orders issued by the Board.

The Annual General Meeting elects the authorized public accountants until further notice. Sunborn Finance Oyj auditors are PricewaterhouseCoopers Oy with Kalle Laaksonen, APA, as principal auditor since 2017.

Proposal for profit distribution

The Board of Directors proposes to the Annual General Meeting that the funds are carried forward to retained earnings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

EUR thousand	Note	**1 Jan – 31 Dec 2019**	**1 Nov 2017 – 31 Dec 2018**
Revenue	5, 14	3 625	4 136
Changes in fair value of investment property	9	608	-2909
Personnel expenses	6	-255	-319
Operating expenses	6	-564	-523
Operating profit		**3 413**	**386**
Interest expenses	7	-2 746	-4 548
Result before taxes		**668**	**-4 162**
Change in deferred tax	10	-134	832
Result for the period		**534**	**-3 330**
Total comprehensive income for the period		**534**	**-3 330**

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

CONSOLIDATED BALANCE SHEET (IFRS)

EUR thousand	Note	31 Dec 2019	31 Dec 2018
Assets			
Non-current assets			
Investment property	9	65 914	63 500
Total non-current assets		**65 914**	**63 500**
Current assets			
Receivables from related party	14	-	25
Other receivables		4	497
Cash and cash equivalents		1 108	2 110
Total current assets		**1 112**	**2 631**
Total assets		**67 027**	**66 131**

EUR thousand	Note	31 Dec 2019	31 Dec 2018
Equity and liabilities			
Share capital	11	80	3
Reserve for invested unrestricted equity		6 638	6 716
Retained earnings		190	-344
Total equity		**6 909**	**6 374**
Liabilities			
Non-current liabilities			
Borrowings	12	49 130	48 883
Lease liabilities	12	635	-
Deferred tax liabilities	10	9 712	9 579
Total non-current liabilities		**59 477**	**58 462**
Current liabilities			
Lease liabilities	12	7	-
Trade and other payables	12	172	118
Payables to related parties	14	30	730
Accrued expenses		433	447
Total current liabilities		**641**	**1 295**
Total liabilities		**60 118**	**59 757**
Total equity and liabilities		**67 027**	**66 131**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

EUR thousand	Share capital	Reserve for invested unrestricted equity	Retained earnings	**Total equity**
Equity at 1 Nov, 2017	3	6 716	2 986	**9 704**
Result for the period	0	0	-3 330	**-3 330**
Equity at 31 Dec, 2018	3	6 716	-344	**6 374**
Equity at 1 Jan, 2019	3	6 716	-344	**6 374**
Result for the period	78	-78	534	**534**
Equity at 31 Dec, 2019	80	6 638	190	**6 909**

Share capital was increased from reserves of the invested unrestricted equity by EUR 77 500 in January 2019. After this transaction, the Company's share capital amounts to EUR 80 thousand.

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

EUR thousand	Note	**1 Jan – 31 Dec 2019**	**1 Nov 2017 – 31 Dec 2018**
Cash flows from operating activities			
Profit before tax		668	-4 162
Adjustments for			
Change in fair value of investment property	9	-608	2 909
Interest expenses	7	2 746	4 548
Change of working capital			
Change in trade and other receivables	14	518	79
Change in trade and other payables	12	-661	11
Net cash flows from operating activities		**2 663**	**3 384**
Cash used in investing activities			
Additions to investment properties		-1 159	-2 909
Net cash flows used in investing activities		**-1 159**	**-2 909**
Cash flows from financing activities			
Land lease agreement		-47	-
Proceeds from borrowings		-	50 000
Repayment of borrowings		-	-44 028
Transaction costs paid		-	-2 648
Interest paid		-2 459	-3 018
Net cash flows from financing activities		**-2 505**	**306**
Cash and cash equivalents at the beginning of period		**2 110**	**1 328**
Change in cash and cash equivalents		**-1 002**	**782**
Cash and cash equivalents at the end of period		**1 108**	**2 110**

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

NOTES TO THE FINANCIAL STATEMENTS (IFRS)

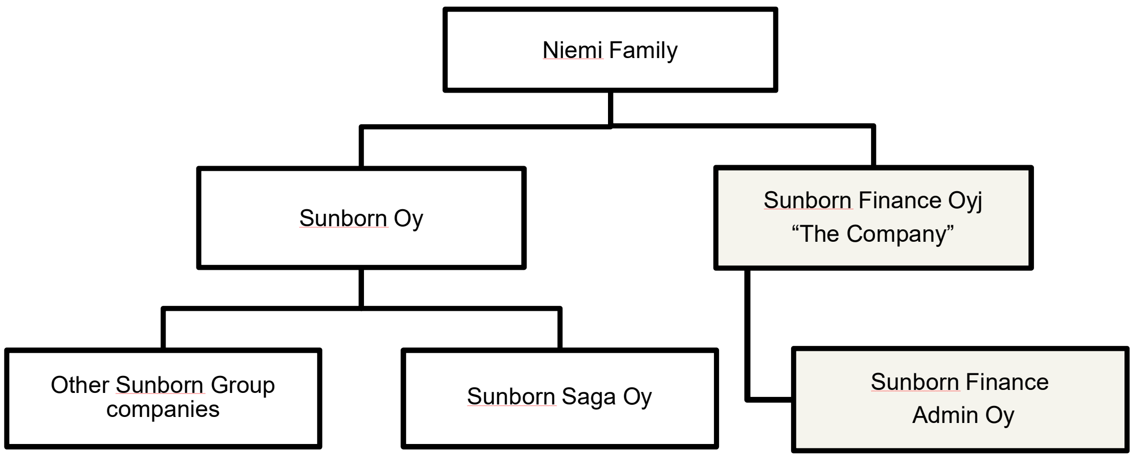
1. General information

Sunborn Finance Oyj is a public limited liability company ("the Company") incorporated in Finland. The registered address of Sunborn Finance Oyj is Juhana Herttuan puistokatu 23, Turku, Finland. Sunborn Finance Oyj was established on November 1, 2017 through a partial demerger of Sunborn Oy. Sunborn Finance owns spa hotel "Naantali Spa" and approximately 30% of the "Ruissalo Spa" (together "hotels") properties located in south west Finland. Naantali Spa has 218 and Ruissalo Spa 171 hotel rooms with several event rooms, restaurants, bars, café's and lounges, spa facilities, pools and fitness centre. The Company was established for purpose of owning the hotels. The hotel operations of the spa hotels Naantali Spa and Ruissalo Spa, (together "Spa hotels"), are operated by Sunborn Saga Oy ("Sunborn Saga", "operator"), a subsidiary of Sunborn Oy, in accordance with a lease contract between Sunborn Finance and Sunborn Saga. Sunborn Finance provides also property management and IT support services and has four employees. Two of these employees were transferred to the Company in connection with the partial demerger and two were transferred from Sunborn Saga at the beginning of the year 2018.

