

Proventus Capital Partners III AB (publ)
Org nr 556926-8021

INTERIM REPORT FOR THE PERIOD 1 JANUARY 2020 – 30 JUNE 2020

The Board of Directors and Chief Executive Officer of Proventus Capital Partners III AB (publ) hereby present the interim report on the activities of the company for the period 1 January 2020 – 30 June 2020.

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Unless otherwise stated, all amounts refer to thousands of Swedish kronor (SEK '000). Figures in parentheses refer to the previous year.

DIRECTORS' REPORT

OPERATIONS

Proventus Capital Partners III AB, which is a wholly-owned subsidiary of Proventus Capital Management AB (556930-7027), operates a corporate lending business. The company is an alternative investment fund within the meaning of the Swedish Alternative Investment Fund Managers Act (2013:561) and is managed by the parent company, Proventus Capital Management, which, since 18 June 2014, holds a license from the Swedish Financial Supervisory Authority for the management of alternative investment funds under the Alternative Investment Fund Managers Act (2013:561).

The business is focused on direct loans to businesses and the acquisition of listed bonds and other debt securities. The company's main currency is Swedish kronor (SEK). Any investments made in other currencies are normally hedged to Swedish kronor. Investments are made alongside with Proventus Capital Partners III KB (corp. ID 969736-8125).

The operations are funded with capital contributed by the owner and through profit participating loans from primarily institutional investors. The total funding commitments to the company are SEK 10,840 million. The funding available to the company can be drawn by the company through individual capital contributions of 5 per cent of the overall commitment. A total of SEK 10,298 million have been contributed to the company which is 95% of total funding commitments.

From 4 December 2018, Proventus Capital Partners III has been closed to new investments, as Proventus Capital Group launched its new fund Proventus Capital Partners IV. In that month the last capital call was made and no more contributions will be requested.

Profit-sharing with holders of profit participation certificates of the company is settled in Swedish kronor. The interim report is prepared in Swedish kronor.

RESULTS AND FINANCIAL POSITION

Investing activities began in the summer of 2014, and at the end of the reporting period comprised twenty-two (twenty-five) commitments. Approximately 99% (94%) of the portfolio is invested in direct lending to businesses. The value of the company's part of the portfolio was SEK 3,818 million (5,855). Since the last interim report three large commitments have been repaid in full which has shrunk the portfolio significantly. The company's part of the portfolio of listed bonds, including accrued interest and forward contracts, amounted to SEK 202 million (507) at the end of the period. The company's part of the cumulative return on the portfolio since its inception is SEK 1,568 million (2,026).

Net profit for the period was SEK 20.1 (99.1) million for the Group and SEK 0.0 (0.0) million for the parent company. Consolidated equity was SEK 888.8 (849.1) million and SEK 35.5 (34.3) million for the parent company.

During the first quarter a Corona-virus spread over the globe and turned into a pandemic. This has had severe effects on human life, the economy as a whole and for financial markets. The effect on credit markets was initially significant but it has gradually declined during the second quarter. Of the borrowers, to whom the Company has lent money, the effects of Covid-19 are deemed to be material for seven companies, three companies might be materially affected while the rest are currently not directly affected by the Covid-19 situation. How this will impact the value of the Company's loans is currently uncertain and will be determined by how the opening of economies will move forward and how deep and prolonged the downturn in the overall economy will be.

In March 2020 Aperture Trading entered into Administration in the UK and as a result of this the fund made a loss. Aperture which was in the building industry has during a few years had problems with falling demand and low margins due to over-capacity in the industry together with rising commodity prices. This together with further decrease sales turned into losses and liquidity problems resulting in the fact that Aperture had to enter Administration when the Covid-19 out-break started.

Net profit for the period was SEK 0 (0) million and equity was SEK 26 (36) million.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events took place after the end of the reporting period.

OUTLOOK

The company's target is to generate a 10 per cent net annual return for the holders of profit participation certificates. Due to the composition of the portfolio, performance since inception, low interest rates and the current problems in the global economy, returns for Proventus Capital Partners III are estimated to end up a number of percentage points lower.

OTHER

The company's profit participation certificates are listed on the Miscellaneous Nordic AIR Sweden segment under Main Regulated at NGM in Stockholm.

The results of the operations during the period and the financial position at the end of the period are shown in the following income statement and balance sheet with accompanying notes.

