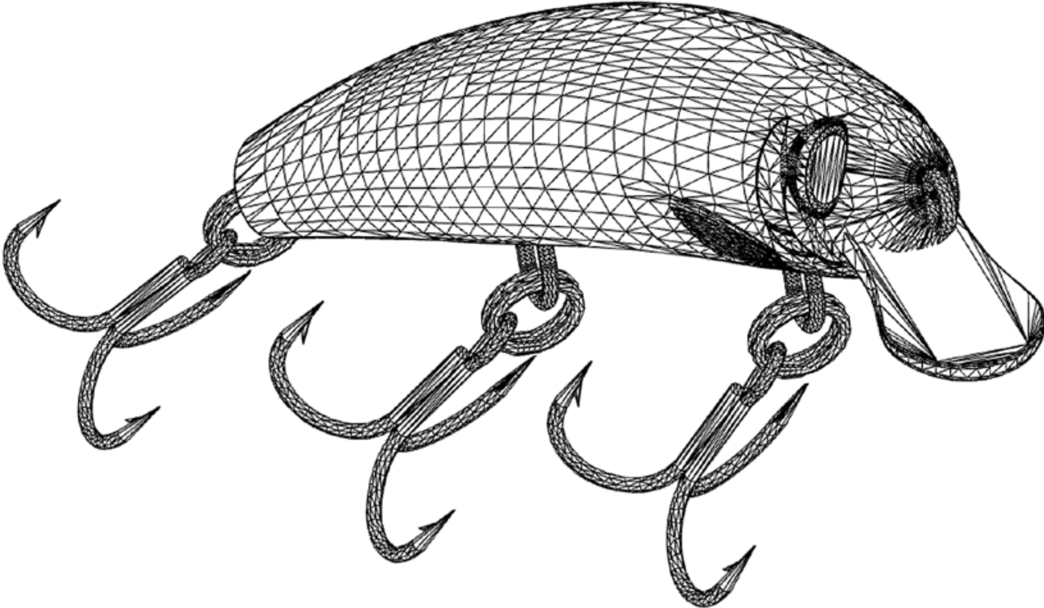
Rapala®

Annual Report 2010



Rapala®

BLUE FOX®

Marttiini
The Sharpest Choice since 1928.

Rapala®

Rapala VMC Corporation (Rapala) is a leading fishing tackle company and the global market leader in fishing lures, treble hooks and fishing related knives and tools. The Group also has a strong global position in other fishing categories and it is one of the leading distributors of outdoor, hunting and winter sport products in the Nordic countries. The Group has the largest distribution network in the industry. The main manufacturing facilities are located in Finland, France, Estonia, Russia, China and the UK. The Group brand portfolio includes the leading brand in the industry, Rapala, and other global brands like VMC, Sufix, Storm, Blue Fox, Luhr Jensen, Williamson, Dynamite Baits, Marttiini and Peltonen.

The Group, with net sales of EUR 269 million in 2010, employs more than 2 000 people in 33 countries. Rapala's share is listed and traded on the NASDAQ OMX Helsinki stock exchange since 1998.

PELTONEN

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Crafted from Experience – Positioned for Further Growth

With a history of 60 years as a business, more than 70 years of lure making experience and more than 880 world record catches, Rapala and its products are clearly crafted from experience. With its track record and current unique distribution network, manufacturing platform and brand portfolio as well as solid financial basis, the Group is well positioned for further growth.

Necessity – The Mother of Invention (1936–1945)

Lauri Rapala, the founder of the Rapala business, was born into poverty in Finland in 1905. To make a better living, Lauri started to develop a lure that would increase the productivity of his fishing. In 1936, he finally managed to carve a rough-looking lure that produced an off-centre and enticing wobbling action – the one that is still the basis for many Rapala lures. The story of Rapala lures had begun.

The Business Is Born (1945–1955)

After World War II, Lauri revived his small lure making business that had blossomed just before the war. Lauri first made all the lures himself but was soon joined by his family. Despite the increased production volumes, Lauri insisted on testing every single lure to make sure that the action was correct. Even today, every Rapala-branded lure is manually tested before packing.

The American Dream (1955–1965)

Foreign visitors to the Helsinki Olympic Games of 1952 were amongst the first to take Rapala lures outside Finland. In 1955, the first export sales started to Sweden and Norway and later to the USA. In 1957, the business was formalized and the Rapala-Uistin (Lauri Rapala and Sons) company was established. In 1959, Ron Weber and Ray Ostrom started to distribute Rapala lures in the USA, a business later to become Normark Corporation. In 1962 a long article of Rapala happened to be published in the Life magazine's circulation record breaking memorial edition on Marilyn Monroe. This exploded the demand of Rapala lures in the US.

International Co-operation (1965–1975)

After export sales were expanded in the early 60's from the US to Canada, Rapala strengthened the distribution in Sweden in the mid 60's and made the first contacts with the French companies Ragot and VMC. Many new lure models were introduced in 60's and the first Rapala fillet knives were launched in 1967 – the start of the co-operation with Marttiini. By the mid-1970's, Normark, then still separate from Rapala, had established distribution companies in Canada, the UK and Sweden. At the same time, Rapala signed distribution agreements to Denmark and France. The new factory at Vääksy was opened in 1973.

Family Business to Next Generation (1975–1989)

After Lauri Rapala died in 1974, the company name was changed to Rapala Oy and the son Ensio was appointed as President of Rapala while his brothers Esko and Risto had their own responsibilities. Production methods and technology were further developed and the capacity increased markedly: while a total of 25 million lures were produced during 1936–1975, the total number of manufactured lures reached 100 million in 1988. The range of lures was further widened, the Blue Fox spinner brand was introduced and a manufacturing unit was established in Ireland. During this time, the Group acquired a boat company and a caravan business.

Time of Change (1989–1998)

In 1989, Esko's son Jarmo Rapala was appointed as President of Rapala and Jorma Kasslin as Deputy President. Consequently, a major restructuring followed: in a few years Rapala sold both the boat and caravan business and acquired the Normark distribution companies in the USA, Canada, the UK, Sweden, Norway, Denmark, Holland and Finland as well as the French company Ragot. In 1993, Rapala started a distribution alliance with Shimano. These changes were followed by a management buy-out, where the management together with some private equity investors bought the company from the family and listed Rapala Normark Oy on the Helsinki Stock Exchange in 1998. Jorma Kasslin was appointed as the President of the Group.

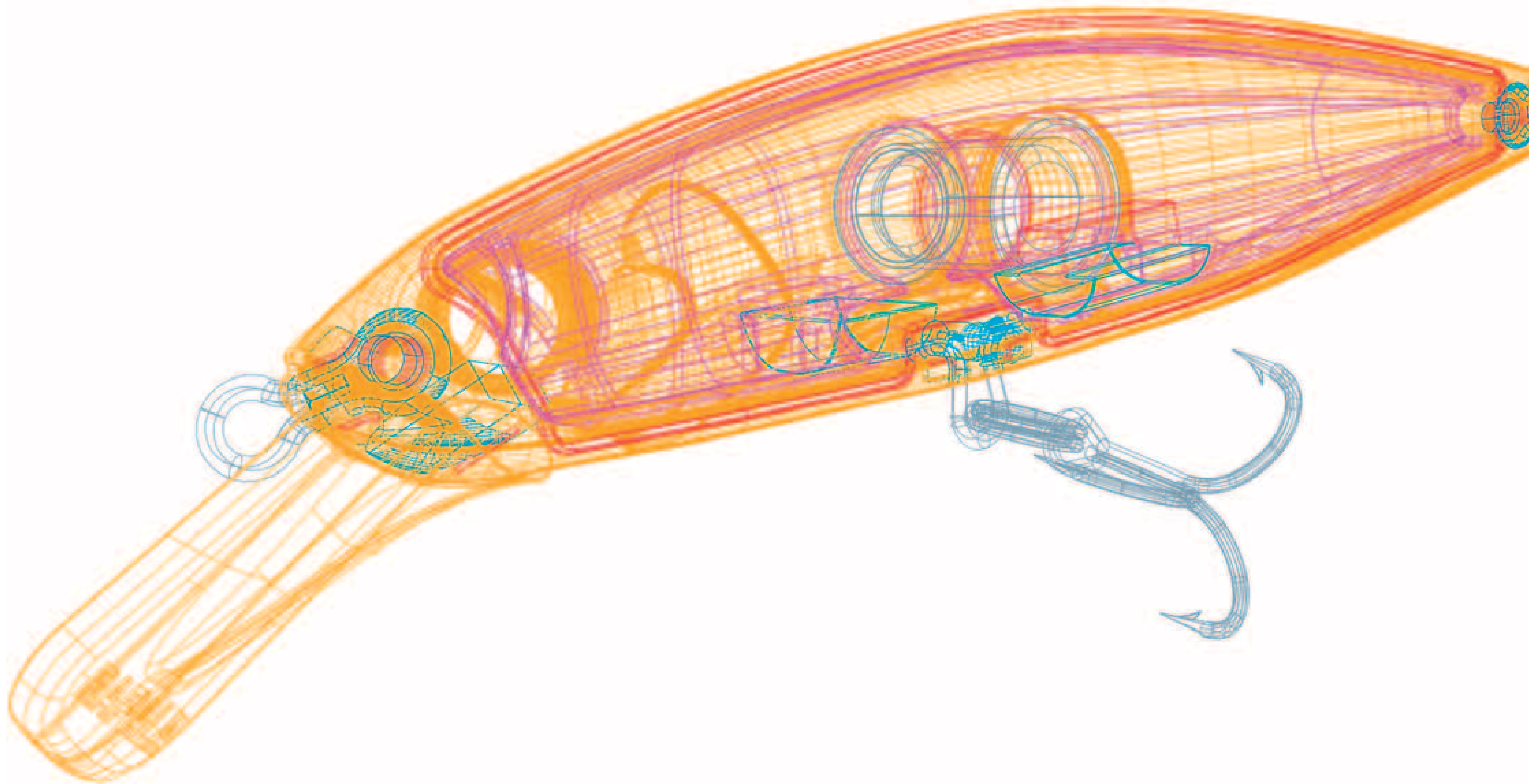
Expansion and Diversification (1998–2005)

Following the stock exchange listing Rapala's expansion continued strongly. In late 1990's and early 2000 Rapala bought Storm lures, French VMC hook business, Chinese Willtech lure manufacturing unit and Williamson big game fishing business. Rapala lure manufacturing expanded in Estonia and Group's own distribution company network expanded in Japan, East Europe, Switzerland and Brazil. Simultaneously, the product range was widened to include a variety of fishing accessories such as rods, reels and fishing lines.

