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Nordea Private Equity II - European Middle Market Buyout K/S

Strandgade 3
1401 Copenhagen
Business Registration No
28332793

Annual report 01.10.2017 - 30.09.2018

The Annual General Meeting adopted the annual report on 20.02.2019

Chairman of the General Meeting

Name: Jacob Christen Estrup

Contents

Entity details

Entity
Nordea Private Equity II - European Middle Market Buyout K/S
Strandgade 3
1401 Copenhagen

Central Business Registration No (CVR): 28332793
Registered in: Copenhagen
Financial year: 01.10.2017 - 30.09.2018

Board of Directors
Alf Richard Wanamo
Jacob Christen Estrup
Jakob Jessen

Executive Board
Jacob Christen Estrup

General Partner
Nordea Private Equity II - EU MM Buyout A/S
Strandgade 3
1401 Copenhagen

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 Copenhagen

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Nordea Private Equity II - European Middle Market Buyout K/S for the financial year 01.10.2017 - 30.09.2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30.09.2018 and of the results of its operations for the financial year 01.10.2017 - 30.09.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 28.01.2019

Executive Board

Jacob Christen Estrup

Board of Directors

Alf Richard Wanamo

Jacob Christen Estrup

Jakob Jessen

Independent auditor's report

To the shareholders of Nordea Private Equity II - European Middle Market Buyout K/S

Opinion

We have audited the financial statements of Nordea Private Equity II - European Middle Market Buyout K/S for the financial year 01.10.2017 - 30.09.2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30.09.2018 and of the results of its operations for the financial year 01.10.2017 - 30.09.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines 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, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has 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 ISAs and the additional requirements applicable in Denmark 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 conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- 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 Entity'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 Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives 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.

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 28.01.2019

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No (CVR) 33963556

Bill Haudal Pedersen

State Authorised Public Accountant

Identification No (MNE) mne30131

Management commentary

Primary activities

Nordea Private Equity II – European Middle Market Buyout K/S was established on 22 December 2004 with aggregate capital commitments of EUR 50 million. In the period until the Final Closing on 3 May 2007, the Partnership received further commitments of EUR 71 million, bringing the total committed capital up to EUR 121 million.

Development in activities and finances

Macroeconomic view

Brexit, trade conflicts and softening of world growth, challenged by rising US interest rates and rise in financing costs were some of the keywords for 2018.
The economic growth of the euro-zone has been somewhat slower than previously estimated after a stellar 2017, though it remained steady at an estimate of 1.9% expansion in 2018 according to the preliminary data. Despite the solid domestic demand, the weaker foreign trade is predicted to soften the trajectory for 2019 and 2020 to 1.6% and 1.5%, respectively.

Overall, the US GDP advanced in 2018 as the fiscal policy continued to boost the region's economy, though rising interest rates and fading tax cuts are estimated to wean the expansion to 2.5% in 2019 and 1.7% in 2020. However, the most eminent downside risk remains - the growing trade war with China, which is anticipated to have a full order of magnitude in terms of employment and net trade due to the uncertainty of the manufacturing and retail sectors.
The economic activity in China is anticipated to weaken due to the negative spillover in decay of credit and the uncertainty of introducing tariffs. While the official growth expectations remain at the low end of 6% for 2019, the softening external demand and slowing of financial deleveraging in the first nine months of 2018 may decelerate the expectations even further.

While stable growth continues in Mexico and some normalization is seen in Brazil, players like Argentina and Venezuela continue to contract amid high interest rates, elevated inflation and political uncertainties. This has resulted in an overall downgrading of Latin America's outlook for 2018, but with a positive US growth some momentum is anticipated for 2019 and 2020 with 2.3% and 2.5%, respectively (excl. Venezuela).

