

RAPALA VMC



CORP.

HALF YEAR REPORT H1/2019
JULY 19, 2019

RAPALA VMC CORPORATION'S HALF YEAR REPORT H1/2019: SALES AND PROFITABILITY DECREASED FROM LAST YEAR – FULL YEAR GUIDANCE UNCHANGED

January-June (H1) in brief:

- Net sales were 141.2 MEUR, down 1% from previous year (142.5). With comparable exchange rates sales were 2% lower than last year.
- Operating profit was 11.4 MEUR (15.3), down 25%.¹⁾
- Comparable operating profit* was 12.0 MEUR (15.2), down 21%.¹⁾
- Cash flow from operations was 11.5 MEUR (5.9).²⁾
- Earnings per share was 0.17 EUR (0.23), down 26%.
- Full year guidance unchanged: Full year net sales with comparable FX rates expected to be around last year's level and comparable operating profit* to increase from last year.
- Strong second half of the year expected: record strong order book in North America, improvements in Indonesian lure factory combined with rigorous management of fixed costs. Uncertainties and risks relate to US-China trade relations, global economic growth, Shimano sales after changes in distribution agreements and retail customers' year-end purchase behavior.

¹⁾ Application of the IFRS 16 accounting standard did not have a material impact on operating profit or comparable operating profit.

²⁾ Figures impacted by the application of the IFRS 16 accounting standard. Excluding the impact from IFRS 16, cash flow from operations would have been 8.6 MEUR in the first half of the year.

President and CEO Jussi Ristimäki: "Our topline for the first six months of the year developed for the most part according to expectations. However, some of the sales in North America will be shifted from the first half to the second half of the year and Third Party Products sales declined in Nordics and Western European countries. Consequently our net sales decreased by 1% from last year. The positive highlights for the first half of the year were good sales development in winter sports business as well as growing sales and profitability in Russia after many years of turmoil in the market. Furthermore, cash flow from operations increased from the previous year as a result of increased focus on working capital management.

We keep our guidance unchanged for the full year 2019 and expect to increase comparable operating profit from last year. Our position with major customers in North America remains strong and we have solid underlying consumer demand and record strong order book for our products in the market. Increased profitability for the second half of the year will be driven mostly by postponed sales to certain key accounts as well as better profitability from the lure factory in Indonesia.

Execution of our strategy of improving profitability, lightening balance sheet and improving operational performance is continuing and will be intensified during the second half of the year to get us back on the growth track. The acquisition of 49% of 13 Fishing enables us to enter the worldwide rod and reel segment in fishing and we are confident in creating value in this business. One of our key near term strategic priorities is to create full scale direct access to sell Rapala products in large European fishing tackle markets in Germany, United Kingdom, Italy and Benelux after the Shimano distribution agreements were terminated. Group sales organizations in these countries are being strengthened and completed during 2019. Furthermore we will manage rigorously fixed costs, drive decisively down inventory to release capital and generate a turnaround to lure manufacturing operations in Indonesia."

* Excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability. Other items affecting comparability include material restructuring costs, impairments, gains and losses on business combinations and disposals, insurance compensations and other non-operational items.

Key figures

MEUR	H1 2019	H1 2018	Change %	FY 2018
Net sales	141.2	142.5	-1%	262.4
Operating profit ¹⁾	11.4	15.3	-25%	14.8
% of net sales	8.1%	10.7%		5.6%
Comparable operating profit * ¹⁾	12.0	15.2	-21%	16.7
% of net sales	8.5%	10.6%		6.4%
Cash flow from operations ²⁾	11.5	5.9	+95%	6.7
Gearing % ²⁾	81.1%	43.8%		47.8%
EPS, EUR	0.17	0.23	-26%	0.13

* Excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability. Other items affecting comparability include material restructuring costs, impairments, gains and losses on business combinations and disposals, insurance compensations and other non-operational items.

Rapala Group presents alternative performance measures to reflect the underlying business performance and to enhance comparability between financial periods. Alternative performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS. Definitions and reconciliation of key figures are presented in the financial section of the release.

¹⁾ Application of the IFRS 16 accounting standard did not have a material impact on operating profit or comparable operating profit.

²⁾ Figures impacted by the application of the IFRS 16 accounting standard. Excluding the impact from IFRS 16, gearing would have been 71.4% and cash flow from operations 8.6 MEUR in the first half of the year.

Market Environment

During the first half of the year, trading conditions in most of the Group's markets were mainly as expected. Demand for the Group's products in the North American market continued to be good, albeit some sales will be shifted to the second half of the year. In Europe, trading conditions remained competitive and changes in Shimano partnership caused slight uncertainties in some markets.

Business Review January–June 2019

The Group's net sales for the first half of the year were 1% below last year. Changes in translation exchange rates had a positive impact on the sales and with comparable translation exchange rates, net sales were organically down by 2% from the comparison period.

North America

The first half of 2019 was twofold in North America: Sales were behind the very strong comparison period but the outlook for the full year sales remains positive. Sales were 2% behind the comparison period with reported translation exchange rates and 7% with comparable translation exchange rates following the appreciation of the US and Canadian dollars compared to the first half of 2018.

The decreased sales were largely due to delivery issues of ice fishing products at the beginning of the year but also due to some sales shift to the second half of the year caused by strict inventory management of a major retail customer. The group is very well positioned with all major customers and all retail channels in North America, where fishing participation is growing.

Nordic

The sales in the Nordic market decreased from the comparison period by 4%. With comparable translation exchange rates sales were down by 3% from the first half of 2018.

The good trend in winter sports product sales in Finland continued, leading Finland to double digit sales growth. However, the strong sales figures in Finland were more than offset by disappointed hunting sales in Denmark and weak sales in Norway where especially sales of third party products decreased.

