HLRE Holding Oy

Financial statements

1 February 2019-31 January 2020

Contents

Report of the Board of Directors

FINANCIAL PERIOD 1 FEBRUARY 2019–31 JANUARY 2020

GENERAL

The HLRE Holding Group (commonly known as “the Vesivek Group” in customer and marketing communications) is a rapidly growing and developing group focusing on roof renovations of single-family and terraced homes and the product development, manufacture, sales and installations of rainwater management systems and roof safety products. The Group operates in Finland and Sweden under the Vesivek brand.

In January 2020, the HLRE Holding Group operated in 18 locations in Finland and 3 in Sweden. The Group’s head office and sheet metal roofing factory are located in Pirkkala, Finland, and the product development and manufacture of rainwater management systems and roof safety products and corporate sales function in Orimattila, Finland. The Group’s customers include consumers, housing companies, construction companies and public-sector organisations.

In the consumer business, the Vesivek Group is the leading service company in the industry in Finland, delivering roofs with accessories and installation services from its own factory. The Group’s service offering includes the customer promise “Weather protection in just one day,” which is made possible by the in-house supply chain from product development to installation and the conceptualised business model.

The Nesco Group that designs, develops, fabricates and sells roof and roof safety products includes the companies Nesco Invest Oy, Nesco Oy and Tuusulan Peltikeskus Oy. Nesco Oy is a Finnish company that designs, manufactures and sells rainwater management systems and roof safety products. Tuusulan Peltikeskus Oy is a Finnish company that sells rainwater management systems and roof safety and sheet metal products to consumers and construction companies, operating in the municipality of Tuusula in the Greater Helsinki region.

KEY FIGURES

EUR 1,000	**1 February 2019-31 January 2020**	**1 February 2018-31 January 2019**	Change
Turnover	101027.4	93760.8	7.8%
EBITDA	11308.2	7407.5	52.7%
Profit or loss for the financial year	1054.1	-997.7	205.7%
Equity ratio	29.1%	24.4%	19.0%
Cash flow from operating activities	11921.3	2040.7	484.2%
Personnel on average	687	638	7.7%
Gross capital expenditure	-2143.4	-5917.5	-63.8%

MAJOR EVENTS DURING THE FINANCIAL PERIOD

The Group's turnover increased from EUR 93.8 million to EUR 101.0 million (7.8%) year-on-year. In particular, expansion of the operations in Sweden to three units and growth in product sales of roof safety and rainwater management systems contributed to the growth in turnover. Furthermore, turnover increased at the Lahti, Kuopio and Mikkeli units in Finland that expanded into the roof renovation business during the previous financial year.

The Group's company installing roof renovations in Finland, Vesivek Oy, migrated to mainly scaffolding-based roofing installations already during the 2019 financial year. Scaffolding, or work platforms, around a building function as fall protection and improve occupational safety, ergonomics and installation efficiency, as the work can be performed from the correct height without reaching. The scaffolding also protects the yard and access routes from any materials falling from the roof. During the 2019 financial year, scaffolding work was primarily subcontracted. During the financial year 2020, Vesivek Oy insourced scaffolding work at eight units in Finland and is preparing for insourcing scaffolding work in other units gradually over the next couple of years.

On 12 March 2019, the company repurchased 100,050 of its shares. At the time of signing the financial statements, the company held 107,550 treasury shares.

During the first quarter of 2020, the company renegotiated the terms and conditions of the five-year secured debt financing of EUR 46 million dated 22 February 2016. The amendment to the financing agreement was signed with Danske Bank A/S Finland Branch on 12 April 2019. At the time of signing the financial statements, the company meets the financing covenants and other terms and conditions of the renegotiated financing agreement.

As part of restructuring its financing, the company realised a share issue for consideration to shareholders in April 2019. In the directed share issue, the company issued 4,500,023 new shares. The new shares correspond to approximately 37% of all shares in HLRE Holding Oy before the issue of the new shares. After the registration of the new shares, the total number of shares in HLRE Holding Oy is 16,626,723. All of the shares in the company are of the same type.

Vesivek Oy sold vehicles to Danske Bank and leased them back in April 2019. The arrangement was part of the refinancing in the spring 2019. The realised vehicle lease limit is EUR 2.2 million and the actual contractual lease period is 36 months. The company will treat the arrangement as a loan in its consolidated financial statements, because the company intends to redeem the fleet in full for the company's operational activities at the end of the agreed lease period at the latest. The purpose of the arrangement was to ensure short-term financing and liquidity. The agreement includes the right at any time before the expiry of the actual lease period of the lessor, i.e. Vesivek Oy, to redeem the fleet at the unpaid principal included in the arrangement at the time of redemption.

The Group's bank loan with covenants was classified in full in current financial liabilities in the financial statements of 31 January 2019 in accordance with IAS 1.74–75, based on the breach of the covenants of the financing agreement in the financial year 1 February 2018–31 January 2019 and the fact that before the close of the financial year, the company did not have a written commitment from the bank indicating that the bank will not exercise its right to call the loan from repayment for a minimum of 12 months. After the close of the financial year, the company has renegotiated the covenants of the financing agreement. The company fulfilled the covenants of the renegotiated loan agreement at the time of signing the financial statements, and the loans are reported in non-current liabilities in the financial statements of 31 January 2020, except for normal repayments falling due during the financial year.

CHANGES IN GROUP STRUCTURE

There were no changes in the group structure during the financial year.

ESTIMATE OF MAJOR RISKS AND UNCERTAINTIES

The HLRE Holding Group assesses risks annually with the aim of minimising risks and better foreseeing them.

The Group’s growth and development are strongly linked with the growth and development of sales and success in internationalisation, and failure in them might have direct or indirect impacts on the Group’s business and growth opportunities or development of its profitability. In addition to the above, the Group’s business operations are exposed to personnel-related risks, such as risks relating to the recruitment and retention of skilled personnel. The Group’s business is exposed to occupational safety risks at the construction sites, which also includes a risk of potential procedures by the authorities or legal proceedings.

The Group’s business is exposed to seasonality which can be balanced by a service portfolio comprised of different product categories and extensive geographical distribution in Finland and through internationalisation. Moreover, the most significant business uncertainties are associated with risks relating to partners, such as the most significant suppliers, opening of new locations and their development, success in concept development and maintaining the concept.

Expansion into other countries involves several risks associated with foreseeing consumer needs, preferences and behaviour in the target markets, among other factors. Expansion into other countries involves the risk of the company’s conceptualised business model not establishing a position in the market and securing an established customer base. The company’s conceptualised business model can also be non-compliant with the local building regulations, customs or prevailing practices. Any failure in launching new concepts would incur costs and have substantial negative impacts on the company’s brand, financial position and operating result.

At the end of the financial year 2020, the balance sheet of the HLRE Holding Group included EUR 39.5 million of goodwill. The HLRE Holding Group annually, and quarterly if necessary, tests the carrying amount of goodwill for not exceeding its fair value. During the financial year, HLRE Holding did not observe indications of not being able to recover the amount corresponding to the book value. Should there be negative changes in the profit and growth development of the HLRE Holding Group, this could lead to impairment of goodwill, which could have an unfavourable impact on the operating result and equity of the HLRE Holding Group.

In addition to normal business risks, the Group is not aware of material risks affecting its operations. The Group’s turnover for the financial year 1 February 2020–31 January 2021 is expected to increase and profitability to improve compared to the financial year ended 31 January 2020. The Group’s growth mainly takes place by increasing the turnover of existing locations through enhanced operational efficiency and by increasing the number or personnel and size of some units, as well as through synergy benefits from the Nesco Group. Moreover, growth in the Swedish subsidiary is believed to accelerate the growth of the Group during the financial year.

RISK MANAGEMENT

In its risk management, the HLRE Holding Group aims to be as systematic as possible as part of normal business processes. The Group has a risk management policy approved by the management team, supporting the achievement of strategic objectives and ensuring the continuity of business operations. The Group's risk management policy focuses on managing both risks associated with business opportunities and risks threatening the achievement of the Group's objectives. The management team analyses and assesses the most essential risks in terms of their probability and significance.

The review of business risks is part of the HLRE Holding Group's management system. Risks are classified into strategic, operational, financial and damage risks. Strategic business risks are associated with customer relationships, competitors' actions, political risks, brand, product and concept development, as well as investments. Operational risks are associated with shortcomings or errors in the company's operations or systems or external risks, such as legislation or unexpected decisions or policies of the legal system or authorities, or changes in raw material prices or supply issues. Financial risks are associated with changes in the interest and foreign exchange markets, refinancing and counterparty and trade receivable risks. Damage risks can cause accidents, property damage, interruptions in production, environmental impacts or liability for damages.

The risk management process aims to identify and assess the risks, after which measures are planned and implemented with regard to each risk. The measures can include avoiding the risk, mitigating it by different means, transferring the risk through insurance policies or contractually, or taking the risk in a managed and conscious manner. Control functions or measures refer to verifying procedures that mitigate risks and ensure that risk management measures are taken.

The HLRE Holding Group does not have a separate risk management function; the associated responsibilities follow the organisational distribution of responsibilities. The company's management team regularly reviews the risks. The company's Board of Directors and its Audit Committee review the most significant risks and related measures at least once a year in conjunction with the strategy process.

PERSONNEL

At the end of the financial year, the personnel numbered 679 (638), an increase of 41 employees, or 6.4 per cent. The Group personnel averaged 687 (638) FTE, an increase of 49 employees, or 7.7 per cent. The Group's employee benefits expenses totalled EUR 38.1 (35.4) million, up EUR 2.7 million or 7.6 per cent. The increase in the number of personnel was mainly attributable to organic growth in Finland and Sweden, the expansion of existing locations and opening of new ones.

BOARD OF DIRECTORS

In accordance with article 10 of the Articles of Association of the Group's parent company HLRE Holding Oy, the company's administration and appropriate organisation of operations is seen to by a Board of Directors with a minimum of three (3) and a maximum of ten (10) actual members according to the resolution of a general meeting of shareholders. The term of office of the Board members expires at the close of the next Annual General Meeting after their election.

The company's Annual General Meeting of 11 June 2019 re-elected Pentti Tuunala, Antti Keränen, Vesa Koivula, Kimmo Riihimäki, Ari Haapakoski, Timo Pirskanen and Anu Syrmä as Board members. In its first meeting on 11 June 2019, the Board of Directors elected Pentti Tuunala as its Chair.

On 11 June 2019, the Board of Directors appointed an Audit Committee from among its number, with Timo Pirskanen continuing as the committee's chair. Antti Keränen and Vesa Koivula will continue as other members of the Audit Committee.

During the financial year 1 February 2019–31 January 2020, the Board of Directors convened 16 times. The attendance rate of the Board members was 99%. The Audit Committee of the Board of Directors convened three times during the financial year. The attendance rate of the Audit Committee members was 100%.

REMUNERATION OF BOARD MEMBERS

The Annual General Meeting of the Group's parent company HLRE Holding Oy resolved that EUR 1,000.00 per month be paid as compensation to each Board member. If a Board member is employed by a company belonging to the HLRE Holding group of companies or by Sentica Partners Oy, they are paid EUR 450.00 per month as compensation for Board membership. No separate fee is paid for Board or committee meetings.

Furthermore, the Annual General Meeting resolved that each Board member will be compensated for reasonable travel expenses against receipts in accordance with the practices of the HLRE Holding Group.

MANAGEMENT TEAM

The Board of Directors confirmed the following five persons as members of the company's management team on 22 November 2018: Kimmo Riihimäki, CEO; Hanne Keidasto, Deputy CEO; Jari Raudanpää, CFO; Jari Lehtola, sales and marketing director; and Jari Pohja, technical director. The management team convenes regularly.

AUDITING

The Annual General Meeting of 11 June 2019 resolved to appoint PricewaterhouseCoopers Oy as the company's auditor for the financial year 1 February 2019–31 January 2020, with Markku Launis, Authorised Public Accountant, as the auditor with main responsibility.

COMPANY STRUCTURE AND SHAREHOLDING

The Group's parent company HLRE Holding Oy is owned by funds managed by funds owned the Finnish private equity company Sentica Partners Oy and key personnel of the Group.