Profitable Growth Continues (2005–)

A new phase in implementation of the profitable growth strategy started in 2005. In less than a year, the Group acquired or established distribution companies in South Africa, Australia, Malaysia, China, Thailand and Switzerland and bought lure manufacturer Luhr Jensen in the USA, knife manufacturer Marttiini in Finland, fishing line supplier Tortue in France and cross-country ski manufacturer Peltonen in Finland. Thereafter, Rapala has established a lure factory and several distribution centers in Russia, a distribution companies in South Korea, Romania, Iceland, Slovak and Belarus, acquired the Terminator spinnerbait business and widened the distribution alliance with Shimano to several new countries. Group has also successfully entered into the fishing line business by acquiring the Sufix brand and just concluded a deal on Dynamite Baits to seriously enter into the carp fishing business and UK distribution. Simultaneously, the Group has developed a large variety of new products and product categories including clothing, sunglasses, pheromone attractants and many new lure families as well as expanded its gift business. The Group has also improved its profitability and strengthened its balance sheet by e.g. changing the operational business model in China, restructuring the lure manufacturing in Europe and developing its supply chain and working capital management.

With this product assortment, distribution network, manufacturing platform, brand portfolio and solid financial basis, the Group is well positioned to continue its profitable growth.



Rapala and Year 2010 in Brief

Focus on Fishing Tackle Business

Rapala's core business is manufacturing and distribution of fishing tackle products and its organization can be divided into three business segments:

1. Group Fishing Products including lures, fishing hooks, fishing lines and fishing accessories,
2. Other Group Products including cross country skis, gift products and subcontracting services, and
3. Third Party Products including products for sport fishing, hunting, winter sports and outdoor.

Group Products are manufactured or sourced by the Group and sold under Group's own brands, whereas Third Party Products are products under third party brands represented and distributed by Group's distribution companies.

Rapala is undisputed market leader in hard-bodied lures, metal lures, treble hooks and fillet knives. The Group is also strong in fishing accessories and is strengthening its role in fishing lines. Products for hunting, winter sports and outdoor fit well into Rapala's distribution network in the Nordic countries and smoothen the seasonality of the fishing tackle business.

Rapala's strategic objective is profitable growth. This strategy is founded on three sub-strategies and established strengths:

1. a leading global distribution network in the fishing tackle industry,
2. a strong brand portfolio with several leading brands, and
3. a unique manufacturing, sourcing and R&D platform.

Rapala in 2010 – Year of Many Records

Year 2010 was characterized by breaking several records of financial performance. Group's net sales, comparable operating profit, as well as earnings per share reached all time records.

Group's net sales grew by 15% from last year to EUR 269.4 million. Comparable operating profit, excluding non-recurring items, increased 35% from last year and reached EUR 31.8 million. Comparable operating margin was 11.8%. Net profit reached EUR 20.7 million and earnings per share 0.46 EUR.

Following the increased sales and more sales oriented focus in working capital management, operating cash flow dropped from last year's record levels to EUR 13.0 million. Group's balance sheet is healthy. Equity-to-assets ratio and gearing were on same levels as last year, 42.6% and 71.2% respectively.

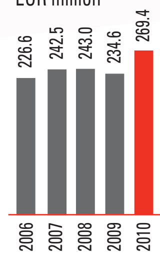
The biggest step taken during 2010 in implementation of Group's strategy of profitable growth was acquisition Dynamite Baits Ltd. The acquisition makes Rapala a strong player in the European carp fishing market, the fastest growing market in fishing throughout the Europe.

Group's distribution company network was further expanded by establishing subsidiaries in Iceland, Belarus and China (gift products).

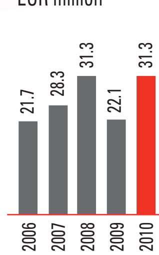
Working capital and cash flow management still remained a top priority for the Group. Work to develop Group's internal supply chain to shorten lead-time, lower the inventories and further improve service levels to customers progressed and will continue further in 2011.

For 2011 the view on general market situation and sentiment is positive in all main markets. The Group's growth is further supported with establishment of new distribution companies as well as successful launch of new products, e.g. Sufix 832 fishing line. The Group's manufacturing units are well prepared to meet the demand of the coming fishing season. In 2011, Group's net sales is expected to increase from 2010 and comparable operating margin is targeted to improve.

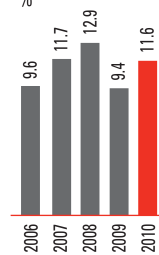
Net sales,
EUR million



Operating profit,
EUR million



Operating profit,
%



Statement by President and CEO

"Year 2010 turned out to be a record year. Our good results were based on strong sales performance all around the world, especially in Eastern Europe, success of our winter sports business and improved delivery performance of our manufacturing units."

Year 2010 was a record breaking year for Rapala in many respects. Our net sales reached record levels, as did our comparable profitability and the profits distributed to our shareholders. Our share price increased some 38%, outperforming the Nordic Mid Cap index. So, financially 2010 was a good year.

In 2010 the business environment developed positively in many areas and we were ready and able to exploit these opportunities. Our sales in Eastern Europe were growing extremely well and the biggest fishing tackle retail markets in North America were gradually recovering after the turbulence of 2009. Good winter weathers in second consecutive year boosted the demand for winter sports equipment and our manufacturing and distribution units were able to capture this momentum with efficient operations and new innovative products.

Also fishing-wise 2010 was another record year. Based on International Game Fish Association's statistics, most of the new fishing world records in 2010 were again captured with Rapala lures and even the second place came to us with Storm lures. So there is no question we have top products in the world!

In 2010 we launched several new products, of which Sufix 832 fishing line is one of the most interesting ones. As an outcome of our partnership with W.L. Gore, the US technology company world-famous e.g. for its Gore-Tex fabric, we have introduced a new revolutionary fishing line which we think is the best in the market.

Group's working capital projects continued in 2010. Following the increased demand, more focus was also given to securing that we have sufficient amount of products in inventory to exploit the sales opportunities. Especially the delivery performance of our Chinese manufacturing unit improved significantly during 2010 which supported the sales of our distribution companies. However, the work on improving the levels of working capital and inventories is far from over. We have great opportunities to improve the efficiency of our internal supply chain and this will be a special focus area for us also in 2011.

The strategic importance of our own global distribution network is increasing all the time. In 2010 this network was further expanded as operations effectively started in Romania, Belarus and Iceland. In 2011 this expansion will still continue.

One major event in 2010 was of course the acquisition of premium carp bait manufacturer and distributor Dynamite Baits Ltd in the UK. Dynamite fits perfectly into our product and brand portfolio as well as into our manufacturing, sourcing and distribution platform. Additionally their entrepreneurial company culture is a perfect match with ours. We are all extremely happy to have Dynamite as part of Rapala Group.

Even if year 2010 was very good in many respects, we still have possibilities to improve our sales and profitability. The outlook for 2011 is positive. Messages from our units all around the world are encouraging, but the competition is always tough and a lot of hard work is needed also in 2011. I'm anyhow absolutely confident that we have the best people and partners needed to achieve great results.

Finally, I want to thank everybody for the achievements in 2010 and wish all the best for 2011.

Jorma Kasslin
President and CEO

Strategy, Strengths and Priorities

Rapala's vision is to become the global leader in the fishing tackle industry. This will be achieved through profitable growth. In the last few years, the Group has implemented major actions to improve its profitability while continuing to grow.

Strategic Objective

Rapala's strategic objective is profitable growth. This strategy is founded on three sub-categories and established strengths: a leading global distribution network in the fishing tackle industry, a strong brand portfolio with several leading brands and a unique manufacturing, sourcing and R&D platform.

Established and Continuously Developed Strengths

Rapala's distribution network covers four major continents and is locally present in more than 30 countries. It allows the Group to introduce new products efficiently and effectively to the market and to build strong partnerships with local retailers and fishermen. Wide distribution network also acts as a channel for customer input, which is valuable in product development. In addition, the Group uses external distribution agents in over 100 countries and has an important distribution alliance with Shimano.

In addition to Rapala, the leading brand in the fishing tackle industry, the Group's brand portfolio consists of several other well known brands like Storm, Luhr Jensen, Blue Fox, Williamson, VMC, Sufix, Trigger X, Dynamite Baits, Marttiini and Peltonen. These brands can be extended to introduce new products to targeted market segment or price category.

The Group's fishing tackle manufacturing and sourcing platform consists of Europe's largest production facilities for lures with specialized factories in Finland, Estonia and Russia, manufacturing operations for lures and accessories in China, treble hook production facility in France, knife manufacturing in Finland and carp bait manufacturing in the UK. Rapala has an extensive sourcing platform and process to ensure high quality but low cost third party manufacturing for its selected products. Rapala's research and development is globally well known and respected for its capability to continuously introduce new high quality products with new and exceptional features.

Focus on Fishing Tackle Business

The Group's core business consists of lures, fishing hooks, fishing lines, fishing accessories and other fishing tackle. Lures and fishing lines are amongst the lowest cost but highest value adding elements of fishing. The consumable nature of these products leads to a stable replacement market. The fisherman's desire to have a tackle box filled with a wide range of established lures together with new "hot" lures ready for all circumstances makes the market both attractive and demanding.

The fishing tackle market enjoys a high level of brand loyalty, which increases the value of well known high quality brands. As a result of the increasing trend for "catch and release", the use of live bait is declining. This has increased and will further increase the demand for high quality lures. One of Rapala's characteristics is that it has developed a unique capability of being both aspirational and affordable to the mass market.

