

Annual review



2020

LAPPSET GROUP LTD.

Annual report and financial statements

1 Jan-31 Dec 2020

ANNUAL REPORT

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FINANCIAL STATEMENTS

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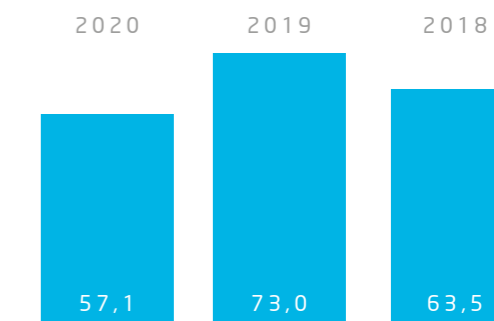
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KEY FIGURES

Financial position and performance

Turnover, MEUR



Operating profit (EBITA), MEUR



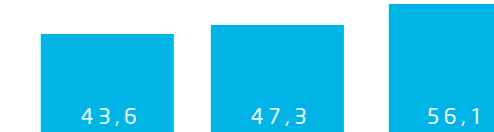
Net profit as a percentage of turnover, %



Return on investment, %



Equity ratio, %

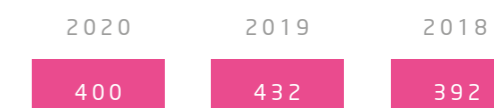


Net debt-to-equity ratio, %



Number of employees

Average number of employees during the financial year



Annual report

MARKETS

In the beginning of 2020, the markets were experiencing strong growth. The situation caused by the COVID-19 virus hit the markets with enormous force; however, the impacts hit different market regions and customer segments with varying intensity. Therefore, in respect to individual nations, there have been significant deviations.

DEVELOPMENT TREND FOR TURNOVER AND FINANCIAL RESULT

Compared to the previous year, the Group's turnover decreased by 22%. The Nordic Business Division managed to achieve the level attained during the previous year, but drops were experienced in the International Business Division and the Lappset Creative Division. Savings measures were incapable of compensating for the loss in sales profits, which led to a large contraction in business profits.

ORGANISATION AND EMPLOYEES

At the end of the financial year under review, the Group reorganised its operations and shifted from the division-specific structure to a functional organisation. The goal is for further simplifying the structure and improving efficiency.

Group employees on 31 Dec	2020	2019	2018
Finland Clerical workers	148	152	128
Finland Employees	116	110	105
Other nations Clerical workers	91	89	87
Other nations Employees	45	74	72
Total	400	432	392

ADMINISTRATION

The Board of Directors for the company in 2020 comprised Chairperson Johanna Ikäheimo, and board members Katja Ikäheimo-Länkinen, Heikki Martela and Timo Leino. Tero Ylinenpää is the company's CEO. The auditing firm for the company is KPMG Oy Ab.

INVESTMENTS

Normal compensation investments for maintaining production efficiency were continued. The expansion of the Estonian plant reached completion.

In the spring, Lappset acquired ownership of all the rental premises in Rovaniemi. Storage facilities were expanded in the plant area.

COMPANY SHARES

The company's share capital is divided as follows: 2020 410,402 shares (2019 410,402 shares). All shares have the same rights to dividends and company assets.

The extraordinary general meeting for the company convened on 3 June 2020 decided to redeem the shares held by minority shareholders in accordance with the provisions of the shareholders' agreement. The company redeemed 1,000 shares in accordance with Section 7.3.4 of the Shareholder's Agreement at the subscription price of €58.72 per share, totalling €58,720.

At the Extraordinary General Meeting of Shareholders convened on 20 November 2020, a decision was made to redeem all shares held by minority shareholders who are no longer employed by the Group, or those who have informed of their wish to sell their shares in the company in accordance with the contractual provisions of the Shareholder's Agreement, at a share price of €58.72 confirmed by the most recently approved financial statements. A total of 9,100 shares are to be redeemed, with the total redemption price being €534,352. Despite the coronavirus crisis, no essential changes have become apparent in the company's financial situation following the closing of the financial year. The company's solvency has been good, and the Board does not expect the company's solvency to be compromised due to the redemption of shares.

The company holds 11,916 (1,816) of its own shares, which corresponds to 2.9% (0.4%) of both the shareholder equity and number of votes. Management of the company's own shares does not have a significant effect on the ownership and distribution of voting rights in the company.

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE USE OF THE PROFITS OF THE COMPANY

The parent company's distributable funds amount to EUR 12,397,127.87, of which the net profit for the financial year is EUR -553,760.71. The Board of Directors proposes to the Annual General Meeting that the profit for the financial year be transferred to the earnings account and that no dividend be distributed.