The share capital of HLRE Holding Oy entered in the Trade Register was EUR 2,500 at the end of the financial year. As part of restructuring its financing during the financial year, the company realised a share issue for consideration to shareholders in April 2019. In the directed share issue, the company issued 4,500,023 new shares. The new shares corresponded to approximately 37% of all shares in HLRE Holding Oy before the issue of the new shares. After the registration of the new shares, the total number of shares in HLRE Holding Oy is 16,626,723. The company has one series of shares, and each share confers one vote at a general meeting. All shares confer equal rights to dividends and other distribution of assets. At the end of the financial year, the company had a total of 33 shareholders. At the end of the financial year, the company had a total of 107.550 treasury shares.

The Board of Directors has no valid authorisations granted by the general meeting to repurchase shares or issue shares or grant other special rights entitling to shares referred to in chapter 10, section 1 of the Limited Liability Companies Act.

BOARD OF DIRECTORS' PROPOSAL CONCERNING THE USE OF THE COMPANY'S NON-RESTRICTED SHAREHOLDERS' EQUITY

The result of the Group's parent company HLRE Holding Oy for the financial year was EUR 140,705.55 at a profit. The Board of Directors proposes that the profit for the financial year be recognised as a change in retained earnings, after which its distributable funds amount to EUR 806,504.15. The Board of Directors' proposal to the general meeting is that no dividends be distributed.

MAJOR EVENTS AFTER THE FINANCIAL PERIOD

After the financial year, the coronavirus (COVID-19) became a global pandemic with potential extensive social and economic impacts. The company has taken measures to safeguard its business operations, but in particular if the state of emergency is prolonged, the pandemic may have impacts on the adequacy of the company's cash assets, schedule of refinancing or the company's operational prerequisites or business operations in other ways.

Consolidated statement of comprehensive income

1000 EUR	Note	1.2.2019-31.1.2020	1.2.2018-31.1.2019
REVENUE	**3**	**101 027**	**93 761**
Other operating income	4	841	577
Materials and services	5	-35 659	-33 837
Employee benefits expense	6	-38 128	-35 376
Depreciation and amortisation	5	-7 391	-6 265
Other operating expenses	5	-16 774	-17 717
OPERATING PROFIT		**3 917**	**1 143**
Finance income	15	91	45
Finance expense	15	-2 499	-2 277
Finance income and expense		-2 407	-2 232
PROFIT/LOSS BEFORE TAX		**1 510**	**-1 089**
Tax on income from operations	20	-456	92
PROFIT/LOSS FOR THE PERIOD		**1 054**	**-998**
Profit attributable to:			
Owners of the parent company		1 021	-1 014
Non-controlling interests		33	17
		1 054	**-998**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		-7	-3
		-7	**-3**
TOTAL COMPREHENSIVE INCOME		**1 047**	**-1 001**
Total comprehensive income attributable to:			
Owners of the parent company		1 015	-1 018
Non-controlling interests		32	17
		1 047	**-1 001**

Consolidated balance sheet

1000 EUR	Note	31.1.2020	31.1.2019
ASSETS			
NON-CURRENT ASSETS			
Goodwill	8	39 437	39 472
Intangible assets	8	890	900
Property, plant, equipment	9	29 461	29 596
Other non-current financial assets		45	53
Non-current loan receivables	16	14	14
Other non-current receivables	14	4	10
Deferred tax assets	20	27	24
NON-CURRENT ASSETS		**69 878**	**70 068**
CURRENT ASSETS			
Inventories	10	10 147	12 665
Trade receivables and other receivables	11	8 617	6 837
Loan receivables	14	54	129
Tax Receivable, income tax		5	119
Cash and cash equivalents		5 711	244
CURRENT ASSETS		**24 535**	**19 994**
ASSETS		**94 413**	**90 062**
EQUITY AND LIABILITIES			
Owners of the parent company			
Share capital	17	3	3
Unrestricted equity reserve	17	18 079	13 579
Translation differences	17	-10	-3
Accumulated earnings	17	9 333	8 413
Owners of the parent company		**27 404**	**21 991**
Non-controlling interests		**45**	**13**
EQUITY		**27 449**	**22 004**
NON-CURRENT LIABILITIES			
Finance and lease liabilities	14	45 111	18 811
Non-current interest-free liabilities	14	359	355
Deferred tax liabilities	20	287	43
NON-CURRENT LIABILITIES		**45 757**	**19 210**
CURRENT LIABILITIES			
Finance and lease liabilities	14	8 524	38 627
Other current liabilities	12	12 377	9 778
Derivatives	14	142	164
Tax liability, income tax		164	279
CURRENT LIABILITIES		**21 207**	**48 848**
Liabilities		**66 964**	**68 058**
EQUITY AND LIABILITIES		**94 413**	**90 062**

Consolidated statement of changes in equity

1000 EUR	Note	Share capital	Unrestricted equity reserve	Translation differences	Edellisten tilikausien voitto (tappio)	Total	Non-controlling interests	Total equity
	19							
EQUITY 1.2.2019		**3**	**13 579**	**-3**	**8 413**	**21 991**	**13**	**22 004**
Comprehensive income								
Profit/loss for the period					1 021	1 021	33	1 054
Other comprehensive income:								
Translation differences		0	0	-7	0	-7	-1	-7
TOTAL COMPREHENSIVE INCOME		**0**	**0**	**-7**	**1 022**	**1 015**	**32**	**1 047**
Transactions with owners								
Rights issue		0	4 500	0		4 500	0	4 500
Acquisition of treasury shares		0	0	0	-102	-102	0	-102
Total transactions with owners		**0**	**4 500**	**0**	**-102**	**4 398**	**0**	**4 398**
TOTAL EQUITY 31.1.2020		**3**	**18 079**	**-10**	**9 333**	**27 404**	**45**	**27 449**

1000 EUR	Note	Share capital	Unrestricted equity reserve	Translation differences	Edellisten tilikausien voitto (tappio)	Total	Non-controlling interests	Total equity
EQUITY 1.2.2018	19	**3**	**13 579**	**0**	**9 427**	**23 009**	**-4**	**23 005**
Comprehensive income								
Profit/loss for the period					-1 014	-1 014	17	-998
Other comprehensive income:								
Translation differences		0	0	-3	**0**	-3	0	-3
TOTAL COMPREHENSIVE INCOME		**0**	**0**	**-3**	**-1 014**	**-1 018**	**17**	**-1 001**
TOTAL EQUITY 31.1.2019		**3**	**13 579**	**-3**	**8 413**	**21 991**	**13**	**22 004**

Consolidated cash flow statement

1000 EUR		1.2.2019-31.1.2020	1.2.2018-31.1.2019
Cash flows from operating activities			
PROFIT/LOSS FOR THE PERIOD		1 054	-998
Adjustments to the profit/loss for the period			
Depreciation, amortisation and impairment	5	7 391	6 265
Financial income and expenses	15	2 399	2 132
Tax on income from operations	20	456	-92
Other adjustments		77	63
Adjustments total		10 323	8 369
Working capital changes			
Increase / decrease in inventories	10	2 505	-2 772
Increase /decrease in trade and other receivables	11	-2 015	1 082
Increase / decrease in trade payables	12	2 132	747
Interest paid	15	-1 666	-2 312
Dividends received	15	3	3
Interest received	15	22	13
Other financial items	15	-218	-90
Income taxes paid	20	-218	-2 001
Net cash from operating activities		**11 921**	**2 041**
Cash flows from investing activities			
Purchase of tangible and intangible assets	8,9	-2 143	-5 915
Proceeds from sale of tangible and intangible assets	8,9	21	649
Proceeds from sales of investments		9	29
Loans granted		-22	-5
Proceeds from repayments of loans		96	120
Net cash used in investing activities		**-2 039**	**-5 122**
Cash flows from financing activities			
Proceeds from issue of share capital		4 500	0
Purchase of treasury shares		-102	0
Proceeds from current borrowings	14	0	4 604
Repayment of current borrowings	14	-4 609	-183
Proceeds from non-current borrowings	14	2 183	0
Repayment of non-current borrowings	14	-2 050	-4 113
Payment of lease liabilities		-4 337	-3 129
Net cash used in financing activities		**-4 414**	**-2 822**
Net change in cash and cash equivalents		**5 468**	**-5 903**
Cash and cash equivalents, opening amount	14	244	6 156
Net increase/decrease in cash and cash equivalents		5 468	-5 903
Effects of exchange rate fluctuations on cash held		-2	-8
Cash and cash equivalents	14	5 711	244

Notes to the consolidated financial statements

INFORMATION ABOUT THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements are the financial statements of a group of companies comprised of HLRE Holding Oy, Business ID 2611405-7 (hereinafter referred to as “HLRE Holding”, “the Company” or “the parent company”) and its subsidiaries, which are jointly referred to as “HLRE”, “HLRE Group” or “the Group”.

The parent company of the Group is domiciled in Pirkkala, and its registered address is Jasperintie 273, FI-33960 Pirkkala, Finland. A copy of the financial statements is available from the address Jasperintie 273, FI-33960 Pirkkala, Finland.

These consolidated financial statements include the consolidated statement of comprehensive income, the consolidated cash flow statement and statement of changes in equity for the financial years ended 31 January 2020 and 31 January 2019. The Company’s Board of Directors approved the consolidated financial statements for publication on 26 March 2020.

In accordance with the Finnish Limited Liability Companies Act, shareholders can adopt or reject the financial statements at a general meeting of shareholders held after their publication. The general meeting has the right to amend the consolidated financial statements.

1. Accounting principles

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the IFRS Interpretations Committee (IFRS IC) applied by companies reporting under the IFRS standards as approved for application in the European Union. The notes to the financial statements also meet the requirements of the Finnish legislation on accounting and companies which supplement the IFRS.

HLRE Holding Oy published its first IFRS-compliant consolidated financial statements for the financial year ended 31 January 2019 and comparison data for the financial year ended 31 January 2018. The consolidated financial statements of 31 January 2020 are the second IFRS consolidated financial statements published by HLRE Holding Oy. The Company previously applied the Finnish Accounting Standards (FAS).

The measurement of assets and liabilities is based on cost, with the exception of certain financial assets and liabilities (derivative instruments and assets measured at fair value through profit or loss), which are measured at fair value.

The consolidated financial statements are presented as thousands of euros, unless otherwise specified, and the numbers are rounded off to the nearest thousand. Because of this, the sum of individual figures can deviate from the reported total. The operating currency of the Company is the euro, which is also the reporting currency of the Company and Group. The assets included in the financial statements of the subsidiaries included in the Group are measured in the currency of the primary operating environment of each subsidiary.

2. Management discretion and sources of uncertainty

Preparing the consolidated financial statement requires the management to use estimates and assumptions that have impacts on applying the accounting principles and amounts of assets, liabilities, income and expenses recognised in the financial statements. Significant estimates or discretionary decisions are reviewed in the following notes:

- impairment of goodwill, note 8
- leases, note 9
- measurement of inventories, note 10
- impairment of trade receivables, note 16

The estimates and discretionary decisions are continuously reviewed. They are based on prior experience and other factors, such as expectations of future events with potential financial impacts on the company and which are considered to be reasonable under the circumstances in question.

In its financial statements, the HLRE Holding Group focuses on information that it considered to be relevant to its stakeholders and other readers of the financial statements. The notes to the consolidated financial statements are divided into six sections, with each section containing the related relevant accounting principles. These sections are information about the consolidated financial statements, key information relating to profit, personnel, assets and liabilities used in business operations, capital structure and financing, and other notes. The purpose of this presentation method is to provide the reader with a clear idea of the Group's financial position and result and the chosen accounting principles.

KEY INFORMATION RELATING TO PROFIT

This section discloses information that is relevant to understanding the Group's result of the financial period and performance.

- Turnover
- Other operating income
- Operating expenses

3. Turnover

The turnover of the HLRE Holding Group is primarily generated by roofing and roof product installations for single-family homes and housing companies pursuant to the service concept developed by the Company, as well as project and direct sales of rainwater management systems and roof safety products. The entire service chain – product development, manufacturing, sales and installation – is managed in-house by the Group.