Rest of Europe

With reported translation exchange rates, the sales in Rest of Europe were 2% above the comparison period. With comparable translation exchange rates, the growth was slightly higher, sales being up by 3% from the first half of 2018.

The biggest market France remained on the same sales level as in 2018. Russia, on the other hand, was able to grow sales despite the challenging economic situation. In addition, Baltics and many of the Eastern European markets witnessed strong sales growth. Ramping up own sales operations in the major Central European markets is progressing according to plans after termination of the distribution agreements with Shimano in April.

Rest of the World

The sales in Rest of the World grew slightly from the comparison period with comparable translation exchange rates and were on 2018 level with reported translation exchange rates.

South-Africa as well as the Latin American markets contributed positively to the Rest of the World market growth. Thailand, on the other hand, witnessed declining sales numbers due to a discontinued distribution agreement.

External net sales by area

	H1	H1	Change	Comparable	FY
MEUR	2019	2018	%	change %	2018
North America	48.6	49.6	-2%	-7%	95.4
Nordic	30.9	32.3	-4%	-3%	55.1
Rest of Europe	45.9	44.9	+2%	+3%	78.4
Rest of the World	15.7	15.7	0%	+1%	33.6
Total	141.2	142.5	-1%	-2%	262.4

Financial Results and Profitability

Comparable (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) operating profit decreased by 3.2 MEUR (21%) from the comparison period. The effect of translation exchange rates was positive and with comparable translation exchange rates, comparable operating profit decreased by 3.6 MEUR from last year. Reported operating profit decreased by 3.9 MEUR from last year and the items affecting comparability had a negative impact of 0.6 MEUR

(-0.1) on reported operating profit. Application of the IFRS 16 accounting standard did not have a material impact on operating profit or comparable operating profit.

Comparable operating profit margin was 8.5% (10.6) for the first half. The decreased profitability compared to the first half of 2018 resulted from slightly lower sales and sales margin and increased operating expenses (when excluding the impact of IFRS 16 accounting standard). Especially the lower Group product sales in North America, following the delivery issues of ice products and postponed sales of some other products, had a negative impact on profitability. Furthermore, profitability of Third Party rod and reel business decreased from the comparison period. Indonesian lure factory is operationally performing better than earlier but is still having a negative impact on the Group's profitability.

Reported operating profit margin was 8.1% (10.7) for the first half. Reported operating profit included impact of mark-to-market valuation of operative currency derivatives of -0.3 MEUR (0.3). Net expenses of other items affecting comparability included in the reported operating profit were 0.2 MEUR (0.1). Other items affecting comparability consisted mainly of restructuring costs.

Total financial (net) expenses were 1.3 MEUR (1.2) for the first half. Net interest and other financing expenses were 0.9 MEUR (0.8) and (net) foreign exchange expenses were 0.1 MEUR (0.4). Following the application of IFRS 16, financial expenses increased by 0.2 MEUR due to lease liability interests.

Net profit for the first half decreased by 2.2 MEUR and was 7.4 MEUR (9.7) and earnings per share were 0.17 EUR (0.23). The share of non-controlling interest in net profit increased by 0.1 MEUR from last year and totalled 0.4 MEUR (0.3).

Key figures

MEUR	H1 2019	H1 2018	Change %	FY 2018
Net sales	141.2	142.5	-1%	262.4
Operating profit	11.4	15.3	-25%	14.8
Comparable operating profit *	12.0	15.2	-21%	16.7
Net profit	7.4	9.7	-24%	6.5

* Excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability. Other items affecting comparability include material restructuring costs, impairments, gains and losses on business combinations and disposals, insurance compensations and other non-operational items.

Bridge calculation of comparable operating profit

MEUR	H1 2019	H1 2018	Change %	FY 2018
Operating profit	11.4	15.3	-25%	14.8
Mark-to-market valuations of operative currency derivatives	0.3	-0.3	-200%	-0.7
Other items affecting comparability	0.2	0.1	+100%	2.6
Comparable operating profit	12.0	15.2	-21%	16.7

More detailed bridge of comparable operating profit and definitions and reconciliation of key figures are presented in the financial section of the release.

Segment Review

Group Products

With comparable translation exchange rates, sales of Group Products were below the comparison period. The sales decrease was driven by North America as some sales are expected to shift to second half of the year, and to some extent by Nordic market. Group Products sales increased in Rest of Europe as well as in Rest of the World markets.

Driven by the decreased sales, the comparable operating profit for Group Products was below the comparison period.

Third Party Products

With comparable translation exchange rates the sales of Third Party Products were below the comparison period. Decreased sales were mainly driven by forthcoming changes in third party rod and reel business. Third party hunting and third party winter sports businesses increased sales from comparison period.

Followed by decreased sales, the comparable operating profit for Third Party Products was below the comparison period.

Net sales by segment

MEUR	H1 2019	H1 2018	Change %	Comparable change %	FY 2018
Group Products	95.2	94.5	+1%	-2%	174.6
Third Party Products	46.0	48.0	-4%	-3%	87.8
Total	141.2	142.5	-1%	-2%	262.4

Comparable operating profit by segment

MEUR	H1 2019	H1 2018	Change %	FY 2018
Group Products	11.7	14.0	-16%	17.2
Third Party Products	0.2	1.2	-83%	-0.5
Comparable operating profit	12.0	15.2	-21%	16.7
Items affecting comparability	-0.6	0.1	-700%	-1.9
Operating profit / loss	11.4	15.3	-25%	14.8

Financial Position

Despite the decreased profitability, cash flow from operations increased by 5.6 MEUR from the comparison period being 11.5 MEUR (5.9). The application of IFRS 16 accounting standard had a positive impact of 3.0 MEUR on cash flow from operations when comparing current half to the first half of 2018. However, the main reason to improved cash flow from operations was the more favorable development of

working capital: the impact of net change of working capital to cash flow from operations was only slightly negative (-0.3 MEUR) whereas the impact in the comparison period was much higher (-9.7 MEUR).