Strategy Implementation in 2010

In 2010 the biggest step taken in the strategy implementation was acquisition of Dynamite Baits Ltd, a manufacturer and distributor of premium carp baits, located in Nottingham, UK. The acquisition of Dynamite makes Rapala a strong player in the UK and in the European carp fishing market. Acquisition also contributes to the Group's brand strategy and portfolio and leverages Rapala's unique sourcing and distribution platforms.

The operations of Rapala's new distribution companies in Belarus, Iceland and China (gift products) started in the first half of 2010. During the last quarter the Group proceeded with plans to establish distribution operations also in Mexico and Indonesia. Both operations are planned to start during first half of 2011. The Group's Finnish distribution company Normark Suomi Oy and ski manufacturer Peltonen Ski Oy also made decisions to relocate to larger premises in 2011. A special performance improvement initiative was carried out in the Hungarian operations during 2010. This included e.g. relocation to new premises in Budapest.

Working capital and cash flow management was still one of the top priorities for the Group, but the focus on inventory management has also turned into improving the delivery performance, securing the service levels to customers and exploiting the sales opportunities. Work to develop the Group's internal supply chain progressed and will continue further to 2011 with target to ensure improved service levels to customers with relatively lower and faster turning inventory levels.

Development of organic growth in terms of extensions of current product categories continued. New products for the season 2011 were introduced to the market in summer and were received well by the markets.

Discussions and negotiations regarding acquisitions and business combinations continued during 2010. Rapala is a key player in the fishing tackle industry and has a good access to any discussions concerning industry consolidation or business expansion possibilities.

SUPPLY	BRANDS	DISTRIBUTION

OWN MANUFACTURING AND R&D

PRODUCT		SOURCE
HARD BAITS Rapala Storm **SPINNERS** Blue Fox		**RAPALA** Finland Estonia Russia
SOFT BAITS Storm **BIG GAME** Williamson	**OTHER LURES** Blue Fox Luhr Jensen Storm Hard baits Terminator Trigger X Dynamite Baits	**WILLTECH** Hong Kong China **DYNAMITE BAITS** Great Britain
HOOKS **TERMINAL TACKLE AND GIFT** **KNIVES** **XC-SKIS**		**VMC,** France **WILLTECH,** China **MARTTIINI,** Finland and Estonia **PELTONEN,** Finland

SOURCING AND OWN R&D

PRODUCT	SOURCE
ACCESSORIES, RODS & REELS	China and Taiwan
FISHING LINES	Taiwan and China
XC-SKIS & POLES	Finland and Russia
BAITS AND ATTRACTANTS	Great Britain and Taiwan

THIRD PARTY PRODUCTS

Shimano
Other Fishing
Hunting
Winter Sports
Outdoor

GROUP BRANDS

Rapala®

BLUE FOX®

DISTRIBUTION

OWN DISTRIBUTION

		Belarus
USA	Australia	France
Canada	South Africa	Spain
Japan	Brazil	Portugal
Malaysia	Finland	Switzerland
China	Sweden	Poland
Great Britain	Denmark	Estonia
Thailand	Norway	Lithuania
South Korea	Iceland	Latvia

RAPALA-SHIMANO DISTRIBUTION

Russia	Hungary
Ukraine	Romania
Czech Republic	
Slovak Republic	

SHIMANO

Italy
Germany
Netherlands
Belgium
Great Britain

LOCAL IMPORTERS

Rest of Europe
Rest of World

Group Fishing Products

Rapala focuses on manufacturing and distribution of fishing tackle. Group Fishing Products are manufactured or subcontracted by the Group and sold under the Group's brands. These products include lures, hooks, baits, lines and accessories for sport fishing. The net sales of Group Fishing Products were some EUR 140 million in 2010 (EUR 127 million in 2009), representing the majority of Rapala's fishing tackle business.

Lures

Rapala is the undisputed worldwide market leader in hard-bodied lures. The Group is also very strong in all other lure categories with its other international brands: Storm, Blue Fox, Luhr Jensen, Williamson and Trigger X, as well as Dynamite Baits, the carp bait brand. The net sales of Fishing Lures, including all Group brands, were some EUR 77 million in 2010 (EUR 68 million in 2009).

The Group's lure range covers all lure categories from small freshwater lures to giant big game trolling lures, and to baits and attractants. Lure manufacturing facilities are located in Finland, Estonia, Russia and China and the bait factory in the UK. The Group's combined total lure production in 2010 was more than 26 million packages.

Introducing new products annually is an essential part of successful fishing tackle business. With operations in all continents, the Group utilizes an extensive network of fishing tackle and trade professionals in its product development process. The Group's main product development units are located at the manufacturing facilities in Finland and China, along with product development resources in the US.

Rapala – The Original Innovator in Hard Bodied Lures

The core of the lure business consists of hard baits, also called wobblers, produced under the Rapala brand and based on the 70 year long tradition of lure manufacturing.

All Rapala hard baits are manufactured in the Rapala lure factory in Vääksy, Finland, where all the production phases that have the most important effect on the lure's performance and quality are still done, while the most labor-intensive production phases are done in Group's manufacturing facilities in Russia and Estonia. Rapala lure factories form world's most efficient lure manufacturing unit, leveraging the economies of scale. The annual production of Rapala-branded lures is approximately 12 million – averaging at 55 000 lures per day.

Three quarters of the Rapala hard bait models are still made of wood with the balance made of plastic. Modern plastic hard baits represent today 35–40% of Rapala-branded lure sales. Balsa-made lures continue to be very popular and new products are still successfully launched into this category.

The Rapala hard baits are used all over the world in both fresh and saltwater catching virtually all species of game fish. A strong testament to Rapala's superiority in the water is the fact that Rapala lures have caught more official world records than any other lure brand – and continue to be awarded more new records than other brands year after year.

Storm – Questioning the Established Ways of Lure Making

The Group also offers hard baits under the Storm brand. All Storm hard baits are made of plastic and aimed at a lower price point than Rapala-branded hard baits. Most of the Storm lures come from the Group's Chinese manufacturing unit and subcontractors. Storm is also the brand under which the Group introduces products that may not have the global appeal required for Rapala-branded lures.

Under the Storm brand Rapala also manufactures a wide range of soft plastic and hybrid baits. Storm is also very strong in pre-rigged and unrigged soft plastic lures. Each of these categories is growing strongly and in some segments the products are already market leaders. All Storm soft plastic and hybrid baits are made at the Group's Chinese manufacturing unit and subcontractors. In 2010, the production of Storm-branded lures was close to five million packages.

Williamson – The Big Game Professor

Williamson Lures was originally a South African company that the Group acquired in 2004 to strengthen its presence in the big game and saltwater market. Now manufactured at the Group's Chinese manufacturing unit and subcontractors and distributed by the Group's distribution network, Williamson is the only big game brand that has global presence in the market. The Williamson product range consist of high speed trolling lures and realistic bait fish imitations designed for big game species like tuna, sailfish and marlin. Recent product development emphasis has been on the metal lures that are the fastest growing saltwater category internationally.

RAPALA

Blue Fox – Foolproof Metal Lures

Blue Fox is one of the Group's metal lure brands offering an extensive, versatile range of products including spinners, spoons and spinnerbaits designed to catch species like salmon, trout, musky and pike.

Blue Fox products are manufactured at the Group's Chinese manufacturing unit and subcontractors as well as in the Group's factories in Finland and Estonia, where the larger part of the Group's spinner production is being transferred in order to gain production efficiencies. The total number for Blue Fox branded metal lures produced in 2010 was close to four million pieces.

Luhr Jensen – The Salmon and Trolling Specialist

Founded in Hood River, Oregon, Luhr Jensen brand was acquired by the Group in 2005. Luhr Jensen is especially strong in the US Pacific Northwestern trout and salmon fishery with its metal lures and hard baits designed mainly for trolling. A majority of the products also have international appeal for similar species and uses.

Luhr Jensen's acquisition has strengthened the Group's presence in the US and Canada Pacific Northwest and made the Group the world's largest producer and distributor of metal lures. Luhr Jensen branded lures are manufactured in the Group's operations in China and in 2010 over two million Luhr Jensen lures were produced.

Trigger X – Pheromone-Enhanced and Biodegradable Baits

Trigger X is the brand for Rapala's baits and attractants enhanced with the Ultrabite pheromone. Ultrabite is a pheromone based fish attractant developed by CEFAS (Centre for Environment, Fisheries and Aquaculture Sciences) governmental laboratories in the UK, igniting the natural and irresistible feeding behavior in fish.

The first Trigger X products were launched for the 2008 season. The product offering now includes a wide array of environmentally friendly soft plastics and biodegradable baits, gels and sprays that all feature the patented Ultrabite pheromones. With Trigger X, the Group has been able to enter a totally new product category and business segment in all major markets and its sales are growing fast.

Dynamite Baits – Premium Baits for Carp Fishing

In 2010, Rapala acquired Dynamite Baits, a UK-based manufacturer and distributor of boilies, groundbait, liquid attractants, pellets and bagged particle baits for sport fishing. Dynamite Baits is a market leader in premium carp baits in the UK and already has a good market share in other key European countries.

With the addition of Dynamite Baits into its brand portfolio, Rapala is able to fully enter the carp fishing market with a wide range of products including baits, hooks, accessories, terminal tackle and fishing lines. Using its own network of distribution companies Rapala can take Dynamite Baits to the global marketplace, starting from Europe.This category also opens up new possibilities to utilize the patented Ultrabite pheromones, for which Rapala has exclusive rights to use in the sport fishing market.

Dynamite Baits produced some 2.8 million kilograms of baits in 2010.

Hooks

VMC branded treble hooks are market leaders with a significant worldwide market share. The Group also produces and sells single and double hooks. The net sales of Fishing Hooks were some EUR 17 million in 2010 (EUR 15 million in 2009).

The Group designs, manufactures and distributes fishing hooks under the VMC brand from its hook plant in France. Technological expertise in fishing hook manufacturing is three-fold: automated mechanical forming, heat treatment of steel to achieve optimum mechanical performance and chemical finishing with electroplating to guarantee sharpness and corrosion resistance. Finished hooks are sold and shipped to more than 70 countries worldwide. Hook quality is rigorously controlled at all stages of the process. The Group also has a small hook manufacturing facility in China to supply some special hooks to the Group's Chinese lure production.