The "Weather protection in just one day" installation for a single-family home pursuant to the service concept is realised in two days in the best-case scenario. A two-day roofing renovation is made possible by skilled installation assisted by a crane, in which each work phase is planned and assigned in advance and the work phases have been prepared, as well as by a proprietary sheet metal roofing factory.

Accounts payable from roofing and roof product installations pursuant to the consumer service concept in Finland are primarily forwarded to a Laatutili credit facility. Laatutili is a renovation loan granted by the OP bank. Using a Laatutili loan, the customer can pay for the roofing renovation in a single interest-free and expense-free instalment with a term of payment of 30 days or over a longer repayment period as separately agreed monthly instalments. The term of payment for installations not realised under the Laatutili facility is 10 days. In direct sales, the term of payment varies from 14 to 30 days, depending on the customer.

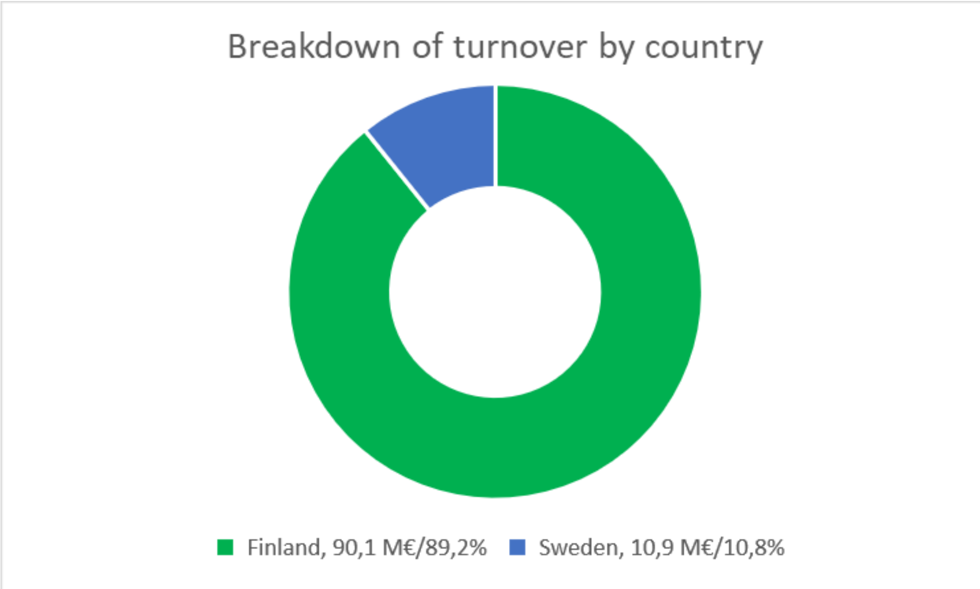
The Group's IFRS-compliant principles of revenue recognition are described in more detail under "Turnover: Accounting principle" on page 18 of these financial statements.

Breakdown of turnover by country for the financial year ended 31 January 2020

During the financial year ended 31 January 2020, the HLRE Holding Group operated in Finland and Sweden. The Swedish roofing renovation business was launched in the Stockholm region in 2016, and the Company's second Swedish location was opened in the summer 2018. The third location in Sweden was opened in Flen in the Stockholm region in the spring 2019.

Of the Group's turnover for the financial year 1 February 2019–31 January 2020, Finland accounted for approximately 89% (92%) and Sweden for approximately 11% (8%). Following the expansion of the Swedish business, the relative share of Swedish business of the Group's turnover has increased and is expected to increase further in the next couple of years.

The Group’s turnover of EUR 101.0 million was broken down by country as follows:



Breakdown of turnover in Finland for the financial year ended 31 January 2020

The Group’s business operations in Finland are divided into installation business (installation of roofing and roof products) and direct sales of rainwater management systems and roof safety products. The Swedish turnover was generated exclusively by roofing and roof product installations.

The installation business accounted for approximately 87% (89%) of the Group’s turnover in Finland for the financial year ended 31 January 2020 and product sales for approximately 13% (11%). The Group’s turnover in Finland was broken down as follows for the financial year 1 February 2019–31 January 2020:

The HLRE Holding Group recognised turnover-related liabilities (contractual volume discounts) of EUR 3.9 thousand, reported in connection with accounts payable and other liabilities.

Accounting principle

The turnover of the HLRE Group is primarily generated from the sales of roofing, rainwater management systems and roof safety products and their installations, and performance obligations are readily identifiable from customer agreements and orders.

IFRS 15 Revenue from Contracts with Customers includes a five-step guideline on the recognition of sales income which determines the amount and timing of recognising sales income. A sale is recognised based on the transfer of control, either over time or at a point in time. When calculating turnover, sales income is adjusted for indirect taxes and discounts.

Roofing and roof product installations include the products and their installation service. Typically, the products are customised based on the customer's needs, such as the dimensions of roofs, in conjunction with the installation. The customer has ordered turnkey delivery of a functional roof solution from the Company, which constitutes a single performance obligation. Control over these performance obligations is transferred over time, because the obligation becomes an asset with control over it transferred to the customer as the installation work progresses. The installation takes place very quickly, usually over a few days, and the corresponding sale is recognised once the turnkey delivery has been made. The account receivable is recognised after delivery, because the Company is entitled to a payment that is only conditional on the passage of time.

With regard to product sales, individual products constitute a performance obligation, and the sale is recognised as revenue at a single point in time when control is transferred to the customer. Typically, this takes place at the time of delivery when the significant risks and benefits associated with ownership have been passed on to the buyer and the HLRE Holding Group does not have factual control over the sold goods and when receiving consideration is probable. The account receivable is recognised in connection with revenue recognition of the sale, because the Company is thereafter entitled to a payment that is only conditional on the passage of time. Because the performance obligations are fulfilled over a very short period or at a single point in time when control is transferred as described above, the Company makes use of the exemption allowed by the standard to not report the transaction price allocated to the remaining performance obligations.

The terms of payment of sold products are primarily less than 30 days.

4. Other operating income

Other operating income	**1 February 2019-31 January 2020**	**1 February 2018-31 January 2019**
Capital gains from non-current tangible and intangible assets	62	39
Rent income	72	68
Commission income	312	316
Other operating income	396	153
	841	**577**

Other operating income is comprised of rent income from owned premises leased to external parties, sales of recycling materials and bank commissions from Laatutili customer financing.

5. Operating expenses

Materials and services and change in inventories

	1 February 2019-31 January 2020	1 February 2018-31 January 2019
Purchases during the financial period	-25929	-28637
Change in inventories of finished goods and work in progress	-246	-620
Production for own use	83	39
Increase or decrease in inventories	-2254	3395
External services	-7313	-8013
Materials and services	-35659	-33837

External services are comprised of scaffolding subcontracting expenses to a significant extent. During the financial year 2020, Vesivek Oy insourced scaffolding work at eight units in Finland and is preparing for insourcing scaffolding work in other units gradually over the next couple of years.

Depreciation and amortisation

Amortisation according to plan	**1 February 2019-31 January 2020**	**1 February 2018-31 January 2019**
Development expenses	-6	-6
Intangible rights	-149	-127
Other intangible assets	-7	-5
	-162	**-137**
Amortisation of goodwill	**-35**	**0**
Depreciation according to plan		
Buildings and structures	-2686	-2270
Machinery and equipment	-4477	-3826
Other tangible assets	-31	-31
	-7,194	**-6,127**

Other operating expenses

1000 eur	**1.2.2019-31.1.2020**	**1.2.2018-31.1.2019**
Costs for premises	-993	-926
Costs for machinery and equipment	-5 127	-4 956
Marketing costs	-2 484	-4 812
Other variable operating expenses	-1 144	-1 075
Other fixed operating expenses	-7 024	-5 948
	-16 774	**-17 717**

The biggest items in other fixed operating expenses are voluntary social security contributions, EUR 1,497.4 thousand, and travel and entertainment expenses, EUR 672.9 thousand. The significant decrease of marketing expenses compared to the previous financial year was due to the financing covenant and other terms of the Company's financing agreement renegotiated during the financial year. Other variable operating expenses are comprised of travel expenses allowances paid to installation personnel.

Auditors' fees

1000 eur	**1.2.2019-31.1.2020**	**1.2.2018-31.1.2019**
Statutory auditing	-102	-104
Other fees and services	-60	-52
	-162	**-156**

Research and development expenses

The Group's research and development expenditure for the financial year 1 February 2019–31 January 2020 totalled EUR 174.6 thousand, 0.2% of the Group's turnover (EUR 191.8 thousand for 1 February 2018–31 January 2019, or 0.2% of the Group's turnover). Research and development activities are centralised in Nesco Oy within the Group, and they are mostly comprised of the design and production of prototypes of rainwater management system and roof safety products, testing them in-house and testing them in co-operation with a testing institution.

Research and development expenses were as follows for the financial year, thousands of euros:	
Research and development expenses on Nesco's income statement	23.0
In-house development work capitalised on the balance sheet	87.3
Research and development purchases capitalised on the balance sheet	11.6
Development team personnel expenses with social security expenses (-capitalised)	52.8
Total	174.7

The most significant product development projects during the period were:

1. Ladder development (same as in the previous financial statements)
2. Solar panel fastening system for flat and ridge roofs
3. Development and fabrication methods of roof drains

Research and development expenses are recognised as they are incurred, except if they will produce economic benefit in the future and the Company can reliably measure their acquisition cost.

PERSONNEL

This section provides information about how the HLRE Holding Group rewards its personnel and key managers. The section includes information about employee benefits and related party information relating to the key personnel as follows:

- Employee benefit expenses
- Information about key managers

6. Employee benefit expenses

The employee benefit expenses and other personnel expenses are as follows:

Employee benefit expenses	**1 February 2019-31 January 2020**	**1 February 2018-31 January 2019**
Wages, salaries and fees	30127	27697
Pension expenses	5338	5126
Other social security contributions	2664	2554
	38,128	**35,376**

Wages and salaries are mainly comprised of monthly salaries, hourly wages and performance bonuses paid to the employees. The employees are entitled to extensive occupational health care services, and some of the employees have company cars and phone benefits. In addition to statutory insurance, the employees are covered by leisure-time accident insurance.

Other social security contributions mainly include other social security expenses apart from pension expenses.

The Group has a reward scheme based on years of service. In accordance with the rewards for years of service, employees are paid a lump-sum reward for having worked a certain number of years as follows.

PERSONNEL REWARDS

The new structure concerning the entire Group:

5 years	**1 week salary**
10 years	**1,5 weeks salary**
15 years	**2 weeks salary**
20 years	**2 weeks salary**
25 years	**2 weeks salary**
30 years	**3 weeks salary**
35 years	**3 weeks salary**

Liability and expense calculations and reports relating to rewards for years of service pursuant to IAS 19 as Note 22. The calculations also include forecasts for the next financial statements.

Accounting principle

Short-term benefits

Short-term employee benefits include wages and salaries, including fringe benefits and annual holiday pay to be paid within 12 months. Short-term employee benefits are recognised in other liabilities with regard to work performed by the closing date and measured at the value expected to be paid once the liabilities are settled.

Post-employment benefits

The pension arrangements of the HLRE Holding Group are defined contribution plans. A defined contribution plan is a pension arrangement under which the Group makes fixed payments to a separate unit and has no legal or factual obligation to make additional payments if the said unit does not have adequate funds for paying all benefits relating to work performed during the current and previous financial years to all employees. Payments made to defined contribution plans are recognised directly through comprehensive income for the period to which the payments are connected.

Other long-term benefits

Other long-term employee benefits include leaves associated with long service or sabbaticals, anniversary benefits or other benefits relating to long service and long-term unemployment benefits.

7. Information about key managers (incl. managers' shareholdings)

Remuneration of key managers

The Company's Board of Directors appoints the CEO and the Deputy CEO and decides on the terms and conditions of their employment. The Board of Directors confirms the wages and other benefits paid to the management team based on the CEO's proposal and the principles of remuneration of the Company's other senior management.

