SUNBORN FINANCE

FINANCIAL STATEMENTS Q3 2023
21/11/2023

sunborn

Key Figures (IFRS) - Sunborn Finance Oyj

EUR thousand	Q3/2023 1 Jul – 30 Sep 2023	Q3/2022 1 Jul – 30 Sep 2022	1 Jan – 30 Sep 2023	1 Jan – 30 Sep 2022	1 Jan – 31 Dec 2022
Revenue	1 284	951	3 357	2 850	3 802
EBITDA	1 105	788	2 763	2 322	3 093
Operating profit	1 091	768	2 132	1 757	2 875
Investment property (Spa Hotels)			62 276	61 760	62 195
Total equity			1 719	2 355	2 562
Bond			49 901	50 133	50 212

Key Figures (FAS)- Operator Sunborn Saga Oy

EUR thousand	Q3/2023 1 Jul – 30 Sep 2023	Q3/2022 1 Jul – 30 Sep 2022	1 Jan – 30 Sep 2023	1 Jan – 30 Sep 2022	1 Jan – 31 Dec 2022
Revenue	8 278	8 638	20 666	19 716	25 467
EBITDA before rent and group admin	2 816	2 619	4 230	3 787	4 602

Executive Director, Hans Niemi

"Sunborn Finance Oyj revenue for Q3 was 1.284 M€ (Q3 2022: 0.951 M€). Operational costs were in line with previous year, but interest expenses have increased significantly.

Operator's revenue in the period was 8.278 M€ (Q3 2022: 8.638 M€, -4 %) and EBITDAR 2.816 M€ (Q3 2022: 2.619 M€, +8 %). Performance is under pressure in a declining consumer sentiment caused by higher consumer borrowing rates, general inflation and macroeconomic uncertainty. Management continues introducing and implementing changes to achieve revenue growth and improve operating margins. Higher property rent required due to rising borrowing continues to impact management business development plans and timing. Bond refinancing process in ongoing amidst a challenging higher for longer rates policy environment, higher borrowing costs and volatile real-estate market across the Nordics."

General

Sunborn Finance Oyj ("the Company") owns the award winning Naantali Spa hotel located in Naantali by the Baltic Sea and Ruissalo Spa Hotel located in Turku by the scenic archipelago. The Company's operations consist of acting as a lessor of the spa hotels and providing property, facility and IT related services.

Both properties have been leased to hotel operator Sunborn Saga Oy. The hotel operations of the spa hotels are run by operator Sunborn Saga Oy under a lease contract. The hotels are well reputed and good performing assets with a strong management team.

Naantali Spa Resort has 218 rooms and 40 ancillary time share apartments and Ruissalo Spa Hotel 173 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 centre, rehabilitation facilities, restaurants, bars, cafes and lounges. Significant renovation was made in both spa hotels during recent years and renovations continue.

Sunborn Finance Oyj Financial summary 1 July – 30 September 2023

Sunborn Finance Oyj´s revenue 1.284 M€ consists of lease income from the operator and other services income. Lease income Q3 2023 increased to 1.215 M€ (Q3 2022: 0.884 M€) to support higher financing costs. Other services income for Issuer refers to personnel costs for facility and IT services. Operational costs were in line with previous year, but interest expenses have increased significantly.

According to December 2022 valuation reports the value of the Spa hotels is at Naantali Spa 52.6 M€ and at Ruissalo Spa 26.8 M€ (1/3 of Ruissalo Spa is owned by Sunborn Finance and shown as its assets).

Operator Sunborn Saga Financial summary 1 July – 30 September 2023

Comparing Q3 performance YoY should reflect the exceptional circumstances of last year. Naantali City hosted a national housing fair in 2022, attracting over 100,000 extra visitors to the area, in addition to several events in taking place in Turku in August 2022 (including the Knotfest music festival organized by Sunborn Live, with nearly 50,000 visitors to the area). These events created exceptionally high demand for hotel rooms in both Turku and Naantali in July and August 2022 as opposed to 2023 Q3.

High expectations for the growth in the summer season of 2023 did not materialise according to management plans, despite renovations and improvements made in the spa properties, while global situation deteriorated with high rates, inflation and changes in consumer behaviour, negatively impacting booking volumes. The newly renovated rooms at Ruissalo – total new 26 Nordic Deluxe rooms - were well received by customers, and improvements in Naantali, including renovations of the terrace restaurants and the development of new services, provided uptick in customer satisfaction according to survey data by Benchmark Alliance. There was anticipation of moderate growth in domestic tourism, which unfortunately did not materialise.