World's Leading Treble Hooks

VMC is the world's leading treble hook brand with a worldwide market share close to 50%. Successful innovation and value-adding key customer partnerships in product development together with high quality customer service are major strengths in the Group's hook business. Other contributing success factors include advanced and exclusive manufacturing technology and high-capacity production with a short lead-time resulting in good reactivity, capability for proactivity and high quality products. An extensive worldwide network of subsidiaries and distributors, many of whom are local market leaders, together with a strong brand equity built on over 200 years' experience in steel products and 100 years in hook manufacturing have also contributed to VMC's leading position.

In addition to treble hooks, VMC branded fishing hooks also include a wide range of single hooks and a selection of double hooks. A broad spectrum of shapes, sizes, points and platings offers customers a complete combination of solutions adapted to all conditions and locations for both sport fishing and commercial fishing.

Today, the production capacity is some 3 million hooks a day. One fourth of the manufactured hooks is used within the Group and the rest is sold outside the Group through distribution channels for consumer retail and to fishing tackle manufacturers for assembly. VMC branded hooks are a key ingredient for the majority of the world's leading lure makers.

Highlights and Special Initiatives in 2010

Year 2010 was a milestone for the Group's fishing hook business, marking 100 years of fish hook production in Morvillars, France. "Made in France" is one of VMC's key sales messages for its treble hooks, underlining the brand's promise of quality backed by tradition for this demanding product category. Throughout the year, special anniversary celebrations and brand promotions were organized by the VMC hook factory together with Group distribution companies worldwide.

Several prominent VMC branded products were introduced to the market in 2010 including two extensions to the Spark Point range of premium hooks: the 3X-Strong treble designed for tough saltwater situations and the Super Light Worm Hook for finesse-style fishing. The successful launch of VMC jig heads and rigging kits for European anglers represented a logical extension of the brand's hook range into terminal tackle.

Expectations for 2011

One major goal for 2011 is to further the development of the VMC global brand image. Initiatives will be executed to redesign hook packaging and other brand-building marketing collateral.

Lines

Fishing lines have become a key part of Rapala's global product offering. The segment received a real boost with the acquisition of the world famous Sufix brand in 2008. The main objective for 2010 was to finalize the integration of Sufix into Rapala's distribution network and strong sales growth. Both targets were achieved during 2010. The net sales of Fishing Lines were some EUR 14 million (EUR 12 million in 2009).

A Comprehensive Range of Sufix Fishing Lines

The Group's worldwide fishing line selection includes products for all fishing conditions: blue water, inshore sea, fresh water lakes, small streams, big rivers and white water. Under the Sufix brand there are both monofilament and braided lines – lines for all kinds of fishing in different environments. The Sufix selection is amongst the largest in the worldwide market.

Brand loyalty is very characteristic in the fishing line business. Sufix branded lines have been sold for over 20 years. Rapala bought the Sufix brand from Taiwanese line manufacturer Yao I Ltd in mid-2008.

Research and Development

Sufix lines are manufactured for Rapala exclusively by Taiwanese manufacturer Yao I Ltd. Yao I has modern production facilities in Taiwan and China with some 600 people manufacturing a vast range of lines from nylon to fluorocarbon and high molecule polyethylene fibres. New production methods are continuously tested to ensure further development and improvement of manufacturing processes and efficiencies.

Rapala's international fishing experts and pro-fishermen are reviewing and researching new product applications that Yao I´s engineers develop exclusively for Rapala. Pricing, quality and new features are always the main development criteria.

Multi-brand Fishing Line Strategy

Sufix lines are already sold in more than 60 countries, both through Group's own distribution companies as well as external distributors. In addition, the Group sells Rapala-branded lines designed for lure fishing, and Water-Queen and Tortue branded lines that are market leaders in France.

Rapala also sells a range of lines from well-selected partners, of which Shimano is the most important.

Highlights in 2010

In 2010 the integration of Sufix brand into Rapala's distribution network was finalized successfully and Sufix is now the fastest growing fishing line. The biggest market is still the United States, but Sufix is well established in Europe, Asia and Oceania. Eastern European markets saw a significant growth in sales during 2010.

The main new product launch during 2010 was Sufix 832, a new product developed together with W. L. Gore, Rapala and Yao I. This new line has many different characteristics, such as slickness, abrasion resistance, casting distance and strength that makes it the most popular new fishing line the Group has ever seen. As a proof of the high level of quality and innovation, Sufix 832 received in July 2010 a highly regarded award "The Best of Show" at ICAST, the largest fishing tackle show in the US market, which has further boosted the demand for the product.

Several other new products were also launched during 2010 with great success.

Rapala has become a serious player in global fishing line business and the Group continues to build the business with a target to reach sales of some EUR 20 million during the next 2–3 years. The long-term strategic goal is to reach sales of EUR 30–50 million.

Challenges and New Products for 2011

In 2011 main goal in the Group's line business is to further grow the sales volumes, but not at the cost of profitability. To shorten lead-times and improve service, the order forecast system and procedures will be further developed. In addition, several new products will be launched for 2011. The Sufix 832 selection will be enhanced and expanded.

Accessories

Rapala's Accessory selection consists of knives, fishing tools, fisherman´s clothing, storage systems, sunglasses and other necessary fishing accessories, most of which are marketed under the Rapala brand. The net sales of Fishing Accessories were some EUR 34 million in 2010 (EUR 32 million in 2009).

Premium Quality for the Mass Market

Rapala Accessories are targeted to provide practical solutions for day-to-day fishing situations: They make an angler more successful and make fishing a little easier. Only products with dependable quality with modern and practical design are produced under Rapala brand. This assures the products are pleasant to use and good value for money.

Minimum life cycle for all products is at least three years, giving the distributors and retailers confidence to stock them. Rapala Accessories are manufactured both in-house as well as sourced from selected subcontractors. Rapala understands the needs of fishermen in different markets. This is the key success factor in branding, product development, manufacturing and pricing, enabling Rapala to successfully offer products that are truly "premium quality for mass market".

Highlights During 2010

The major operational changes in production and supply chain management in the Group's manufacturing operations in China were finished during 2010. This enables Rapala's Accessory products to react faster to changing trends and demand. It leads to faster product development and products are shipped with shorter lead times.

Marttiini, Rapala's premium knife manufacturer, has improved its wood processing capabilities by renewing the production equipment in order to focus on new high end products. The Marttiini online store has been a success with more than a half of the orders coming from international customers. The US market showed very promising growth after a difficult previous year. Marttiini folding knives have gained substantial sales growth. As a result of increased sales Marttiini employed some 30% more production staff during 2010 than in 2009.

The Rapala Pro Wear clothing range saw an aggressive new approach by focusing on fewer models with more aggressive pricing. Rapala Walking Waders were the most popular new item in the wader segment. These Walking Waders are ideal for the hiking fisherman, and they are very comfortable to use. Rapala also introduced a range of flotation suits and aids – a must for every fisherman with safety in mind.

Rapala Tools continued their steady sales growth. The highlight of the year was the "Visitors' Choice" award for Rapala Touch Screen Digital Scale in EFTTEX, the European Fishing Tackle Trade Exhibition, which is the largest fishing tackle trade show in Europe. Rapala also introduced a range of Fisherman´s Lights for evening and night fishing.

Rapala Bags gained more popularity. A waterproof selection was introduced, and the popular Rapala Sportsman´s bag range received a facelift during the 2010 season.

Rapala also has a number of licensees in place, from Rapala Video games to Rapala Boat covers, which provide additional visibility in the important US market.

Expectations for 2011

Increased efficiency and shortened lead-times whilst maintaining and further improving the customer service are key objectives for Accessory products in 2011. Both in-house manufacturing and sourcing operations will be further developed as part of the ongoing development initiative in the Far East.

Marttiini will further develop it´s folding knife selection, and fine tune the production techniques to remain competitive, especially in the demanding US market.

A major initiative will be started for the in-store visibility for all Accessory items.

More emphasis will be placed on various sales promotions such as sales folders, upgraded websites, online information, press releases and salesmen training material.

RAPALA

Other Group Products

In addition to products for sport fishing, Rapala also produces cross country skis and some other non-core products like gift items to compliment the seasonality of its core business. The net sales of Other Group Products were some EUR 25 million in 2010 (EUR 18 million in 2009).

Skis, Knives and Gift Items

The Group produces knives for the hunting, outdoor and household markets under the Marttiini brand. Peltonen is one of the leading brands in cross country skis. Gift items are produced for the Group's own brand and under licensed brands like Walt Disney.

Winter Sports, Hunting and Outdoor

Distribution of winter sports, hunting and outdoor products supplement the Group product offering in the Nordic countries due to the short peak season for fishing tackle business. Most of these products are third party products (see page 32) but also Rapala produces some products to this category.

For winter sports, Rapala owns the Peltonen cross country ski brand since 2002 and is the majority shareholder with 90% stake in the cross country ski manufacturer Peltonen Ski Oy. Rapala's own distribution companies in Finland and Norway distribute some 70% of Peltonen Ski Oy's production. In addition to the manufacturing of skis in the Hartola factory in Finland, lower priced Peltonen skis are also sourced from other ski manufacturers. Peltonen is one of the leading brands in cross country skis, enjoying a 30% market share in Finland. Following the intensive sales activities of Group's distribution company, Peltonen has gained a lot of attention and increased its market share also in Norway. The most important other export markets are Germany, Switzerland, Sweden, North America, Italy and Russia, where the Group's own subsidiary will start the distribution of winter sports equipment in 2011.

The most successful member of the Peltonen Racing Team is Norwegian Odd-Bjørn Hjelmeset who joined the team in 2009. In 2010 Hjelmeset, a world championship gold medalist and winner of several world cup races, was again on the podium as a member of Norway's relay team winning silver in the Vancouver Olympics. In addition to Hjelmeset, Peltonen racing team also includes, among many other talents, Finnish world championship medalists Ville Nousiainen and Teemu Kattilakoski as well as Norwegian young talent Kristian Rennemo, who was raised to the Norway's men's national team in 2010.