End of June 2019 inventory was 108.6 MEUR (96.7). The organic increase of inventory was 11.9 MEUR, as the total impact of allowance on inventory and translation exchange rates was neutral. The high inventory value resulted partly from the postponed sales but also from lower than expected third party hunting sales. In addition, higher safety buffers to secure fill-rates to key customers and the anticipation of higher tariffs on Chinese imported goods to USA led to earlier purchases and increased June inventory to some extent.

Net cash used in investing activities was on the level of the comparison period amounting to 2.8 MEUR (2.6). Capital expenditure was 3.5 MEUR (3.4) and disposals 0.7 MEUR (0.7). Disposals were related to sales of some manufacturing equipment.

Liquidity position of the Group was good. Undrawn committed long-term credit facilities amounted to 59.9 MEUR at the end of the period. Gearing ratio increased and equity-to-assets ratio weakened from last year as a result of the redemption of the 25 MEUR hybrid loan in May. The application of the IFRS 16 accounting standard increased interest-bearing debt by 12.4 MEUR. Following the higher ratio between net interest-bearing debt and reported EBITDA, the Group has agreed with its lenders on higher covenant level for the second quarter of 2019. The Group expects to fulfil the requirements of the lenders also during the second half of 2019.

On 31 May 2019, Group redeemed its hybrid loan of 25 MEUR following the permitting conditions of the bond.

Key figures

MEUR	H1 2019	H1 2018	Change %	FY 2018
Cash flow from operations ¹⁾	11.5	5.9	+95%	6.7
Net interest-bearing debt at end of period ¹⁾	104.1	66.1	+57%	70.3
Gearing % ¹⁾	81.1%	43.8%		47.8%
Equity-to-assets ratio at end of period, % ¹⁾	40.4%	52.5%		53.2%

Definitions and reconciliation of key figures are presented in the financial section of the release.

¹⁾ Figures impacted by the application of the IFRS 16 accounting standard. Excluding the impact from IFRS 16, cash flow from operations would have been 8.6 MEUR and net interest-bearing debt 91.6 MEUR, gearing 71.4% and the equity to assets ratio 42.1% in the first half of the year.

Strategy Implementation

The Group updated its strategy in 2017. Following the conclusions of the strategy update, in order to build a solid financial and operational platform for long term growth, the Group's primary focus in the coming years will be on capturing organic growth opportunities in the fishing tackle business. The Group will also take determined actions to improve its profitability, lighten balance sheet and improve operational performance. In longer term, the target is to return to a more aggressive growth track and actively seek synergistic growth opportunities also outside the fishing tackle business.

The Group's existing assets and capabilities form the foundation for future strategies, both in short and long term. Future strategies are built upon utilizing and capitalizing the brand portfolio, manufacturing and sourcing platform, research and development knowledge, as well as the broad distribution network

and strong local presence around the world supporting the sales of Group's own and selected synergistic third party products.

The execution of the updated strategy is progressing on all levels in the Group. Several organic growth projects are ongoing in all businesses utilizing deep market and customer understanding. Special focus has been set to leverage Group's global innovation power to address growing product categories and niches within fishing. After acquiring 49% ownership in DQC International Corporation, known as "13 Fishing", the Group will enter the rod and reel business with a worldwide approach. The Group will invest outside USA in marketing and product development of 13 Fishing products to serve fishermen and retailers in the best possible manner. After the changes made earlier this year in distribution agreements with Shimano, the Group will also focus on growth in the large European fishing tackle markets in Germany, United Kingdom, Italy and Benelux countries, previously served by Shimano.

Significant focus and resources are allocated to streamline internal supply chains and to develop sales and operations planning to achieve improved service levels and lower group-wide inventories. Consequently, improved service levels from own factories has increased product availability and fill rates to customers are record high. Furthermore, supply chain operations to new markets in Central Europe, previously served by Shimano, were centralized to an existing delivery center in France.

In order to develop global manufacturing operations, lean projects are ongoing in several factories. One of the key projects for the Group is to execute a sustainable profitability turnaround for the Indonesian lure manufacturing operations. The operational transformation project to streamline and simplify the Indonesian factory is progressing as planned. Production of certain product categories and some non-core production processes have been outsourced to specialized companies.

The Group has made investments in group-wide common IT systems and resources to increase efficiencies and enable better end-to-end supply chain and product management. The Group has also increased sales and marketing investments towards digital channels and direct consumer contacts in order to exploit these opportunities stronger in the future. Increasing proportion of Group's products sales is reaching consumers through digital channels, either by e-tailers, omni-channel retailers or Group's own e-commerce platform. Leveraging the experiences from Group's US e-commerce platform, a content driven Rapala e-commerce website was successfully launched in European Union in May 2018 to promote the Rapala brand and offer improved consumer experience. In the first half of 2019 the range of Rapala products online was expanded and Sufix fishing lines were added to the European e-commerce site.

Product Development

Continuous product development and consistent innovation are core competences for the Group and major contributors to the value and commercial success of the brands. The Group has reorganized and boosted its lure product development procedure by centralizing and expanding the research and development know-how and key resources to one location in Finland that serves both the European and Asian lure manufacturing units.

Product development cycles are getting shorter which allows faster reaction to market needs and developing trends. Product launch schedules are more flexible and can be better adjusted to target specific markets' seasons.