Sunborn Finance is wholly owned by Pekka Niemi, Ritva Niemi, Hans Niemi and Jari Niemi (together, the "Niemi Family"). The Niemi Family also controls the Sunborn Group, Sunborn Oy being the parent company of the Group. Sunborn Group's focus is on the development of luxury spa and yacht hotels, restaurants and other high-quality property in the hospitality sector. Sunborn Group currently has operations in Finland, Denmark, UK, Spain, Malaysia and Gibraltar, and operates under several individual brands. Sunborn Saga's operations consist of hotel, spa and restaurant operations in the Spa hotels and in other restaurants.

As at 27 December 2018 Sunborn Finance Oy acquired dormant subsidiary for administrative purposes thus became the parent company of the group ("the group", "Sunborn Finance").

Sunborn companies and Sunborn Finance owned by Niemi family in 2019:



2. Summary of significant accounting policies

Basis of preparation

These consolidated 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, 2019.

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 consolidated financial statements also comply with the Finnish accounting and corporate legislation complementing the IFRS standards. In 2019, the group adopted IFRS 16 *Leases* and IFRIC 23 *Uncertainty over income tax treatments.* Implementing IFRIC 23 did not have impact on the Group. There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

The investment properties are measured at fair value. Measurement bases for other items are disclosed in connection with relevant accounting policies.

Preparation of consolidated 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 Group'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 consolidated 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.

Going concern

Since 13th March 2020, the spread of the coronavirus (COVID-19) has led to unprecedented and gradually worsening business situation in the hospitality sector all over the world including Finland. COVID-19 impacts Sunborn Finance Oyj's operations through the operator's ability to pay the agreed rental payments as the operator Sunborn Saga is the sole lessee and the main source of the group's cash inflows. The Company also provides IT related and property management facility services to related parties. Due to the crisis, two of the four employees in the services business have been laid off to reduce costs.

The operator Sunborn Saga Oy has been forced to temporarily close most hotel and restaurant operations while government has issued restrictions on travel and the hospitality sector. By the time of publishing the annual report, the government has continued the restrictions until the end of May, and there is no visibility to possible discontinuation of the restrictions. The restrictions may have positive impact on the domestic travel, and the management expects Sunborn group's hotels and restaurants to gradually open at the end of June with recovery periods towards year end. Corporate business travel is expected to return during fall, with expected increased demand in 2021.

Nevertheless, the ability of the operator to pay rents normally during the closure and the subsequent recovery period has been negatively affected and as a result, Sunborn Finance Oyj has appointed DNB Markets to lead the discussions with the bondholders for adapting coupon payments, bond terms and conditions and operator rental payments to the COVID-19 disruption. The expected reliefs in the interest payments and covenants related to lease payments will be directly used to support the operations of Sunborn Saga by allowing more payment time for the lease payments for the remainder of year 2020, starting from April. This amendment process in ongoing and it is expected to receive agreement with the bondholders in early May. The management expects an agreement with the bondholders will be reached, and accordingly has not required rental payment from Sunborn Saga during April 2020, as the operator is unable to operate the properties as per the lease agreement. With the expected approval of the bond amendments, management views the Company is in a strong position to overcome the short-term difficulties in the market and ready to resume operations even if the closures last longer than currently expected.

If the operator is not able to pay lease payments and the Company is not successful in agreeing on the reliefs to the bond terms and to service the terms of the bond (i.e. make the interest payments), the bond becomes repayable on demand. Thus, failure in the amendment procedure would provide material uncertainty over the Company's ability to continue as going concern. Further, prolonged COVID-19 restrictions would impact the Company's business through the negative impact on the operator thus impacting also the fair value of the hotels the Company holds as investment property.

In addition to amendments to the terms of the long-term financing of the group, Sunborn group has begun processes to ensure alternative sources of financing with governmental fiscal support programs and negotiations with a bank in terms of medium term working capital loans and development subsidies. These could provide additional liquidity during and after the closures and subsequent gradual ramp-up of the operators business. The negotiations process related to these measures are ongoing, and by the signing of these consolidated financial statements the operator has received initial supporting decision on the working capital loan from the bank. The Company has also agreed on payment holidays to the lease payments on the land and water areas of Naantali Spa, which are leased from the city of Naantali.

The loan term renegotiations and processes by the operator are ongoing and expected to be finalized in May. The impact of the unprecedented crisis is difficult to predict and it is unknown when the recovery and normal opening of the affected businesses will take place. Therefore, management has concluded that there is significant uncertainty over the Group's ability to continue as going concern while negotiations with lenders are ongoing and further clarity on hospitality sector opening is awaited.

Adoption of IFRS 16 Leases

On January 1, 2019, the group adopted IFRS 16, "Leases". The group applied the modified retrospective approach and did not restate comparative figures for prior periods. IFRS 16 defines the recognition, measurement, presentation and disclosure requirements on leases.

The standard introduces a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lessee chooses to apply exemptions for leases where lease term is 12 months or less, or the underlying asset has a low value.

Lessor accounting remains largely unchanged from IAS 17.

Sunborn Finance as Lessor

Currently, the group leases the Naantali Spa and Ruissalo Spa hotels to Sunborn Saga, which is a related party of the group. The management has assessed that the adoption of IFRS 16 did not have material impact on lessor accounting, and that the contracts will continue to be accounted for as operating lease.

Sunborn Finance as Lessee

The group only has lease contracts related to land and water areas from the city of Naantali which are impacted by the adoption of IFRS 16. The leases of land and water area will end in 2055 and 2035 respectively. On adoption of IFRS 16, the group recognised a lease liability in relation to these leases.