Group travel in Naantali was impacted by the closure of President of the Republic's summer residence in Kultaranta, now undergoing renovations until the reopening planned for 2025 summer. The summer residence is a major local attraction for group travellers in the summer season. The numbers of foreign visitors are still below pre-pandemic levels. Asian travellers were mostly absent while some pick up was seen in occasional individual tourists from neighbouring areas like Sweden and German-speaking Europe, but also not yet at levels seen before the pandemic.

Adverse weather with a total of 35 rainy days in July and August played some part in daily visitor volumes, directly affecting visitor numbers in outdoor attractions like the Naantali Moomin World and, consequently, the turnover of Naantali Spa Hotel's satellite summer restaurants. It was noticeable that guests staying at the hotels spent less on f&b and treatment services. Average spend per client was below last year and booking cycles remain at short notice, creating difficulty in predicting and allocating optimal resources for services.

Overall, despite cautious management optimism, the Q3 turnover was -4 % YoY and below management expectations.

Stringent cost controls for purchases and staff costs were implemented and cost of goods sold fell in line with the actual turnover. Reductions in staff costs were achieved gradually, mostly impacting September when the summer employees' contracts ended, and the hours of permanent staff could be re-adjusted after peak season. New sales and marketing initiatives were implemented, resulting in September revenue growing YoY by +12 %, however not quite enough to cover missing revenue targets in July and August.

The health travel sector overnights increased, while corporate business stayed comparable levels to last year. The decrease in overall occupancy and revenue can therefore be attributed largely to a moderate decline in domestic leisure segment volume and average spend.

Pricing of rooms in Naantali yielded to boost room volumes. In Q3, the average daily rate (ADR) and revenue per available room (RevPar) decreased in both hotels. Occupancy-% decreased in Naantali by 2.5 %, but positively increased in Ruissalo by 3.3 %. In respect of Ruissalo occupancy, available hotel rooms were increased YoY with the renovation of 26 executive rooms, which suggests comparable YoY occupancy in terms available rooms is not fully comparable. September key figures were all positive, a trend management will push to continue in Q4. Key performance indicators related to customer satisfaction improved compared to 2022 including net promotor score (NPS).

Naantali Spa	Overall Q3 2023	July	Aug	Sep
ADR	- 8.3 %	- 8.3 %	- 12.1 %	+ 1.8 %
Occupancy %	- 2.5%	- 3.0 %	- 9.1 %	+ 8.2 %
RevPar	- 10.4 %	- 11.0 %	- 19.9 %	+ 10.6 %
Ruissalo Spa				
ADR	- 0.9 %	- 0.3 %	- 5.0 %	+ 8.2 %
Occupancy %	+ 3.3 %	+ 0.6 %	- 1.5 %	+ 14.3 %
RevPar	- 7.2 %	- 10.0 %	- 16.4 %	+ 14.8 %

Notable events during and after the end of the reporting period and estimated future development

Given the uncertainties around customer spending and travel demand in the upcoming months, we anticipate flat or mild increase revenue growth in the leisure segment. It is crucial for costs to adapt to these changing trends and cost structures and outlet operating procedures are under review. Positively the health travel and corporate sectors are growing, and both hotels are working to increase average spending and capitalize on the volume increase in these sectors. Efforts are underway to attract more foreign customers from neighboring countries and Central Europe.

The autumn break in October brought additional leisure customers to Naantali, but not as many as expected. As a result, it is crucial to focus on attracting corporate groups for Christmas parties in November. Luckily, bookings for corporate groups are promising and the Christmas holidays are selling well, despite the unpredictable global situation.

Energy costs, including electricity and fuel, have increased significantly due to inflation. Electricity costs have been hedged to a large degree, but remain at higher levels than previously in addition to district heating and oil price increases, which impacted profit margins. To mitigate the future impact of rising energy costs, investment and policy in adopting energy-efficient solutions, optimizing equipment usage, and exploring renewable energy sources are continued. Our ongoing 3-year ESG strategy is already yielding positive results in reducing energy and water consumption overheads compared to pre-pandemic levels. However, converting heating and cooling systems to sustainable and energy efficient alternatives requires also further capital expenditure in both properties.

Food and beverage costs increased during Q3 due to inflation, resulting in higher purchasing expenses. To maintain and increase profitability, management is reassessing menu offerings, negotiating with vendors, and implementing innovative cost management strategies.

