

 **LAPPSET®**



Lappset Group Oy  
**Annual Report 2016**

# Lappset back on growth path

Lappset Group's result resumed growth in 2016. The Group's year-on-year turnover increased and was EUR 46.7 million (EUR 44.5 million in 2015). The result can be considered satisfactory despite falling sales margins. The improved result is mainly due to the reorganisation programme implemented during the financial year, which helped to streamline the Group's cost structure. Domestic business operations, including theme park business, increased significantly.

In international markets, European public investments remained at a low level, which increased price competition particularly in the Central and Southern European markets. After the completion of the co-operation negotiations initiated in financial year 2015, the measures agreed upon were taken on in early January 2016. During the year, major reforms were made in the parent company's organisational structure, product portfolio and ERP system, and the majority of the staff resources were engaged on the implementation of the reforms.

At the end of the financial year, the Group's balance sheet total was EUR 26.5 million (EUR 24.7 million in 2015).

The Group's equity ratio in 2016 was 57.6 % (59.8 % in 2015). The operating profit target fell slightly behind expectations and was EUR 1.5 million (EUR -0.4 million in 2015). The company's cash flow and liquidity continued to be strong.

## Key figures for the Group's financial position and performance:

	2016	2015	2014	2013
Turnover, M€	46,7	44,5	50,5	53,1
Operating profit, M€	1,5	-0,4	2,1	3,1
Operating profit as a percentage of turnover	3,2	-0,8	4,2	5,8
Return on equity, %	7,3	-1,9	10,7	15,1
Equity ratio, %	57,6	59,8	62,4	57,5

## Key figures on Group personnel:

	2016	2015	2014	2013
Average number of employees during the financial year	314	343	350	368
Salaries and wages for the financial year, M€	15,2	16,6	16,7	15,8

After the challenges of the first half of the year, results of the improvements made in Lappset Estonia OÜ, the Estonian subsidiary, started to emerge after the summer of 2016. Thanks to the implementation of the new ERP system and continuous Lean development, processes at the Estonian factory are now visibly smoother. The outlook for the factory is positive.

During the financial year, the Lean philosophy was pursued in the development efforts not only in the production units in Rovaniemi and Estonia, but also in the work of experts in the parent company. During the year, staff were trained in the Lean method and the associated tools. The parent company staff have warmly welcomed this reform.

In spite of some discomfort in the implementation of the new ERP system, visible progress was made towards the end of the year. For the financial year 2017, we are anticipating significant improvements in the efficiency of internal processes.

Customers are happy with the revamped product portfolio and the investments made in digital marketing, including the updated online services.

There were no significant changes regarding the subsidiary network during 2016. Of the subsidiaries, Lappset Sweden achieved its targets. At the end of the financial year, the Lappset Group comprised the parent company in Finland and subsidiaries in six countries: Sweden, the UK, Germany, France, the Netherlands and Estonia. Through the dealer network, products were imported to around 50 countries.

## Administration

The company's Board of Directors in 2016 comprised Johanna Ikäheimo as Chairperson and Katja Ikäheimo-Länkinen, Kimmo Lautanen and Heikki Martela as members. Torkel Tallqvist left the board in April 2016. Tero Ylinenpää acted as the Managing Director. The Board's Secretary was Irma Kuukasjärvi.

KPMG Oy Ab served as auditors of the company.

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### Structural and financial arrangements

No significant structural or financial arrangements were made during 2016.

### Shares of the company

The company's share capital is the following:

2016	2015
410,402 shares	410,402 shares

All shares carry the same right to dividends and company assets.

### Treasury shares

During the financial year, the company acquired 10,316 own shares at the price of EUR 45.54, as authorised by the Annual General Meeting on 5 February 2016. The combined proportion of the shares acquired during the financial year of the share capital and voting rights was 2.5%. The acquisition of own shares did 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 11,593,627.64, of which profit for the period accounts for EUR 762,233.00.

The Board of Directors proposes to the general meeting that the profit for the period be distributed as follows:

- dividend payment of EUR 1.00/share, i.e. a total of EUR	400,086.00
- deposited in the retained earnings account EUR	362,147.00

No notable changes in the company's financial position have taken place since the end of the financial year. The company's liquidity is good, and the Board of Directors does not believe that the proposed distribution of profits endangers the company's solvency.

### Notable changes since the end of the financial year

The theme park business (Lappset Creative) is showing clear signs of growth. Confidence in the skills, professional expertise and solutions of the business division manifests itself in the upward trend in design orders and the positive feedback received for the delivered parks throughout the financial year.