The most important product launches in the first half of year were a European-wide coordinated launch of a series of saltwater lures, which started in January in France and covered both Rapala-branded hard baits and Storm branded soft plastics. Sufix Advance Fluorocarbon line was launched at the European Fishing Tackle Trade Exhibition in June, where it was voted the Best New Monofilament Line. VMC Hybrid Blade hook won the Best Terminal Tackle category, in which the Rapala RCD Lure Tuning Tool was

nominated as Runner Up. Rapala LureCamo Tackle Bag Magnum was nominated Runner Up in the Tackle Bag category.

Further introductions of hero lure categories were prepared for the US trade show ICAST in July.

Organization and Personnel

Average number of personnel was 2 751 (2 811) for the first half of the year. At the end of June, the number of personnel was 2 768 (2 798).

Short-term Outlook and Risks

Market outlook for North America is positive and the Group has a strong order book for the second half of 2019. The Group sees continued healthy consumer demand for its products via old and new sales channels. Furthermore, the Group's position with major customers in North America is strong. In Europe, the outlook and visibility is somewhat cautious as the market environment remains challenging in certain countries and product segments. Overall, the Group expects to grow sales in Group Products.

The Group has launched various strategic initiatives to boost organic growth and improve cost and capital efficiency as well as operational performance in the future. These initiatives, together with projects relating to changes in Group's partnership with Shimano and introduction of 13 Fishing products, will continue to trigger some additional expenses and investments in 2019.

The Group expects 2019 full year net sales with comparable FX rates to be around the same level as in 2018 and comparable operating profit (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) to increase from 2018. However, there is slightly lower visibility to sales of Shimano products in 2019 in those countries which are affected by the changes in the distribution agreements. Furthermore, the continuing risk of trade war between USA and China and potential slowdown in global economic growth might have some impact on retail and consumer demand. In addition, weather changes as well as retail customers' year-end purchase behavior may affect the sales of the Group. The guidance remains unchanged from February 15, 2019.

Short term risks and uncertainties and seasonality of the business are described in more detail in the end of this report.

Other significant events

Annual General Meeting

The Annual General Meeting (AGM) kept on March 28, 2019 approved the Board of Director's proposal that a dividend of EUR 0.06 per share is paid. The dividend will be paid in two instalments, 0.03 euro each. The first instalment 1.1 MEUR was paid on April 11, 2019. The Board of Directors will in its meeting scheduled for October 30, 2019 decide on the dividend record date and the payment date of the second instalment. The dividend record date for the second instalment would then be November 1, 2019 and the dividend payment date November 8, 2019. A separate stock exchange release on the decisions of the AGM has been given, and up to date information on the Board's authorizations and other decisions of the AGM are available also on the corporate website.

Other

On July 9, 2019 the Group released a stock exchange release on concluding definitive agreements to acquire in total 49% of the share capital of DQC International Corporation, which is the owner of 13 Fishing rod and reel brand. The Group has also agreed to inject more capital into DQC International Corporation and to lend funds to recapitalize the company. At the same time the Group released a stock exchange release on considerations to potentially issue a hybrid bond during the third quarter of 2019.

Helsinki, July 19, 2019

Board of Directors of Rapala VMC Corporation

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A conference call on the first half year result will be arranged today at 3:00 p.m. Finnish time (2:00 p.m CET). Please dial +44 (0)330 336 9401 or +1 646 828 8195 or +358 (0)9 7479 0359 (pin code: 869065) five minutes before the beginning of the event. A replay facility will be available for 14 days following the teleconference. The number to dial is +44 (0)207 660 0134 (pin code: 4345427). Financial information and teleconference replay facility are available at www.rapalavmc.com.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

STATEMENT OF INCOME	H1	H1	FY
MEUR	2019	2018	2018
Net sales	141.2	142.5	262.4
Other operating income	0.5	0.5	0.9
Materials and services	63.6	63.2	121.7
Personnel expenses	35.9	35.1	68.8
Other costs and expenses	24.4	26.2	50.4
Share of results in associates	0.0	0.0	0.0
EBITDA	17.7	18.5	22.4
Depreciation, amortization and impairments	6.3	3.2	7.6
Operating profit (EBIT)	11.4	15.3	14.8
Financial income and expenses	1.3	1.2	2.1
Profit before taxes	10.1	14.1	12.7
Income taxes	2.7	4.4	6.2
Net profit for the period	7.4	9.7	6.5

Attributable to:

Equity holders of the company	7.0	9.4	6.1
Non-controlling interests	0.4	0.3	0.4

Earnings per share for profit attributable to the equity holders of the company:

Earnings per share, EUR (diluted = non-diluted)	0.17	0.23	0.13
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STATEMENT OF COMPREHENSIVE INCOME	H1	H1	FY
MEUR	2019	2018	2018
Net profit for the period	7.4	9.7	6.5
Other comprehensive income, net of tax			
Change in translation differences*	1.2	2.3	3.2
Gains and losses on cash flow hedges*	0.0	0.0	0.0
Gains and losses on hedges of net investments*	0.6	-1.1	-1.0
Actuarial gains (losses) on defined benefit plan	0.0	-	0.1
Total other comprehensive income, net of tax	1.8	1.2	2.2
Total comprehensive income for the period	9.3	10.9	8.8
Total comprehensive income attributable to:			
Equity holders of the Company	8.6	10.7	8.6
Non-controlling interests	0.7	0.2	0.2