No essential changes in the company's financial situation have been identified at the end of the financial year. The company's solvency is good.

ESSENTIAL CHANGES OCCURRING AFTER THE CLOSING OF THE FINANCIAL YEAR

The company has significant raw materials and other material suppliers in Asia, particularly in China. The current virus pandemic has caused difficulties with deliveries and has forced the search for alternative suppliers.



NEAR-FUTURE UNCERTAINTIES AND PROSPECTS

The market situation will remain uncertain, at least for 2021. Asia is a strong and growing market for the Group, and recent uncertainties in the market can clearly influence developments. Theme park deliveries will focus on the USA in particular in 2021, bringing challenges to the logistics chain and managing currency risks.

It is difficult to accurately estimate the business impacts and their durations as a result of the COVID-19 pandemic. The greatest risks for the company relate to the demand for some of the company's products as the pandemic prolongs.

- Board of Directors of Lappset Group Oy
Issued in Rovaniemi on 18 February 2021

GROUP

Income statement

	2020	2019
TURNOVER	57 057,93 *)	73 034,76 *)
Increase (+) / decrease (-) in stocks of finished goods	-637,04	-45,76
Production for own use	41,19	72,75
Other operating income	364,63	117,17
Materials and services		
Materials and supplies		
<i>Purchases during the financial year</i>	-15 144,96	-20 491,11
<i>Increase (+) / decrease (-) in stocks</i>	-132,04	-284,79
External services	-7 105,82	-8 026,82
Total materials and services	-22 382,82	-28 802,71
Personnel costs	-19 800,79	-22 240,15
Depreciation and amortisation		
Planned depreciation	-1 612,23	-1 480,41
Amortisation of consolidated goodwill	-243,92	-121,00
Total depreciation and amortisation	-1 856,15	-1 601,40
Other operating costs	-13 508,86	-16 673,37
Operating profit	-721,91	3 861,29
Financial income and expenses		
Income from other investments in fixed assets		
<i>From others</i>	0,28	0,26
Other interest and financial income		
<i>From others</i>	62,69	28,55
Interest and other financial expenses		
<i>To others</i>	-201,12	-164,20
<i>Exchange rate differences</i>	-5,04	-43,89
Total financial income and expenses	-143,20	-179,28
Profit before extraordinary items	-865,11	3 682,01
Income taxes		
Taxes for the financial year	-267,50	-815,85
For previous financial years	-0,82	1,42
Deferred taxes	120,79	-61,62
Total income taxes	-147,53	-876,04
Minority interest	-	-
PROFIT FOR THE FINANCIAL YEAR	-1 012,64	2 805,97

*) The figures in financial statements are in thousands of euros (k€ 1 000).



GROUP

Assets

	2020	2019
NON-CURRENT ASSETS		
Intangible assets	*)	*)
Development costs	268,37	349,66
Intellectual property rights	72,74	126,96
Goodwill	-	-
Consolidated goodwill	1 407,30	1 626,77
Other long-term expenses	2 040,92	1 746,26
Advance payments	550,97	171,25
Total intangible assets	4 340,31	4 020,89
Tangible assets		
Land and water areas	571,16	554,12
Buildings and structures	2 991,22	1 153,91
Machinery and equipment	1 854,70	2 192,05
Other tangible assets	172,55	107,14
Advance payments and acquisitions in progress	946,46	305,10
Total tangible assets	6 536,09	4 312,32
Investments		
Other shares and participations	857,40	884,10
Total investments	857,40	884,10
Total non-current assets	11 733,80	9 217,31
CURRENT ASSETS		
Stock		
Materials and supplies	1 084,99	1 099,54
Unfinished products	2 088,80	1 078,58
Finished products	4 788,23	5 300,43
Total stock	7 962,02	7 478,55
Long-term receivables		
Loan receivables	619,01	222,11
Deferred tax receivables	20,34	13,02
Total long-term receivables	639,35	235,13
Short-term receivables		
Accounts receivable	5 274,09	12 546,92
Deferred tax receivables	220,39	-
Loan receivables	1,88	2,07
Other receivables	967,09	669,50
Prepayments and accrued income	2 598,02	776,72
Total short-term receivables	9 061,46	13 995,21
Cash and cash equivalents	9 195,55	9 147,87
Total current assets	26 858,38	30 856,76
ASSETS, TOTAL	38 592,18	40 074,08

