

Annual review



2019

LAPPSET GROUP LTD.

Annual review 1 Jan-31 Dec 2019

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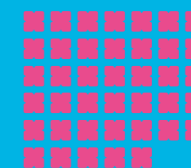


HIGHLIGHTS 2019

73 MEUR
TURNOVER

3,9 MEUR
OPERATING PROFIT

5,3%
OPERATING PROFIT AS A
PERCENTAGE OF TURNOVER



+40
EMPLOYEES

+15%
REVENUE
GROWTH



layout
Unfair Lean Marketing Oy
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Annual report

MARKET

The market has generally developed favourably during 2019. However, the deviations have been considerable for individual countries.

DEVELOPMENT OF TURNOVER AND RESULTS

The Group's turnover grew by 15% from the previous year, as all three divisions (Nordic Business Division, International Business Division and Lappset Creative Division) increased their turnover. Operating profit developed positively due to both improved sales and the streamlining of operations.

ORGANISATION AND PERSONNEL

The Group's Management Group was strengthened with the Human Resources Director. Raisa Jyrkinen took up this position on 11 February 2019.

Group personnel 31 December	2019	2018
Finland Salaried employees	152	128
Finland Workers	110	105
Other countries Salaried employees	89	87
Other countries Workers	74	72
Total	432	392

ADMINISTRATION

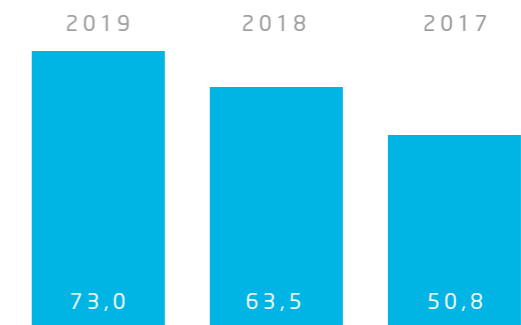
The company's Board of Directors in 2019 comprised Johanna Ikäheimo as Chairperson and Katja Ikäheimo-Länkinen, Heikki Martela and Timo Leino as members. Tero Ylinenpää acted as the Managing Director. Irma Kuukasjärvi acted as the secretary. KPMG Oy Ab served as auditors of the company.



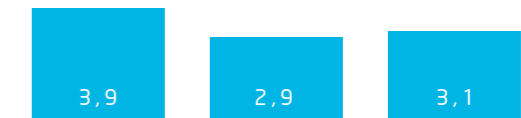
KEY FIGURES

Financial position and performance

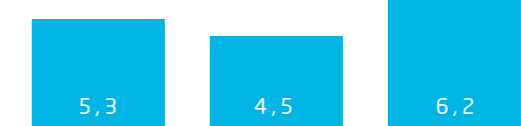
Turnover, MEUR



Operating profit (EBITA), MEUR



Operating profit as a percentage of turnover, %



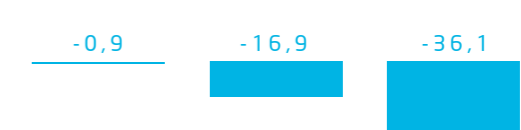
Return on equity, %



Equity ratio, %



Net gearing, %



Number of employees

Average number of employees during the financial year



INVESTMENTS

Normal replacement investments for maintaining production efficiency continued. The Estonian factory premises were expanded to increase capacity.

At the end of the period, a major investment was made to strengthen Lappset's position in Central Europe by acquiring full ownership of Yalp Lappset Holding B.V. in the Netherlands. The Group previously held 51% of the company shares.

SHARES OF THE COMPANY

The company's share capital is the following: 2019 410,402 shares (2018 410,402 shares). All shares carry the same right to dividends and company assets.

The Annual General Meeting of 18 March 2019 decided to issue 1,250 own shares held by the company with a subscription price of EUR 52.44 per share. The share issue was directed at the company's key employees. There was a weighty financial reason for the directed share issue in accordance with chapter 9, section 4, subsection 1 of the Limited Liability Companies Act, as the purpose is to commit the key employees to the company's operations. The subscription period for the shares was from 18 March to 30 June 2019, and the shares were subscribed and paid for between 29 April and 19 June 2019. The subscription price was recorded in the reserve for invested unrestricted equity.

The company holds 1,816 own shares, corresponding to 0.4% of both the share capital and voting rights. The acquisition of own shares does not have any significant impact on the distribution of ownership and voting rights in the company.