These liabilities are measured initially at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. Due to the similar characteristics of these two leases, the Group used a single discount rate of 6.34 % to discount the future cash flows, based on management estimation. The associated right of use asset is presented as investment property and is at 1 January 2019 initially recognised at the amount equal to the lease liability. Subsequently, the right of use assets are measured as part of the investment property at fair value in accordance with the Group's accounting policy for investment property. The land use right is subleased to Sunborn Saga and under operating lease. The lease payments are classified in cash flow statement as lease liability repayments in cash flows from financing activities and interest expenses in operating activities.

A reconciliation between operating lease commitments as at 31 Dec 2018 and opening balance of lease liabilities is provided as below:

	2019
	EUR thousand
Operating lease commitments disclosed as at 31 December 2018 (undiscounted)	1 580
Discounted using the incremental borrowing rate corresponding the lease liability at 1 Jan 2019	649
Of which non-current lease liabilities	643
Of which current lease liabilities	6

Refer to Note 9 Investment property for more information.

Leases as accounted in comparative period

Company as lessee

Company leases the land area for Naantali Spa hotel from the city of Naantali under a lease contract, which ends in 2055, and the water area under a contract which ends in 2035. The contracts were classified as operating leases, because the significant portion of the risks and rewards of ownership remain with the city of Naantali. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Company as lessor

The Company leases the Naantali Spa and Ruissalo Spa hotels to Sunborn Saga. The 10-year lease contract was signed between the Company and Sunborn Saga in connection with the demerger on November 1, 2017. The lease contracts were treated as operating leases, and the lease income from these contracts was recognised as income on a straight line basis over the lease term. The respective leased assets were shown as Investment Property on the balance sheet and measured at fair value.

Investment property

Owned property that is held to earn rental are classified as investment property.

The group presents as investment property its investment in spa hotels (Naantali and Ruissalo Spas).

The spa hotels are leased out to Sunborn Saga (related party) that operates the spa hotels.

Investment property is measured initially at its cost. Directly attributable transaction costs are included in the initial measurement. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

After initial recognition, investment property is carried at fair value. Valuations are performed as of the financial reporting date by professional, external valuators who hold recognised and relevant professional qualifications. These valuations form the basis for the carrying amounts in the financial statements. The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions. The current use of the investment property equates to the highest and best use.

Changes in fair values are recognized in the income statement. Investment properties are derecognized when they have been disposed.

Revenue recognition

Lease income generated from operating leases is recognised as revenue on a straight line basis over the lease term. Revenue from providing services property management and IT support services is recognised over time in the accounting period in which the services are rendered. The customers for such services receive and use benefits simultaneously.

Employee benefit expenses

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Financial assets at amortised cost

The group classifies all its financial assets as at amortised cost. The group's financial assets comprise lease receivables and are held within a business model whose objective is to collect the contractual cash flows, and the financial assets' contractual terms give rise to cash flows that are solely payments of principal and interest.

Receivables are included in current assets and recognised initially at fair value. They are subsequently carried at amortised cost less provision for impairment. Receivables are derecognised when the contractual rights to the cash flows from the financial asset expire or the group transfers the financial asset or the group of financial assets in question.

Impairment of financial assets at amortised cost

The group uses expected loss model to assess the impairment of the financial assets. The group's receivables comprise lease receivables from Sunborn Saga. The group has assessed that the impairment calculated under the expected loss model is not material.

Financial liabilities

Financial liabilities of the group consist of borrowings and accounts payable. Financial liabilities are recognised initially at fair value, net of transaction costs incurred. 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, is recognised in profit or loss.

Borrowings

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.

Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Accounts payable are measured at amortised cost.

Current and deferred 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 items 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 Finland, the country where the group entities operate and generate taxable income.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred 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 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 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 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.

Segment reporting

The group's revenue is mainly generated from owning and leasing the Spa hotels. The chief operating decision maker is determined as the Board of Directors of the Company who monitor the result of the group at group level based on revenue less operating expenses and fair value changes of investment property. The group operates and all its assets are located in Finland.

3. Critical accounting estimates and management judgement

Preparation of the 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, 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 Spa hotels

The Company applies fair value model to its investment property as explained in the accounting policies. The fair value of the Spa hotels excluding the right of use assets of land and water areas is determined by a professional external valuator. The fair value is measured under income approach and reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

In making the valuations, the investment property is considered in its highest and best use. The Group has ownership only in the new part of the Ruissalo Spa hotel. The fair value of the new part of the Ruissalo Spa is based on the fair value of the property as a whole and has been separated from the total fair value of the Ruissalo Spa based on management estimation which is based on the relative surface areas of the new part and the old part. The management estimation has also been supported by independent valuator.

Fair valuations are divided to levels 1-3 in fair value hierarchy depending on to what extent the value is based on observable inputs. Fair values of the group's investment property are classified in level 3, because the inputs in the valuation models are based on unobservable information. There have not been any changes in the inputs or the relevant market during the periods presented. Accordingly, there have not been any material changes to the fair values of the spa hotels during the periods presented.

Main inputs in the fair valuation model are presented in the table below.

Input	**Value 31 Dec 2019**		**Value 31 Dec 2018**	
	Naantali	**Ruissalo**	**Naantali**	**Ruissalo**
Fair value (mEUR)	55.7	9.6	54.0	9.5
Yield	7.3 %	8.0 %	7.4 %	8.1 %
Net yearly income	EUR 4.0 million	EUR 2.3 million (includes also the old part)	EUR 3.9 million	EUR 2.3 million (includes also the old part)

Based on the valuation report provided by the third party valuator, if the net yearly income for Ruissalo Spa is changed between 2.2 – 2.4 million EUR and the yield -/+ 0,5 percentage points, the value of the new part of Ruissalo Spa would vary between EUR 8.4 – 10.5 million (2018: between EUR 8.1 – 10.7 million).

Based on the valuation report provided by the third party valuator, if the net yearly income for Naantali Spa is changed between 3.6 - 4.4 million EUR and the yield -/+ 0,25 percentage points, the value of the properties would vary between EUR 47.6 – 62.3 million (2018: between EUR 45.3 – 59.9 million).

According the management judgement the fair value of the right of use assets of land and water areas is EUR 0.649 million.

4. Financial risk management

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

Interest rate risk

The interest rate of the Company's borrowings during the periods presented is bound to Euribor but have a floor of 0 percentage point plus marginal. In practice, due to the low interest rate levels, the Company has paid the floor interest and in substance the interest rate has been fixed. Had the Euribor been 50 basis points higher or lower during the periods presented, that would not have had material impact on the interest expense.