GROUP Liabilities

	2020	2019
SHAREHOLDERS' EQUITY		
Share capital	814,80 *)	814,80 *)
Other reserves		
<i>Reserve for unrestricted invested equity</i>	356,55	356,55
Retained earnings (loss)	14 040,00	13 140,58
Profit for the financial year	-1 012,64	2 805,97
Total shareholders' equity	14 198,71	17 117,90
LIABILITIES		
Long-term liabilities		
Capital loan	25,00	-
Loans from credit institutions	5 100,00	2 990,33
Deferred tax liabilities	14,50	79,80
Other liabilities	-	-
Total long-term liabilities	5 139,50	3 070,13
Short-term liabilities		
Loans from credit institutions	4 500,00	6 007,43
Advance payments received	6 046,55	3 900,15
Accounts payable	2 746,58	3 763,96
Other liabilities	1 082,28	1 284,17
Accruals and deferred income	4 878,56	4 930,34
Total short-term liabilities	19 253,97	19 886,05
Total liabilities	24 393,48	22 956,18
LIABILITIES, TOTAL	38 592,18	40 074,08

*) The figures in financial statements are in thousands of euros (k€ 1 000).

GROUP Cash flow statement

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	-721,91 *)	3 861,29 *)
Adjustments to operating profit	1 834,44	1 580,08
Change in working capital	5 520,76	-1 321,72
<i>Change in stock</i>	-496,38	-205,01
<i>Change in short-term receivables</i>	5 043,48	-1 773,01
<i>Change in short-term liabilities</i>	973,66	656,30
Interest income	62,69	28,55
Interest payments	-274,98	-129,53
Dividends received	0,28	0,26
Other financial items	-5,04	-43,89
Taxes	-352,87	-525,40
Cash flow from operating activities	6 063,36	3 449,63
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-4 407,85	-2 855,54
Proceeds from the disposal of tangible and intangible assets	28,60	62,92
Long-term loans granted	-369,31	-
Subsidiaries acquired	-	-1 904,61
Cash flow from investments	-4 748,56	-4 697,23
CASH FLOW FROM FINANCING ACTIVITIES		
Rights issue	-	65,55
Acquisition of own shares	-593,07	-
Short-term loan withdrawals	6 000,00	4 198,92
Short-term loan repayments	-7 509,79	-
Long-term loan withdrawals	3 025,00	983,25
Long-term loan repayments	-896,08	37,53
Dividends paid	-1 303,39	-1 422,20
Cash flow from financing activities	-1 277,34	3 863,05
Translation differences	10,21	107,87
Change in cash and cash equivalents	47,68	2 723,32
Cash and cash equivalents at the start of the financial year on 1 January	9 147,87	6 424,55
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR ON 31 DECEMBER	9 195,55	9 147,87

PARENT COMPANY

Income statement

	2020	2019
TURNOVER	37 655,62 *)	48 113,34 *)
Increase (+) / decrease (-) in stocks of finished goods	-931,41	525,99
Production for own use	40,90	71,16
Other operating income	476,87	192,15
Materials and services		
Materials and supplies		
<i>Purchases during the financial year</i>	-12 133,73	-17 426,55
<i>Increase (+) / decrease (-) in stocks</i>	-143,62	-151,66
External services	-2 737,40	-3 233,82
Total materials and services	-15 014,75	-20 812,04
Personnel costs	-12 568,88	-13 802,65
Depreciation and amortisation		
Planned depreciation	-1 041,36	-962,88
Total depreciation and amortisation	-1 041,36	-962,88
Other operating costs	-9 616,07	-10 096,34
Operating profit	-999,09	3 228,74
Financial income and expenses		
Income from participations in Group companies	492,98	1 021,23
Income from other investments in fixed assets		
<i>From others</i>	0,28	0,26
Other interest and financial income		
<i>From Group companies</i>	84,59	37,84
<i>From others</i>	55,88	25,95
Interest and other financial expenses		
<i>To others</i>	-129,17	-117,27
<i>Exchange rate differences</i>	-15,21	-37,39
<i>Impairment of financial securities held as current assets</i>	-30,00	-
Total financial income and expenses	459,35	930,63
Profit before appropriations and taxes	-539,74	4 159,37
Appropriations		
Increase (-) / decrease (+) in depreciation difference	-13,58	-
Group contribution	-	-841,00
Total appropriations	-13,58	-841,00
Income taxes		
Taxes for the financial year	-0,44	-489,14
Total income taxes	-0,44	-489,14
PROFIT FOR THE FINANCIAL YEAR	-553,76	2 829,23