BOARD OF DIRECTORS' PROPOSAL CONCERNING THE DISTRIBUTION OF PROFITS

The parent company's distributable assets are EUR 14,847,349.93, of which profit for the period accounts for EUR 2,829,230.52. The Board of Directors proposes to the general meeting that the profit for the period be distributed as follows:

- dividend payment of EUR 3.19/share, i.e. a total of EUR 1,303,389.34
- deposited in the retained earnings account EUR 1,525,841.18

No material changes in the company's financial position were observed at the end of the financial year. The company's solvency is good and the proposed distribution of dividends does not jeopardise the company's liquidity.

NOTABLE CHANGES SINCE THE END OF THE FINANCIAL YEAR

The company has major raw material and material suppliers in Asia, particularly in China. The current coronavirus epidemic has caused difficulties for deliveries and forced the company to seek alternative suppliers. The labour market situation and threat of strikes in the first half of the year pose a risk for the result for 2020.

SHORT-TERM UNCERTAINTIES AND OUTLOOK

The market situation will become somewhat more uncertain in the short term. Asia is a strong and growing market for the Group, and the recent uncertainties in the market may significantly affect development. Deliveries of Creative theme parks will focus heavily on the United States in 2020, introducing increasing challenges to the logistics chain and currency risk management.

- Lappset Group Ltd. Board of Directors
Rovaniemi
20 February 2020



FINANCIAL STATEMENT

2019

GROUP

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PARENT COMPANY

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GROUP

Income statement

	2019	2018
TURNOVER	73 034,76	63 515,24
Increase (+)/decrease (-) in stocks of finished goods	-45,76	1 771,50
Production for own use	72,75	22,34
Other operating income	117,17	99,62
Materials and services		
Materials and supplies		
<i>Purchases during the financial year</i>	-20 491,11	-20 356,07
<i>Increase (+) / decrease (-) in stocks</i>	-284,79	268,80
External services	-8 026,82	-7 427,60
Total materials and services	-28 802,71	-27 514,87
Personnel costs	-22 240,15	-19 034,48
Depreciation and amortisation		
Planned depreciation	-1 480,41	-1 771,62
Amortisation of consolidated goodwill	-121,00	-40,43
Total depreciation and amortisation	-1 601,40	-1 812,06
Other operating costs	-16 673,37	-14 163,08
Operating profit	3 861,29	2 884,21
Financial income and expenses		
Income from participations in associated companies	-	-
Income from other investments in fixed assets		
<i>From others</i>	0,26	0,25
Other interest and financial income		
<i>From Group companies</i>	-	-
<i>From others</i>	28,55	15,42
Interest and other financial expenses		
<i>To others</i>	-164,20	-152,78
<i>Exchange rate differences</i>	-43,89	-25,11
Total financial income and expenses	-179,28	-162,23
Profit before extraordinary items	3 682,01	2 721,98
Income taxes		
Taxes for the financial year	-815,85	-646,29
For previous financial years	1,42	-4,45
Deferred taxes	-61,62	15,44
Total income taxes	-876,04	-635,30
Minority interest	-	-244,79
PROFIT FOR THE FINANCIAL YEAR	2 805,97	1 841,89

GROUP

Assets

	31 Dec 2019	31 Dec 2018
ASSETS		
Non-current assets		
Development costs	349,66	283,81
Intellectual property rights	126,96	149,62
Goodwill	-	30,38
Consolidated goodwill	1 626,77	695,38
Other long-term expenses	1 746,26	1 033,55
Advance payments	171,25	209,73
Total intangible assets	4 020,89	2 402,48
Tangible assets		
Land and water areas	554,12	561,88
Buildings and structures	1 153,91	1 090,07
Machinery and equipment	2 192,05	1 907,33
Other tangible assets	107,14	38,58
Advance payments and acquisitions in progress	305,10	154,23
Total tangible assets	4 312,32	3 752,10
Investments		
Other shares and participations	884,10	884,10
Total investments	884,10	884,10
Total non-current assets	9 217,31	7 038,68
CURRENT ASSETS		
Stock		
Materials and supplies	1 099,54	1 282,34
Unfinished products	1 078,58	748,32
Finished products	5 300,43	5 282,15
Total stock	7 478,55	7 312,80
Long-term receivables		
Loan receivables	222,11	220,00
Deferred tax receivables	13,02	-
Total long-term receivables	235,13	220,00
Short-term receivables		
Accounts receivable	12 546,92	10 010,46
Loan receivables	2,07	-
Other receivables	669,50	921,07
Prepayments and accrued income	776,72	1 250,50
Total short-term receivables	13 995,21	12 182,02
Cash and cash equivalents	9 147,87	6 424,55
Total current assets	30 856,76	26 139,37
ASSETS, TOTAL	40 074,08	33 178,05