Credit risk

Credit risk is the risk that the other party to the group's financial assets will cause a financial loss for the Company by failing to discharge an obligation. The group's financial assets consist mainly of lease receivables from Sunborn Saga. Sunborn Saga is a long term lessor of the Spa hotels and the group has historically not generated any credit losses from the lease receivables. The group has assessed that the impairment loss calculated under the expected loss model is not material.

Cash and cash equivalents are held in reputable Nordic banks, whose credit ratings are strong. While cash and cash equivalents are also subject to the same impairment requirements as other receivables, the management has assessed that the impairment loss for them is immaterial.

Liquidity risk and refinancing risk

Liquidity risk is the risk that existing funds and borrowing facilities become insufficient to meet the group'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 rising 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 Spa hotels is estimated to be profitable and the non-cancellable lease term in accordance with the lease agreement between Sunborn Saga and Sunborn Finance is for 10 years at inception of the contract at November 1, 2017. Since the companies are under the same ownership, it is unlikely that the contract would not be extended after the expiration date.

As at 9 February 2018 the Company issued senior secured bonds with nominal amount of EUR 50 million to certain qualified institutional investors to finance all existing debt. The bonds mature on 9 February 2023 and at the balance sheet date carry interest 4.85 %. See more in note 12 Borrowings. The committed lease contract period continues after the maturity of the bonds issued after the balance sheet date for approximately 5 more years. After the end of the reporting period, the spread of the COVID-19 has had a negative impact on the operator's ability to pay the contractual rentals. The Company has started the negotiations with the bond holders for temporary relief in the interest payments and covenants. Refer to note 2, section Going concern for further information.

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 at the balance sheet dates.

31 Dec 2019

EUR thousand	**< 1 year**	**1 to 3 years**	**3 to 5 years**	**> 5 years**	**Total**
Lease liabilities	47	94	94	1 137	1 372
Senior secured bond	-	-	50 000	-	50 000
Senior secured bond, interest payments	2 465	4 917	620	-	8 002
Trade and other payable	202	-	-	-	202
Total	2 714	5 011	50 714	1 137	**59 576**

31 Dec 2018

EUR thousand	**< 1 year**	**1 to 3 years**	**3 to 5 years**	**> 5 years**	**Total**
Lease liabilities	46	92	92	1 192	1 422
Senior secured bond	-	-	50 000	-	50 000
Senior secured bond, interest payments	2 459	4 924	3 078	-	10 461
Trade and other payable	848	-	-	-	848
Total	3 353	5 016	53 170	1 192	**62 731**

Refinancing risk is managed by securing the refinancing early enough. Management believes that the committed, long term lease contract of the Spa hotels with Sunborn Saga safeguards the group's ability to obtain long term financing.

Capital management

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

Capital management is based on the evaluation of essential risks concerning the Company. In accordance with the terms of the bond, the Company is not allowed to raise external debt without permission.

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 hotel calculated by approved valuator appointed by the Company and approved by the bond trustee, divided by financial indebtedness of the Company. The Company has not breached the covenant. Other covenants are disclosed in note 12.

5. Revenue

The group's revenue consists mainly of rental income from its related party Sunborn Saga. The group is highly dependent on Sunborn Saga's ability to pay the rents as Sunborn Saga is the sole lessee and the main source of the group's cash inflows. In addition, the group derives service revenue from property management and IT support services.

EUR thousand	**1 Jan – 31 Dec 2019**	**1 Nov 2017 – 31 Dec 2018**
Rental income from operating leases with related party	3 379	3 894
Service income from related parties	245	242
Total	**3 625**	**4 136**

6. Personnel and operating expenses

Personnel expenses relate to the personnel costs for the four employees providing property management and IT support services.

Personnel expenses are presented in the table below:

EUR thousand	**1 Jan – 31 Dec 2019**	**1 Nov 2017 – 31 Dec 2018**
Salaries	211	263
Social security costs	4	6
Pension costs	40	50
Total	**255**	**319**

Operating expenses are presented in the table below:

EUR thousand	**1 Jan – 31 Dec 2019**	**1 Nov 2017 – 31 Dec 2018**
Property tax	219	242
Land lease	-	53
Insurance	65	71
Professional services	154	34
Administrative expenses	124	123
Total	**564**	**523**

Auditors' fees:

EUR thousand	**1 Jan – 31 Dec 2019**	**1 Nov 2017 – 31 Dec 2018**
Statutory fees	48	8
Other services	52	0
Total	**101**	**8**

7. Finance expenses

Finance expenses consist of interest expenses as presented in the table below:

EUR thousand	1 Jan – 31 Dec 2019	1 Nov 2017 – 31 Dec 2018
Finance expenses:		
Interest expenses on borrowings	-2 706	-4 548
Interest expenses on lease liability	-40	-
Total	**-2 746**	**-4 548**

8. Income tax expense

The effective tax rate in 2019 and 2018 was 20 %.

EUR thousand	1 Jan – 31 Dec 2019	1 Nov 2017 – 31 Dec 2018
Result before tax	668	-4 162
Tax calculated using Finnish tax rate (20%)	-134	832
Tax recognized in profit loss	-134	832

9. Investment property

The group 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. Fair value of the Spa hotels is approximately EUR 65.9 million including the right-of-use asset and lease liability which are separately presented under IFRS 16. 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 December 31, 2018. Refer to significant estimation and judgement as disclosed in note 3 above.

The carrying value of the Investment property has changed as follows:

EUR thousand	**Spa hotels**
Fair value at November 1, 2017	63 500
Additions	2 909
Changes in Fair Value	-2 909
Fair Value at December 31, 2018	**63 500**
Fair value at November 1, 2017	63 500
Fair value at December 31, 2018	63 500

EUR thousand	**Spa Hotels**
Fair value at December 31, 2018	63 500
Impact of adoption of IFRS 16 (right-of-use asset)	649
Fair value at January 1, 2019	64 149
Additions	1 159
Changes in Fair Value	608
Fair value at December 31, 2019	**65 914**
Fair value at January 1, 2019	64 149
Fair value at December 31, 2019	65 914

The Spa hotels have had an ongoing major renovation since before the Company's establishment on 1 November 2017. The renovations continue in year 2020.