INCOME STATEMENT

	Note	2020-01-01 <u>2020-06-30</u>	2019-01-01 <u>2019-06-30</u>	2019-01-01- <u>2019-12-31</u>
Interest income in accordance with the effective interest method	3	338 239	132 922	336 533
Interest income and similar income	3	114 699	46 558	889 203
Interest expenses and similar profit/loss items	3	-119 611	-154 084	-676 406
Change of reserve for expected credit losses	5	-312 194	-671	-544 689
Administrative expenses	2	-21 133	-24 728	-44 803
Operating profit/loss		0	-3	-40 162
Group contributions received		-	-	40 220
Profit/loss before tax		0	-3	58
Tax	4	-	-	-29
Profit/loss for the period		0	-3	29

STATEMENT OF COMPREHENSIVE INCOME

Profit/loss for the period	0	-3	29
Other comprehensive income	-	-	-
Other comprehensive income for the period, net after tax	-	-	-
Total comprehensive income for the period	0	-3	29

BALANCE SHEET

ASSETS	<u>Note</u>	<u>2020-06-30</u>	<u>2019-12-31</u>	<u>2019-06-30</u>
Non-current assets				
Long-term financial investments	5	<u>3 818 023</u>	<u>4 099 117</u>	<u>5 854 840</u>
Total non-current assets		<u>3 818 023</u>	<u>4 099 117</u>	<u>5 854 840</u>
Current assets				
Current receivables				
Accounts receivable		1 118	507	21
Receivables from Group companies		36 876	241 951	58 528
Tax receivables		1 229	1 603	1 174
Other current receivables		1 671	1 422	1 605
Short-term investments	6	201 557	372 653	506 873
Prepaid expenses and accrued income		<u>5</u>	<u>-</u>	<u>11</u>
		242 456	618 136	568 212
Cash and cash equivalents		<u>193 468</u>	<u>968 332</u>	<u>576 547</u>
Total current assets		<u>435 924</u>	<u>1 586 468</u>	<u>1 144 759</u>
TOTAL ASSETS		<u><u>4 253 948</u></u>	<u><u>5 685 585</u></u>	<u><u>6 999 599</u></u>

BALANCE SHEET

EQUITY AND LIABILITIES	<u>Note</u>	<u>2020-06-30</u>	<u>2019-12-31</u>	<u>2019-06-30</u>
Equity				
Restricted equity				
Share capital (5,000 shares with a quotient value of SEK 100)		500	500	500
		500	500	500
Non-restricted equity				
Retained earnings		25 157	29 631	35 046
Profit/loss for the period		0	29	-3
		25 157	29 660	35 043
Total equity		25 657	30 160	35 543
Non-current liabilities				
Other non-current liabilities	8	4 203 349	5 598 888	6 849 483
Total non-current liabilities		4 203 349	5 598 888	6 849 483
Current liabilities				
Accounts payable		20	132	34
Liabilities to Group companies		11 409	44 700	96 283
Other liabilities		12 251	11 114	17 165
Accrued expenses and deferred income		1 262	591	1 091
Total current liabilities		24 942	56 537	114 573
TOTAL EQUITY AND LIABILITIES		4 253 948	5 685 585	6 999 599

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Other paid-in capital	Total capital
Opening balance, 1 January 2019	500	-343	29 389	29 546
Comprehensive income				
Profit for the period		29		29
Other comprehensive income				
Total other comprehensive income		29		29
Transactions with shareholders				
Shareholder contributions received *)			6 000	6 000
Shareholder contributions repaid *)			-5 415	-5 415
Total transactions with shareholders			585	585
Closing balance, 31 December 2019	500	-314	29 974	30 160
Comprehensive income				
Profit for the period		0		0
Other comprehensive income				
Total other comprehensive income		0		0
Transactions with shareholders				
Shareholder contributions received *)				
Shareholder contributions repaid *)			-4 503	-4 503
Total transactions with shareholders			-4 503	-4 503
Closing balance, 30 June 2020	500	-314	25 471	25 657

*) The operations are financed as needed through contingent capital contributions from the owners. The terms of repayment for the contributions are that repayments have been made in the portfolio.

STATEMENT OF CASH FLOWS

	2020-01-01-	2019-01-01-	2019-01-01-
Note	<u>2020-06-30</u>	<u>2019-06-30</u>	<u>2019-12-31</u>
	9		
Cash flow from operations	200 899	-235 729	903 429
Interest paid	-411 974	-82 366	-133 417
Interest received	-	126 451	-266 741
Change in current receivables	90	-855	-1 518
Change in receivables from Group companies	206 606	-58 395	1 337 821
Change in liabilities to Group companies	-28 833	-909 990	-921 097
Change in current liabilities	-2 517	2 293	2 388
Cash flow from operating activities	-35 730	-1 158 591	920 865
Disposal of/decrease in shares in Group companies	0	6 617 606	5 309 568
Acquisition of/increase in short-term investments	-	-364 273	-373 159
Disposal of/decrease in short-term investments	198 718	-	92 732
Acquisition of/increase in non-current financial assets	-169 996	-5 673 093	-5 533 265
Disposal of/decrease in non-current financial assets	49 752	57 087	1 184 045
Cash flow from investing activities	78 473	637 327	679 921
Group contributions paid	-4 065	-458	-5 254
Shareholder contributions received	-	6 000	6 000
Shareholder contributions repaid	-4 503	0	-5 415
Increase in non-current liabilities	-809 039	1 078 000	-
Decrease in non-current liabilities	-	-	-642 054
Cash flow from financing activities	-817 607	1 083 542	-646 723
Cash flow for the period	-774 864	562 278	954 063
Cash and cash equivalents at beginning of period	968 332	14 269	14 269
Cash and cash equivalents at end of period	193 468	576 547	968 332