GROUP Liabilities

	31 Dec 2019	31 Dec 2018
SHAREHOLDERS' EQUITY		
Share capital	814,80	814,80
Other reserves		
<i>Reserve for unrestricted invested equity</i>	356,55	291,00
Retained earnings (loss)	13 140,58	12 472,98
Profit for the financial year	2 805,97	1 841,89
Total shareholders' equity	17 117,90	15 420,66
Minority interest	-	975,76
LIABILITIES		
Long-term liabilities		
Loans from credit institutions	2 990,33	2 007,08
Deferred tax liabilities	79,80	19,45
Total long-term liabilities	3 070,13	2 026,53
Short-term liabilities		
Loans from credit institutions	6 007,43	1 808,51
Advance payments received	3 900,15	3 970,79
Accounts payable	3 763,96	3 583,81
Other liabilities	1 284,17	1 188,43
Accruals and deferred income	4 930,34	4 203,56
Total short-term liabilities	19 886,05	14 755,10
Total liabilities	22 956,18	16 781,62
LIABILITIES TOTAL	40 074,08	33 178,05

GROUP Cash flow statement

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	3 861,29	2 884,21
Adjustments to operating profit	1 580,08	1 815,11
Change in working capital	-1 321,72	-2 834,34
<i>Change in stock</i>	-205,01	-2 096,41
<i>Change in short-term receivables</i>	-1 773,01	-3 915,48
<i>Change in short-term liabilities</i>	656,30	3 177,55
Interest income	28,55	15,42
Interest payments	-129,53	-150,91
Dividends received	0,26	0,25
Other financial items	-43,89	-25,11
Taxes	-525,40	-790,07
Cash flow from operating activities	3 449,63	914,54
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-2 855,54	-1 253,39
Proceeds from the disposal of tangible and intangible assets	62,92	10,11
Long-term loans granted	-800,00	-
Repayments of long-term loan receivables	27,60	29,71
Subsidiaries acquired	-1 904,61	-926,15
Cash flow from investments	-4 697,23	-2 139,72
CASH FLOW FROM FINANCING ACTIVITIES		
Rights issue	65,55	-
Short-term loan withdrawals	4 198,92	1 000,00
Short-term loan repayments	-	-185,07
Long-term loan withdrawals	983,25	-
Long-term loan repayments	37,53	-832,12
Dividends paid	-1 422,20	-1 287,39
Cash flow from financing activities	3 863,05	-1 304,58
Translation differences	107,87	-149,30
Change in cash and cash equivalents	2 723,32	-2 679,06
Cash and cash equivalents at the start of the financial year on 1 January	6 424,55	9 103,61
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR ON 31 DEC.	9 147,87	6 424,55

PARENT COMPANY

Income statement

	2019	2018
TURNOVER	48 113,34	42 415,75
Increase (+)/decrease (-) in stocks of finished goods	525,99	678,48
Production for own use	71,16	22,34
Other operating income	192,15	135,32
Materials and services		
Materials and supplies		
<i>Purchases during the financial year</i>	-17 426,55	-16 341,82
<i>Increase (+) / decrease (-) in stocks</i>	-151,66	143,73
External services	-3 233,82	-3 273,87
Total materials and services	-20 812,04	-19 471,95
Personnel costs	-13 802,65	-11 538,99
Depreciation and amortisation		
Planned depreciation	-962,88	-1 029,54
Total depreciation and amortisation	-962,88	-1 029,54
Other operating costs	-10 096,34	-9 875,98
Operating profit	3 228,74	1 335,43
Financial income and expenses		
Income from participations in Group companies	1 021,23	267,60
Income from other investments in fixed assets		
<i>From others</i>	0,26	0,25
Other interest and financial income		
<i>From Group companies</i>	37,84	6,97
<i>From others</i>	25,95	11,70
Interest and other financial expenses		
<i>To others</i>	-117,27	-88,77
<i>Exchange rate differences</i>	-37,39	-21,35
<i>Impairment of financial securities held as current assets</i>	-	-200,00
Total financial income and expenses	930,63	-23,60
Profit before appropriations and taxes	4 159,37	1 311,83
Appropriations		
Increase (-) / decrease (+) in depreciation difference	-	77,21
Group contribution	-841,00	-
Total appropriations	-841,00	77,21
Income taxes		
Taxes for the financial year	-489,14	-311,68
Total income taxes	-489,14	-311,68
PROFIT FOR THE FINANCIAL YEAR	2 829,23	1 077,36