Private equity

The surge of fundraising during recent years is showing signs of slowdown, though investors' appetite for private equity allocation remains positive due to the flat public market returns as is evident with the fundraising pace remaining on pre-crisis levels with 13 months or less. During 2018, an estimated 1,206 funds reached final closings, collectively securing just over USD 430bn globally in capital commitments, which is close to 24% lower than the aggregate capital raised in 2017. After a stellar fundraising in 2017 by the North American-focused funds at total of USD 295bn, the fundraising landed at an estimate of USD 239bn in 2018. Slower fundraising activity was also reported by the European-focused funds which reached an aggregate capital raised of USD 98bn during 2018, which is nearly 18% lower than the capital raised during preceding year. Concentration, however, prevails in fundraising statistics with funds like Carlyle Partner VIII reaching a total size of USD 18.5bn, Hellman & Friedman Capital Partners IX raising USD 16bn and EQT VIII having reached a total closing of nearly EUR 11bn in Europe. In terms of market breakdown, the balance of funds raised both in the US and Europe continues to weigh towards buyout, followed by growth-orientated funds. The overall buyout market has remained strong during the last 12-

Management commentary

month period with 5,159 PE-backed buyout deals announced at an aggregate deal value of USD 458bn globally. Nearly 2/3 of the value is derived from North American transactions, largely driven by the increasing allocation to tech and industrial verticals. European full-year volume landed at an estimate of USD 137bn, which is 25% up from 2017 despite the continued uncertainties of Brexit, outlook of Italian and Spanish new governments and uncertainties weighing on global trade.

The average EBITDA purchase price multiple of US LBO transactions showed signs of normalisation, though leaving it at an estimated 10x territories in 2018. The European average purchase multiple remains elevated amid ample amount of dry powder and an easy access to low-cost debt contra the limited number of attractive deals, landing at an estimate of 10.6x EBITDA during LTM 30/9-2018. The US leveraged loans backing M&A have reached an estimated debt/EBITDA of 7x or higher in 2018; the European pro-forma debt contribution has reached a 5.6x in 2018 YTD - driven by the spat of big-ticket deals during a time of diminishing pool of quality assets.

The PE-backed exit value increased to USD 332bn in 2018, equivalent to more than a 10% rise in the average deal size since 2017 globally. Trade sales continue to be one of the preferred exit routes. During the 12-month period, a significant aggregate rise was reported in restructuring and recapitalisation activities, while IPO as an exit route contributed negatively on a year-over-year basis, closing at a modest value of USD 42bn. Overall, the questionable trajectory of the public market outlook pushes the investor confidence away from listed positions to seeking more sustainable operational value-add allocations in sectors whose performances are independent of GDP growth and not relying purely on multiple expansion strategy.

Going forward

Estimated core EBITDA growth for public companies has remained unchanged at an estimate of 10% as of mid-December on a global scale. The outlook for 2019 on EBITDA growth on all industries on global scale show expectations of around 6% range. In Europe, the overall projections remain largely positive for 2019 with steady continued growth reported by technology and positive upward revision reported by the health care sectors. The US growth trends are anticipated to shift downwards in 2019 subsequent to the trade tension and market pressures despite the continued accommodative financial conditions and the positives of the tax cut in the region. With the downside risk to global growth having been adjusted upwards over the last six months, the outlook while staying positive is projected to ease gradually from GDP growth of 3.0% in 2018 to 2.9% and 2.8% in 2019 and 2020, respectively, as the macroeconomic policies are becoming less accommodative and tighter financial conditions and higher oil prices are set to continue amid escalating headwinds from the trade tensions.

Events after the balance sheet date

The Partnership made no drawdowns nor distribution subsequent to the balance sheet date.

The drop in the global stock market will potentially impact the comparables.

From the balance sheet date till today, no circumstances have occurred which could alter the assessment of the annual report.

Income statement for 2017/18

	Notes	2017/18 EUR	2016/17 EUR
Gross profit/(loss)		**(776,456)**	**10,370,390**
Other financial income		6,393	0
Other financial expenses		(9,664)	(40,217)
Profit/(loss) for the year		**(779,727)**	**10,330,173**
Proposed distribution of profit/(loss)			
Retained earnings		(779,727)	10,330,173
		(779,727)	**10,330,173**

Balance sheet at 30.09.2018

	Notes	2017/18 EUR	2016/17 EUR
Other investments		28,383,810	34,363,052
Fixed asset investments		**28,383,810**	**34,363,052**
Fixed assets		**28,383,810**	**34,363,052**
Cash		**1,886,038**	**0**
Current assets		**1,886,038**	**0**
Assets		**30,269,848**	**34,363,052**