NOTES TO THE ACCOUNTS AND ACCOUNTING POLICIES

Note 1 Accounting policies

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting with regards to the exemptions from and additions to IFRS indicated in RFR 2 Accounting for legal entities.

The same accounting policies and grounds for assessments as in the latest Annual Report have been used.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currencies have been valued at closing rates. Currency futures used to hedge short-term investments are stated at fair value with changes in value recognised through profit or loss as interest income and similar income items. The following exchange rates have been used in translating assets and liabilities:

EUR 10.4804 (10.5581); USD 9.3490 (9.2713); GBP 11.4693 (11.7546)

Note 2 Administrative expenses

Intercompany purchases and sales:

Administrative expenses include expenses for administered services and office expenses in the amount of SEK 12.5 (16.2) million billed by Proventus Capital Management AB in the first half of 2020.

Average number of employees: As in the preceding year, the company had no employees.

Note 3 Interest income, interest expense and similar income charges

	2020-01-01 <u>2020-06-30</u>	2019-01-01 <u>2019-06-30</u>
Interest income in accordance with the effective interest method		
Change in value, profit participation certificates	174 526	0
Interest income from loans	<u>163 713</u>	<u>132 922</u>
Total	<u><u>338 239</u></u>	<u><u>132 922</u></u>
Interest income and similar income items		
Interest income from bonds	6 393	15 804
Other interest income	1	-
Dividend	32 688	27 756
Currency profits	75 250	370
Other financial income	<u>367</u>	<u>2 628</u>
Total	<u><u>114 699</u></u>	<u><u>46 558</u></u>
Interest expense and similar charges		
Change in value, profit participation certificates	-	-150 927
Interest expenses	-457	-2 745
Change in value of bonds	-26 781	-
Currency losses	<u>-92 374</u>	<u>-412</u>
Total	<u><u>-119 611</u></u>	<u><u>-154 084</u></u>
Interest income from assets recognised at fair value.	6 393	15 804
Interest income from assets recognised at amortised cost.	<u>338 239</u>	<u>132 922</u>
	<u><u>344 632</u></u>	<u><u>148 726</u></u>
Interest expenses from liabilities recognised at fair value	-457	-2 745
Interest expenses from liabilities recognised at amortised cost	<u>-</u>	<u>-150 927</u>
	<u><u>-457</u></u>	<u><u>-153 672</u></u>

Note 4 Tax

	<u>2020-06-30</u>	<u>2019-06-30</u>
Recognised profit/loss before tax	0	0
Tax according to applicable tax rate (21,4%)	0	0
Tax effect of group contributions to parent company	0	0
Reported tax expense	<u>0</u>	<u>0</u>

Any tax earnings are settled against the parent company through group contributions at year-end. No tax has therefore been calculated on earnings, since the group contribution is fixed at the end of the financial year.

Note 5 Non-current financial assets

	<u>2020-06-30</u>	<u>2019-12-31</u>
Other securities held as non-current assets	3 137 303	3 427 463
Preference shares	677 858	645 169
Accrued interest	2 863	26 485
Total	<u>3 818 024</u>	<u>4 099 117</u>

	<u>2020-06-30</u>	<u>2019-12-31</u>
IFRS 9 reserve		
Opening reserve	-578 402	-
Change for the period of stated credit losses	551 563	-
Change for the period expected credit losses	-295 575	-578 402
Closing reserve	<u>-322 414</u>	<u>-578 402</u>

	<u>2020-06-30</u>	<u>2019-12-31</u>
Change of reserve for expected credit losses		
Stated credit losses	-568 182	-
Change IFRS 9 reserve from stated credit losses	551 563	-
Change for the period of reserve for expected credit losses	-295 575	-578 402
Change to profit/loss for the period	<u>-312 194</u>	<u>-578 402</u>

The change for the period from IFRS 9 is recognised in the income statement together with stated credit losses. The stated credit losses during 2020 are related to Aperture Trading Ltd. Closing reserve for future bad debts have been recognised in the balance sheet against long-term financial investments. During the period the reserves for expected credit losses increased significantly. This was due to the worsening macro conditions which effects the model which was updated during the period. Further the uncertainty has increased in a number of portfolio companies due to the Corona-pandemic which necessitated further reserves through a management overlay.