In June, the hospitality industry experienced nationwide salary increases, on average +4.3 %, and impacted directly operational costs. In response, reevaluation of labor structures and exploring cost-effective alternatives are ongoing, solutions will prioritize continued employee satisfaction to ensure continued access to staff resources.

Covid-19 infections are increasing again after the summer, although not Covid 19 is not classified as a highly dangerous disease, the high number of people getting sick is impacting both client travel and staff availability. Management does not expect any governmental restrictions to be imposed, and the potential impact to staff or clients is manageable.

We are currently in the planning phase of a 3-year investment with key improvements in both properties. As part of this plan, we have scheduled renovations for both the restaurants in Naantali and the spa department in 2024-2025.

Business environment

The corporate business and health travel overnight stays are growing, however spending on food and drink and treatment sales are decreasing. The travel industry is adjusting to the current situation and facing pressure to raise prices. Due to global uncertainties, domestic travel options are preferred by many domestic customers, conversely international travel growth remains stagnant.

The hotels are maintaining high levels of customer satisfaction, and it is expected that the net promotion scores will continue to improve.

Due to the possibility of lower revenue levels than budgeted going forward, the management team is prioritizing managing costs, enhancing customer service, and effectively managing staff resources Additionally, social responsibility initiatives will be implemented to increase customer loyalty and retention and stand out from market competitors.

Short-term risks and uncertainties

The Company’s bond is maturing for repayment on 9th February 2024. The Company has engaged advisors and is in progress of pursuing and negotiating refinancing in advance of maturity. The current high yield market conditions are clearly challenging and negotiations with lenders for refinancing continue with timing pressure due to year end and holiday period.

Sunborn Finance’s financial risks related to business are market risk (including interest rate risk), credit risk, liquidity risk and refinancing risk.

Floating interest rate risk has not been hedged. High interest rates impact negatively and materially on Sunborn Finance Oyj liquidity and planned CAPEX programs.

The Company´s financial risk management aims to protect it against unfavourable developments in the financial markets and ensure the performance. The management reviews financial risks on regular basis to secure the financial risk position and decide on necessary actions.

Incidents relating public health may yet cause the Operator potential business interruptions. The war in Ukraine or Israel-Gaza is not estimated to have a direct impact on the Company's operations.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

EUR thousand	Note	Q3/2023 1 Jul – 30 Sep 2023	Q3/2022 1 Jul – 30 Sep 2022	1 Jan – 30 Sep 2023	1 Jan – 30 Sep 2022	1 Jan – 31 Dec 2022
Revenue	4	1 284	951	3 357	2 850	3 802
Changes in fair value of investment property	5	-15	-20	-631	-566	-218
Personnel expenses		-72	-65	-238	-216	-299
Operating expenses		-107	-98	-356	-311	-410
Operating profit		**1 091**	**768**	**2 132**	**1 757**	2 875
Interest expenses		-1 147	-729	-3 186	-2 111	-2 972
Result before taxes		**-56**	**39**	**-1 054**	**-354**	-97
Change in deferred tax		11	-8	211	71	19
Result for the period		**-45**	**31**	**-843**	**-283**	-78
Total comprehensive income for the period		**-45**	**31**	**-843**	**-283**	-78

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

CONSOLIDATED BALANCE SHEET (IFRS)

EUR thousand	Note	30 Sep 2023	31 Dec 2022	30 Sep 2022
Assets				
Non-current assets				
Investment property	5	62 276	62 195	61 760
Total non-current assets		**62 276**	**62 195**	**61 760**
Current assets				
Receivables from related parties	7	71	70	71
Other receivables		121	66	120
Cash and cash equivalents		1 115	859	667
Total current assets		**1 307**	**995**	**858**
Total assets		**63 583**	**63 190**	**62 618**

EUR thousand	Note	30 Sep 2023	31 Dec 2022	30 Sep 2022
Equity and liabilities				
Share capital		80	80	80
Reserve for invested unrestricted equity		6 638	6 638	6 638
Retained earnings		-5 000	-4 156	-4 363
Total equity		1 719	2 562	2 355
Liabilities				
Non-current liabilities				
Lease liabilities	2, 5	710	624	638
Deferred income tax liabilities		8 415	8 626	8 574
Total non-current liabilities		**9 125**	**9 250**	**9 212**
Current liabilities				
Borrowings	6	49 901	50 212	50 133
Lease liabilities	2, 5	10	8	8
Trade and other payables		267	193	169
Payables to related parties	7	1 821	404	263
Accrued expenses		741	562	478
Total current liabilities		**52 739**	**51 379**	**51 051**
Total liabilities		**61 864**	**60 629**	**60 263**
Total equity and liabilities		**63 583**	**63 190**	**62 618**