The Group branded hunting products (Marttiini, Wild Game and Normark) include hunting knives, clothing and other hunting related accessories and outdoor products (Marttiini, Wild Game, TermoSwed, Normark and Campfire) include knives, backpacks, underwear and boots.

Gift Products

In addition to fishing tackle, Rapala's manufacturing operations in China produce gift products that have traditionally been made with the same machinery and equipment as fishing products and have been used to compliment the seasonality of the fishing tackle business and thus supported the core business.

As the seasonality of fishing tackle manufacturing has become smoother and volumes of gift business increased, the manufacturing operations and personnel of gift business are physically separated from fishing tackle business and both businesses are now managed and developed on a standalone basis. Gift products are manufactured both under Color Motion, which is a Group brand, and under third party brands like Pylones and Walt Disney.

The distribution of gift products has been developed by establishing separate distribution units in Hong Kong and China to sell the products to retailers. Group's gift products are sold e.g. through 7-Eleven, which has nearly thousand stores in Hong Kong.

Other Operations

To utilize its manufacturing capabilities and compensate for the seasonality of the core business, the Group also produces some plastic molding products mainly as a contract manufacturer for electronics and other industries. Following the economic downturn in 2009 the demand for this external production has however weakened.

PELTONEN

Third Party Products

In addition to the Group branded fishing products and other Group products, Rapala also distributes third party products for sport fishing, hunting, winter sports and outdoor. The net sales of Third Party Products were some EUR 106 million in 2010 (EUR 91 million in 2009).

Fishing

The majority of the third party products distributed by Rapala are products for sports fishing. The biggest product groups in this category are rods and reels, tackle boxes and fishing electronics.

Shimano Rods and Reels

Rapala has distributed Shimano rods and reels since 1993. The strategic partnership with Shimano has expanded over the years and in 2010, the Group distributed Shimano in 27 European countries and in South Africa. In its turn, in 2010 Shimano distributed Rapala branded products in 5 countries in Europe: Italy, Germany, Netherlands, Belgium and Great Britain. This European distribution co-operation has now lasted for 17 years.

Shimano, a Japanese company famous also for its bicycle parts and components, is one of the world's leading brands in fishing rods and especially in reels Shimano products represent the biggest proportion of Group's third party product distribution and form an important part of the product portfolio in several distribution companies.

Shimano's rod and reel range covers all important fishing styles and techniques in the geographical areas where the Group distributes them. The product offering in rods and reels covers all price points from entry level to premium. In addition to Shimano rods and reels, Rapala also distributes some Shimano branded fishing lines and accessories and Shimano's G. Loomis branded specialized fishing rods.

The Rapala-Shimano East European distribution joint venture, including Russia, Ukraine, Czech and Slovakia, was established in late 2007 and has proven to be a success and continued to grow strongly.

Fishing Electronics and Other Fishing Products

Rapala distributes several non-Group fishing tackle brands, especially through the newly acquired distribution companies. In addition, Rapala distributes fishing related third party products and equipment that it does not have in its own product portfolio. All major third party products distributed through Group companies are among the leading brands in their own category.

The most important third party products include fishing related boating equipment like marine electronics (Humminbird fish finders ja GPS units), downriggers for trolling (Cannon) and electric outboard motors and accessories (Minn Kota). Tackle boxes (Plano) complement lure sales and are a significant category.

In the areas where the Group does not distribute Shimano products, the Group also distributes other non-Group branded rods and reels (Okuma). Other products that are distributed are locally important fishing hooks (Gamakatsu), baits and attractants for special applications with no wider appeal to other Group distribution companies.

SHIMANO
STELLA

Hunting, Winter Sports and Outdoor

In addition to fishing products, Rapala also distributes third party products for hunting, outdoor and winter sports in the Nordic countries to balance the seasonality and to take advantage of its distribution network.

Hunting

Hunting, as well as winter sports, plays an important role in the Group distribution business in the Nordic countries where the fishing tackle business is very slow in the autumn and in the winter. The Group has distributed hunting products since the 1960's and is today one of the leading distributors of hunting products in the Nordic countries.

The most important hunting products and brands distributed by Rapala are rifles and shotguns (Remington, Blaser, Beretta, Lincoln, CZ, Escort, Mauser, Tikka, Sako, Weatherby, Marlin, Hatsan, Fair, Khan and Mossberg), ammunition and cartridges (Norma, Remington, RWS, GP, CCI, Federal, Sako, Lylevale and Eley Hawk), optics (Bushnell, Leica, Tasco, Zeiss and Burris), clothing (Blaser and Beretta) and hunting related accessories (Gamo, Plano, Remington, Millet and Peltor).

Group branded hunting products are included in Other Group Products (see page 28).

Winter Sports

Rapala has distributed winter sports equipment in Finland since 1999 and in Norway since 2005. Russia will start distribution of winter sports equipment in 2011. The most important non-Group branded winter sports products and brands are ski poles (Rex and One Way), ski wax (Rex), bindings (Rottefella) and cross country ski boots (Alpina).

Group branded products for winter sports include Peltonen cross country skis that are included in Other Group Products (see page 28).

Outdoor

Rapala is also a distributor of some other non-Group branded outdoor products and equipment. The most important outdoor products and brands distributed are hiking and trekking products (Kamik, Rocky and Ocean), bicycle parts and accessories (Shimano) and sports optics (Leica, Bushnell and Tasco).

The Group branded outdoor products include knives, backpacks, underwear and boots, which are covered in Other Group Products (see page 28).

WORLD CHAMPIONS

With over 880 world-record catches, Rapala holds to the number one position as the record holder of world records. Out of this more than 570 world-records are for different Group-branded lures, more than 280 for Sufix fishing lines and more than 20 for VMC hooks. As recognition of this, International Game Fish Association (IGFA), the only organization in the world recording record catches, has established a Rapala-hall-of-fame at its headquarters in Florida, USA.

IGFA presents annually awards for different fishing tackle that have been used to catch the biggest number of world record fish in that particular year. For years, Rapala has been honored for the number one position in the category of lures. The year 2010 was no exception in this: most new world records, 18, were caught with Rapala lures. In 2010 also the second position came to the Group while 5 new world records were caught with Storm lures. Additionally 15 world record catches were caught with Sufix fishing lines.

As a further proof of how effective the Rapala lures are on a global basis, in May 2010 IGFA awarded Rapala, as the first and only lure manufacturer, with IGFA Lifetime Achievement Award.

The success of Rapala's fishing tackle has been demonstrated not only in world record catches but also in hundreds of fishing competitions around the world. E.g. in the USA Rapala anglers won all Walleye Championship Circuit tournaments, earning combined total of USD 125 000 in prize money.

Now all these best of the class Rapala fishing tackle are available for all of us to make our own fishing dreams come true and join these victories and the team of world champions!

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REVIEW OF THE BOARD OF DIRECTORS

Market Situation and Sales

Following the challenging year 2009, year 2010 started with cautious optimism. Good winter weathers in the beginning of the year supported Rapala's sales in the Nordic countries. Business grew strongly in Russia and other Eastern Europe and positive signs of economic recovery were witnessed also in other countries. In many countries strengthening of local currencies eased up the pressure on consumer confidence, increased purchasing power and simultaneously supported the growth of Rapala's net sales throughout the year. The latter part of the year was again gaining benefit of the good winter sports equipment sales especially in Finland as well as gradually improving market conditions in North America, which the Group was able to capitalize with improved customer service.

KEY FIGURES

EUR million	2010	2009
Net sales	**269.4**	234.6
EBITDA	**37.4**	28.9
Operating profit	**31.3**	22.1
Profit before taxes	**29.5**	19.9
Net profit for the period	**20.7**	14.3
Employee benefit expenses	**59.1**	53.8
Average personnel for the period, persons	**2 317**	2 259
Research and development expenses	**2.1**	2.0
as a percentage of net sales, %	**0.8**	0.9
Net cash generated from operating activities	**13.0**	24.6
Total net cash used in investing activities	**13.2**	6.3
Net interest-bearing debt at the end of the period	**92.0**	79.4
Equity-to-assets ratio at the end of the period, %	**42.6**	42.8
Debt-to-equity ratio (gearing) at the end of the period, %	**71.2**	71.1
Return on equity, %	**17.2**	13.3

Net sales for 2010 increased by 15% to an all time record at EUR 269.4 million (EUR 234.6 million). Net change of currency movements and newly established or acquired subsidiaries increased 2010 net sales by EUR 16.9 million and EUR 2.6 million respectively. With comparable exchange rates and organization structure net sales increased by 7%.

Net sales of Group Fishing Products were up 10% in 2010, following steady growth in sales of lures, success in Sufix fishing lines sales and impact of acquisition of Dynamite Baits Ltd ("Dynamite"). Net sales of Other Group Products increased significantly by 42%, due to booming winter sports equipment sales and partial recovery of the gift products business. In 2010, net sales of Third Party Products increased by 17% from last year, with strongest growth in fishing lines and winter sports equipment.

Partly supported by strengthening of the USD, net sales in North America increased in 2010 by 12%. In the Nordic countries net sales increased by 8%, especially following the growth in sales of winter sports equipment. In Rest of the Europe the annual growth in sales was 17%, as a result of strong growth especially in East Europe. In 2010 the net sales in Rest of the World increased by 26%, mainly as a result of increased sales of fishing and gift products from Group's Chinese manufacturing unit.

For more detailed segment information, see the note 2 to the consolidated financial statements.

Financial Results and Profitability

Comparable operating profit for 2010, excluding non-recurring items, reached all time records at EUR 31.8 million (EUR 23.5 million). It was positively affected by increased sales and consequently improved fixed cost coverage, improvement in profitability of Group's own products and strengthening of several currencies. Comparable operating margin for the year was 11.8% (10.0%).

Reported operating profit for 2010 was EUR 31.3 million (EUR 22.1 million) including non-recurring business acquisition and restructuring costs of EUR 0.5 million (non-recurring net cost of EUR 1.4 million in 2009). Most of these costs relate to acquisition of Dynamite Baits Ltd and restructuring of the Group's Hungarian operations. Reported operating margin was 11.6% (9.4%) and return on capital employed 15.2% (11.5%).