The wages and salaries and other taxable benefits paid to the CEO and rest of the Group's management team for the financial year ended 31 January 2020 are presented below. The compensation paid is comprised of fixed monthly salary and fringe benefits.

	1 February 2019-31 January 2020	1 February 2018-31 January 2019
Remuneration of the CEO		
Salary, other remuneration and benefits	133	139
Pension expenses - defined contribution plans	6	6
Total	139	145

Remuneration of the Group management team (excluding the CEO)

Salary, other remuneration and benefits	503	769
Pension expenses - defined contribution plans	93	153
Total	596	922
Remuneration of Board members	64	61
Key managers and Board of Directors total	799	1127

The employment contract of CEO Kimmo Riihimäki can be terminated with a period of notice of three (3) months by either party. If the Company terminates the contract, the Company pays the CEO an amount corresponding to the total wages for three (3) months as a lump-sum compensation.

Kimmo Riihimäki is subject to a 24-month non-competition and non-solicitation clause, with a related contractual penalty of EUR 100,000 for each breach by the CEO. If the losses incurred by the Company exceed the above-mentioned contractual penalty, the CEO must compensate the amount of the loss in full.

The CEO contract will expire at the latest upon the retirement of Kimmo Riihimäki. The CEO's retirement age is 65.

The members of the Group management team have periods of notice of three or six months. They are entitled to severance pay. In addition, the members of the management team are bound by non-competition and non-solicitation clauses with contractual penalties.

HLRE Holding Oy realised share issues directed at the Group's key personnel in 2014–2020. The investments by key employees have been made at the same price and under the same terms and conditions as those by the majority shareholder. Because the shares have been subscribed at fair value, the arrangements do not include expenses pursuant to IFRS 2.

The key employees' shareholdings include an obligation to work. The Company has the right to redeem the shares at the original subscription prices of the share issues in case of resignations of the key employees. Because HLRE Holding Oy or its subsidiary have no contractual obligation or prior established practice to pay monetary compensation to leavers, the arrangement is classified as an equity-settled arrangement under IFRS.

A similar arrangement has also been realised with the key personnel of Vesivek Sverige AB.

The shareholdings of Board members, the CEO and members of the management team in the Group's parent company HLRE Holding Oy on 31 January 2020 are presented in the table below:

Management holdings and shareholder loans

The management held shares on 31 January 2020 as follows:

Management shareholdings	Shares	% holding
Other Board members besides the CEO	34361	
CEO	5,497,826	33
Other management team members	111767	1

The Company has no share-based incentive schemes in force.

ASSETS AND LIABILITIES USED IN BUSINESS OPERATIONS

This section provides information about the assets used in business operations and liabilities incurred due to the Group's business operations.

- Goodwill and other intangible assets, including impairment testing
- Property, plant and equipment
- Trade and other receivables
- Trade and other payables

8. Goodwill and other intangible assets, including impairment testing

The table below presents changes in goodwill and other intangible assets:

1000 EUR	Development costs	Immaterial rights	Other intangible assets	Advance payments for intangible assets	Goodwill	Total
Cost 1.2.2019	59	1 427	21	41	39 472	40 999
Additions	0	8	0	145	0	153
Disposals	0	-98	0	0	0	-98
Reclassifications	15	23	0	-38	0	0
Cost 31.1.2020	75	1 359	21	148	39 472	41 053
Cumulative amortisation and impairment 1.2.2019	-51	-593	-5		0	-644
Cumulative amortisation on disposals and reclassificati	0	98	0		0	98
Amortisation	-6	-149	-7		0	-155
Impairment	0	0	0		-35	-35
Cumulative amortisation and impairment 31.1.2020	-57	-644	-12		0	-736
Carrying amount 1.2.2019	8	835	17	41	39 472	40 372
Carrying amount 31.1.2020	**17**	**716**	**10**	**148**	**39 437**	**40 327**

1000 EUR	Development costs	Immaterial rights	Other intangible assets	Advance payments for intangible assets	Goodwill	Total
Cost 1.2.2018	59	1 319	0	0	39 472	40 850
Additions	0	20	21	135	0	155
Reclassifications	0	135	0	-94	0	41
Cost 31.1.2019	59	1 427	21	41	39 472	40 999
Cumulative amortisation and impairment 1.2.2018	-45	-460	0		0	-505
Amortisation	-6	-127	-5		0	-133
Cumulative amortisation and impairment 31.1.2019	-51	-593	-5		0	-644
Carrying amount 1.2.2018	14	859	0	0	39 472	40 345
Carrying amount 31.1.2019	**8**	**835**	**17**	**41**	**39 472**	**40 372**

Other intangible assets are comprised of information systems and patents, trademarks and design rights applied for by group companies. Of the goodwill on the consolidated balance sheet, the majority arose in conjunction with the acquisition of Hämeen Laaturemontti Oy in 2014, when a fund managed by Sentica Partners Oy acquired a majority holding in what was then Hämeen Laaturemontti Oy, the current Vesivek Oy. The goodwill increased when HLRE Group Oy acquired the shares in the Nesco Invest group of companies in 2016.

Accounting principle

Goodwill

Good will arises from the acquisition of subsidiaries, and it corresponds to the amount by which the acquisition cost exceeds the Group's share of the net fair value of the assets and liabilities of the acquisition. For impairment testing, goodwill is allocated to cash-generating units or groups of units which are expected to benefit from the acquisition of the businesses resulting in the goodwill. Goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate any impairment. The book value of the cash-generating unit with goodwill is compared to the recoverable amount, which is the higher of value of use or fair value less costs of sale. Any impairment loss is firstly allocated to goodwill and secondarily to other assets proportionally. Goodwill impairment losses recognised through profit or loss are not reversed.

Other intangible assets

Other intangible assets are recognised on the balance sheet when the asset is in the Company's control, it is expected to yield future economic benefit to the Company and the acquisition cost of the asset can be reliably determined. The intangible asset is initially recognised at cost, which includes the purchase price and any direct expenses incurred due to the asset. Intangible assets are reported on the balance sheet at cost less accumulated amortisation and impairment. Intangible assets are amortised using the straight-line method over the economic useful life of the asset. The appropriateness of the amortisation times the methods is assessed at each closing date.

The economic useful lives of the Company's intangible assets are as follows:

In the HLRE Holding Group, information systems are amortised over 5 years and patents/trademarks over 10 years.

Goodwill impairment testing

Key discretionary decisions and estimates

Key assumptions used in testing goodwill for impairment

The management makes significant estimates and discretionary decisions in determining the level at which goodwill is tested and whether there are indications of the impairment of goodwill.

According to the management's view, the acquisition price exceeding the acquired net assets was paid for the business and business idea as a whole, and therefore it considers that the goodwill must be tested at the level of Vesivek Oy (roofing and roof safety product installations in Finland), which is a cash-generating unit in Finland, and at the level of the Nesco subgroup (manufacturing of rainwater management systems and roof safety products), which is managed as a separate operation and cash-generating entity.

Determining the recoverable amount of a cash-generating unit is based on value in use calculations, which require the use of estimates. The calculations use cash flow projections based on budgets and estimates approved by the management for a five-year period. The cash flow projections are based on the Group's actual results and the management's best estimates of future sales, development of costs, general market conditions and applicable tax rates. The years after the projected period are extrapolated using a growth estimate of 2%. The estimated future net cash flows are discounted to their current value when estimating the recoverable amount based on the pre-tax weighted average cost of capital. The weighted average cost of capital illustrates the current market view of the time value of money and risks associated with the tested units.

The management tests the impacts of changes in significant assumptions by making sensitivity analyses as described below in this note. In these IFRS financial statements, goodwill is reported for the most recent closing date and the one preceding it, 31 January 2020 and 31 January 2019.

The table below presents the allocation of goodwill to the Group's cash-generating units:

Thousands of euros	**31 January 2020**	**31 January 2019**
Installation of roof and rainwater systems in Finland	34567	34567
Production of rainwater systems and roof safety products	4870	4904

The write-down of goodwill for the financial year 1 February 2019–31 January 2020, EUR 34 thousand, was associated with the divestment of the retail business of rainwater management systems and roof safety products in the Lappeenranta region.

The key assumptions used in the value in use calculations are as follows:

2020	EBITDA in 5 years period of time, %	Long term EBITDA, %	Discount rate before taxes, %	Long term growth factor, %
Installation of roof and rainwater systems in Finland	10,8	12,0	9,4	2,0
Production of rainwater systems and roof safety products	14,4	14,5	9,4	2,0

2019	EBITDA in 5 years period of time, %	Long term EBITDA, %	Discount rate before taxes, %	Long term growth factor, %
Installation of roof and rainwater systems in Finland	9,9	12,0	9,4	2,0
Production of rainwater systems and roof safety products	14,9	15,0	9,4	2,0

Sensitivity analysis

No impairment loss was recognised for the reported financial years as a result of the tests for impairment. The recoverable amount exceeded the book value on 31 January 2020 by EUR 52 million with regard to roofing and roof safety product installations in Finland and by EUR 19 million with regard to the manufacturing of rainwater management systems and roof safety products (31 January 2019: by EUR 45 million with regard to roofing and roof safety product installations in Finland and by EUR 17 million with regard to the manufacturing of rainwater management systems and roof safety products).

The management has prepared sensitivity analyses of the key factors, and based on the analyses, the recoverable amounts equal the book value if the assumptions change one by one:

	31.1.2020	31.1.2019
Installation of roof and rainwater systems in Finland		
Change in discount rate, percentage points	4,9 %	4,0 %
Decrease in EBITDA, percentage points	-5,7 %	-4,8 %
Production of rainwater systems and roof safety products		
Change in discount rate, percentage points	6,7 %	5,7 %
Decrease in EBITDA, percentage points	-7,7 %	-6,9 %

9. Property, plant and equipment

1000 EUR	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1.2.2019	319	17 504	30 877	313	430	49 443
Translation differences	0	-31	-66	0	0	-98
Additions	0	2 015	4 440	0	933	7 388
Disposals	0	-185	-1 429	0	0	-1 614
Changes in lease-contracts	0	-49	0	0	0	-49
Reclassifications	0	0	625	0	-625	0
Cost 31.1.2020	319	19 254	34 447	313	739	55 071
Cumulative amortisation and impairment 1.2.2019	0	-5 391	-14 224	-232		-19 847
Translation differences	0	11	14	0		26
Cumulative amortisation on disposals and reclassifica	0	142	1 262	0		1 405
Amortisation	0	-2 686	-4 477	-31		-7 194
Cumulative amortisation and impairment 31.1.2020	0	-7 923	-17 424	-263		-25 610
Carrying amount 1.2.2019	319	12 113	16 653	81	430	29 596
Carrying amount 31.1.2020	**319**	**11 331**	**17 023**	**50**	**739**	**29 461**

1000 EUR	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1.2.2018	275	14 576	24 028	300	796	39 975
Translation differences	0	-38	-68	0	0	-106
Additions	44	3 359	6 389	10	1 132	10 935
Disposals	0	-519	-971	0	0	-1 490
Changes in lease-contracts	0	126	0	0	0	126
Reclassifications	0	0	1 498	3	-1 498	3
Cost 31.1.2019	319	17 504	30 877	313	430	49 443
Cumulative amortisation and impairment 1.2.2018	0	-3 463	-10 741	-201		-14 405
Translation differences	0	9	10	0		19
Cumulative amortisation on disposals and reclassifica	0	333	333	0		666
Amortisation	0	-2 270	-3 826	-31		-6 127
Cumulative amortisation and impairment 31.1.2019	0	-5 391	-14 224	-232		-19 847
Carrying amount 1.2.2018	275	11 113	13 287	99	796	25 570
Carrying amount 31.1.2019	**319**	**12 113**	**16 653**	**81**	**430**	**29 596**

Accounting principle

Property, plant and equipment is initially recognised at original cost, which includes the purchase price and other direct costs of acquisition needed to bring the asset into operating condition and the place where it functions as intended. The assets are recognised on the balance sheet at cost less accumulated amortisation and impairment. Leased tangible assets are treated in the same way as purchased assets in accounting. Repair and maintenance costs are expensed as they are incurred.