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

EUR thousand	**1 Jan – 31 Dec 2019**	**1 Nov 2017 – 31 Dec 2018**
Rental income	3 379	3 894
Direct operating expenses from property that generated rental income	335	379

Naantali Spa is located on a land owned by the city of Naantali and leased to the Company under a long-term lease contract. Ruissalo Spa is located on a land that is leased by the Niemi Family from city of Turku.

10. Deferred tax liabilities

EUR thousand	**Difference between fair value and tax value of investment property**	**Borrowings**	**Other**	**Total**
Deferred tax assets:				
At November 1, 2017	-	-121	-16	-137
Recognized in income statement	-581	-	-596	-1 177
Book value at December 31, 2018	-581	-121	-611	-1 313
Deferred tax liabilities:				
At November 1, 2017	10 548	-	-	10 548
Recognized in income statement	-	344	-	344
Book value at December 31, 2018	10 548	344	0	10 892
Deferred tax assets and liabilities, net December 31, 2018	**9 967**	**223**	**-611**	**9 579**
Deferred tax assets:				
At January 1, 2019	-581	-121	-611	-1 313
Recognized in income statement	-190	-49	-	-239
Book value at December 31, 2019	-771	-170	-611	-1 553
Deferred tax liabilities:				
At January 1, 2019	10 548	344	-	10 892
Recognized in income statement	371	-	2	373
Book value at December 31, 2019	10 919	344	2	11 265
Deferred tax assets and liabilities, net December 31, 2019	**10 148**	**174**	**-609**	**9 712**

Deferred tax assets and liabilities have been offset in the balance sheet.

11. Equity

Number of the shares has been 400 shares since the establishment of the Company and the Company has two classes of shares. A-shares have 20 votes per share and B-shares have one vote per share, otherwise the terms are the same. Shares have no nominal value. The Company has not distributed any dividend and the bond agreement sets restrictions for distribution of dividend.

Sunborn Finance Oy 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 January 2019. After this transaction, the Company's share capital amounts to EUR 80 thousand.

12. Borrowings and trade and other payables

EUR thousand	31 Dec 2019	31 Dec 2018
Senior secured bond	49 130	48 883
Lease liability	642	-
Total	**49 772**	**48 883**

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 Company completed the listing of the Senior Secured Floating Rate Bond to Nasdaq Helsinki on 8th February, 2019.

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 5.41 %.

The management estimated that the fair value of the borrowings approximates the carrying amounts of the bonds.

Before the issuance of the bonds the group had short term bridge financing. The facility, together with the capitalised interest, was repaid when bond was issued. The Spa hotels were pledged as guarantees for the loan.

Collaterals and guarantees given on the bonds

The bonds are secured by a 1st lien mortgage in the Spa hotels. Moreover, 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 Sunborn Saga and Sunborn Oy. Sunborn Oy's guarantee is limited to an amount corresponding the dividend or other contribution paid by Sunborn Saga to Sunborn Oy. Furthermore Sunborn Saga'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. The financial covenant is further described below.

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 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 Sunborn Saga to generate EBITDA (before lease and internal management fees) minimum of 1.0 times the lease payment. 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 other agreements, the Company or Sunborn Saga fails to comply with the covenants, any financial indebtedness of the Company or Sunborn Saga is not paid when due provided that amount due is less than EUR 2.000.000 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 Lease Agreement.

After the end of the reporting period, the Company has started the negotiations on the relief of some covenants of the bonds. Refer to note 2, section Going concern for further information.

Changes in liabilities from financing activities:

EUR thousand	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
Liabilities as at November 1, 2017	44 379	-	44 379
Senior secured bond	-	50 000	50 000
Cash outflows	-44 379	-	-44 379
Amortisation using effective interest method	-	-1 117	-1 117
Liabilities as at December 31, 2018	**-**	**48 883**	**48 883**
Liabilities as at January 1, 2019	-	48 883	48 883
Amortisation using effective interest method	-	247	247
Liabilities as at December 31, 2019	**-**	**49 130**	**49 130**

Trade payables and other payables

The line item Trade and other payables include mainly trade payables as at December 31, 2019 and December 31, 2018. For the payables to related parties, see Note 14 Related parties.

13. Operating lease commitments

Future minimum lease payments from the land lease contracts between the Company and the city of Naantali under the old lease standard for the comparative year are as follows:

EUR thousand	**31 Dec 2019**	**31 Dec 2018**
No later than 1 year	-	46
Later than 1 year and no later than 5 years	-	184
Later than 5 years	-	1 350
Total	**-**	**1 580**

14. Related parties

Transactions with related parties

The group is owned by Niemi Family. Group's related parties are entities under the 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 at the end of the years presented:

	1 Jan – 31 Dec 2019			**31 Dec 2019**	**31 Dec 2019**
EUR thousand	**Rental income from the operating lease**	**Service income**	**Management fee**	**Receivable**	**Payable**
Sunborn Saga Oy	3 379	79	-	-	30
Other related parties	-	166	-73	-	0
Total	**3 379**	**245**	**-73**	**-**	**30**

	1 Nov 2017 – 31 Dec 2018			**31 Dec 2018**	**31 Dec 2018**
EUR thousand	**Rental income from the operating lease**	**Service income**	**Management fee**	**Receivable**	**Payable**
Sunborn Saga Oy	3 894	78	-	8	367
Other related parties	-	163	-83	17	363
Total	**3 894**	**242**	**-83**	**25**	**730**

The rental income of the group 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. The rent in the contracts is set at market level.

The following represents the maturity analysis of the lease payments by Sunborn Saga under the lease contract:

EUR thousand	31 Dec 2019	31 Dec 2018
No later than 1 year	3 379	3 338
Later than 1 year and no later than 2 years	3 379	3 338
Later than 2 year and no later than 3 years	3 379	3 338
Later than 3 year and no later than 4 years	3 379	3 338
Later than 4 year and no later than 5 years	3 379	3 338
Later than 5 years	9 574	12 795
Total	**26 470**	**29 484**

Sunborn Saga has guaranteed the senior secured bonds of the Company. Detailed information on the guarantee is given in Note 12 Borrowings.

The Company has paid management fee to Sunborn Oy and Sunborn International Oy.

15. Events after the balance sheet date

Since 13th March 2020, the spread of the coronavirus (COVID-19) has led to unprecedented and gradually worsening business situation in the hospitality sector all over the world including Finland.