PARENT COMPANY

Assets

	31 Dec 2019	31 Dec 2018
NON-CURRENT ASSETS		
Intangible assets		
Intellectual property rights	115,47	144,05
Other long-term expenses	1 050,55	933,22
Advance payments	171,25	177,59
Total intangible assets	1 337,26	1 254,86
Tangible assets		
Land and water areas	139,73	139,73
Buildings and structures	399,79	243,30
Machinery and equipment	1 353,12	1 246,69
Other tangible assets	35,87	35,87
Advance payments and acquisitions in progress	115,55	143,82
Total tangible assets	2 044,05	1 809,41
Investments		
Participations in Group companies	7 300,23	5 497,22
Receivables from Group companies	230,00	-
Other shares and participations	881,60	881,60
Total investments	8 411,83	6 378,82
Total non-current assets	11 793,14	9 443,09
CURRENT ASSETS		
Stock		
Materials and supplies	430,87	504,86
Unfinished products	242,27	286,79
Finished products	4 128,71	3 653,86
Total stock	4 801,86	4 445,51
Long-term receivables		
Receivables from Group companies	757,07	187,07
Loan receivables	192,40	220,00
Total long-term receivables	949,47	407,07
Short-term receivables		
Accounts receivable	4 048,90	4 023,94
Receivables from Group companies	4 698,73	2 281,28
Other receivables	430,14	334,21
Prepayments and accrued income	173,49	343,81
Total short-term receivables	9 351,26	6 983,24
Cash and cash equivalents	5 644,37	2 413,20
Total current assets	20 746,95	14 249,02
ASSETS, TOTAL	32 540,09	23 692,11

PARENT COMPANY

Liabilities

	31 Dec 2019	31 Dec 2018
SHAREHOLDERS' EQUITY		
Share capital	814,80	814,80
Reserve for unrestricted invested equity	356,55	291,00
Retained earnings (loss)	11 661,57	11 761,41
Profit for the financial year	2 829,23	1 077,36
Total shareholders' equity	15 662,15	13 944,57
LIABILITIES		
Long-term liabilities		
Loans from credit institutions	2 550,00	1 500,00
Total long-term liabilities	2 550,00	1 500,00
Short-term liabilities		
Loans from credit institutions	5 950,00	1 750,00
Advance payments received	616,75	445,20
Accounts payable	1 700,59	1 815,15
Liabilities towards Group companies	2 422,89	1 669,44
Other liabilities	598,16	454,12
Accruals and deferred income	3 039,56	2 113,62
Total short-term liabilities	14 327,93	8 247,53
Total liabilities	16 877,93	9 747,53
LIABILITIES, TOTAL	32 540,09	23 692,11

PARENT COMPANY

Cash flow statement

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	3 228,74	1 335,43
Adjustments to operating profit	966,98	1 032,97
Change in working capital	-1 759,36	-3 447,56
<i>Increase (+) / decrease (-) in stock</i>	-356,35	-904,69
<i>Increase (+) / decrease (-) in short-term non-interest-bearing receivables</i>	-2 368,02	-2 147,71
<i>Increase (+) / decrease (-) in short-term non-interest-bearing liabilities</i>	964,50	-395,16
Acquired interest on business operations (+)	63,79	16,98
Interest paid and other financial expenses from business operations (-)	-119,93	-88,59
Dividends received	1 021,49	267,85
Other financial items	-37,39	-21,35
Direct taxes paid	-311,52	-625,14
Cash flow from operating activities	3 052,30	-1 529,40
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-1 287,20	-637,88
Proceeds from the disposal of tangible and intangible assets	4,78	10,11
Loans granted	-800,00	-
Repayments of loan receivables	27,60	276,98
Subsidiaries acquired	-1 904,61	-1 242,97
Acquired interest on investments	-	1,69
Cash flow from investments	-3 959,43	-1 592,08
CASH FLOW FROM FINANCING ACTIVITIES		
Rights issue	65,50	-
Short-term loan withdrawals	7 000,00	980,04
Short-term loan repayments	-3 000,00	-
Long-term loan withdrawals	2 000,00	-
Long-term loan repayments	-750,00	-750,00
Dividends paid	-1 177,20	-1 201,64
Cash flow from financing activities	4 138,30	-971,61
CHANGE IN CASH AND CASH EQUIVALENTS	3 231,17	-4 093,09
Cash and cash equivalents at the start of the financial year on 1 January	2 413,20	6 506,29
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR ON 31 DECEMBER	5 644,37	2 413,20