Depreciation and amortisation is recognised using the straight-line method by allocating the cost to the estimated economic useful lives of the assets. The economic useful lives of assets are reviewed on each closing date and amended, as necessary.

Depreciation and amortisation times by asset category:

Buildings and structures	10–40 years
Machinery and equipment	3–12 years
Other tangible assets	5–10 years

Capital gains and losses on the sale of property, plant and equipment are included in other operating income or expenses on the statement of comprehensive income.

Leases

1000 EUR	**31.1.2020**	**31.1.2019**
Right of use -assets*		
Buildings	8 133	8 661
Vehicles	4 445	2 771
	12 578	11 431

* included in balance sheet item Property, plant and equipment

	31.1.2020	**31.1.2019**
Lease liabilities*		
Current	3 908	3 452
Non-current	8 529	7 991
	12 437	11 443

* included in balance sheet items current and non-current finance and lease liabilities

Changes in right-of-use assets during the financial year:

1000 EUR	Buildings and structures, right-of-use	Machinery and equipment, right-of-use	Total
Cost 1.2.2019	12 089	4 484	16 573
Translation differences	-31	-15	-46
Additions	2 015	3 383	5 397
Disposals	-182	-776	-959
Revaluation	-49	0	-49
Cost 31.1.2020	13 840	7 076	20 916
Cumulative amortisation and impairment 1.2.2019	-3 428	-1 713	-5 141
Translation differences	11	4	16
Cumulative amortisation on disposals and reclassificatio	140	776	917
Amortisation	-2 431	-1 698	-4 130
Cumulative amortisation and impairment 31.1.2020	-5 707	-2 631	-8 338
Carrying amount 1.2.2019	8 661	2 771	11 431
Carrying amount 31.1.2020	**8 133**	**4 445**	**12 578**

1000 EUR	Buildings and structures, right-of-use	Machinery and equipment, right-of-use	Total
Cost 1.2.2018	9 636	2 339	11 975
Translation differences	-38	-3	-41
Additions	2 883	2 305	5 188
Disposals	-519	-158	-677
Revaluation	126	0	126
Cost 31.1.2019	12 089	4 484	16 573
Cumulative amortisation and impairment 1.2.2018	-1 731	-730	-2 461
Translation differences	9	1	10
Cumulative amortisation on disposals and reclassificatio	333	158	490
Amortisation	-2 039	-1 142	-3 181
Cumulative amortisation and impairment 31.1.2019	-3 428	-1 713	-5 141
Carrying amount 1.2.2018	7 906	1 609	9 515
Carrying amount 31.1.2019	**8 661**	**2 771**	**11 431**

Included in profit and loss statement	**1.2.2019-31.1.2020**	**1.2.2018-31.1.2019**
1000 eur		
Amortisation of right-of-use assets		
Buildings	-2 431	-2 039
Vehicles	-1 698	-1 142
Interest expense (included in financial expense)	-270	-245
Short-term leases and rents	-1 691	-322
Low value rents and leases which are not short-term	-18	-16

Outgoing cash flows from leases during the financial year 2020 was 6 727 thoudans euros

Non-current assets pledged as collateral

Information about the Group's non-current assets pledged as collateral is provided in note 14.

Accounting principle

The Group has leased diverse properties and vehicles. Leases on properties are usually made for a fixed term of 3+3 (or 5+5) years. The terms and conditions of the leases are negotiated on a case-by-case basis, and they involve various conditions. The lease agreements include no covenants, but the leased assets may not be used as collateral for loans. Leases on vehicles usually have a term of three years.

A right-of-use asset and corresponding liability are recognised for leases when the leased asset is available to the Group to use. The right-of-use asset is comprised of the amount of the lease liability at the original value and rents paid by the start of the lease less incentives received in associated with the lease, initial direct expenses and any restoration expenses. Paid rents are divided into liabilities and financial expenses. The financial expense is recognised through profit or loss over the lease term so that the interest rate of the remaining liability balance is the same for each period. The right-of-use asset is amortised using the straight-line method over the shorter of its economic useful life or lease term.

Payments associated with short-term leases of assets of minor value are expensed in equal instalments. Leases with a maximum lease term of 12 months are considered to be short-term. Short-term leases primarily concern scaffolding and machines or lifting equipment used occasionally in production. Assets of minor value are primarily comprised of office equipment.

Key discretionary decisions and estimates

The duration of leases on business premises are annually measured at the management group level. The Group's strategy is defined for a period of three years, and the management team estimates whether the leased business premises will be suitable for the Group's use for the entire coming strategy period. With regard to leases valid until further notice, the property's lease term in calculating lease liabilities is considered to be the strategy period of 3 years or any shorter period if moving out of the current premises before the end of the strategy period is considered to be necessary. Any extension periods of fixed-term leases based on options are only taken into account if using them involves economic benefits or if exercising the extension option is otherwise reasonably certain.

In discounting the current value of rents, the interest rate used is the actual interest rate on additional credit using the Group's overdraft facility.

10. Inventories

1000 eur	31.1.2020	31.1.2019
Raw materials and consumables	6 782	7 677
Work in progress	430	686
Finished goods	2 930	4 296
Other inventories	6	6
	10 147	**12 665**

Accounting principle

Materials and supplies, work in progress and finished products are recognised at the lesser of cost or net realisable value. The cost of inventories includes all purchase costs, costs of production and other expenses incurred due to bringing the inventories to their current location and condition. Purchase costs include purchase price, import duties and other taxes, transport and handling costs and other expenses directly caused by the procurement of finished products, materials and services. The costs of production of inventories include direct expenses incurred due to materials and labour and appropriate share of variable and fixed overhead expenses, the latter of which are allocated based on normal operating capacity. The measurement of acquisition cost is based on the FIFO method.

Key discretionary decisions and estimates

The measurement of inventories requires the management to make estimates and discretionary decisions associated particularly with obsolescence and recognition of inventories at net realisable value based on expected selling prices, in addition to which the management estimates the general development of prices in the Company's key markets. The net realisable value is the estimated actual selling price in ordinary business less estimated expenses required to complete the goods and realise the sale.

11. Trade and other receivables

1000 eur	31.1.2020	31.1.2019
Trade receivables	6 801	6 122
Loan receivables	54	129
Other receivables	164	188
Current prepayments and accrued income	1 652	527
	8 672	**6 966**

The maturity of trade receivables and impairment determination principles are presented in note 16, Management of financial risks.

Accrued income is mainly comprised of advance payments of social security contributions and uninvoiced revenue recognitions pursuant to the percentage of completion of roofing renovations for housing companies in progress.

The book values of current trade and other receivables are considered to be close to their fair values. This is due to their short-term nature.

Accounting principle

The receivables are amounts that the Group expects to receive from other parties. Trade receivables are generated by sales of goods and services in ordinary business operations. Trade and other receivables are initially measured at fair value pursuant to the invoice sent to the customer, after which they are measured at the amount considered to be received from the customer (amortised cost using the effective interest method).

The Group's financial assets are measured at amortised cost only if both of the following criteria are met: a) the asset is held in accordance with a business model aimed at collecting contractual cash flows; and b) the contractual terms stipulate cash flows taking place at specific times which are exclusively payments of principal and interest on the remaining principal. Financial assets measured at amortised cost only include trade and other receivables.

12. Trade and other payables

1000 eur	**31.1.2020**	**31.1.2019**
Current prepayments received	5	1
Trade payables	4 511	3 296
Other current liabilities	1 917	1 412
Current accrued liabilities	5 944	5 069
Current financial debts at fair value through profit and loss, interest-free	142	164
	12 519	**9 942**

Accrued charges are primarily comprised of amortised personnel expenses, interest liabilities and allocated purchases.

The book values of trade and other payables are considered to correspond to their fair values because the liabilities are short-term by nature.

Accounting principle

Trade payables are obligations to make a payment for goods or services procured from suppliers or service providers as part of ordinary business operations. Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

The Group's derivatives are comprised of interest swaps taken out to hedge the bank loan of EUR 20,500,000. The term of the agreement is 5 years and its expiry date is 24 February 2021. The fair value on 31 January 2020 was EU -142.2 (correspondingly EUR -164.1 thousand on 31 January 2019).

CAPITAL STRUCTURE AND FINANCING

This section includes information about how the Group manages its capital structure and financing and exposure to risks:

- Net debt
- Loans
- Financial assets
- Financial income and expenses
- Management of financial risks and capital
- Shareholders' equity

13. Net debt

1000 eur	**31.1.2020**	**31.1.2019**
Non-current interest-bearing liabilities	45 111	18 811
Current interest-bearing liabilities	8 524	38 627
Cash and cash equivalents	-5 711	-244
	47 924	**57 194**

Net debt reconciliation

	Cash and cash equivalents	**Lease liability within one year**	**Lease liability after one year**	**Loan repayments within one year**	**Loan repayments after one year**	**Total**
Net debt 1.2.2019	244	-3 452	-7 991	-35 174	-10 821	-57 194
Cash flow	5 468	4 337		4 609	2 050	16 464
Increase		-5 490	-1 786			-7 276
Exchange rate adjustments	-2	28				26
Other changes		162		26 456	-26 563	55
Net debt 31.1.2020	5 711	-4 415	-9 777	-4 109	-35 334	-47 924

	Cash and cash equivalents	**Lease liability within one year**	**Lease liability after one year**	**Loan repayments within one year**	**Loan repayments after one year**	**Total**
Net debt 1.2.2018	6 156	-2 450	-7 151	-4 197	-41 266	-48 907
Cash flow	-5 903	3 129		-4 421	4 113	-3 082
Increase		-4 162	-841			-5 003
Exchange rate adjustments	-8	27			-23	-4
Other changes		4		-26 557	26 355	-198
Net debt 31.1.2019	245	-3 452	-7 992	-35 175	-10 821	-57 194

The Group's bank loan with covenants was classified in full in current financial liabilities in the financial statements of 31 January 2019 in accordance with IAS 1.74–75, based on the breach of the covenants of the financing agreement in the financial year 1 February 2018–31 January 2019 and the fact that before the close of the financial year, the company did not have a written commitment from the bank indicating that the bank will not exercise its right to call the loan from repayment for a minimum of 12 months. After the close of the financial year, the company has renegotiated the covenants of the financing agreement. The company fulfilled the covenants of the renegotiated loan agreement at the time of signing the financial statements, and the loans are reported in non-current liabilities in the financial statements of 31 January 2020, except for normal repayments falling due during the financial year.

14. Loans and financial assets

1000 eur	**31.1.2020**	**31.1.2019**
Non-current loans from financial institutions	25 771	31
Non-current instalment liabilities	23	0
Non-current loans to related parties	10 789	10 789
Non-current lease liability	8 529	7 991
Non-current liabilities, interest-bearing	**45 111**	**18 811**
Current loans from financial institutions	4 607	30 570
Current cheque account with overdraft facility	0	4 604
Current instalment liabilities	9	0
Current lease liability	3 908	3 452
Current interest-bearing liabilities	**8 524**	**38 627**

Loans from financial institutions

The Company signed a five-year loan agreement amounting to EUR 46,000,000 with Danske Bank A/S Finland Branch on 22 February 2016. The agreement is comprised of two loans of EUR 20,500,000, one of which is repaid twice a year (EUR 2,050,000 per instalment) and the second bullet loan is repaid in full at the end of the loan period, and an overdraft facility totalling EUR 5,000,000. The overdraft facility was not in use on 31 January 2020.

During the financial year, the Company renegotiated the terms of the financing agreement and met the terms and conditions of the renegotiated financing agreement at the time of signing the financial statements. The Company's loan agreement has a variable interest rate, with the interest period being 3 months or 6 months according to the Company's notification. During the financial year 1 February 2019–31 January 2020, the interest period was 3 months. Changes in the interest margin are pegged to the ratio of net debt to EBITDA (leverage). The covenants pursuant to the financing agreement are reported quarterly.