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 Jan, 2022	80	6 638	-4 080	2 638
Result for the period	0	0	-283	-283
Equity at 30 Sep, 2022	**80**	**6 638**	**-4 363**	**2 355**
Equity at 1 Oct, 2022	80	6 638	-4 363	2 355
Result for the period	0	0	206	206
Equity at 31 Dec, 2022	**80**	**6 638**	**-4 156**	**2 562**
Equity at 1 Jan, 2023	80	6 638	-4 156	2 562
Result for the period	0	0	-843	-843
Equity at 30 Sep, 2023	**80**	**6 638**	**-5 000**	**1 719**

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

EUR thousand	Note	1 Jan – 30 Sep 2023	1 Jan - 31 Dec 2022	1 Jan – 30 Sep 2022
Cash flows from operating activities				
Result before tax		-1 054	-97	-354
Adjustments for				
Change in fair value of investment property	5	631	218	566
Interest expenses on borrowings		3 186	2 972	2 111
Change of working capital				
Change in trade and other receivables		-56	-49	-104
Change in trade and other payables		1 525	334	202
Net cash flows from operating activities		**4 232**	**3 378**	**2 420**
Cash used in investing activities				
Capital Expenditure	5	-631	-652	-566
Net cash flows used in investing activities		**-631**	**-652**	**-566**
Cash flows used in financing activities				
Land lease agreement		-26	-49	-24
Transaction costs paid		-516	-	-
Interest paid		-2 802	-2 494	-1 839
Net cash flows used in financing activities		**-3 345**	**-2 543**	**-1 863**
Cash and cash equivalents at the beginning of period		**859**	**676**	**676**
Change in cash and cash equivalents		**256**	**183**	**-9**
Cash and cash equivalents at the end of period		**1 115**	**859**	**667**

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") and together with its subsidiary "the Group" incorporated in Finland. The registered address of the Company 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 Oyj owns spa hotel "Naantali Spa" and approximately 30 % of the "Ruissalo Spa" (together "Spa hotels") properties located in southwest Finland. Naantali Spa has 218 and Ruissalo Spa 173 hotel rooms with several event rooms, restaurants, bars, cafés 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"), a subsidiary of Sunborn Oy, in accordance with a lease contract between Sunborn Finance Oyj and Sunborn Saga Oy. Sunborn Finance Oyj provides also property management and IT support services and has four employees.

Sunborn Finance Oyj is wholly owned by 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 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.

These interim financial statements are unaudited.

2. Summary of significant accounting policies

Basis of preparation

This condensed interim financial report for three months ended September 30, 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34 *interim Financial Reporting*, as adopted by the European Union.

The condensed interim year financial report does not include all the information and notes that are presented in the annual financial statements and should be read in conjunction with the consolidated financial statements for year ended 31 December 2022.

The accounting policies and measurement principles remain unchanged in comparison with as has been presented in Note 2 in the Annual Report 2022.

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.

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 Group applies fair value model to its investment property as explained in the accounting policies in the financial statements. 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.

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

Input	Value 30 Sep 2023		Value 30 Sep 2022	
	Naantali	Ruissalo	Naantali	Ruissalo
Fair value (M€)	52.6	8.9	52.2	8.9
Yield/NOI II	7.35 %/7.68 %	7.90 %/8.40 %	7.35 %/5,67 %	7.85 %/6,18 %
Net yearly income	EUR 4.1 million	EUR 2.3 million (includes also the old part)	EUR 2.9 million	EUR 1.6 million (includes also the old part)

Based on the sensitivity analysis provided by the third-party valuator if the yield and the yearly income for Naantali Spa and Ruissalo Spa are changed the value of Naantali Spa and the new part of Ruissalo Spa would vary.

Comparable figures, especially yearly revenues and yield/NOI II in 2022, reflected the impact of Covid-19 pandemic.

According to the management judgement the fair value of the right of use assets of land and water areas is EUR 0.74 million (2022: EUR 0.65 million).