COVID-19 impacts Sunborn Finance Oyj through the operator of the spa hotels and the operator Sunborn Saga Oy's ability to pay the agreed rental payments. The operator Sunborn Saga Oy has been forced to temporarily close most hotel and restaurant operations while government has issued restrictions on travel and the hospitality sector. Whilst management expects the hotels and restaurants to gradually start to open at the end of June, the ability of the operator to pay rents normally during the closure and the subsequent recovery period has been negatively affected and as a result, Sunborn Finance Oyj has appointed DNB Markets to lead the discussions with our bondholders to provide the necessary flexibility in coupon payments during 2020 as well as relax any at risk bond terms and conditions where appropriate to adjust for the impact of COVID 19. This amendment process in ongoing and expected to receive agreement with bondholders in early May.

The expected reliefs in the interest payments and covenants related to lease payments will be directly used to support the operations of Sunborn Saga, and the lease contract would be modified to allow temporarily a longer payment period for the lease payments.

In addition to amendments to the terms of the long term financing, Sunborn Group has begun processes to tap into governmental fiscal support programs and negotiations with a bank in terms of medium term working capital loans and development subsidies for the operator. The operator has received initial supporting decision on working capital loan from the bank. These will provide additional liquidity during and after the closures and the processes expected to be finalized also in May. See also Note 2 Basis of preparation, section Going concern.

After the end of the reporting period, the Company has also agreed on payment holidays to the lease payments on the land and water areas of Naantali Spa, which are leased from the city of Naantali.

INCOME STATEMENT (FAS)

	1 Jan - 31 Dec 2019		1 Nov 2017 - 31 Dec 2018	
	12 months		14 months	
TURNOVER		3 379 199,98		3 894 128,00
Other income from business operations		245 381,99		241 722,14
Personnel expenses				
Salaries	-211 285,09		-263 017,06	
Pension costs	-39 536,72		-49 956,55	
Social security costs	-4 267,19	-255 089,00	-5 859,56	-318 833,17
Depreciation and impairment				
Planned depreciation		-1 245 541,34		-1 201 588,75
Other operating charges		-609 854,07		-522 992,03
		============		===========
EBITA		1 514 097,56		2 092 436,19
Financial income and expenses				
Interest income and financial income	67,10		0,00	
Interest expenses and financial expenses	-2 458 859,47	-2 458 792,37	-6 269 946,33	-6 269 946,33
		============		===========
PROFIT BEFORE ADJUSTMENT ITEMS AND TAXES		-944 694,81		-4 177 510,14
Adjustment items				
Increase(-) / decrease(+) in depreciation difference		950 069,70		1 199 764,80
		============		===========
Result for the period		5 374,89		-2 977 745,34

BALANCE SHEET (FAS)

ASSETS	31 Dec 2019		31 Dec 2018	
FIXED ASSETS				
Intangible assets				
Other capitalized long-term expenses	4 810,76	4 810,76	6 634,52	6 634,52
Tangible assets				
Land and water	320 511,17		320 511,17	
Buildings	61 868 278,13		62 877 405,89	
Machinary and equipment	3 251 980,08		1 660 796,14	
Construction in process	507 142,30	65 947 911,68	1 173 785,64	66 032 498,84
Investments				
Shares		3 500,00		3 500,00
CURRENT ASSETS				
Receivables				
Current receivables				
Accounts receivable	0,00		24 800,00	
Other receivables	4 006,40		0,00	
Prepaid expenses and accrued income	0,00	4 006,40	497 062,27	521 862,27
Cash and bank receivables		1 104 816,17		2 106 036,15
TOTAL ASSETS		67 065 045,01		68 670 531,78

LIABILITIES	31 Dec 2019		31 Dec 2018	
SHAREHOLDERS' EQUITY				
Share capital	80 000,00		2 500,00	
Reserve for invested non-restricted equity	6 638 188,33		6 715 688,33	
Retained earnings	-2 977 745,34		0,00	
Profit for the period	5 374,89	3 745 817,88	-2 977 745,34	3 740 442,99
APPROPRIATIONS				
Accumulated depreciation difference		3 000 134,90		3 950 204,60
LIABILITIES				
Non-current liabilities				
Bonds	50 000 000,00		50 000 000,00	
Deferred tax liabilities	9 684 554,12	59 684 554,12	9 684 554,12	59 684 554,12
Current liabilities				
Accounts payable	81 254,78		510 231,54	
Other liabilities	120 594,96		338 046,32	
Accrued liabilities and deffered income	432 688,37	634 538,11	447 052,21	1 295 330,07
TOTAL LIABILITIES		67 065 045,01		68 670 531,78

NOTES TO THE FINANCIAL STATEMENTS (FAS)

1. ACCOUNTING PRINCIPLES

The accounting period of the company is a calendar year.
Comparative financial period was 14 months (1 Nov 2017 - 31 Dec 2018), being the first one for the Company.

Valuation principles for fixed assets

Investment property was initially recognised at fair value as at 1 November, 2017 in accordance with Finnish Accounting Standards Chapter 5, Article 2. Subsequently, investment property is depreciated according to the predefined depreciation plan and valued at amortised cost. Planned depreciation is calculated according to the predefined depreciation plan as straight-line depreciation on the original acquisition cost of fixed assets.

Depreciation periods based on estimated economic working lives are as follows:

Other capitalized long-term expenses	10 years
Investment property	40 years
Machinery and equipment	8 - 10 years

Minor acquisitions (below EUR 850) are booked as costs for accounting period.

Deferred tax liability

Deferred tax liability, recognised in non-current liabilities in the financial statements, relate to revaluation (fair value) of the investment property.