In 2010 operating profit of Group Fishing Products increased by 36% compared to last year, as a result of improved sales and profitability in lures, lines and fishing knives. Operating profit of Other Group products quadrupled compared to 2009, especially due to the increased sales and improved profitability of winter sports equipment. Operating profit of Third Party Products increased by 34% in 2010, with biggest increase from fishing lines. For more detailed segment information, see the note 2 to the consolidated financial statements.

MANAGEMENT ANALYSIS

EUR million	2010	2009
Net sales as reported	**269.4**	234.6
EBITDA as reported	**37.4**	28.9
Non-recurring items included in EBITDA	**0.5**	0.3
EBITDA excluding non-rcurring items	**37.9**	29.3
Operating profit as reported	**31.3**	22.1
Reported operating profit margin, %	**11.6**	9.4
Non-recurring items included in operating profit	**0.5**	1.4
Operating profit excluding non-recurring items	**31.8**	23.5
Comparable operating profit margin, %	**11.8**	10.0

Financial (net) expenses in 2010 were EUR 1.8 million (EUR 2.1 million) including net interest expenses of EUR 3.1 million (EUR 3.5 million) and (net) currency exchange gains of EUR 1.6 million (EUR 1.5 million).

Net profit for the year increased by 45% to an all time record of EUR 20.7 million (EUR 14.3 million) and earnings per share equally to a record of 0.46 EUR (0.31 EUR). For more share related and other key figures for 2006–2010 and definitions of key figures, see pages 78–81.

Cash Flow and Financial Position

During 2010 the Group's focus on working capital management changed gradually also into securing service levels to customers and exploiting sales opportunities. Increase in sales, together with acquisition and establishment of new subsidiaries, the ongoing change in production planning model in China and the strengthening of most currencies against euro resulted in increase in inventories by EUR 17.8 million from last December (EUR 4.0 million decrease in 2009).

The proportion of average working capital to net sales was reduced in 2010 compared to 2009, but in absolute terms EUR 13.0 million more (2009: EUR 3.0 million less) cash was tied into working capital in 2010. Accordingly, in 2010, cash flow from operating activities was down to EUR 13.0 million (EUR 24.6 million).

In 2010 net cash used in investing activities amounted to EUR 13.2 million (EUR 6.3 million). In addition to the normal capital expenditure of EUR 6.2 million (EUR 6.7 million), the main item was the acquisition of Dynamite with an effect of EUR 6.1 million, of which EUR 1.3 million relates to an escrow account deposit. For more detailed information on acquisitions and disposals, see the note 3 to the consolidated financial statements.

Due to the above, in the end of 2010, net interest-bearing debt was increased to EUR 92.0 million (Dec 2009: EUR 79.4 million). The liquidity of the Group remained good. Equity-to-assets ratio was slightly weaker than last year at 42.6% (Dec 2009: 42.8%), as was also gearing at 71.2% (Dec 2009: 71.1%).

Strategy Implementation

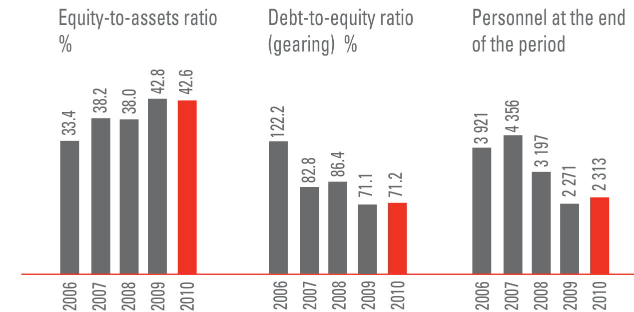
The biggest step taken during 2010 in implementation of Rapala's strategy of profitable growth was acquisition of 100% of the share capital of Dynamite, a manufacturer of premium carp baits, having its manufacturing facilities and offices in Nottingham, United Kingdom. In 2010, net sales of Dynamite were some EUR 8.2 million, of which EUR 1.8 million was consolidated into Rapala. Dynamite is a market leader in UK and has a good market share in a few other European countries. Some 30% of Dynamite's 2010 sales was outside the UK. The Group aims to significantly expand its sales to carp fishermen in the next few years by more than doubling Dynamite's sales.

The acquisition of Dynamite makes Rapala a strong player in the European carp fishing market, the fastest growing market in fishing throughout the Europe. Acquisition also contributes to the Group's brand strategy and portfolio and leverages Rapala's unique sourcing and distribution platforms. UK distribution of Rapala's other products will be combined into the Dynamite's efficient UK distribution system during first half of 2011.

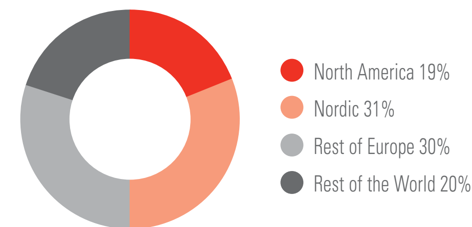
The operations of the Group's new distribution companies in Belarus, Iceland and China (gift products) started in the first half of 2010. During the last quarter of the year Rapala proceeded with plans to establish own distribution operations also in Mexico and Indonesia. Both operations are planned to start during first half of 2011. The Group's Finnish distribution company Normark Suomi Oy and ski manufacturer Peltonen Ski Oy proceeded with plans to relocate to larger premises. Both relocations are planned to take place during 2011. Demand for cross-country skis is further expected to increase as the Group's Russian distribution company will start winter sports equipment business in 2011.

A special performance improvement initiative was carried out in the Hungarian operations during 2010. This included e.g. relocation to new premises in Budapest.

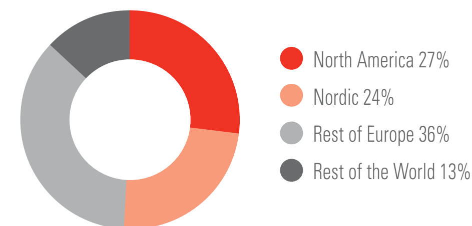
Working capital and cash flow management was still one of the top priorities for the Group, but following the positive results in this field in the past two years, the focus on inventory management has also turned into improving the delivery performance, securing the service levels to the customers and exploiting the sales opportunities. Work to develop the Group's supply chain, including, among others, changes in production planning and development of systems for purchasing and inventory management, progressed and will continue



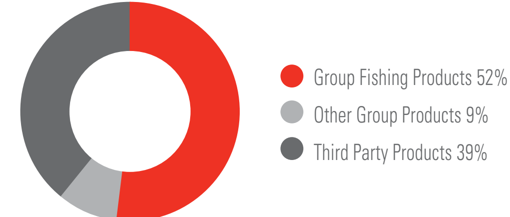
Net Sales by Unit Location



Net Sales by Market Area



Net Sales by Operating Segments



further to 2011 with target to ensure improved service levels to customers with relatively lower and faster turning inventory levels.

Development of organic growth in terms of extensions of current product categories continued. New products for the season 2011 were introduced to the market in summer and, for example, the Group's new innovative Sufix 832 fishing line, featuring Gore fibers, has been received exceptionally well in all world markets. As an evidence of success of the Group's product development, Rapala received again number one position on International Game Fish Association's (IGFA) annual listing of lures used to catch most world record fishes in 2010.

Personnel and R&D

Number of personnel increased by 2% during the year and was 2 313 (2 271) at the year-end.

The average number of personnel increased by 3% to 2 317 (2 259). For more detailed information on personnel see note 7 to the consolidated financial statements and the section "Corporate Responsibility and Sustainable Development" attached to the consolidated financial statements.

Research and development expenses increased by 5% to EUR 2.1 million (EUR 2.0 million) in 2010.

Risk Management, Internal Controls and Corporate Responsibility

The processes previously developed for internal controls and risk management were applied and further developed in 2010. Corporate Governance section covering these areas was updated by the Board in the end of 2010. The Board also approved its updated Corporate Governance Statement, which is on pages 98–100.

A major step in widening the reporting of corporate responsibility from environmental responsibility to also economic and social responsibility was taken in 2009 and this same initiative was followed in 2010.

The principles for the Group's risk management and corporate responsibility as well as the work done and progress made in these areas are described in more detail in the sections "Risk Management" and "Corporate Responsibility and Sustainable Development" attached to the consolidated financial statements.

For information on shareholders, shareholder agreement, shares, options and board authorizations, see the sections "Shares and Shareholders" attached to the consolidated financial statements. Transactions with related parties are disclosed in the note 28 to the consolidated financial statements.

Short-term Outlook

Despite the still ongoing uncertainties in the current status and development pace of the global economies, generally the trends in the economy seem to be positive. The Group's business performed well during 2010. For 2011 the view on general market situation and sentiment is therefore also positive, with no major threats in sight assuming there are no unexpected crisis in the global financial or political systems.

In East Europe growth of sales is expected to continue. In Western Europe market situation is expected to be stable, while the Group's sales there will grow following the acquisition of Dynamite and due to the Group's strong distribution company network. In the Nordic countries beginning of the year is still supported with the good sales of winter sports equipment and the good season is expected to support next season's presales and autumn deliveries. The US retail market is expected to recover, although slowly, and the Group's position in the US market is strong. The Group's growth is further supported with establishment of new distribution companies as well as successful launch of new products, e.g. Sufix 832 fishing line. The Group's manufacturing units are well prepared to meet the demand of the coming fishing season.

At the end of December 2010, the Group's order backlog was up 7% from last December at EUR 47.0 million (EUR 43.8 million).

It is expected that in 2011 the net sales will increase from 2010 and also the comparable operating margin is targeted to improve.

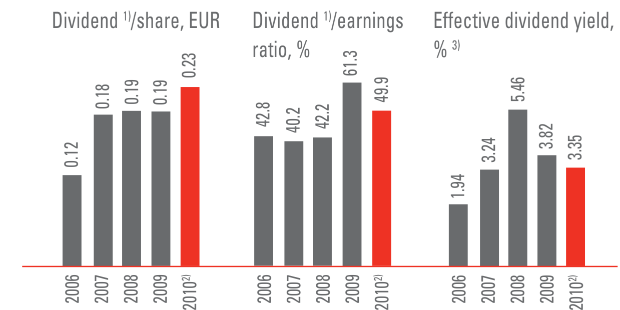
Proposal for Profit Distribution

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.23 for 2010 (2009: EUR 0.19) per share be paid from the Group's distributable equity and that any remaining distributable funds be allocated to retained earnings. At December 31, 2010, the parent company's distributable equity totaled EUR 34.7 million.