Other securities held as non-current assets refer to direct loans to businesses. At the end of the financial year, the portfolio comprised twenty-two commitments. The maturities vary and are estimated at one to three years or more.

Note 6 Short-term investments

	<u>2020-06-30</u>		<u>2019-12-31</u>	
	Cost value	Fair value	Cost value	Fair value
Derivatives	-	180 467	-	67 744
Bonds	81 710	20 486	279 717	303 481
Accrued interest	-	604	-	1 428
	<u>81 710</u>	<u>201 557</u>	<u>279 717</u>	<u>372 653</u>

The holdings have been valued at market value.

Composition of the portfolio

2020-06-30	Nominal value local currency	Average price	Fair value local currency	Currency rate	Fair value SEK
Bonds (USD)	8 944	24,5%	2 191	9,3490	<u>20 486</u> <u>20 486</u>

Note 6 continued
2019-12-31

	Nominal value local currency	Average price	Fair value local currency	Currency rate	Fair value SEK
Bonds (USD)	35 240	92,40%	32 572	9,3171	303 481
Bonds (EUR)	-	-	-	-	-
					<u>303 481</u>

Note 7 Liabilities to credit institutions

The company has a checking credit amounting to SEK 100 million that was not in use at the end of the period.

Note 8 Other non-current liabilities

Profit participation certificates

The holders of profit participation certificates have undertaken to provide funding of up to SEK 10,780 million. Owner contributions under the same agreement amount to SEK 60 million. The capital can be accessed on ten days' notice in portions of 5 per cent of the total undertaking.

The lenders bear the same risk as the shareholders of the company with regard to the return on invested capital. However, the shareholders have a greater responsibility for the business and a duty to distribute the return to the holders of the profit participation certificates in accordance with the contractual provisions. The loans have no guaranteed return or guaranteed right to repayment. The return is contingent on the realisation of profits and is settled quarterly if the terms of the loans have been met, see also the information under "Accounting policies."

Return, profit participation certificates

SEK	Maturity	<u>2020-06-30</u>		<u>2019-12-31</u>	
		Nominal value	Carrying value	Nominal value	Carrying value
Profit participation certificates	2014-2024	3 829 086	4 203 349	4 638 125	5 598 888
Unrealised gain			374 263		960 763
Realised gain			<u>1 355 316</u>		<u>943 342</u>
Total income, profit participation certificates			1 729 579		<u>1 904 105</u>

The profit participation certificates are listed on the Miscellaneous Nordic AIR Sweden segment under Main Regulated at NGM in Stockholm.

Note 9 Cash flow from operations

	<u>2020-06-30</u>	<u>2019-06-30</u>
Profit before tax	-0	-21 136
<i>Adjustments for non-cash items, etc.</i>		
Unrealised gain/loss on currency futures	-97 864	-95 448
Unrealised change in value of short-term investments	71 194	-47 116
Unrealised change in value, non-current financial assets	377 716	-193 764
Group contributions received	-	-
Allocated interest expenses	-174 526	150 632
Allocated interest income	24 379	-50 030
Cash flow from operations	<u>200 899</u>	<u>-256 862</u>

Note 10 Contingent liabilities

	<u>2020-06-30</u>	<u>2019-12-31</u>
Funding commitments made to existing borrowers	50 777	65 001
Contingent liability in the capacity of general partner of Proventus Capital Partners III KB	1 687	5 992
	<u><u>52 464</u></u>	<u><u>70 993</u></u>

Note 11 Related party transactions

Proventus Capital Partners III AB (publ) is owned by Proventus Capital Management AB (556930-7027), which is the parent company of the Group. The parent company provides services to the company, for which it receives a management fee based on total capital that is billed on a quarterly basis. The fee, which is included in administrative expenses, was SEK 12.5 (16.2) million in the first half of 2020.

Stockholm, 26 August 2020

Anders Thelin
Chairman

Daniel Sachs
Chief Executive Officer

Christian Reiner

Åsa Hansdotter

Martin Gorne

This interim report has been reviewed by the company's auditor.



Auditor's report

Unofficial translation

Proventus Capital Partners III AB (publ), reg no 556926-8021

Introduction

We have reviewed the condensed interim financial information (interim report) of Proventus Capital Partners III AB (publ) as of 30 June 2020 and the six-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Report Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act.

Stockholm, 26 August 2020

Öhrlings PricewaterhouseCoopers AB

Daniel Algotsson
Authorized Public Accountant