* Item that may be reclassified subsequently to the statement of income

STATEMENT OF FINANCIAL POSITION	Jun 30	Jun 30	Dec 31
MEUR	2019	2018	2018
ASSETS			
Non-current assets			
Intangible assets	74.8	74.3	74.5
Property, plant and equipment	29.5	31.8	29.5
Right-of-use assets	12.3		
Non-current assets			
Interest-bearing	0.0	0.0	0.0
Non-interest-bearing	6.0	6.5	5.8
	122.7	112.6	109.8
Current assets			
Inventories	108.6	96.7	99.1
Current assets			
Interest-bearing	0.0	0.0	0.0
Non-interest-bearing	61.4	65.8	54.8
Cash and cash equivalents	24.7	12.3	13.4
	194.7	174.8	167.3
Total assets	317.4	287.4	277.1
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the company	122.4	118.7	117.0
Non-controlling interests	5.8	7.1	5.1
Hybrid bond	-	25.0	25.0
	128.3	150.8	147.1
Non-current liabilities			
Interest-bearing	51.0	15.3	10.1
Non-interest-bearing	7.9	8.7	8.1
Lease liabilities	7.4		
	66.3	24.0	18.2
Current liabilities			
Interest-bearing	65.3	63.1	73.7
Non-interest-bearing	52.4	49.4	38.1
Lease liabilities	5.0		
	122.8	112.5	111.8
Total equity and liabilities	317.4	287.4	277.1

STATEMENT OF CASH FLOWS	H1	H1	FY
MEUR	2019	2018	2018
Net profit for the period	7.4	9.7	6.5
Adjustments to net profit for the period *	8.8	8.4	17.2
Financial items and taxes paid and received	-4.3	-2.5	-5.9
Change in working capital	-0.3	-9.7	-11.1
Net cash generated from operating activities	11.5	5.9	6.7
Investments	-3.5	-3.4	-6.4
Proceeds from sales of assets	0.7	0.7	1.7
Change in interest-bearing receivables	0.0	0.0	0.0
Net cash used in investing activities	-2.8	-2.6	-4.7
Dividends paid to parent company's shareholders	-1.1	-0.8	-1.5
Dividends paid to non-controlling interests	-	-	-2.0
Net funding	33.3	0.2	5.6
Payment of lease liabilities	-3.0	-	-
Hybrid bond	-26.3	-1.3	-1.3
Net cash generated from financing activities	2.9	-1.9	0.8
Change in cash and cash equivalents	11.6	1.4	2.7
Cash & cash equivalents at the beginning of the period	13.4	10.3	10.3
Foreign exchange rate effect	-0.3	0.6	0.4
Cash and cash equivalents at the end of the period	24.7	12.3	13.4

* Includes reversal of non-cash items, income taxes and financial income and expenses.

Changes in liabilities included in net funding

MEUR	
Liabilities Jan 1, 2019	83.7
Drawdowns	96.4
Repayments	-63.7
Unrealized foreign exchange differences*	
Liabilities Jun 30, 2019	116.4

Net funding

Drawdowns and repayments from loans	32.7
Derivatives and other realized foreign exchange on financial activities	0.6
Net funding	33.3

*Unrealized foreign exchange differences from loans are not included in cash flow statement

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the company

MEUR	Share capital	Share premium fund	Hedging fund	Fund for invested non-restricted equity	Own shares	Translation differences	Retained earnings	Non-controlling interests	Hybrid bond	Total equity
Equity on Dec 31, 2017	3.6	16.7	0.0	4.9	-5.6	-13.6	104.7	6.9	25.0	142.7
Adoption of IFRS 9	-	-	-	-	-	-	-0.2	0.0	-	-0.2
Equity on Jan 1, 2018	3.6	16.7	0.0	4.9	-5.6	-13.6	104.5	6.9	25.0	142.5
Comprehensive income *	-	-	0.0	-	-	1.2	9.4	0.2	-	10.9
Dividends	-	-	-	-	-	-	-1.5	-	-	-1.5
Hybrid bond expenses*	-	-	-	-	-	-	-1.1	-	-	-1.1
Share option program	-	-	-	-	-	-	0.1	-	-	0.1
Equity on Jun 30, 2018	3.6	16.7	0.0	4.9	-5.6	-12.4	111.5	7.1	25.0	150.8
Equity on Jan 1, 2019	3.6	16.7	0.0	4.9	-5.6	-11.2	108.6	5.1	25.0	147.1
Comprehensive income*	-	-	0.0	-	-	1.6	7.1	0.7	-	9.3
Dividends**	-	-	-	-	-	-	-2.3	-	-	-2.3
Hybrid bond	-	-	-	-	-	-	-	-	-25.0	-25.0
Hybrid bond expenses*	-	-	-	-	-	-	-1.1	-	-	-1.1
Share option program	-	-	-	-	-	-	0.2	0.0	-	0.3
Equity on Jun 30, 2019	3.6	16.7	0.0	4.9	-5.6	-9.7	112.5	5.8	-	128.3

* For the period, (net of tax)

**Dividend distribution includes first instalment paid in April 2019 and second instalment due for payment in November 2019

NOTES TO THE INCOME STATEMENT AND FINANCIAL POSITION

The financial information included in this financial statement release is unaudited. This financial statement release has been prepared in accordance with IAS 34 (Interim Financial Reporting).

Apart from the changes in accounting principles stated below, the accounting principles adopted in the preparation of this report are consistent with those used in the preparation of the financial statements 2018.

As required by IAS 34, the nature and effect of these changes on the accounting policies followed by the Group are disclosed below.

Changes in the accounting principles

IFRS 16 Leases was adopted January 1, 2019

Starting from 1 January 2019 the Group has applied IFRS 16 Leases for the first time. The major part of the lease agreements that were reported as operating leases in 2018 were converted to lease agreements to be recognized on balance sheet on the adoption of IFRS 16. According to the standard these liabilities were measured at the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate on the application date.

The Group used modified retrospective approach as a transition method to IFRS 16 and no comparatives for 2018 were restated. Applying the modified retrospective approach the Group adopted the following practical expedients:

- After the transition Rapala VMC will not recognize any short-term leases on the consolidated statement of financial position where the lease term is 12 months or less at the lease commencement date. Instead, the Group will recognize the lease payments associated with short-term leases as an expense.
- Initial direct costs have not been included in the measurement of the right-of-use assets at the date of initial application
- lease component and associated non-lease component is accounted as a single lease component
- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics and main characteristic used is the currency.