The following shares have been pledged as collateral for the loan agreement: HLRE Group Oy, Vesivek Oy (formerly Hämeen Laaturemontti Oy), Vesivek Sverige AB (formerly Nordisk TakExpress AB), Nesco Invest Oy, Nesco Oy and Nesco Production Oy (merged into Nesco Oy on 1 February 2018). In addition, the current and future intra-Group receivables between HLRE Group Oy, Vesivek Oy, Vesivek AB, Nesco Invest Oy and Nesco Oy as well as the bank accounts of the said companies, including the Group account used by the Group and its member accounts, have been pledged as collateral for the loan agreement.

The company's five-year financing agreement will mature on 22 February 2021 in accordance with its terms and conditions. The Company has commenced negotiations on rearranging its financing.

On 12 April 2019, the Company agreed on a loan of EUR 2,183,451.30 with Danske Finance Oy. The loan period is 3 years and the interest margin is 4%. Of the loan, EUR 2,183,471.30 was withdrawn during the financial year and the amount of the loan was EUR 1,755,169.38 at the end of the financial year. In addition to the business and real estate mortgages presented below, the Company's vehicles, equipment and cranes have been pledged as collateral for the loan. Their book value on 31 January 2020 was EUR 3,567,925.52.

The following business mortgages have been confirmed and pledges as collateral for the loan agreements:

HLRE Group Oy	EUR 57,200,000
Vesivek Oy	EUR 57,200,000
Nesco Invest Oy	EUR 57,200,000
Nesco Oy	EUR 57,200,000
Vesivek Sverige AB	SEK 20,000,000

The following real estate mortgages have been pledged as collateral for the loan agreement:

Nesco Oy Orimattila production plant	EUR 13,673,200
Vesivek Oy industrial hall in Lieto	EUR 46,800,000

Shareholder loan

The Group has shareholder loans from the parent company's shareholders. At the end of the financial year 2020, the amount of shareholder loans was EUR 10.8 million. Accrued charges included EUR 2.9 million of interest accrued on the loans pursuant to the coupon rate of 6.00% p.a.

The shareholder loans are subordinated to the Group's bank loans and other loans with regard to repayment and interest. The shareholder loans have no collateral.

Accounting principle

The Group's financial liabilities are classified into financial liabilities at amortised cost and financial liabilities at fair value through profit or loss. A financial liability is classified as current unless the Group has an unconditional right to postpone the payment of the liability to a minimum of 12 months after the closing date of the reporting period. The financial liability is derecognised when the liability has ceased to exist, i.e. when the obligation specified in the agreement has been fulfilled or revoked or its validity has expired.

The loans taken out by the Group are included in financial liabilities measured at amortised cost. They are initially measured at fair value using the effective interest method. After initial recognition, the loans are measured at amortised cost. Interest on loans is allocated to the period of the loan through profit or loss using the effective interest method. Bank loans are categorised into level 2 in the fair value hierarchy because their measurement uses other than observable inputs, including the Company's own estimates of the level of risk premiums. The book value of bank loans is considered to be equal to their fair value because the interest level is considered to match the market interest level.

All derivate instruments are classified as financial assets and liabilities measured at fair value through profit or loss. Derivatives are measured at fair value. Both realised and unrealised gains and losses from the measurement of derivatives at fair value are recognised in financial income and expenses in the statement of comprehensive income. Hedge accounting is not applied to derivatives.

Measurement of fair value

Financial instruments measured at fair value are classified in accordance with the following fair value hierarchy: instruments for which there is a publicly quoted price in an active market (level 1), instruments for which there is another observable direct or indirect price than a quoted price pursuant to level 1 (level 2) and instruments for which there is no observable market price (level 3). These instruments measured at fair value include financial assets and liabilities measured at fair value through profit or loss.

Financial assets

1000 eur	**31.1.2020**	**31.1.2019**
Non-current		
Available for sale investments	2	9
Loan receivables	14	14
Current		
Loan receivables	54	129
Trade receivables	6 940	6 163
Cash and cash equivalents	5 711	244
	12 706	6 536

The Group’s financial assets are classified into the following categories: financial assets at amortised cost and financial assets at fair value through profit or loss. The classification of financial assets is based on their cash flow properties and business models used for their management, and recognised on the value date.

Loan receivables are comprised of loans granted by the Company to its employees. Loan receivables are measured at amortised cost.

Trade and other receivables are described in more detail in note 11, and they are measured at amortised cost.

Accounting principle

Financial assets measured at amortised cost

Trade and other receivables are measured at their expected realisable value, which is the original invoice value less impairment losses. The increase in credit risk is assessed with regard to investments measured at amortised cost and other receivables on the closing date. The method applied is determined based on the potential increase in credit risk. When there is no significant increase in credit risk, the estimated amount of credit losses is based on expected credit losses for 12 months. A simple procedure must be applied to trade receivables if no significant financing component is associated with them. The impairment model is described in note 16.

Financial assets measured at fair value through profit or loss.

Other investments include the company's investments in other companies (both listed and unlisted shares). Both listed and unlisted shares are measured at fair value through profit or loss. The price of listed shares is based on their quoted price (Level 1) and of unlisted shares on the measurement method (Level 3). Gains and losses from changes in the fair value of shares and sales and impairment losses are included in financial income and expenses.

Derivative instruments

Derivative instruments are initially measured at cost, corresponding to their fair value, on the balance sheet and subsequently at the fair price on the closing date of each reporting period. Both realised and unrealised gains and losses caused by changes in fair value are recognised through profit or loss for the period during which they are incurred. Financial assets falling due within 12 months of the end of the reporting period are included in current assets. Financial assets not included in derivative assets are included in non-current assets, unless the Group intends to divest the investment within 12 months of the reporting date.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and bank deposits that allow for on-demand withdrawals.

15. Financial income and expenses

1000 eur	**1.2.2019-31.1.2020**	**1.2.2018-31.1.2019**
Dividend income	3	3
Interest income	22	14
Foreign exchange gain	60	4
Other financial income	6	24
Financial income	**91**	**45**
Interest expense	-2 377	-2 069
Unrealised loss at fair value, derivatives	22	-88
Foreign exchange loss	-83	-52
Other financial cost	-61	-68
Financial expense	**-2 499**	**-2 277**
Financial income and expense	**-2 407**	**-2 232**

Accounting principle

Financial expenses are comprised of interest expenses on bank loans, overdraft facilities and other loans and lease liabilities, exchange rate differences in financial activities and realised and unrealised changes in the values of interest rate swaps.

Loan-related transaction expenses are expensed to the income statement using the effective interest method. The effective interest is the interest rate using which the estimated payments to be made during the expected running time of the loan are discounted to the net book value of the financial liability. The calculation takes into account all fees and transaction expenses paid by the contracting parties.

Interest expenses are recognised in accordance with the effective interest, except if receiving interest is uncertain. In this case, the interest is treated on a cash basis. Foreign exchange gains and losses from financing activities are reported in financial income or expenses.

Gains and losses from changes in the fair value of derivatives are recognised in financial items.

16. Management of financial risks

The Group has a risk management policy approved by the Board of Directors and management team that is monitored by the Board of Directors and its Audit Committee. The risk management process aims to identify and assess the risks, after which measures are planned and implemented. The measures can include avoiding the risk, mitigating it by different means, transferring the risk through insurance policies or contractually, or taking the risk in a managed and conscious manner. The Company's Board of Directors and its Audit Committee review the most significant risks and related measures annually in conjunction with the strategy process.

The management of the HLRE Holding Group's financial risks is seen to by the Group's treasury functions in co-operation with the persons responsible for purchasing and other business functions. The Group's treasury function is comprised of the CEO, Deputy CEO, CFO and controller, and it has operated in accordance with instructions given by the Board of Directors and Audit Committee. The operational management of the Group's treasury functions is centralised with the Group's financial administration. The purpose of the treasury function is to ensure that the Company has adequate funds for engaging in business activities at all times without restrictions and minimise financing costs.

The treasury function of the HLRE Holding Group is responsible for the monitoring and operational management of the Group's treasury functions and general financial position associated with financing, including each subsidiary's financial risk exposures. The management of each subsidiary is responsible for managing their respective treasuries in accordance with the instructions laid down in the financial policy. Ultimately, the Board of Directors of HLRE Holding Oy also co-ordinates financial matters pursuant to the financial policy.

Liquidity risk

The Group's business operations have been developed into year-round operations in recent years. However, it is not possible to completely get rid of the seasonality of the business, which can cause short-term liquidity risks. The treasury function controls the Group's liquidity risk by foreseeing the Group's need for financing and thereby aims to ensure the flexibility, availability and temporal balance of financing. At the same time, adequate unused overdraft facilities are continuously maintained to avoid the Group from breaching any withdrawal limits or covenants associated with its overdraft facility.

The liquidity reserve is comprised of the Group's cash and cash equivalents and unused overdraft facilities. The financial administration of the HLRE Holding Group manages the Group's liquidity instruments.

The cash and cash equivalents of the HLRE Holding Group totalled EUR 5,710.9 thousand on 31 January 2020 (31 January 2019: EUR 244.5 thousand). Furthermore, the HLRE Holding Group had binding overdraft facilities on 31 January 2020 with a total unused credit of EUR 5,000 thousand. The overdraft facilities are continuously available.

After the financial year ended 31 January 2019, the Group has renegotiated the terms and conditions of financing and covenants associated with the bank loans from a financial institution. The bank loans have changed into non-current after the closing date. The financial covenants associated with the renegotiated financing agreement are connected to the Group's EBITDA, cash flow and liquidity. The Company met the terms and conditions of the updated financing agreement at the time of signing the financial statements. Furthermore, the Company agreed on a loan totalling EUR 2,183,451.30 with Danske Finance Oy on 12 April 2019. The loan totalled EUR 1,755,169.38 on 31 January 2020.

The tables below present the Group's financial liabilities broken down into categories based on the remaining contractual running times. The loans include both interest-bearing loans and the overdraft facility:

Maturities of contracts of financial liabilities 31.1.2020 (1000 EUR)

	1-6 months	7-12 months	1-2 years	2-5 years	over 5 years	Total	Book value
Accounts payables	4511					4511	4511
Lease liabilities	2144	2016	4172	4399	256	12986	12436
Loans from financial institutions	2815	2652	25190	730		31386	30377

Maturities of contracts of financial liabilities 31.1.2019 (1000 EUR)

	1-6 months	7-12 months	1-2 years	2-5 years	over 5 years	Total	Book value
Accounts payables	3296					3296	3296
Lease liabilities	1839	1813	3258	4959	111	11980	11443
Loans from financial institutions	5070	31182				36252	35205

The management monitors the covenants and reports on them to the creditor on a quarterly basis. A breach of the covenants can result in increased financial expenses or the calling-in of the bank loans and overdraft facilities.

Credit risk and counterparty risk

Cash and cash equivalents as well as unpaid receivables from customers involve credit risk. The credit risk associated with cash and cash equivalents is minor because the counterparties are banks with high credit ratings from international rating agencies.

The Group's credit loss policy defines the creditworthiness requirements for customers. The Group only grants credit to companies with appropriate credit ratings, and consumer customers in Finland are primarily directed to use the Laatutili service.

Vesivek Oy offers its consumer customers the Laatutili facility granted by the OP bank. Laatutili is a renovation loan. Using a Laatutili loan, the customer can pay for the roofing renovation in a single interest-free and expense-free instalment with a term of payment of 30 days or over a longer repayment period as separately agreed monthly instalments. The loan is granted by OP cooperative banks. The bank only grants a Laatutili loan if the customer's credit rating is in order.

With regard to trade receivables and contractual assets, a simplified model in which the estimated amount of credit losses is based on the expected credit losses over the life of the receivables is used. Examples of events leading to impairment include severe financial problems of the debtor, the debtor's probable bankruptcy or other financial arrangement.