4. 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	Q3/2023 1 Jul – 30 Sep 2023	Q3/2022 1 Jul – 30 Sep 2022	1 Jan – 30 Sep 2023	1 Jan – 30 Sep 2022	1 Jan – 31 Dec 2022
Rental income from operating leases with related party	1 215	884	3 144	2 650	3 534
Service income from related parties	69	67	213	199	268
	1 284	**951**	**3 357**	**2 850**	**3 802**

5. 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 62.3 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, 2022. 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 January 1, 2022	61 759
Additions	566
Changes in Fair Value	-566
Fair Value at September 30, 2022	**61 760**

EUR thousand	Spa hotels
Fair value at October 1, 2022	61 760
Additions	86
Changes in Fair Value	348
Fair Value at December 31, 2022	**62 195**

EUR thousand	Spa hotels
Fair value at January 1, 2023	62 195
Additions	631
Changes in Fair Value	-550
Fair Value at September 30, 2023	**62 276**

The Spa hotels have had an ongoing major renovation since before the Company's establishment on 1 November 2017. Renovation has continued in 2023 with the refurbishment of 26 hotel rooms in Ruissalo Spa and restaurant renovations in Naantali Spa.

6. Borrowings

EUR thousand	30 Sep 2023	31 Dec 2022	30 Sep 2022
Current:			
Senior secured bond	49 901	50 212	50 133
Total	**49 901**	**50 212**	**50 133**

As at February 9, 2018 Sunborn Finance Oyj issued senior secured bonds ("the bonds") with nominal amount of EUR 50 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 February 8th, 2019. The bonds are denominated in euros.

In a written procedure initiated on 2 December 2022 and closed on 9 January 2023, a requisite majority of the holders of the Bonds gave their consent to certain requested amendments to the Terms and Conditions and one year extension of maturity for repayment until 9th February 2024. The bonds shall be fully redeemed on maturity date at nominal amount +10 %. The Company has the right to early repayment before 9 December, 2023 at nominal amount +4 %. 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.

Collaterals and guarantees given

The bonds are secured by a 1st lien mortgage in the Spa hotels and water area in Naantali. 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, the shareholders have pledged shares in the Company and Sunborn Oy has pledged Sunborn Saga Oy shares to secure the repayment of the bonds. Owners have pledged 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 1.0 times the paid 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.

7. 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 Jan – 30 Sep 2023			30 Sep 2023	
EUR thousand	Rental income from the operating lease	Service income	Management fee	Receivable	Payable
Sunborn Saga Oy	3 144	65	-	1	1 811
Other related parties	-	149	-41	70	10
Total	**3 144**	**213**	**-41**	**71**	**1 821**

	1 Jan – 30 Sep 2022			30 Sep 2022	
EUR thousand	Rental income from the operating lease	Service income	Management fee	Receivable	Payable
Sunborn Saga Oy	2 651	62	-	2	254
Other related parties	-	137	-39	70	10
Total	**2 651**	**199**	**-39**	**71**	**263**

	1 Jan - 31 Dec 2022			31 Dec 2022	
EUR thousand	Rental income from the operating lease	Service income	Management fee	Receivable	Payable
Sunborn Saga Oy	3 534	83	-	-	400
Other related parties	-	184	-53	70	4
Total	**3 534**	**268**	**-53**	**70**	**404**

The rental income of the Group arises from a lease contract related to the Spa hotels. Sunborn Finance Oyj 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.

Sunborn Saga has guaranteed the senior secured bonds of the Company. Detailed information on the guarantee is given in Note 6 Borrowings.

The Company has paid management fee to Sunborn Oy.

8. Events after the balance sheet date

The Company's bond is maturing for repayment on 9th February 2024. The Company has engaged advisors and is in progress of pursuing and negotiating refinancing in advance of maturity. The current high yield market conditions are clearly challenging and negotiations with lenders for refinancing continue with timing pressure due to year end and holiday period.

Appendix 1 SUNBORN SAGA (FAS)

Sunborn Saga Oy
INTERIM REPORT 1 January – 30 September 2023
(FAS)

Sunborn Saga's interim financial report has been prepared in accordance with the Finnish Accounting Standards (Finnish Accounting Act and Ordinance and related instructions and statements issued by the Accounting Board operating under the auspices of the Ministry of Economic Affairs and Employment). For the purposes of this interim financial information profit and loss statement, balance sheet and cash flow statement of Sunborn Saga have been presented as required by the terms of the bond issued by Sunborn Finance. Sunborn Saga is the guarantor of the bond.