Leases that are booked to the balance sheet are mainly consisting of the lease contracts of land, offices, warehouses and some machinery and equipment such as company cars. The discount rate that has been used in calculating the lease debt is determined according to the incremental borrowing rate determined in local market areas. The rate represents the interest that a lessee would have to pay over a similar term to a similar asset in a similar economic environment. The lease term matches to the non-terminable period, if necessary this is completed with renewal options if they are reasonably certain.

The Group's IFRS 16 project team did select lease accounting system for lease contracts provided by ZenTreasury Oy. This system has been fully implemented and trained within the Group in great success.

Right-of-use assets MEUR	Land and buildings	Other assets	Total
Acquisition cost Dec 31, 2018	-	-	-
Additions	14.1	1.3	15.5
Disposals	0.0	0.0	0.0
Translation differences	0.0	0.0	0.0
Acquisition cost Jun 30, 2019	14.1	1.3	15.4
Accumulated depreciations Dec 31, 2018			
Disposals	-	0.0	0.0
Depreciations during the period	-2.8	-0.3	-3.1
Translation differences	0.0	0.0	0.0
Accumulated depreciations Jun 30, 2019	-2.8	-0.3	-3.1
Carrying value Jun 30, 2019	11.3	1.0	12.3

Use of estimates and rounding of figures

Complying with IFRS in preparing financial statements requires the management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of revenues and expenses. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ from these estimates.

All figures in these accounts have been rounded. Consequently, the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures.

Events after the end of the half year period

The Group has no knowledge of any significant events after the end of the reporting period that would have a material impact on the financial statements for January-June 2019. Material events after the end of the half year period, if any, have been discussed in the commentary section of the Board of Directors.

Acquisitions

There has not been any acquisitions or divestments during the first half year.

Key figures	H1 2019	H1 2018	FY 2018
EBITDA, % of net sales ¹⁾	12.5%	13.0%	8.5%
Operating profit, % of net sales	8.1%	10.7%	5.6%
Return on capital employed, % ¹⁾	10.2%	14.3%	6.9%
Capital employed at end of period, MEUR ¹⁾	232.4	216.9	217.4
Net interest-bearing debt at end of period, MEUR ¹⁾	104.1	66.1	70.3
Equity-to-assets ratio at end of period, % ¹⁾	40.4%	52.5%	53.2%
Debt-to-equity ratio at end of period, % ¹⁾	81.1%	43.8%	47.8%
Earnings per share, EUR (diluted = non-diluted)	0.17	0.23	0.13
Equity per share at end of period, EUR	3.20	3.10	3.05
Average personnel for the period	2 751	2 811	2 772

Definitions and reconciliation of key figures are presented in the end of the financial section.

¹⁾ Figures impacted by the application of the IFRS 16 accounting standard. Excluding the impact from IFRS 16, the EBITDA % of net sales would have been 10.3%, return on capital employed 4.7%, capital employed 219.9 MEUR, net interest-bearing debt 91.6 MEUR, equity to assets ratio 42.1% and debt to equity ratio 71.4% in the first half of the year.

Key figures by half year	H1	H2	H1	H2	H1
MEUR	2017	2017	2018	2018	2019
Net sales	140.9	112.4	142.5	119.9	141.2
EBITDA ¹⁾	14.5	1.2	18.5	3.9	17.7
Operating profit	11.0	-2.1	15.3	-0.5	11.4
Profit before taxes	9.2	-3.5	14.1	-1.4	10.1
Net profit for the period	6.0	-3.7	9.7	-3.2	7.4

¹⁾ Figures impacted by the application of the IFRS 16 accounting standard. Excluding the impact from IFRS 16, the EBITDA would have been 14.5 MEUR.

Bridge calculation of comparable operating profit MEUR	H1 2019	H1 2018	Change %	FY 2018
Operating profit/loss	11.4	15.3	-25%	14.8
<i>Items affecting comparability</i>				
Mark-to-market valuations of operative currency derivatives	0.3	-0.3	-200%	-0.7
<i>Other items affecting comparability</i>				
Restructurings				
Management restructuring		0.2		0.2
Indonesia manufacturing restructuring				1.9
Other restructurings	0.2	0.1		0.6
Other items		-0.2		-0.2
Comparable operating profit	12.0	15.2	-21%	16.7

Segment information

MEUR	H1 2019	H1 2018	FY 2018
Net sales by operating segment			
Group Products	95.2	94.5	174.6
Third Party Products	46.0	48.0	87.8
Total	141.2	142.5	262.4

Operating profit by operating segment

Group Products	11.7	14.0	17.2
Third Party Products	0.2	1.2	-0.5
Comparable operating profit	12.0	15.2	16.7
Items affecting comparability	-0.6	0.1	-1.9
Operating Profit	11.4	15.3	14.8

Assets by operating segment MEUR	Jun 30 2019	Jun 30 2018	Dec 31 2018
Group Products ¹⁾	216.8	215.1	208.8
Third Party Products ²⁾	63.6	59.9	54.9
Non-interest-bearing assets total	280.3	275.0	263.7
Unallocated interest-bearing assets	24.7	12.3	13.4
Total assets	317.4	287.4	277.1

¹⁾ Includes IFRS 16 right-of-use assets 7.9 MEUR . ²⁾ Includes IFRS right-of-use assets 4.4 MEUR.