The HLRE Holding Group applies a simplified procedure for recognising an impairment concerning expected credit losses, according to which an impairment item concerning the expected credit losses for the entire period of validity for all trade receivables. For determining the expected losses caused by credit risk, trade receivables are grouped based on shared credit risk properties and how long payment is overdue. The impairment concerning the loss on 31 January is determined as a combination of a statistical model and case-specific analysis. The share of Laatutili is deducted from the balance of trade receivables in the calculation because the associated credit risk is minor. During the financial year 2020, the credit loss provision rate of invoices more than 60 days overdue was increased because the previous provision for credit losses has turned out to be too low.

31.1.2020 1000 eur	**Not due**	**Up to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 days**	**Total**
Expected loss rate	0,19 %	1,58 %	3,06 %	20,00 %	40,00 %	70,00 %	
Gross carrying amount	5 019	306	165	6	123	148	5 766
Loss allowance provision, VAT 0%	8	4	4	1	40	84	140

31.1.2019 1000 eur	**Not due**	**Up to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Over 120 days**	**Total**
Expected loss rate	0,24 %	1,55 %	3,03 %	10,00 %	20,00 %	30,00 %	
Gross carrying amount	4 489	287	82	51	61	61	5 031
Loss allowance provision, VAT 0%	9	4	2	4	10	15	43

Credit losses, 1000eur	**2020**	**2019**
At 1 February	41	83
Increase in loss allowance recognised in profit or loss during the period	286	126
Receivables written off during the period as uncollectible	-187	-168
At 31 January	140	41

Key discretionary decisions and estimates

The management has made discretionary decisions and assumptions in assessing whether the value of overdue receivables has been impaired. Based on the discretion, the credit loss risk of trade receivables more than 60/90/120 days has been calculated using increased rates. During the financial year 2020, the credit loss provision rates of invoices more than 60/90/120 days overdue was increased further because the previous provision for credit losses has turned out to be too low.

Market risk – interest rates

HLRE's exposure to interest rate risk is due to its interest-bearing loans (with the exception of lease liabilities). Interest rate risk is defined as an uncertainty associated with the result of the HLRE Group caused by fluctuation in interest rates. The goal pursuant to the financial policy is to minimise the impact of changes in interest rates on the Group's annual result and financial position while aiming to optimise net financing within the defined risk limits.

Foreign exchange risk

The Group engages in business activities in Finland and Sweden. The Group is exposed to SEK-related transaction and translation risk. The transaction risk associated with the Swedish subsidiary is primarily comprised of trade receivables and payables emerging in its operational business activities. Translation risk arises when the parent company's investments in the Swedish subsidiary are converted into euros.

Transaction risk

Transaction risk emerges from the commercial transactions and payments of the subsidiaries denominated in currencies other than the unit's operating currency and when the associated incoming and outgoing cash flows differ in terms of amounts or timing.

The Swedish subsidiary primarily purchases the goods associated with installation activities in euros, internally profile production steel sheets, rainwater management systems, externally timber and other supplies included in the concept. During the financial year ended 31 January 2020, approximately EUR 2.3 million of the Swedish subsidiary's purchases of approximately EUR 3.2 million were made in euros.

Vesivek Oy's Oulu unit sells and installs roofing and rainwater management systems to Northern Sweden, and the said sales/receivables are denominated in SEK. Vesivek Oy also has a SEK-denominated bank account. The other Group companies do not have significant external purchases, sales, receivables or liabilities in currencies other than the operating currency in each country.

Foreign exchange gains and losses are recognised in the items that cause them, i.e. as adjustments of sales and purchases and in financial items.

The HLRE Group did not have any valid currency derivative contracts on 31 January 2020 or 31 January 2019.

1000 euroa

Foreign exchage gain and loss	**1.2.2019-31.1.2020**	**1.2.2018-31.1.2019**
Foreign exchnage gain, realized	61	8
Foreign exchange loss, realized	-129	-119
	-68	-111

Translation risk

Translation risk covers the effects caused by the conversion of the Swedish subsidiary's figures into EUR-denominated figures for consolidating the consolidated financial statements. Sweden accounted for approximately 11 per cent of the Group's business operations for the most recent financial year. More than 90 per cent of the Group's cash flows are denominated in EUR, which is the home currency of the parent company and other subsidiaries engaged in business activities than the Swedish subsidiary.

Commodity risk

The commodity risk of the HLRE Holding Group is comprised of the price risk of raw materials, mainly steel.

The HLRE Holding Group did not have commodity derivatives.

17. Shareholders' equity

Shareholders:

Sentica Buyout IV -funds	8 783 695	52,8 %
Kimmo Riihimäki	5 497 826	33,1 %
Other key persons	2 237 652	13,5 %
Own shares	107 550	0,7 %
	16 626 723	100 %

Share capital

The share capital is comprised of ordinary shares. The parent company has one series of shares, and all shares confer equal rights to dividends. Each share confers one vote at a general meeting. All shares issued by the parent company have been paid in full. The shares have no nominal value.

Invested non-restricted equity reserve

In accordance with the Finnish Limited Liability Companies Act, the subscription price for new shares is recognised in share capital, unless the decision on the share issue orders it to be recognised in full or part in the invested non-restricted equity reserve. The invested non-restricted equity reserve can also be accumulated without a share issue.

The invested non-restricted equity reserve increased by EUR 4,500 thousand in a directed share issue and the number of shares by 4,500,023 shares during the financial year 2020.

Dividends

The Board of Directors' proposal to the general meeting is that no dividends be distributed for the financial year. No dividends were distributed for the comparison period.

Translation differences

Translation differences resulting from the translation of the financial statements of a foreign subsidiary are recognised in other comprehensive income and accumulated in the separate shareholders' equity reserve as described in note 19. The accumulated amount is recognised through profit or loss when the net investment is divested.

Accounting principle

The Group's shareholders' equity is comprised of share capital, invested non-restricted equity reserve, translation difference sand retained earnings. Changes in treasury shares are recognised in retained earnings. Expenses incurred directly due to the issue of new shares are reported less taxes in shareholders' equity as a decrease in income from share issue.

18. Management of equity risks

The Group monitors the shareholders' equity and net debt on the consolidated balance sheet. Net debt is calculated by deducting cash and cash equivalents from current and non-current interest-bearing liabilities, as calculated in note 13. The Group aims to grow both in Finland and internationally in the next couple of years and maintain a flexible capital structure, which makes it possible to implement the growth strategy. The investments required by growth and seasonal fluctuations in business and thereby changes in liquidity and net working capital require flexible financing solutions and active liquidity management.

The most important monitored external capital indicator is the ratio of interest-bearing net debt to rolling 12-month EBITDA (leverage). As a result of the financing negotiations with Danske Bank that ended in Q1/2019, the interest margin on loans varies depending on the ratio of interest-bearing net debt to EBITDA on the reporting date. If the ratio is 5.00 or higher, additional annual interest is accrued based on a two-step model in addition to the above. The Group's leverage has been under 5.0 during the financial year starting from 12 November 2019.

OTHER NOTES

This section includes information that the Group has to disclose to comply with the financial standards but are not considered to be significant from the point of view of understanding the Group's financial position and result:

- Group structure and preparation of the consolidated financial statements
- Taxes
- Related party transactions
- Commitments and contingent liabilities
- New reporting standards and reporting standards that will enter into force at a later date
- Events after the reporting date

19. Group structure

The Group’s subsidiaries are as follows:

Name on entity	Place of bus	Ownership interest held by the group % 31.1.2020	Ownership interest held by the group % 31.1.2019	Principal activities
HLRE Group Oy	PIrkkala	100	100	Administration and financial services
Vesivek Oy	Pirkkala	100	100	Roof renovations
Vesivek Sverige AB	Ruotsi	91	91	Roof renovations
Nesco Invest Oy	Orimattila	100	100	Other technical services
Nesco Oy	Orimattila	100	100	Manufacture of rainwater management systems and roof safety products
Tuusulan Peltikeskus Oy	Tuusula	100	100	Sheet metal work

The share capital of the subsidiaries is exclusively comprised of ordinary shares held by the Group, and the holding corresponds with the voting rights held by the Group. The companies’ country of registration is also their primary operating country.

Accounting principle

Subsidiaries are consolidated into the consolidated financial statements in full starting from the time of acquisition, which is the date on which HLRE obtains control, and consolidation continues until control ceases to exist. HLRE has control if it is exposed or entitled to variable income by being a party to the investment and can influence this income by exercising its power over the investment.

HLRE uses the acquisition method in consolidating business operations. Intra-Group transactions, balances and unrealised gains from transactions between Group companies are eliminated. Also unrealised losses are eliminated, unless the transaction provides evidence of impairment of the value of the transferred asset.

Subsidiaries’ results and shareholders’ equity attributable to non-controlling interests are reported as a separate income in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet.

Transactions realised with non-controlling interests which do not lead to losing control are treated as transactions with owners. A change in holding leads to an adjustment of the book values of the holdings of the Group and non-controlling interests. The difference between the adjustment of non-controlling interests and consideration paid or received is recognised in a separate reserve under shareholders’ equity attributable to owners.

Translation of items denominated in foreign currencies

Intra-Group receivables and liabilities and income and expenses due to intra-Group transactions between Group companies, unrealised gains and losses and internal distribution of profit are eliminated in full when preparing the consolidated financial statements.

The assets and liabilities of the Swedish subsidiary are translated into EUR at the exchange rate of the closing date. The income and expenses of the Swedish subsidiary are translated into EUR at the average exchange rate for the financial year. Translation differences arising from the translation of a subsidiary’s financial statements are recognised in other comprehensive income, and they are accumulated in a separate Translation differences item under shareholders’ equity.

Transactions denominated in foreign currencies are translated into EUR at the exchange rates of the transaction dates, or if the items have been re-measured, at the exchange rates of the measurement dates. Foreign exchange gains and losses arising from sales and purchase payments associated with actual business operations are recognised above operating profit, and financing-related exchange rate differences are recognised in financial items in the income statement.

20. Taxes

Income tax expenses are comprised of tax expense based on the taxable income for the period and deferred tax expenses.

1000 EUR		
Tax on income from operations	-212	-6
Tax for previous accounting periods	-4	39
Deferred taxes	-240	59
Income tax	-456	92

The reconciliation of the tax expense entered in the consolidated income statement and taxes calculated using the Finnish tax rate (20% for all financial years) is as follows:

1000 eur	1.2.2019-31.1.2020	1.2.2018-31.1.2019
Accounting profit before taxes	1 510	-1 089
Calculated tax at the domestic rate 20%	-302	218
Effect of different tax rates in foreign subsidiaries	-7	40
Tax-free income included in the accounting profit	34	60
Non-deductible expenses included in the accounting profit	-172	-236
Tax for previous accounting periods	-4	11
Loss for the period, for which no deferred tax asset is recognised	-5	0
Effect of changes in tax rates on taxes for the financial year	0	-2
Tax expense on profit and loss statement	-456	92

1000 EUR	1.2.2019	Translation differences +/-	Changes through income statement	31.1.2020
Deferred tax asset				
Inventories, internal margin	213	0	-16	197
Provision for credit losses	8	0	20	28
Unused tax loss	161	0	-161	0
Other items	136	0	8	144
Total	**519**	**-1**	**-149**	**369**

1000 EUR	1.2.2019	Translation differences +/-	Changes through income statement	31.1.2020
Deferred tax liability				
Property, plant and equipment	494	0	-105	389
Other items	43	-1	203	245
Total	**537**	**-1**	**98**	**634**

Deferred tax on balance sheet	
Deferred tax asset	27
Deferred tax liability	294
Net deferred tax liability	267

1000 EUR	1.2.2018	Translation differences +/-	Changes through income statement	31.1.2019
Deferred tax asset				
Inventories, internal margin	207	-1	7	213
Provision for credit losses	7	0	1	8
Unused tax loss	71	-4	94	161
Other items	132	0	3	136
Total	**417**	**-4**	**105**	**518**

1000 EUR	1.2.2018	Translation differences +/-	Changes through income statement	31.1.2019
Deferred tax liability				
Property, plant and equipment	398	0	96	494
Other items	94	0	-51	43
Total	**492**	**0**	**45**	**537**

Deferred tax on balance sheet	
Deferred tax asset	24
Deferred tax liability	44
Net deferred tax liability	20

On 31 January 2020, the Group had confirmed losses of EUR 1,378,097.32 for which no deferred tax assets have been recognised because the Group is not likely to accumulate taxable income against which the losses could be utilised. These losses will expire in 2025.