2. PERSONNEL

	2019	2018
The average number of personnel during the financial period	4	4

3. DEPRECIATON AND DEPRECIATION DIFFERENCE

	Planned depreciation	Depreciation difference +/-	Total depreciation
Intangible assets	1 823,76	0,00	1 823,76
Tangible assets	1 243 717,58	-950 069,70	293 647,88
Total	1 245 541,34	-950 069,70	295 471,64

4. OTHER OPERATING EXPENSES

	2019	2018
Administrative expenses	103 747,80	97 730,53
Maintenance expenses	333 669,46	378 665,80
Other expenses	172 436,81	46 595,70
Total	609 854,07	522 992,03

5. FINANCIAL INCOME AND EXPENSES

	2019	2018
Financial income		
Interest income	67,10	0,00
Financial expenses		
Interest expenses	2 458 774,27	3 616 563,60
Other financial expenses	85,20	2 653 382,73
Total	2 458 859,47	6 269 946,33

6. AUDITOR'S FEES

	2019	2018
Pricewaterhousecoopers Oy		
Audit fees	48 279,58	8 316,63

7. CHANGES IN FIXED ASSETS

Intangible assets:	Other capitalised long-term expenses
Acquisition cost 1 Jan	8 762,24
Acquisition cost 31 Dec	8 762,24
Accumulated depreciation 1 Jan	-2 127,72
Depreciation during the financial year	-1 823,76
Accumulated depreciation 31 Dec	-3 951,48
Book value 31 Dec	4 810,76

Tangible assets:	Land and water	Buildings	Machinery and equipment	Construction in process
Acquisition cost 1 Jan	320 511,17	24 718 563,29	1 678 477,17	1 173 785,64
Revaluation, fair value	0,00	39 340 622,60	0,00	0,00
Additions	0,00	5 211,30	1 820 562,46	1 147 055,83
Disposals	0,00	0,00	0,00	-1 813 699,17
Acquisition cost 31 Dec	320 511,17	64 064 397,19	3 499 039,63	507 142,30
Accumulated depreciation 1 Jan	0,00	-1 181 780,00	-17 681,03	0,00
Depreciation during the financial year	0,00	-1 014 339,06	-229 378,52	0,00
Accumulated depreciation 31 Dec	0,00	-2 196 119,06	-247 059,55	0,00
Book value 31 Dec	320 511,17	61 868 278,13	3 251 980,08	507 142,30

8. INVESTMENTS

Shares in subsidiaries	
Acquisition cost 1 Jan	3 500,00
Book value 31 Dec	3 500,00

Name	Number of shares	Holding %	Domicile
Sunborn Finance Admin Oy	1 000	100 %	Helsinki

The Company acquired dormant subsidiary in December 2018.
Consolidated statements have been prepared according to IFRS.

9. ACCRUED INCOME

	2019	2018
Taxes	0,00	496 434,76
Social security costs accrued	0,00	627,51
Total	0,00	497 062,27

10. SHAREHOLDERS' EQUITY

	2019	2018
Restricted equity		
Share capital	2 500,00	2 500,00
Additions	77 500,00	0,00
Share capital, 31 Dec	80 000,00	2 500,00

Non-restricted equity		
Reserve for invested non-restricted equity	6 715 688,33	6 715 688,33
Reserve for invested non-restricted equity, 31 Dec	6 638 188,33	6 715 688,33
Retained earnings	-2 977 745,34	0,00
Result for the period	5 374,89	-2 977 745,34
Non-restricted equity total	3 665 817,88	3 737 942,99
Shareholders´ equity total	3 745 817,88	3 740 442,99
Distributable assets, 31 Dec		
Reserve for invested non-restricted equity	6 638 188,33	6 715 688,33
Retained earnings	-2 977 745,34	0,00
Profit for the period	5 374,89	-2 977 745,34
Total	3 665 817,88	3 737 942,99

The number of company shares is 400. There are two classes of shares divided by voting rights, otherwise the terms are the same.

	Number of shares
A shares (20 votes per share)	24
B shares (1 vote per share)	376
Total	400

11. ACCRUED EXPENSES	2019	2018
Interest accrual	336 805,56	350 278,78
Social security costs accrued	71 882,81	61 353,72
Other accrued expenses	24 000,00	35 421,71
Total	432 688,37	447 054,21

12. COLLATERALS AND CONTINGENT LIABILITIES	2019	2018
Bonds	50 000 000,00	50 000 000,00
Mortgages	126 651 783,67	126 651 783,67
Floating charge	65 000 000,00	65 000 000,00

Company´s bank accounts have been pledged to secure the bond repayments, however the Company can use them by the terms of the bonds.

SIGNATURES FOR THE FINANCIAL STATEMENTS

Turku, April 30, 2020

Ritva Niemi

Chairman of the Board

Pekka Niemi

Board member and Chief Executive Officer

Hans Niemi

Board member

THE AUDITOR'S NOTE

A report on the audit performed has been issued today.

Turku, April 30, 2020

PricewaterhouseCoopersOy

Authorized Public Accountant Firm

Kalle Laaksonen

Authorized Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Sunborn Finance Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the financial statements give a true and fair view of the company's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Our opinion is consistent with the additional report to the Board of Directors.

What we have audited

We have audited the financial statements of Sunborn Finance Oyj (business identity code 2834108-5) for the year ended 31 December 2019. The financial statements comprise:

- balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

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 company 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.

To the best of our knowledge and belief, the non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 6 to the Financial Statements.

Material uncertainties related to going concern

We draw attention to the note "Going Concern" in the financial statements. The note describes that the spread of the coronavirus (COVID-19) has led to unprecedented and gradually worsening business situation in the hospitality sector. If the operator is not able to pay its lease payments to Sunborn Finance Oyj and if Sunborn Finance Oyj is not successful in agreeing on the reliefs to the bond terms and to service the terms of the bond (i.e. make the interest payments), the bond becomes repayable on demand. The loan term renegotiations and processes by the operator are ongoing and expected to be finalized in May. These conditions, along with the other matters explained in the note "Going Concern" in the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Our Audit Approach

Overview

Materiality

- Overall materiality: 70 thousand euros, which represents 2.5% of profit before interest, taxes and depreciation.

Group scoping

- The group audit scoping encompassed the parent company

Key audit matters

- Revenue recognition
- Investment property valuation

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 materiality for the 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.

Overall materiality	70 thousand euros
How we determined it	2.5% of company profit before interest, taxes and depreciation.
Rationale for the materiality benchmark applied	*We chose profit before interest, taxes and depreciation as the benchmark because in our view, it is the benchmark against which the performance of the company is most commonly measured by users, and is a generally accepted benchmark. We chose 2.5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.*

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. The group operates mainly in the parent company. The group audit scope encompassed the parent company. We determined that no risk for material misstatements relates to the subsidiary and therefore our procedures regarding this entity comprised only of analytical procedures performed at group level. By performing the procedures above, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole in order to provide an opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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.