External net sales by area MEUR	H1 2019	H1 2018	FY 2018
North America	48.6	49.6	95.4
Nordic	30.9	32.3	55.1
Rest of Europe	45.9	44.9	78.4
Rest of the world	15.7	15.7	33.6
Total	141.2	142.5	262.4

Commitments	Jun 30	Jun 30	Dec 31
MEUR	2019	2018	2018
Minimum future lease payments on operating leases	0.5	9.5	10.5

Related party transactions	Sales and other income	Pur-chases	Rents paid	Other expen-ses	Recei-vables	Pay-a-bles
MEUR						
H1 2019						
Associated company Lanimo Oü	0.0	0.0	-	-	-	-
Entity with significant influence over the Group*	-	-	0.1	0.1	0.0	-
Management	-	-	0.1	0.0	-	0.1
H1 2018						
Associated company Lanimo Oü	0.0	0.1	-	-	0.0	-
Entity with significant influence over the Group*	-	-	0.1	0.1	0.0	-
Management	-	-	0.2	0.0	-	0.0
FY 2018						
Associated company Lanimo Oü	0.0	0.1	-	-	0.0	-
Entity with significant influence over the Group*	-	-	0.2	0.1	0.0	-
Management	-	-	0.4	0.0	-	0.0

* Lease agreement for the real estate for the consolidated operations in France and a service fee.

Open derivatives	H1 2019		H1 2018		FY 2018	
MEUR	Nomina l Value	Fair Value	Nominal Value	Fair Value	Nominal Value	Fair Value
Derivative financial instruments designed as cash flow hedges						
Interest rate swaps, less than 12 months	-	-	-	-	5.3	0.0
Interest rate swaps, 1 to 5 years	-	-	10.5	0.0	-	-
Total	-	-	10.5	0.0	5.3	0.0
Non-hedge accounting derivative financial instruments						
Interest rate swaps, 1 to 5 years	21.0	-0.2	16.0	0.0	16.0	0.0
Currency derivatives, less than 12 months	44.3	-0.2	39.4	0.4	40.6	0.6
Cross currency swaps, less than 12 months	-	-	10.1	-0.4	10.1	-0.2
Total	65.3	-0.4	65.5	0.0	66.6	0.4

The changes in the fair values of derivatives that are designated as hedging instruments but do not qualify for

hedge accounting are recognized based on their nature either in operative costs, if the hedged item is an operative transaction, or in financial income and expenses if the hedged item is a monetary transaction. In the first half of 2019, the amount of the ineffective portion that was recognized in the financial income and expenses of income statement was MEUR 0.0 (0.0).

Changes in unrealized mark-to-market valuations for operative foreign currency derivatives

	H1 2019	H1 2018	FY 2018
Included in operating profit	-0.3	0.3	0.7

Operative foreign currency derivatives that are marked-to-market on reporting date cause timing differences between the changes in derivatives' fair values and hedged operative transactions. Changes in fair values for derivatives designated to hedge future cash flow, but are not accounted for according to the principles of hedge accounting, impact the Group's operating profit for the accounting period. The changes in unrealized valuations include both valuations of derivatives that will realize in the future periods as well as reversal of previously accumulated value of derivatives that realized in the accounting period.

Fair values of financial instruments	Jun 30 2019		Jun 30 2018		Dec 31 2018	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
MEUR						
Assets						
Available-for-sale financial assets (level 3)	0.3	0.3	0.3	0.3	0.3	0.3
Derivatives (level 2)	0.4	0.4	0.5	0.5	0.8	0.8
Total	0.7	0.7	0.8	0.8	1.1	1.1
Liabilities						
Non-current interest-bearing liabilities (excl. derivatives)	51.0	50.9	15.3	15.3	10.1	10.1
Derivatives (level 2)	0.8	0.8	0.5	0.5	0.5	0.5
Total	51.8	51.7	15.8	15.8	10.5	10.5

Fair values of other financial instruments do not differ materially from their carrying value.

Shares and share capital

The Annual General Meeting (AGM) kept on March 28, 2019 approved the Board of Director's proposal that a dividend of EUR 0.06 per share is paid. The dividend will be paid in two instalments, 0.03 euro each. The first instalment 1.1 MEUR was paid on April 11, 2019. The Board of Directors will in its meeting scheduled for October 30, 2019 decide on the dividend record date and the payment date of the second instalment. The dividend record date for the second instalment would then be November 1, 2019 and the dividend payment date November 8, 2019. A separate stock exchange release on the decisions of the AGM has been given, and up to date information on the Board's authorizations and other decisions of the AGM are available also on the corporate website.

Share related key figures	Jun 30 2019	Jun 30 2018
Number of shares	39 000 000	39 000 000
Number of shares, average	39 000 000	39 000 000
Number of treasury shares	677 208	677 208
Number of treasury shares, %	1.7%	1.7%
Number of outstanding shares	38 322 792	38 322 792
Number of shares traded, YTD	1 864 602	788 887
Share price, EUR	3.02	3.40
Highest share price, YTD, EUR	3.43	4.07
Lowest share price, YTD, EUR	2.85	3.13
Average price of treasury shares, all time, EUR	5.08	5.08

Short term risks and uncertainties

The objective of Rapala VMC Corporation's risk management is to support implementation of the Group's strategy and execution of business targets. Group management continuously develops its risk management practices and internal controls. Detailed descriptions of the Group's strategic, operative and financial risks as well as risk management principles were included in the Financial Statements 2018.

Due to the nature of the fishing tackle business and the geographical scope of the Group's operations, the business has traditionally been seasonally stronger in the first half of the year compared to the second half. Weathers impact consumer demand and may have impact on the Group's sales for current and following seasons. However, the weather risk is well diversified as the Group has a wide geographical footprint and sells products both for summer and winter seasons.

The biggest deliveries for peak seasons are concentrated into relatively short time periods, and hence a well-functioning supply chain is required. The uncertainties in future demand as well as the length of the Group's supply chain increases complexity in supply chain management. Delays in shipments from internal or external suppliers or unexpected changes in customer demand may lead to shortages and lost sales or excess inventories and subsequent clearance sales with lower margins.