PARENT COMPANY

Assets

	2020	2019
NON-CURRENT ASSETS		
Intangible assets	*)	*)
Intellectual property rights	65,01	115,47
Other long-term expenses	1 065,31	1 050,55
Advance payments	550,97	171,25
Total intangible assets	1 681,30	1 337,26
Tangible assets		
Land and water areas	139,73	139,73
Buildings and structures	2 284,46	399,79
Machinery and equipment	1 125,31	1 353,12
Other tangible assets	35,87	35,87
Advance payments and acquisitions in progress	946,46	115,55
Total tangible assets	4 531,83	2 044,05
Investments		
Participations in Group companies	7 327,64	7 300,23
Receivables from Group companies	230,00	230,00
Other shares and participations	854,90	881,60
Total investments	8 412,54	8 411,83
Total non-current assets	14 625,66	11 793,14
CURRENT ASSETS		
Stock		
Materials and supplies	344,55	430,87
Unfinished products	1 945,95	242,27
Finished products	3 379,58	4 128,71
Total stock	5 670,07	4 801,86
Long-term receivables		
Receivables from Group companies	1 170,00	757,07
Loan receivables	589,31	192,40
Total long-term receivables	1 759,31	949,47
Short-term receivables		
Accounts receivable	1 817,86	4 048,90
Receivables from Group companies	1 851,59	4 698,73
Other receivables	475,53	430,14
Prepayments and accrued income	655,40	173,49
Total short-term receivables	4 800,38	9 351,26
Cash and cash equivalents	4 805,30	5 644,37
Total current assets	17 035,06	20 746,95
ASSETS, TOTAL	31 660,72	32 540,09

*) The figures in financial statements are in thousands of euros (k€ 1 000).

PARENT COMPANY

Liabilities

	31 Dec 2020	31 Dec 2019
SHAREHOLDERS' EQUITY		
Share capital	814,80 *)	814,80 *)
Reserve for unrestricted invested equity	356,55	356,55
Retained earnings (loss)	12 594,34	11 661,57
Profit for the financial year	-553,76	2 829,23
Total shareholders' equity	13 211,93	15 662,15
ACCRUED APPROPRIATIONS		
Depreciation difference	13,58	-
Total accrued appropriations	13,58	-
LIABILITIES		
Long-term liabilities		
Loans from credit institutions	5 100,00	2 550,00
Total long-term liabilities	5 100,00	2 550,00
Short-term liabilities		
Loans from credit institutions	4 500,00	5 950,00
Advance payments received	2 661,53	616,75
Accounts payable	1 621,62	1 700,59
Liabilities towards Group companies	1 333,99	2 422,89
Other liabilities	347,37	598,16
Accruals and deferred income	2 870,69	3 039,56
Total short-term liabilities	13 335,20	14 327,93
Total liabilities	18 435,20	16 877,93
LIABILITIES, TOTAL	31 660,72	32 540,09

*) The figures in financial statements are in thousands of euros (k€ 1 000).

PARENT COMPANY

Cash flow statement

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	-999,09 *)	3 228,74 *)
Adjustments to operating profit	1 435,25	966,98
Change in working capital	3 396,92	-1 759,36
<i>Increase (+) / decrease (-) in stock</i>	1 042,59	-356,35
<i>Increase (+) / decrease (-) in short-term non-interest-bearing receivables</i>	1 797,64	-2 368,02
<i>Increase (+) / decrease (-) in short-term non-interest-bearing liabilities</i>	556,69	964,50
Acquired interest on business operations (+)	55,88	63,79
Interest paid and other financial expenses from business operations (-)	-166,10	-119,93
Dividends received	493,26	1 021,49
Other financial items	-15,21	-37,39
Direct taxes paid	-316,69	-311,52
Cash flow from operating activities	3 884,22	3 052,30
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-3 873,83	-1 287,20
Proceeds from the disposal of tangible and intangible assets	21,00	4,78
Loans granted	-500,00	-800,00
Repayments of loan receivables	-	27,60
Subsidiaries acquired	-	-1 904,61
Acquired interest on investments	84,59	-
Cash flow from investments	-4 268,24	-3 959,43
CASH FLOW FROM FINANCING ACTIVITIES		
Rights issue	-	65,50
Acquisition of own shares	-593,07	-
Short-term loan withdrawals	6 000,00	7 000,00
Short-term loan repayments	-7 450,00	-3 000,00
Long-term loan withdrawals	3 000,00	2 000,00
Long-term loan repayments	-450,00	-750,00
Dividends paid	-1 303,39	-1 177,20
Cash flow from financing activities	-796,46	4 138,30
CHANGE IN CASH AND CASH EQUIVALENTS	-1 180,48	3 231,17
Cash and cash equivalents at the start of the financial year on 1 January	5 644,37	2 413,20
Cash and cash equivalents transferred in a merger	341,41	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR ON 31 DECEMBER	4 805,30	5 644,37

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. Lappset Liikuntapaikat Oy has been merged with Lappset Group Oy on 31 December 2020.

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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