With respect to raw materials, the rising prices of metals causes concern, since this may have a negative impact on the demand for product families that are mainly made of metal. On the other hand, if metal prices go up, this may increase the demand for wood products.

### Activity parks attracting a strong customer base

Lappset Group Oy is continuing its operations based on three business areas via three divisions: domestic business, international business and theme park business (Lappset Creative).

The basis of the operations is shared concern over the small role of physical activity in the lives of people of various ages, which further increases the importance of playgrounds and exercise areas. The ageing of the population challenges society to think of new ways of supporting healthy lifestyles and the importance of exercise as part of the well-being of elderly people. Lappset's product range includes solutions for everyone, from the very young to the very old.

Different types of indoor playgrounds and exercise areas, together with activity parks built around well-known brands, are gaining in popularity all over the world. Lappset has years of experience in developing, creating and supplying such areas. Cooperation involving the best-known and best-loved children's brands has attracted many new orders for activity and theme parks. Kicks and thrills are increasingly important in encouraging people to be more active, which is why play and exercise areas built around different themes will continue to grow in popularity in the future.

The company's positive outlook is also supported by the revised cost structure, moderate growth expectations, increases in orders towards the end of the financial year, revamped product range and

competitiveness achieved through structural changes. These are complemented by our Lean process, which increases efficiency in both factories and offices. The new ERP system will automate and enhance the management of order-delivery processes. In addition, the flexible working hours and holiday arrangements agreed upon with employee representatives will have a positive impact on the operations.

Export prospects are favourable in the Nordic countries and China in particular, although the economic situation in China has become more challenging.

### Customer orientation and responsibility

Lappset Group's operations can be characterised as responsible business conduct, because we design, develop and manufacture playground and exercise facility solutions and different types of activity parks that provide excellent conditions for people of all ages to experience the joy of play and sporting activities. Today's global challenges are intrinsically related to the physical and mental well-being of people at different stages of life, and Lappset is having a positive impact on this through its creative solutions. Investing in meaningful and inspiring environments for play and exercise pays for itself in the form of significantly reduced social service and health care costs.

A dynamic approach, a willingness to change and continuous benchmarking of new business opportunities form the backbone of Lappset Group's operations. The new strategy, based on producing added value to the customer, which the company will continue to implement in the coming years, enables agile solutions that exceed the needs and expectations of customers, not to mention the provision of a cost-efficient production chain and high-quality products.

### Risk factors caused by economic and political instability

Risk factors for 2016 included the global economic situation and the volatile political situation, particularly after the US presidential election late in the year. The precarious economic situation in Russia was expected to impact Lappset's situation on the domestic market, but fortunately, this threat was not realised. The instability of the political situation in Europe, Russia, the Middle East and particularly in North America is likely to remain a major risk factor from the economic perspective.

Investments in theme parks are long-term ventures and involve complex production projects. Turmoil in the global economy strongly influences the willingness of investors to make decisions.



# Notes on 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 the 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
Machinery and equipment	4–7 years
Consolidated goodwill	5 years

The acquisition costs for non-current assets with a probable economic life of less than three years and minor acquisitions (less than EUR 800) have been entered in total 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. The foreign currency forward contract is used to hedge against changes in the 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 all of the deferred tax liabilities and an estimated likely amount of deferred tax assets.

### 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.



# 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 amortisation period for consolidated goodwill is five years.

### Intra-Group transactions and margins

Intra-Group transactions, unrealised margins on internal deliveries, internal receivables and liabilities, along 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 profit and loss accounts and balance sheets of foreign subsidiaries have been translated into Finnish currency (Euro) according to the rate in effect on the balance sheet date. This translation difference, together with the differences concerning the shareholders' equity of foreign subsidiaries, is presented under 'Retained earnings'.