The Group's credit facilities include some profitability, net debt and equity related financial covenants, which are actively monitored. Following increased leverage level (ratio between net interest-bearing debt and reported EBITDA), the Group has agreed with its lenders on higher covenant level for the second quarter of 2019. The Group expects to continue to fulfill the requirements of its lenders also during the second half of the year. Liquidity and refinancing risks are well under control, but leverage level may put pressure on Group's financing costs.

Increased uncertainties and downturns in the general economic climate may influence the sales of fishing tackle, when retailers reduce their inventory levels and face financial challenges. Also, quick and strong increases in living expenses or sudden fluctuations in foreign exchange rates may temporarily affect consumer spending. However, the underlying consumer demand has historically proven to be fairly solid. Political tensions may have negative effects on the Group's business and geopolitical development is followed closely.

The truly global nature of the Group's sales and operations diversifies market risks. The Group is cautiously monitoring the development both in global macro economy as well as in the various local markets it operates in. While Group's customer base is generally diversified, changes in retail landscape may have impact on purchase behavior of customers. Making new distribution agreements or terminating old agreements or changes in product offering made by the principal may affect sales and profitability of

Third Party Products. Cash collection and credit risk management is high on the agenda of local management and this may affect sales to some customers. Quality of the accounts receivables is monitored closely.

The Group's sales and profitability are impacted by the changes in foreign exchange rates and the risks are monitored actively. To fix the exchange rates of future foreign exchange denominated sales and purchases as well as financial assets and liabilities, the Group has entered into several currency hedging agreements according to the foreign exchange risk management policy set by the Board of Directors. As the Group is not applying hedge accounting in accordance to IFRS 9, the unrealized mark-to-market valuations of operative currency hedging agreements have an impact on the Group's reported operating profit. Some of Group's currency positions are not possible or feasible to be hedged, and therefore may have impact on the Group's net result. The Group is closely monitoring market development as well as its cost structure and considering possibility and feasibility of price increases, hedging and cost rationalization.

No significant changes are identified in the Group's strategic risks or business environment.

Definitions of key figures

Operating profit before depreciation and impairments (EBITDA)	Operating profit + depreciation and impairments
Items affecting comparability	Change in mark-to-market valuations of operative currency derivatives +/- other items affecting comparability
Other items affecting comparability	Restructuring costs + impairments +/- gains and losses on business combinations and disposals - insurance compensations +/- other non-operational items
Comparable operating profit	Operating profit +/- change in mark-to-market valuations of operative currency derivatives +/- other items affecting comparability
Net interest-bearing debt	Total interest-bearing liabilities - total interest-bearing assets - cash and cash equivalents
Capital employed (average for the period)	Total equity (average for the period) + net interest-bearing debt (average for the period)
Working capital	Inventories + total non-interest-bearing assets - total non-interest-bearing liabilities
Total non-interest-bearing assets	Total assets - interest-bearing assets - intangible and tangible assets - assets classified as held-for-sale
Total non-interest-bearing liabilities	Total liabilities - interest-bearing liabilities
Return on capital employed (ROCE), %	$\frac{\text{Operating profit (full-year adjusted)} \times 100}{\text{Capital employed (average for the period)}}$
Debt-to-equity ratio (Gearing), %	$\frac{\text{Net interest-bearing debt} \times 100}{\text{Total equity}}$
Equity-to-assets ratio, %	$\frac{\text{Total equity} \times 100}{\text{Total equity and liabilities - advances received}}$
Earnings per share, EUR	$\frac{\text{Net profit for the period attributable to the equity holders of the parent company - hybrid capital accrued unrecognised interest after tax}}{\text{Adjusted weighted average number of shares}}$
Equity per share, EUR	$\frac{\text{Equity attributable to equity holders of the parent company}}{\text{Adjusted number of shares at the end of the period}}$
Average number of personnel	Calculated as average of month end personnel amounts

Reconciliation of key figures to IFRS	H1	H1	FY
MEUR	2019	2018	2018
Items affecting comparability			
Change in mark-to-market valuations of operative derivatives	0.3	-0.3	-0.7
Other items affecting comparability	0.2	0.1	2.6
Items affecting comparability	0.6	-0.1	1.9
Other items affecting comparability			
Restructuring costs	0.2	0.3	2.8
Other non-operational items	-	-0.2	-0.2
Other items affecting comparability	0.2	0.1	2.6
Capital employed (average for the period)			
Total equity (average for the period)	137.7	146.8	144.9
Net interest-bearing debt (average for the period)	87.2	66.9	69.1
Capital employed (average for the period)	224.9	213.7	214.0
Return on capital employed (ROCE), %			
Operating profit (full-year adjusted)	22.8	30.6	14.8
Capital employed (average for the period)	224.9	213.7	214.0
Return on capital employed (ROCE), %	10.2%	14.3%	6.9%
Equity-to-assets ratio, %			
Total equity	128.3	150.8	147.1
Total equity and liabilities	317.4	287.4	277.1
Advances received	0.2	0.2	0.4
Equity-to-assets ratio, %	40.4%	52.5%	53.2%
Earnings per share, EUR			
Net profit for the period attributable to the equity holders of the parent company	7.0	9.4	6.1
Hybrid capital accrued unrecognised interests after tax	0.6	-0.7	1.1
Adjusted weighted average number of shares	38 322 792	38 322 792	38 322 792
Earnings per share, EUR	0.17	0.23	0.13
Equity per share, EUR			
Equity attributable to equity holders of the parent company	122.4	118.7	117.0
Adjusted number of shares at the end of the period	38 322 792	38 322 792	38 322 792
Equity per share, EUR	3.20	3.10	3.05