SUNBORN SAGA OY

INCOME STATEMENT, tEUR

		1 Jan – 30 Sep 2023		1 Jan – 30 Sep 2022		1 Jan – 31 Dec 2022
TURNOVER		20 666		19 716		25 467
Other income from business operations		583		694		1 367
Materials and services						
Purchases during the financial period	-3 257		-3 364		-4 256	
Change in inventories	43		57		4	
External services	-1 288	-4 502	-1 171	-4 478	-1 429	-5 680
Personnel expenses						
Wages and salaries	-5 484		-5 511		-7 345	
Mandatory pension costs	-883		-887		-1 237	
Other social security costs	-199	-6 566	-194	-6 592	-273	-8 855
Other operating charges		-5 951		-5 553		-7 696
Rents paid to Sunborn Finance Oy		-3 144		-2 673		-3 534
Administrative expenses paid to Sunborn Oy		-525		-521		-666
		======		======		========
EBITDA		562		593		401
Depreciation						
Depreciation according to the plan		-374		-424		-562
Financial income and expenses						
Interest income and financial income	0		1		1	
Interest expenses and financial expenses	-44	-44	-60	-60	-83	-82
		======		======		========
RESULT BEFORE ADJUSTMENT ITEMS AND TAXES		144		110		-243
Adjustment items						
Group contribution received(+) / paid(-)		0		0		379
Income taxes		0		-1		0
		======		======		=========
RESULT FOR THE PERIOD		144		108		136

SUNBORN SAGA OY
BALANCE SHEET, tEUR

ASSETS	30 Sep 2023		31 Dec 2022		30 Sep 2022	
FIXED ASSETS						
Intangible assets						
Intangible rights	97		129		133	
Other capitalised long term expenditure	322	419	451	580	500	632
Tangible assets						
Machinery and equipment	866		897		635	
Advance payments	301	1 168	12	910	257	892
Investments						
Other shares and similar rights of ownership		0		0		0
CURRENT ASSETS						
Inventories						
Raw materials and supplies	218		179		223	
Goods	182	400	178	357	186	409
Receivables						
Non-current receivables						
Receivables from group companies		4 975		7 169		6 790
Current receivables						
Receivables from group companies	44		47		43	
Accounts receivable	1 128		792		1 109	
Other receivables	1 527		308		650	
Prepaid expenses and accrued income	111	2 810	603	1 750	144	1 946
Cash and bank receivables		269		1 500		556
TOTAL ASSETS		10 041		12 266		11 226

LIABILITIES	30 Sep 2023		31 Dec 2022		30 Sep 2022	
SHAREHOLDERS' EQUITY						
Share capital	3		3		3	
Reserve for invested non-restricted equity	100		100		100	
Retained earnings	377		241		240	
Profit/Loss for the period	144	624	136	479	108	451
LIABILITIES						
Non-current liabilities						
Borrowings	1 200		1 200		1 800	
Other liabilities	3 734	4 934	4 134	5 334	4 713	6 513
Current liabilities						
Debt to group companies	295		128		184	
Borrowings	300		600		300	
Advance payments	880		3 040		1 057	
Accounts payable	1 997		1 367		1 627	
Other liabilities	39		174		114	
Accrued liabilities and deferred income	972	4 483	1 145	6 453	980	4 262
TOTAL LIABILITIES		10 041		12 266		11 226

SUNBORN SAGA OY

CASH FLOW STATEMENT, tEUR

	1.1.–30.9.2023	1.1.–30.9.2022	1.1.–31.12.2022
Cash flow from operations			
Profit before adjustment items and taxes	144	110	-243
Depreciation and amortization	374	424	562
Income taxes	0	-1	0
Change in current receivables	-1 060	-600	-404
Change in inventories	-43	-57	-4
Change in current non-interest-bearing liabilities	-1 669	-1 819	71
Other adjustments	0	0	1
Cash flow from operations (A)	-2 254	-1 944	-16
Investing activities			
Change in tangible and intangible assets	-471	-444	-548
Cash flow used in investing activities (B)	-471	-444	-548
Financing activities			
Change in non-current receivables	2 194	159	-220
Change in long-term borrowings	-700	-300	-1 179
Group contribution	0	0	379
Cash flow from financing activities (C)	1 494	-141	-1 021
Change in cash and cash equivalents (A+B+C)	-1 231	-2 529	-1 585
Cash and cash equivalents at beginning of period	1 500	3 085	3 085
Cash and cash equivalents at end of period	269	556	1 500