Key audit matter in the audit of the company	How our audit addressed the key audit matter
Occurrence of revenue recognition *Refer to Accounting policies and note 5* Revenue consists of rental income from lease contract. Rental income is booked as a revenue as straight-line basis based on the lease contract. Based on our estimation there is a risk that the rental income doesn't reflect the lease contract. We focused on transactions that occurred during the financial period, especially whether the recorded revenue reflect the lease contract.	Our audit procedures consisted of obtaining and understanding of the internal control as well as substantive procedures performed on recorded transactions. As part of substantive audit procedures relating to revenue, we: - Evaluated the appropriateness of the accounting policies for revenue recognition. - We read the lease contract. - Tested a sample of transactions recorded during the financial year to verify that they reflect the terms in the lease contract. - Tested the accurate timing of revenue recognition of transactions recorded near the end of the financial period.

Valuation of investment property Refer to Accounting policies and notes 3 and 9. Company´s investment property consists of spa hotels. Investment property is carried at fair value. Changes in fair values are recognized in the income statement. The assumptions used in valuations include estimates and judgement. Forecasting of cash flows, estimation of useful lifetime of investment property and the estimation of discount rate are the most significant assumptions in the valuation of the investment property. We focused on cash flow estimations, because the cash flows include significant judgement.	We obtained an understanding of the processes relating to the calculation and valuation of investment properties. Our audit procedures were especially directed to the following: - We obtained the valuation report provided by independent valuator, which management has used to support the valuation. We evaluated the appropriateness of key assumptions used in fair value valuations. - We compared the lease levels used in the valuation report to lease levels usually used in lease market. - We compared the fair value in the valuation report to the disclosures in the financial statements related to the valuation.

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 financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. 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 company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about 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 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 company'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 company'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.

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

Appointment

We were first appointed as auditors on 1 November 2017. Our appointment represents a total period of uninterrupted engagement of 2 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors, 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 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 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.

Turku 30 April 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Kalle Laaksonen
Authorised Public Accountant (KHT)

SUNBORN SAGA OY, INCOME STATEMENT (FAS)

		1.1.-31.12.2019		1.1.-31.12.2018
TURNOVER		27 944 167		25 672 227
TURNOVER from divested business				
Other income from business operations		290 793		316 723
Materials and services				
Purchases during the financial period	-3 952 419		-3 661 644	
Change in inventories	-37 679		-99 776	
External services	-1 933 916	-5 924 014	-2 957 188	-6 718 608
Personnel expenses				
Wages and salaries	-8 063 883		-6 536 359	
Mandatory pension costs	-1 428 674		-1 081 097	
Other social security costs	-263 910	-9 756 467	-237 307	-7 854 764
Other operating charges		-8 264 699		-7 300 971
Rents paid to Sunborn Finance Oy		-3 379 200		-3 337 824
Administrative expenses paid to Sunborn Oy		-667 729		-659 336
		==========		==========
EBITDA		242 851		117 447
Depreciation				
Depreciation according to the plan		-643 373		-706 100
Financial income and expenses				
Interest income and financial income	259		351	
Interest expenses and financial expenses	-2 122	-1 863	-1 521	-1 170
		==========		==========
RESULT BEFORE ADJUSTMENT ITEMS AND TAXES		-402 385		-589 823
Adjustment items				
Group contribution received(+) / paid(-)		500 000		655 000
Income taxes		-270		-1 066
		==========		==========
RESULT FOR THE PERIOD		97 345		64 111

SUNBORN SAGA OY, BALANCE SHEET (FAS)

ASSETS	31.12.2019		31.12.2018	
FIXED ASSETS				
Intangible assets				
Intangible rights	66 526		8 010	
Other capitalised long term expenditure	1 434 778	1 501 304	1 932 156	1 940 167
Tangible assets				
Machinery and equipment	529 434		377 568	
Advance payments	25 831	555 265	0	377 568
Investments				
Other shares and similar rights of ownership		290		290
CURRENT ASSETS				
Inventories				
Raw materials and supplies	176 363		151 525	
Goods	180 517	356 880	243 035	394 560
Receivables				
Non-current receivables				
Receivables from group companies		5 061 177		4 804 685
Current receivables				
Receivables from group companies	100 585		91 276	
Accounts receivable	1 283 810		1 498 213	
Other receivables	42 467		89 079	
Prepaid expenses and accrued income	118 537	1 545 399	397 819	2 076 388
Cash and bank receivables		1 698 372		553 875
TOTAL ASSETS		**10 718 687**		**10 147 532**

LIABILITIES	31.12.2019		31.12.2018	
SHAREHOLDERS' EQUITY				
Share capital	2 523		2 523	
Reserve for invested non-restricted equity	100 000		100 000	
Retained earnings	92 790		28 679	
Profit for the period	97 345	292 658	64 111	195 313
LIABILITIES				
Non-current liabilities				
Other liabilities	4 633 629	4 633 629	4 566 569	4 566 569
Current liabilities				
Debt to group companies	96 396		421 360	
Short-term advance payments	2 610 017		1 912 140	
Short-term accounts payable	1 299 379		1 085 129	
Other liabilities	341 579		631 409	
Accrued liabilities and deferred income	1 445 028	5 792 400	1 335 612	5 385 650
TOTAL LIABILITIES		**10 718 687**		**10 147 532**

SUNBORN SAGA OY, CASH FLOW STATEMENT (FAS)

	1.1.-31.12.2019	1.1.-31.12.2018
Cash flow from operations		
Profit before adjustment items and taxes	97 615	65 177
Depreciation and amortization	643 373	706 100
Income taxes	-270	-1 066
Change in current receivables	530 989	-106 001
Change in inventories	37 679	99 776
Change in current non-interest-bearing liabilities	406 750	-212 618
Cash flow from operations (A)	1 716 136	551 367
Investing activities		
Change in tangible and intangible assets *	-382 208	593 481
Cash flow from investing activities (B)	-382 208	593 481
Financing activities		
Change in non-current receivables	-256 491	-882 651
Change in long-term borrowings	67 060	-138 026
Cash flow from financing activities (C)	-189 432	-1 020 678
Change in cash and cash equivalents (A+B+C)	1 144 497	124 171
Cash and cash equivalents at beginning of period	553 875	429 704
Cash and cash equivalents at end of period	1 698 372	553 875

* Until 2018, capital expenditure in Spa hotels is done by Sunborn Saga, but the investments are transfered to Sunborn Finance.