On 31 January 2020, the Group had non-deducted related party interest expenses of EUR 1,971,031.97 for which no deferred tax assets have been recognised because the Group is not, for the time being, considered to be likely to accumulate taxable income against which the interest deductions could be utilised in the next couple of years.

Accounting principle

The income taxes for the financial year include taxes based on the taxable income for the period and deferred taxes. The taxes based on the taxable income for the period concern the financial year under review and they are based on tax rates prescribed or practically enacted by the closing date. The calculation of taxes based on the taxable income for the period is based on valid tax regulations in the countries in which the Company operates and accrues taxable income. The tax based on the taxable income for the period also includes adjustments concerning previous periods.

Deferred taxes are measured based on the tax rates (and legislation) prescribed or practically enabled by the closing date and which are expected to be applied when the deferred tax asset in question is realised or the deferred tax liability is paid.

A deferred tax liability is recognised in full for all taxable temporary differences, unless the Group can order the time of cancellation of the temporary difference and the temporary difference is not likely to be cancelled in the foreseeable future. Deferred tax assets are recognised for tax-deductible temporary differences only to the amount that it is probable that the temporary difference will be cancelled in the future and there is taxable income available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset against each other when the Group has a legally enforceable right to offset the tax assets and liabilities based on the taxable income for the period and when the deferred tax assets and liabilities are connected to income taxes charged by the same taxation authority from the same taxable entity or different taxable entities when the asset and liability are to be realised on a net basis.

21. Related party transactions

The related parties of the HLRE Holding Group include the Group's parent company and subsidiaries. The related parties also include members of the Board of Directors and Group management team, any deputy members and secretary, the CEO and Deputy CEO, their family members and their controlled entities.

Related party transactions are treated in accordance with the related party guideline approved by the Board of Directors of HLRE Holding Oy. The Company's Board of Directors always decides on significant transactions with HLRE Holding Oy and its related parties.

The subsidiaries are described in note 19 Group structure and remuneration of the management is disclosed in note 7 Information about key managers.

The following transactions have been realised with related parties:

1000 eur **With entities controlled by effective management**	**31.1.2020**	**31.1.2019**
Purchases of goods and services	271	281
Rent on premises	1272	926
Deferred liabilities	0	14

With effective management	**31.1.2020**	**31.1.2019**
Non-current liabilities	10 789	10 789
Interest liabilities	2 946	2 475
Interest expense	647	650

The transactions with related parties were realised under ordinary commercial terms and conditions.

The remuneration of key managers is reported in note 7 Information about key managers.

22. Long-term employee benefits

The Vesivek Group has a years of service reward scheme according to which an employee is entitled to additional pay amounting to pay for 1–3 weeks when the years of service pursuant to the bonus scheme are fulfilled. The accumulated benefits are determined annually based on calculations by actuaries. Any actuarial gains and losses are recognised through profit or loss in employee benefit expenses.

EUR 1,000	**31 January 2020**	**31 January 2019**
Other long-term employee benefits		
The following items have been recognised on the balance sheet:		
Liability for years of service bonuses	287	284
Social security contributions	72	71
Liabilities of the years of service reward scheme including social security contributions	**359**	**355**
On the balance sheet		
Liability for years of service bonuses at period start	284	290
Items recognised in operating profit:		
Work performance-based expenses for the period	64	64
Interest expenses	2	2
Actuarial gains (-) or losses	0	-23
Fees paid for arrangements	-63	-49
Current value of the liability for years of service rewards at period end	**287**	**284**
Actuarial assumptions		
Discount rate	0.0%	0.6%
Inflation	1.2%	1.3%
Future pay increases	1.7%	1.8%
Employee turnover	15.0%	15.0%

The Group anticipates that it will pay EUR 76 thousand relating to years of service benefits during the financial year 2021.

23. Commitments and contingent liabilities

Guarantees given and contingent liabilities

Accounting principle

A contingent liability is a possible obligation arising due to previous events, the existence of which is only confirmed when an event beyond the control of the Group is realised. Also an obligation that probably does not require fulfilling a payment obligation or the amount of which cannot be reliably determined is considered to be a contingent liability.

24. New reporting standards and reporting standards that will enter into force at a later date

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, according to which a consistent definition of “material” will be applied in all IFRS standards and the conceptual framework of financial reporting, it is clarified when information is material and include guidelines on immaterial information.
The IASB has also amended the hedge accounting requirements included in IFRS 9, IFRS 7 and IAS 39 to alleviate the impacts of the uncertainty associated with the reform of inter-bank offered rates (IBOR) on hedging relationships, which are directly influenced by the uncertainty associated with the IBOR reform. The amendment also increases the requirements for notes concerning the hedging relationships impacted by the IBOR reform.

The said amendments will enter into force for financial periods beginning on or after 1 January 2020. According to the Group’s current estimate, the amendments will not have impacts on the Group’s future financial statements, and it will continue its assessment of the impact of the amendments.

Events after the reporting date

After the financial year, the coronavirus (COVID-19) became a global pandemic with potential extensive social and economic impacts. The company has taken measures to safeguard its business operations, but in particular if the state of emergency is prolonged, the pandemic may have impacts on the adequacy of the company’s cash assets, schedule of refinancing or the company’s operational prerequisites or business operations in other ways.

Parent company's financial statements, FAS

Parent company's income statement

EUR 1,000	Note	1 February 2019- 31 January 2020	1 February 2018- 31 January 2019
TURNOVER		**412**	**505**
Employee benefit expenses	1	-208	-209
Depreciation, amortisation and impairment		-21	-2
Other operating expenses	2	-129	-281
OPERATING PROFIT (LOSS)		**55**	**13**
Financial income and expenses	3		
Financial income		770	770
Financial expenses		-649	-659
PROFIT (LOSS) BEFORE TAXES		**176**	**124**
Appropriations	4	**0**	**-120**
Direct taxes	5	-35	-1
Profit or loss for the financial year		**141**	**4**

Parent company's balance sheet

EUR 1,000	Note	31 January 2020	31 January 2019
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	6	94	93
Investments	7	19803	15303
		19896	15395
CURRENT ASSETS			
Non-current receivables	8	7700	7700
Current receivables	9	4930	4785
Cash and cash equivalents		161	31
		12791	12516
ASSETS		**32,687**	**27,911**

SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		3	3
Other reserves			
Invested non-restricted equity reserve		18079	13579
Retained earnings		666	764
Profit or loss for the financial year		141	4
SHAREHOLDERS' EQUITY	10	**18,888**	**14,349**
LIABILITIES			
Non-current liabilities	11	10789	10872
Current liabilities	12	3009	2689
LIABILITIES		13799	13562
SHAREHOLDERS' EQUITY AND LIABILITIES		**32,687**	**27,911**

Parent company's notes

The financial statements of HLRE Holding Oy have been prepared in accordance with the Finnish Accounting Act. The Group adopted reporting pursuant to the International Financial Reporting Standards (IFRS) on 1 February 2018.

1. Notes concerning the personnel and members of governing organs

EUR 1,000

Personnel expenses	**1 February 2019-31 January 2020**	**1 February 2018-31 January 2019**
Wages, salaries and fees	-191	-194
Pension expenses	-6	-5
Other social security contributions	-10	-11
Total	-208	-209
Management salaries, fees and fringe benefits		
CEO	133	139
Board members	59	55
Total	192	194
Number of personnel		
Average during the financial year	1	1

2. Other operating expenses and auditors' fees

EUR 1,000	**1 February 2019-31 January 2020**	**1 February 2018-31 January 2019**
Financial administration services	-20	-46
Consulting services	0	-146
To the auditor: actual audit	-35	-27
To the auditor: other expert services	-12	-52
Other operating expenses	-62	-10

	-129	-281

3. Financial income and expenses

EUR 1,000	1 February 2019-31 January 2020	1 February 2018-31 January 2019
Interest income from Group companies	770	770
Interest expenses from liabilities to Group companies	-1	-3
Interest expenses from liabilities to others	-647	-650
Other financial expenses from liabilities to others	0	-5
Total financial income and expenses	121	111

4. Appropriations

EUR 1,000	1 February 2019-31 January 2020	1 February 2018-31 January 2019
Group contributions granted	0	-120

5. Direct taxes

EUR 1,000	1 February 2019-31 January 2020	1 February 2018-31 January 2019
Income taxes on actual operations	-35	-1
	-35	-1

6. Intangible assets

EUR 1,000	Intangible rights	Advance payments for intangible assets	Total
Cost 1 February 2019	94.09	0.00	94.09
Increase	0.00	21.65	21.65
Transfers between items	21.65	-21.65	0.00
Cost 31 January 2020	115.74	0.00	115.74
Accumulated depreciation, amortisation and impairment 1 February 2019	-1.57		-1.57
Depreciation and amortisation	-20.52		-20.52
Accumulated depreciation, amortisation and impairment 31 January 2020	-22.09		-22.09
Book value 31 January 2020	**93.66**	**0.00**	**93.66**
Book value 31 January 2019	92.53	0.00	92.53

7. Investments

EUR 1,000	Participations in Group companies	Total
Cost 1 February 2019	15303	15303
Increase	4500	4500
Cost 31 January 2020	19803	19803
Book value 31 January 2020	**19,803**	**19,803**
Book value 31 January 2019	15303	15303

8. Non-current receivables

EUR 1,000	31 January 2020	31 January 2019
Non-current intra-Group loan receivables	7700	7700

9. Current receivables

EUR 1,000	31 January 2020	31 January 2019
Receivables from Group companies		
Intra-group trade receivables	0	275
Interest receivables on intra-Group loans	4906	4507
Receivables from others		
Other receivables	7	0
Accrued income	17	1
Deferred tax asset	0	2
	4,930	**4,785**

10. Shareholders' equity

EUR 1,000

Restricted shareholders' equity	31 January 2020	31 January 2019
Share capital	3	3
Total restricted equity at the end of the financial year	3	3
Non-restricted shareholders' equity		
Invested non-restricted equity reserve	18079	13579
Retained earnings, at the beginning of the period	767	764
Repurchase of shares	-102	0
Profit or loss for the financial year	141	4
Total non-restricted shareholders' equity at the end of the financial year	**18,886**	**14,347**
Distributable non-restricted shareholders' equity		
Retained earnings	666	764
Profit or loss for the financial year	141	4
Invested non-restricted equity reserve	18079	13579
Total distributable funds	18886	14347

11. Non-current liabilities

EUR 1,000	31 January 2020	31 January 2019
Liabilities to related parties	10789	10789

12. Current liabilities

EUR 1,000	31 January 2020	31 January 2019
Liabilities to Group companies		
Trade payables	4	1
Other liabilities	0	83
Interest liabilities	0	2
Group contribution liabilities	0	120
Liabilities to others		
Trade payables	20	5
Other liabilities	10	31
Interest liabilities	2946	2530
Other accrued charges	3	1
Deferred tax liability	25	0
	3009	2689

13. Guarantees and contingent liabilities

HLRE Holding Oy has pledged 2,500 shares in the subsidiary HLRE Group Oy as collateral for the secured financing arrangement of EUR 46,000,000 concerning the Group. The amount of the collateral is EUR 15,302,540. In addition, part of intra-Group receivables are pledged as collateral.

Calculation formulas for key figures

Equity ratio	100 * Shareholders' equity/Balance sheet total - Advance payments received
EBITDA	Operating profit + Depreciation, amortisation and impairment

Signatures to the financial statements and report of the Board of Directors

Pirkkala, 26 March 2020

Board of Directors of HLRE Holding Oy

Pentti Tuunala chair of the Board of Directors	Ari Haapakoski Board member
Antti Keränen Board member	Vesa Koivula Board member
Timo Pirskanen Board member	Kimmo Riihimäki Board member/CEO
Anu Syrmä Board member	

Auditor’s note

A report on the audit performed has been issued today

Tampere 2020

PricewaterhouseCoopers Oy

audit firm

Markku Launis

APA