Notes on the preparation of the financial statements

PRINCIPLES AND METHODS CONCERNING VALUATION AND FISCAL PERIODS

VALUATION OF NON-CURRENT ASSETS

Intangible and tangible assets have been entered in the balance sheet at their acquisition cost less planned depreciation. The total acquisition costs include the variable costs arising from acquisition and manufacturing. The computing method used for planned depreciation was straight-line depreciation based on the useful life of intangible and tangible assets. The period of depreciation commenced during the month the asset was placed in service.

PLANNED DEPRECIATION CRITERIA AND CHANGES THEREOF

Type of asset	Depreciation period
Development costs	5 years
Other long-term expenses	5-10 years
Buildings	25 years
Structures	10 years
Production equipment	7 years; 10 years as of 1 December 2019
Machinery and equipment	3-7 years
Consolidated goodwill	5 years; 10 years as of 1 December 2019

The acquisition costs for non-current assets with a probable economic life of less than three years and minor acquisitions (less than EUR 850) have been entered in their entirety under expenses accumulated during the financial year.

VALUATION OF CURRENT ASSETS

Current assets have been valued at the lowest of acquisition cost, replacement cost or estimated net realisable value. Acquisition cost is determined according to the moving average method, which is related to the FIFO principle. The acquisition cost of finished and unfinished products only comprises variable costs.

VALUATION OF FINANCIAL INSTRUMENTS

The company uses derivative instruments such as foreign currency forward contracts and interest rate swaps. Foreign

currency forward contracts are used to hedge against changes in estimated foreign currency cash flows. Interest rate swaps are used to change a variable interest rate to a fixed rate. The validity period for these foreign currency and interest rate instruments is five years. Financial instruments have not been valued at current value.

PRODUCT DEVELOPMENT AND LONG-TERM COSTS

As a rule, R&D costs have been entered as annual costs for the financial year during which they were incurred. Product development costs that have generated revenue for three years or longer have been capitalised in the balance sheet as development costs. The applicable amortisation period is five years.

DEFERRED TAXES

Deferred tax liabilities have been recognised for any temporary difference between the financial statement carrying amount and its tax basis according to the tax rate confirmed for coming years on the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax receivables at their probable value.

FOREIGN CURRENCY ITEMS

Foreign currency receivables and liabilities are translated into Finnish currency (euro) according to the rate in effect on the balance sheet date. This does not include liabilities covered by a forward contract and valued according to the forward (exchange) rate.

PARTIAL REVENUE RECOGNITION

The principle of partial revenue recognition is applied to substantial delivery and design projects. Partial revenue recognition is used for contracts worth more than EUR 1 million extending beyond one quarter. The degree of completeness of projects that are subject to the principle of partial revenue recognition is determined by Method A of the Finnish Accounting Standards Board (2008), according to which the degree of completeness is calculated based on the ratio between realised costs and the forecast total cost of the project.



Accounting principles for the consolidated financial statements

SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover all Group companies.

INTRA-GROUP SHAREHOLDINGS

The consolidated financial statements have been prepared using the acquisition cost method. The difference between the acquisition cost of subsidiaries and the corresponding shareholders' equity has been entered as consolidated goodwill. The depreciation period of consolidated goodwill is 5 years, or 10 years for acquisitions after 1 November 2019.

INTRA-GROUP TRANSACTIONS AND MARGINS

Intra-Group transactions, unrealised margins on internal deliveries, internal receivables and liabilities as well as with intra-Group distributions of profit have been eliminated.

MINORITY INTERESTS

Minority interests have been separated from the consolidated shareholders' equity and operating profit/loss for the financial year and presented as a separate item.

TRANSLATION DIFFERENCES

The income statements and balance sheets of foreign subsidiaries have been translated into Finnish currency (euro) according to the rate in effect on the balance sheet date. These translation differences, together with differences concerning the shareholders' equity of foreign subsidiaries, are presented under 'Retained earnings'.



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LAPPSET GROUP LTD.

P. O. BOX 8146, HALLITIE 17
96101 ROVANIEMI

MYYNTI@LAPPSET.COM
WWW.LAPPSET.FI