# Lappset Group Ltd | Group

<b>PROFIT AND LOSS ACCOUNT</b>	<b>From 1 Jan to 31 Dec 2016</b>	<b>From 1 Jan to 31 Dec 2015</b>
Turnover	46 675 746	44 497 040
Increase (+)/ decrease (-) in stocks of finished goods	894 230	-450 116
Production for own use	24 979	83 111
Other operating income	58 545	153 488
<b>Materials and services</b>		
Materials and supplies		
Purchases during the financial year	-14 532 745	-13 101 410
Increase (+)/ decrease (-) in stocks	93 148	-80 432
External services	-4 421 464	-2 892 779
Materials and services, total	-18 861 061	-16 074 621
<b>Personnel costs</b>		
Personnel costs	-15 162 013	-16 570 381
<b>Depreciation and amortisation</b>		
Planned depreciation	-1 546 885	-1 425 332
Amortisation of consolidated goodwill	-184 111	-184 111
Total depreciation and amortisation	-1 730 995	-1 609 443
<b>Other operating costs</b>		
Other operating costs	-10 388 298	-10 391 508
<b>Operating profit</b>	<b>1 511 133</b>	<b>-362 432</b>
<b>FINANCIAL INCOME AND EXPENSES</b>		
<i>Income from other investments in fixed assets</i>		
From others	210	198
<i>Other interest and financial income</i>		
From others	15 328	34 871
<i>Interest and other financial expenses</i>		
To others	-164 576	-152 498
Exchange rate differences	-84 553	-5 093
<b>Total financial income and expenses</b>	<b>-233 591</b>	<b>-122 523</b>
<b>Profit before appropriations and taxes</b>	<b>1 277 542</b>	<b>-484 955</b>
<i>Income taxes</i>		
Taxes for the financial year	-209 788	18 981
Deferred taxes	-26 391	190 258
Total income taxes	-236 178	209 239
Minority interest	-145 851	-85 683
<b>Profit for the financial year</b>	<b>895 513</b>	<b>-361 399</b>

# Lappset Group Oy | Group

## BALANCE SHEET

<b>Assets</b>	<b>As at 31 Dec 2016</b>	<b>As at 31 Dec 2015</b>
<b>NON-CURRENT ASSETS</b>		
<i>Intangible assets</i>		
Development costs	87 980	140 768
Intellectual property rights	148 054	133 652
Goodwill	58 419	3
Consolidated goodwill	0,00	184 111
Other long-term expenses	1 513 663	297 416
Advance payments	137 047	892 886
Total intangible assets	1 945 163	1 648 837
<i>Tangible assets</i>		
Land and water areas	592 920	617 477
Buildings and structures	1 269 590	1 409 912
Machinery and equipment	2 621 829	3 221 427
Other tangible assets	75 255	109 091
Advance payments and acquisitions in progress	194 402	5 583
Total tangible assets	4 753 997	5 363 490
<i>Investments</i>		
Other shares and participations	880 300	780 620
Total investments	880 300	780 620
<b>Total non-current assets</b>	<b>7 579 460</b>	<b>7 792 946</b>
<b>CURRENT ASSETS</b>		
<i>Stock</i>		
Materials and supplies	1 084 081	1 036 674
Unfinished products	108 610	181 896
Finished products	4 249 867	3 180 992
Advance payments	78 070	101 744
Total stock	5 520 628	4 501 306
<i>Long-term receivables</i>		
Loan receivables	30 592	121 842
Total long-term receivables	30 592	121 842
<i>Short-term receivables</i>		
Accounts receivable	4 633 162	4 938 519
Deferred tax receivables	49 272	149 479
Loan receivables	0,00	0,00
Other receivables	650 376	461 965
Prepayments and accrued income	368 158	558 063
Total short-term receivables	5 700 968	6 108 027
<i>Cash and cash equivalents</i>		
Cash and cash equivalents	7 706 847	6 211 400
<b>TOTAL CURRENT ASSETS</b>	<b>18 959 034</b>	<b>16 942 575</b>
<b>Assets, total</b>	<b>26 538 494</b>	<b>24 735 522</b>

LIABILITIES	As at 31 Dec 2016	As at 31 Dec 2015
<b>Oma pääoma</b>		
Share capital	814 804	814 804
Retained earnings (loss)	11 173 581	12 137 900
Profit for the financial year	895 513	-361 399
Total shareholders' equity	12 883 898	12 591 304
Minority interest	1 579 522	1 575 838

#### Liabilities

##### Long-term liabilities

Subordinated loans	56 875	70 000
Loans from credit institutions	3 716 560	1 723 837
Deferred tax liabilities	39 279	115 739
Total long-term liabilities	3 812 713	1 909 576

##### Short-term liabilities

Loans from credit institutions	978 190	1 016 418
Advance payments received	1 426 006	1 058 250
Accounts payable	1 680 953	1 642 783
Other liabilities	910 550	679 643
Accruals and deferred income	3 266 662	4 261 708
Total short-term liabilities	8 262 361	8 658 803