Balance sheet at 30.09.2018

	Notes	2017/18 EUR	2016/17 EUR
Cash flow from/(to) Limited Partners		(12,951,395)	(12,951,395)
Retained earnings		43,179,465	43,959,192
Equity		**30,228,070**	**31,007,797**
Bank loans		0	3,319,276
Other payables		41,778	35,979
Current liabilities other than provisions		**41,778**	**3,355,255**
Liabilities other than provisions		**41,778**	**3,355,255**
Equity and liabilities		**30,269,848**	**34,363,052**
Contingent liabilities	1		

Statement of changes in equity for 2017/18

	Cash flow from/ (to) Limited Partners EUR	Retained earnings EUR	Total EUR
Equity beginning of year	(12,951,395)	43,959,192	31,007,797
Profit/(loss) for the year	0	(779,727)	(779,727)
Equity end of year	**(12,951,395)**	**43,179,465**	**30,228,070**

Total committed capital at final closing EUR 121,000,000.

Notes

1. Contingent liabilities

The Partnership has total unfunded commitments with respect to its investments of EUR 5,525,903.

Accounting policies

Reporting class
This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these financial statements are consistent with those applied last year.

There has been lesser reclassifications of the comparative figures in the fiscal year without affecting the equity or profit for the year.

Recognition and measurement
Income is recognised in the income statement when realised, comprising adjustments of the value of financial assets and liabilities. In the income statement, all costs are also recognised, including depreciations and write-downs.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Partnership, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

In recognising and measuring assets and liabilities, any anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Foreign currency translation
Transactions denominated in foreign currencies are translated at the rate of exchange on the transaction date. Foreign exchange adjustments arising from the difference between the exchange rates on the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses. Ownership interests in portfolio funds, account receivables and other debt denominated in foreign currencies are translated at the exchange rates on the balance sheet date. The differences between the exchange rates on the balance sheet date and the date on which the account receivables or payable arose are recognised in the income statement as financial income or financial expenses.

Foreign exchange adjustments of investments in portfolio funds are recognised in the income statement under profit/loss on investments.

Income statement
Gross profit or loss
Gross profit or loss comprises income from investments and external expenses.

Accounting policies

Income from investments

Income from investments includes income from investments in portfolio funds (dividend and interest), realised gains and losses on sale and unrealised gains and losses relating to possible revaluation or depreciation of investments in portfolio funds.

Other external expenses

Other external costs include administrator expenses, fees to external consultants and the funds to general partners.

Other financial income

Financial income is recognised in the income statement by the amount relating to the financial year. Financial income comprises interest income, realised and unrealised gains in respect of transactions in listed shares, transactions denominated in foreign currencies, etc.

Other financial expenses

Financial expenses are recognised in the income statement by the amount relating to the financial year. Financial expenses comprise interest expenses, realised and unrealised losses in respect of transactions in listed shares, transactions denominated in foreign currencies, etc.

Balance sheet

Other investments

Other investments are stated at their estimated market values (fair value), fixed by the investment manager based on information received from the committed funds.

The investment manager may at its sole discretion choose to write down the investments relative to their market values as reported by the committed funds.

The estimated market value of listed portfolio companies is the quoted closing price at the balance sheet date reduced by up to 30% due to illiquidity of large stakes, lock-up periods, etc., in connection with initial public offerings and other factors constraining liquidity. The estimated market value of unlisted portfolio companies is the cost price, unless relevant information is available indicating that a significant valuation adjustment should be made. Such information could be a new trading price resulting from a capital increase or a partial sale or transactions carried out in peer group companies.

Investments in distressed securities are recognised at cost price as an estimated market value cannot be calculated.

The value at realisation of the investment may differ significantly from the estimated market value due to the uncertainty associated with stating an investment at its estimated market value and cost price.

Unrealised losses and gains as well as realised losses and gains from investments in funds are recognised in the income statement.

Accounting policies

Cash

Cash comprises cash in bank deposits and other cash equivalents.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.