#### Total liabilities

12 075 074,28

10 568 378,87

LIABILITIES, TOTAL	26 538 494	24 735 522
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STATEMENT OF THE SOURCE AND APPLICATION OF FUNDS	From 1 Jan to 31 Dec 2016	From 1 January to 31 December 2015
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#### Cash flow from operating activities

Operating profit	1 511 133	-362 432
Adjustments to operating profit	1 729 470	1 609 443
Change in working capital	-1 157 634	1 559 932
Change in stock	-1 019 322	494 196
Change in short-term receivables	348 246	-593 100
Change in short-term liabilities	-486 557	1 658 837
Interest income	15 327	34 871
Interest payments	-227 029	-144 222
Dividends received	210	198
Taxes	-171 327	316 068
Cash flow from operating activities	1 700 149	3 013 858

#### Cash flow from investments

Investments in tangible and intangible assets	-1 517 509	-1 398 481
Proceeds from the disposal of tangible and intangible assets	1 526	-3 118
Long-term loans granted	0	0,00
Repayments of long-term loan receivables	91 250	1 822
Subsidiaries sold	0	0
Cash flow from investments	-1 424 732	-1 399 777

#### Cash flow from financing activities

Acquisition of own shares	-469 791	0
Short-term loan withdrawals	0	5 585,75
Long-term loan withdrawals	3 000 000,00	0
Long-term loan repayments	-1 058 631	-1 001 389
Dividends paid	0	-566 795
Cash flow from financing activities	1 471 579	-1 562 598
Translation differences	-251 549	53 524
Change in cash and cash equivalents	1 495 447	105 007
Cash and cash equivalents at the start of the financial year on 1 Jan	6 211 400	6 106 393

#### Cash and cash equivalents

at the end of the financial year on 31 Dec	7 706 847	6 211 400
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# Lappset Group Oy | Parent company

#### Profit and loss account

	From 1 Jan to 31 Dec 2016	From 1 Jan to 31 Dec 2015
Turnover	33 108 596	31 487 933
Increase (+)/ decrease (-) in stocks of finished goods	808 026	-491 340
Production for own use	24 979	83 111
Other operating income	104 941	129 117

#### Materials and services

Materials and supplies		
Purchases during the financial year	-12 799 534	-10 914 290
Increase (+)/ decrease (-) in stocks	70 773	-42 664
External services	-2 676 114	-1 973 076
Materials and services, total	-15 404 876	-12 930 031

#### Personnel costs

Personnel costs	-9 490 153	-10 721 198
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#### Depreciation and amortisation

Planned depreciation	-777 476	-656 435
Total depreciation and amortisation	-777 476	-656 435

#### Other operating costs

Other operating costs	-7 686 625	-7 764 085
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#### Operating profit

687 412

-862 928

#### Financial income and expenses

Income from participations in group companies	229 035	299 683
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#### Income from other investments in fixed assets

From others	210	198
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#### Other interest and financial income

From group companies	33 995	50 942
From others	8 626	24 948

#### Interest and other financial expenses

To others	-126 112	-113 211
Exchange rate differences	-77 005	-727

#### Total financial income and expenses

68 749

261 834

PROFIT BEFORE APPROPRIATIONS AND TAXES	756 161	-601 094
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#### Appropriations

Increase (-) / decrease (+) in depreciation difference	6 072	-47 220
Total appropriations	6 072	-47 220

#### Income taxes

Taxes for the financial year	0	123 431
Total income taxes	0	123 431

PROFIT FOR THE FINANCIAL YEAR	762 233	-524 882
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BALANCE SHEET	As at 31 Dec 2016	As at 31 Dec 2015
<b>Non-current assets</b>		
<i>Intangible assets</i>		
Development costs	87 980,	140 768
Intellectual property rights	148 051	133 642
Other long-term expenses	1 317 240	64 124
Advance payments	137 047	892 886
Total intangible assets	1 690 319	1 231 421
<i>Tangible assets</i>		
Land and water areas	139 728	139 7278
Buildings and structures	231 009	271 594
Machinery and equipment	1 321 137	1 597 746
Other tangible assets	35 865	35 865
Advance payments and acquisitions in progress	194 402	5 583
Total tangible assets	1 922 142	2 050 516
<i>Investments</i>		
Participations in group companies	3 763 266	3 763 266
Other shares and participations	880 300	780 620
Total investments	4 643 565	4 543 885
<b>Total non-current assets</b>	<b>8 256 025</b>	<b>7 825 821</b>
<b>Current assets</b>		
<i>Stock</i>		
Materials and supplies	435 105	387 790
Unfinished products	90 026	177 754
Finished products	3 235 950	2 372 914
Total stock	3 761 082	2 938 459
<i>Long-term receivables</i>		
Receivables from group companies	486 227	1 541 108
Loan receivables	14 660	73 300
Total long-term receivables	500 887	1 614 408
<i>Short-term receivables</i>		
Accounts receivable	2 234 389	1 891 724
Receivables from group companies	589 340	261 280
Other receivables	189 217	216 453
Prepayments and accrued income	341 967	292 064
Total short-term receivables	3 354 913	2 661 521
<i>Cash and cash equivalents</i>		
Cash and cash equivalents	5 117 326	3 435 998
<b>Total current assets</b>	<b>12 734 207</b>	<b>10 650 387</b>
<b>Assets, total</b>	<b>20 990 233</b>	<b>18 476 208</b>

LIABILITIES	As at 31 Dec 2016	3As at 31 Dec 2015
<i>Shareholders' equity</i>		
Share capital	814 804	814 804
Retained earnings (loss)	10 919 375	11 914 047
Profit for the financial year	762 233	-524 882
Total shareholders' equity	12 496 412	12 203 969

## Accrued appropriations

Depreciation difference	119 263	125 335
Total accrued appropriations	119 263	125 335

## Liabilities

### Long-term liabilities

Loans from credit institutions	3 029 078	911 082
Total long-term liabilities	3 029 078	911 082

### Short-term liabilities

Loans from credit institutions	882 004	910 290
Advance payments received	710 742	265 656
Accounts payable	1 019 658	1 040 458
Liabilities towards group companies	468 076	455 131
Other liabilities	272 966	208 230
Accruals and deferred income	1 992 034	2 356 057
Total short-term liabilities	5 345 480	5 235 822

**Total liabilities** **8 374 558** **6 146 903**

**Liabilities, total** **20 990 232** **18 476 208**

## STATEMENT OF THE SOURCE AND APPLICATION OF FUNDS

	From 1 Jan to 31 Dec 2016	From 1 Jan to 31 Dec 2015
<i>Operating profit</i>		
Operating profit	687 412	-862 928
Adjustments to operating profit	771 476	656 435
Change in working capital	-1 314 705	2 031 284
Increase (+) / decrease (-) in stock	-822 624	534 004
Increase (+) / decrease (-) in short-term non-interest bearing receivables	-581 287	787 159
Increase (+) / decrease (-) in short-term non-interest bearing liabilities	89 205	710 121
Acquired interest on business operations (+)	42 089	61 575
Interest paid and payments for other financial expenses for business (-)	-182 664	-104 594
Dividends received	229 245	299 881
Direct taxes paid	-112 105	98 537
Cash flow from operating activities	120 748	2 180 190

### Cash flow from investments

Investments in tangible and intangible assets	-1 207 680	-1 204 249
Proceeds from the disposal of tangible and intangible assets	6 000	3 309
Repayments of loan receivables	1 113 522	632 284
Acquired interest on investment	532	840
Cash flow from investments	-87 626	-567 815

### Cash flow from financing activities

Acquisition of own shares	-469 791	0
Long-term loan repayments	2 117 996	-910 290
Dividends paid	0	-398 090
Cash flow from financing activities	1 648 205	-1 308 379

### Change in cash and cash equivalents

Cash and cash equivalents at the start of the financial year on 1 Jan	3 435 998	3 132 003
Cash and cash equivalents transferred in the merger		

**Cash and cash equivalents at the end of the financial year on 31 December** **5 117 326** **3 435 998**

**LAPPSET GROUP LTD**

**Business ID 9126694-6**

SIGNATURES OF FINANCIAL STATEMENT

Date and signature

Rovaniemi, \_\_\_\_ / \_\_\_\_ 2017

Johanna Ikäheimo  
Chair of Board of Directors

Tero Ylinenpää  
Managing Director

Torkel Tallqvist

Kimmo Lautanen

Katja Ikäheimo-Länkinen

Heikki Martela

Auditor's statement

An auditor's report has been issued today on the audit performed.

Rovaniemi, \_\_\_\_ / \_\_\_\_ 2017

KPMG OY

Tapio Raappana  
KHT (Authorised Public Accountant)





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