No material changes have taken place in the Group's financial position after the end of the financial year 2010. Group's liquidity is good and the view of the Board of Directors is that the distribution of the proposed dividend will not undermine this liquidity.

Helsinki, February 10, 2011

Board of Directors of Rapala VMC Corporation



1) For the financial years 2) Board proposal 3) Share price Dec. 31

AUDITOR'S REPORT

(Translation)

To the Annual General Meeting of Rapala VMC Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Rapala VMC Corporation for the year ended 31 December, 2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 24 February, 2011

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Järventausta
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CONSOLIDATED FINANCIAL STATEMENTS, IFRS

CONSOLIDATED INCOME STATEMENT

EUR million	Note	2010	2009
Net sales	2	**269.4**	234.6
Other operating income	4	**0.7**	1.2
Change in inventory of finished products and work in progress		**11.0**	-3.6
Production for own use		**0.9**	0.1
Materials and services	6	**-135.7**	-105.0
Employee benefit expenses	7	**-59.1**	-53.8
Other operating expenses	5	**-49.7**	-44.7
Operating profit before depreciation and impairments		**37.4**	28.9
Depreciation and impairments	8	**-6.1**	-6.9
Operating profit		**31.3**	22.1
Financial income	10	**8.5**	6.4
Financial expenses	10	**-10.4**	-8.5
Share of results in associated companies	14	**0.0**	0.0
Profit before taxes		**29.5**	19.9
Income taxes	11	**-8.7**	-5.7
Net profit for the period		**20.7**	14.3
Attributable to			
Equity holders of the Company		**18.0**	12.1
Non-controlling interests		**2.8**	2.2
Earnings per share	30		
Earnings per share, EUR		**0.46**	0.31
Diluted earnings per share, EUR		**0.46**	0.31
Weighted average number of shares, 1000 shares		**39 038**	39 208
Diluted weighted average number of shares, 1000 shares		**39 038**	39 208

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	2010	2009
Net profit for the period		**20.7**	14.3
Other comprehensive income (net of tax) *	11		
Change in translation differences		**7.8**	1.5
Gains and losses on cash flow hedges			
Gains and losses arising during the period		**-1.9**	-0.4
Reclassification adjustment for gains included in profit or loss		**0.7**	0.3
Gains and losses on cash flow hedges total		**-1.2**	-0.1
Gains and losses on hedges of net investment			
Gains and losses arising during the period		**-1.1**	0.2
Gains and losses on hedges of net investment		**-1.1**	0.2
Other comprehensive income for the period, net of tax *		**5.5**	1.6
Total comprehensive income for the period		**26.3**	15.9
Attributable to			
Equity holders of the Company		**23.1**	13.6
Non-controlling interests		**3.2**	2.3

* The income tax relating to each of the component of the other comprehensive income is disclosed in the note 11.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR million	Note	2010	2009
ASSETS			
Non-current assets			
Goodwill	12	**46.5**	43.7
Trademarks	12	**17.1**	11.3
Customer relations	12	**2.2**	1.3
Other intangible assets	12	**2.0**	1.9
Land	13	**1.8**	1.6
Buildings	13	**8.0**	7.8
Machinery and equipment	13	**13.2**	12.1
Other tangible assets	13	**5.0**	4.5
Advance payments and construction in progress	13	**0.7**	1.4
Investment in associated companies	14	**0.0**	0.0
Available-for-sale financial assets [1]	15	**0.3**	0.3
Interest-bearing receivables [1]	16	**1.5**	0.1
Non-interest-bearing receivables	16	**0.2**	0.2
Derivatives [1]	16, 22		0.0
Deferred tax assets	11	**8.9**	7.8
Total non-current assets		**107.4**	94.2
Current assets			
Inventories	17	**112.2**	94.4
Trade and other non-interest-bearing receivables	16	**55.3**	41.9
Income tax receivable		**1.2**	1.5
Derivatives [1]	16, 22	**0.0**	0.1
Interest-bearing receivables [1]	16	**0.0**	0.1
Cash and cash equivalents [1]	18	**27.9**	29.0
Total current assets		**196.6**	167.0
Total assets		**304.0**	261.2

EUR million	Note	2010	2009
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity			
Share capital		**3.6**	3.6
Share premium fund		**16.7**	16.7
Fair value reserve		**-1.5**	-0.3
Fund for invested non-restricted equity		**4.9**	4.9
Own shares		**-2.5**	-1.4
Retained earnings		**82.7**	71.9
Net income for the period		**18.0**	12.1
Equity attributable to equity holders of the Company	19	**121.8**	107.4
Non-controlling interests		**7.4**	4.2
Total equity		**129.2**	111.7
Non-current liabilities			
Interest-bearing liabilities [1]	24	**25.3**	35.5
Non-interest-bearing liabilities	25	**4.3**	3.1
Employee benefit obligations	20	**1.3**	1.0
Option programs to be settled in cash	29		0.3
Deferred tax liabilities	11	**8.0**	5.6
Provisions	21	**0.0**	0.0
Derivatives [1]	22, 24	**1.8**	0.4
Total non-current liabilities		**40.8**	46.0
Current liabilities			
Interest-bearing liabilities [1]	24	**94.1**	73.0
Trade and other non-interest-bearing payables	25	**38.6**	29.3
Option programs to be settled in cash	29	**0.3**	
Income tax payable		**0.3**	1.1
Provisions	21	**0.2**	0.0
Derivatives [1]	22, 24	**0.4**	0.0
Total current liabilities		**134.0**	103.5
Total shareholders' equity and liabilities		**304.0**	261.2

1) Included in net interest-bearing debt.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Note	2010	2009
Net profit for the period		**20.7**	14.3
Adjustments			
Income taxes	11	**8.7**	5.7
Financial income and expenses	10	**1.8**	2.1
Reversal of non-cash items			
Depreciation and impairments	8	**6.1**	6.9
Share based payments	7, 29	**0.0**	0.3
Exchange rate differences	10	**0.4**	-0.1
Share of results in associated companies	14	**0.0**	0.0
Gains/losses on disposals of intangible, tangible assets and subsidiaries		**0.0**	-0.3
Change in provisions and employee benefits		**0.4**	0.1
Other items			0.0
Interest paid		**-3.3**	-3.4
Interest received		**0.2**	0.2
Income taxes paid		**-8.8**	-5.3
Dividends received		**0.0**	0.0
Other financial items, net		**-0.2**	1.1
Total adjustments		**5.3**	7.3
Change in working capital			
Change in receivables		**-8.8**	6.6
Change in inventories		**-11.2**	5.6
Change in liabilities		**7.0**	-9.2
Total change in working capital		**-13.0**	3.0
Net cash generated from operating activities		**13.0**	24.6
Net cash used in investing activities			
Proceeds from disposal of intangible	12	**0.1**	
Acquisition of intangible assets	12	**-0.1**	-0.1
Proceeds from sale of tangible assets	13	**0.2**	2.4
Acquisition of tangible assets	13	**-6.1**	-6.5
Proceeds from sale of available-for-sale investments	15		0.2
Acquisition of available-for-sale investments	15		0.0
Escrow deposit related to Dynamite Baits acquisition	3, 16	**-1.3**	
Acquisition of Sufix trademark	3, 12	**-1.2**	-1.1
Acquisition of Ultrabite trademark	12		-0.9
Acquisition of Dynamite Baits, net of cash	3	**-4.8**	
Acquisition of other subsidiaries, net of cash	3	**0.0**	-0.1
Change in interest-bearing receivables		**0.0**	-0.1
Total net cash used in investing activities		**-13.2**	-6.3

EUR million	Note	2010	2009
Net cash generated from financing activities			
Dividends paid		**-7.4**	-7.5
Purchase of own shares		**-1.1**	-0.6
Non-current loan withdrawals		**2.4**	5.7
Current loan withdrawals		**93.0**	33.3
Non-current loan repayments		**-14.4**	-11.6
Current loan repayments		**-74.9**	-40.3
Payment of finance lease liabilities		**-0.1**	0.0
Total net cash generated from financing activities		**-2.5**	-20.8
Adjustments		**-0.5**	0.8
Change in cash and cash equivalents		**-3.2**	-1.7
Cash and cash equivalents at the beginning of the period		**29.0**	30.6
Foreign exchange rate effect		**2.2**	0.1
Cash and cash equivalents at the end of the period	18	**27.9**	29.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million	Share capital	Share premium fund	Fair value reserve	Fund for invested non-restricted equity	Own shares	Translation differences	Retained earnings	Non-controlling interest	Total equity
	Attributable to equity holders of the Company								
Equity on Jan. 1, 2009	3.6	16.7	-0.3	4.9	-0.9	-13.8	91.5	1.9	103.7
Net profit for the period							12.1	2.2	14.3
Other comprehensive income *									
Change in translation differences						1.3		0.1	1.5
Gains and losses on cash flow hedges			-0.1						-0.1
Gains and losses on hedges of net investment						0.2			0.2
Total comprehensive income			-0.1			1.5	12.1	2.3	15.9
Purchase of own shares					-0.6				-0.6
Dividends paid							-7.5		-7.5
Share based payment							0.1		0.1
Other changes							0.0	0.0	0.0
Equity on Dec. 31, 2009	3.6	16.7	-0.3	4.9	-1.4	-12.3	96.3	4.2	111.7
Net profit for the period							**18.0**	**2.8**	**20.7**
Other comprehensive income*									
Change in translation differences						**7.4**		**0.4**	**7.8**
Gains and losses on cash flow hedges			**-1.2**						**-1.2**
Gains and losses on hedges of net investment						**-1.1**			**-1.1**
Total comprehensive income			**-1.2**			**6.3**	**18.0**	**3.2**	**26.3**
Purchase of own shares					**-1.1**				**-1.1**
Dividends paid							**-7.4**		**-7.4**
Share based payment							**-0.1**		**-0.1**
Other changes							**0.0**		**0.0**
Equity on Dec. 31, 2010	**3.6**	**16.7**	**-1.5**	**4.9**	**-2.5**	**-6.0**	**106.7**	**7.4**	**129.2**

* Net of tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED ACCOUNTS

COMPANY'S BACKGROUND

Rapala VMC Oyj ("Company") is a Finnish public limited liability company organized under the laws of Finland, domiciled in Asikkala and listed on the NASDAQ OMX Helsinki stock exchange since 1998. The parent company Rapala VMC Oyj and its subsidiaries ("Rapala" or "the Group") operate in some 30 countries and the Company is one of the leading fishing tackle companies in the world.

The consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2010. The Board of Directors of the Company has approved these financial statements for publication at its meeting on February 9, 2011. Under Finland's Companies Act, shareholders have the option to accept or reject the financial statements in a meeting of shareholders, which will be held after the publication of the financial statements. The meeting has also the option of changing the financial statements.

A copy of the consolidated financial statements is available at the Group's website www.rapala.com or from Arabiankatu 12, 00560 Helsinki, Finland.

BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on December 31, 2010. The term 'IFRS standards' refers to standards and interpretations which are approved and adopted by the European Union (regulation EY 1606/2002) and thus are in force in the Finnish legislation. The Group has not early adopted any new, revised or amended standards or interpretations.

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated. The consolidated financial statements are presented in millions of euros.

APPLIED NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group adopted in 2010 the following new, revised or amended standards and interpretations:

• IFRS 2 Share-based Payment (amendment; effective for annual periods beginning on or after January 1, 2010). This amendment influences the treatment of cash-settled share-based payment transactions in the separate financial statements of group companies. This amendment did not have an effect on the Group's financial statements.

• IFRS 3 Business Combinations (revision) (effective for annual periods beginning on or after July 1, 2009). Changes extend the scope of IFRS 3 and have an impact on the outcome of the business combinations, for example the amount of goodwill to be recognized and gain or loss resulting from the sale of business. Contingent consideration is valued at fair value and any subsequent change in it is booked to income statement. Costs related to acquisitions are recognized directly to income statement instead of capitalization.

• IAS 27 Consolidated and Separate Financial Statements (amendment) (effective for annual periods beginning on or after July 1, 2009). Amendments in the standard have changed the accounting treatment of acquisitions and disposals, which take place in stages. According to the amendment the effects, arising from changes in subsidiary ownership, are recognized directly in the Group's equity when the parent company remains in control. When the Group looses the control in a subsidiary, the remaining investment is recognized at fair value through the income statement. As a result of standard amendment losses incurred by subsidiary are allocated to the non-controlling interest also when the losses exceed the non-controlling equity investment in the subsidiary.

• IAS 39 Financial Instruments: Recognition and Measurement (amendment; effective for annual periods beginning on or after July 1, 2009). This amendment influences eligible hedged items. This amendment did not have an effect on the Group's financial statements.

• IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009). IFRIC 17 clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and that an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. This interpretation did not have an effect on the Group's financial statements.

• IFRIC 18 Transfers of Assets from Customers (due to EU's late acceptance of this interpretation, it is effective in EU for transfers of assets from customers received on or after January 1, 2010): This interpretation applies to entities that receive transfers of property, plant and equipment from their customers. This interpretation did not have an effect on the Group's financial statements.

Additionally, the IFRS standards' annual improvement project's amendments which have been approved for application in the EU have been taken into account in the consolidated financial statements.

ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN 2011–2013

In 2011, the Group will adopt the following new, revised or amended standards and interpretations:

• IAS 24 Related Party Disclosures (revised; effective for annual periods beginning on or after January 1, 2011). The Group estimates that the revision will not have a material impact on the Group's consolidated financial statements.

• IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (amendment; effective for annual periods beginning on or after February 1, 2010). The amendment influences the classification of foreign-currency-denominated rights issues. The Group estimates that the amendment will not have a material impact on the Group's consolidated financial statements.

• IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment; effective for annual periods beginning on or after January 1, 2011). The Group estimates that the amendment will not have a material impact on the Group's consolidated financial statements.

• IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010). The Group estimates that the interpretation will not have a material impact on the Group's consolidated financial statements.

In 2012 or later, the Group will adopt the following new, revised or amended standards and interpretations:

• IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (Amendment; effective for annual periods beginning on or after July 1, 2011). The amendment will not have a material impact on the Group's consolidated financial statements. Amendment has not yet been approved for application in the EU.

• IAS 12 Income Taxes (Amendment; effective for annual periods beginning on or after January 1, 2012). The amendment added an exception that the measurement of deferred tax assets or liabilities arising on investment property measured at fair value according to IAS 40 is based on a rebuttable presumption that investment property is recovered entirely by sale. The amendment will not have a material impact on the Group's consolidated financial statements. Amendment has not yet been approved for application in the EU.

• IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2013; earlier adoption possible). This new standard will gradually replace the current standard 'IAS 39 Financial Instruments: Recognition and Measurement'. The Group investigates this new standard's impact on the Group's consolidated financial statements. This new standard has not yet been approved for application in the EU.

CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries in which it holds, directly or indirectly, over 50% of the voting rights or other governing power. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Acquired subsidiaries are accounted for using the acquisition cost method, according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The excess of the consideration over the fair value of net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly through income statement. Goodwill on consolidation is not amortized but tested for impairment annually. Consideration includes the fair value of any contingent consideration arrangement. Costs related to acquisitions are recognized directly to income statement. The consolidated financial statements include the results of acquired companies for the period from the completion of the acquisition. Conversely, divestments are

included up to their date of sale. The Group has applied the revised IFRS 3 standard to all business combinations from January 1, 2010.

Associated companies, where the Group holds voting rights of 20–50% and in which the Group has significant influence, but not control, are included in the consolidated financial statements using the equity method. Under the equity method, the Group's share of the associate's profit or loss for the year is recognized in the consolidated income statement after operating profit. The Group's interest in an associated company is carried in the balance sheet at an amount that reflects its share of the net assets of the associate together with goodwill on acquisition, as amortized, less any impairment. Unrealized gains, if any, between the Group and associated companies are eliminated to the extent of the Group's holding. Associated companies' financial statements have been converted to correspond with the accounting principles in use in the Group. When the Group's share of losses exceeds the carrying amount of an investment, the carrying amount is reduced to nil and any recognition of further losses ceases unless the Group has incurred obligations in respect of the associated companies.

The investments in subsidiaries have been eliminated using the acquisition cost method. All transactions between Group companies as well as assets and liabilities, dividends and unrealized internal margins in inventories and tangible assets have been eliminated in the consolidated financial statements. Non-controlling interest is presented separately from the net profit and disclosed as a separate item in the equity in accordance with the share of the non-controlling interest. All transactions with non-controlling interests are recorded in equity when the parent company remains in control. When the Group looses the control in a subsidiary, the remaining investment is recognized at fair value through the income statement. The Group has applied the amendments to IAS 27 standard to all transactions with non-controlling interests from January 1, 2010.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATIONS

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items denominated in foreign currency, measured at fair value, are translated using the exchange rates at the date when the fair value was determined. Other non-monetary items have been translated into the functional currency using the exchange rate on the date of the transaction. Foreign exchange gains and losses for operating business items are recorded in the appropriate income statement account before operating profit. Foreign exchange gains and losses from the translation of monetary interest-bearing assets and liabilities denominated in foreign currencies are recognized in financial income and expenses. Exchange differences arising on a monetary item that forms a part of a net investment in a foreign operation are recognized in the statement of other comprehensive income and recognized in profit or loss on disposal of the foreign operation.

The consolidated financial statements are presented in euros, which is the Company's functional and reporting currency. Income statements of subsidiaries, whose functional and reporting currencies is not euro, are translated into the Group reporting currency using the average exchange rate for the year. Their balance sheets are translated using the exchange rate of balance sheet date. All exchange differences arising on the translation are entered in the statement of other comprehensive income and presented in equity. The translation differences arising from the use of the purchase method of accounting and after the date of acquisition as well as fair value changes of loans which are hedges of such investments are recognized in statement of other comprehensive income and presented in equity. On the disposal of a subsidiary, whose functional and reporting currency is not euro, the cumulative translation difference for that entity is recognized in the income statement as part of the gain or loss on the sale.

Any goodwill arising on the acquisition of a foreign company and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated using the exchange rate of balance sheet date. Goodwill and fair value adjustments arising from the acquisition prior to January 1, 2004 have been treated as assets and liabilities of the Group, i.e. in euros.

REVENUE RECOGNITION

Net sales comprise of consideration received less indirect sales taxes, discounts and exchange rate differences arising from sales denominated in foreign currency. Sales of goods are recognized after the significant risks and rewards of ownership of the goods have passed to the buyer and no significant uncertainties remain regarding the consideration, associated costs and possible return of goods. The costs of shipping and distributing products are included in other operating expenses. Revenues from services are recorded when the service has been performed.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms. Royalty income is recorded according to the contents of the agreement. Interest income is recognized by the effective yield method. Dividend income is recognized when the company has acquired a right to receive the dividends.

INCOME TAXES

The Group's income tax expense includes taxes of the Group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred income taxes. The income tax effects of items recognized directly in other comprehensive income are similarly recognized. The current tax expense for the financial year is calculated from the taxable profit based on the valid tax rate of each country. The tax is adjusted with possible taxes related to previous periods. The share of results in associated companies is reported in the income statement as calculated from net profit and thus including the income tax charge.

Deferred taxes are provided using the liability method, as measured with enacted tax rates, to reflect the temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The main temporary differences arise from the depreciation difference on tangible assets, fair valuation of net assets in acquired companies, intra-group inventory profits, defined benefit pension plans, inventories and other provisions, untaxed reserves and tax losses carried forward. Temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred, unless they relate to a clearly defined project that meets certain criteria. Development costs for such projects are capitalized if they are separately identifiable and if the products are assessed to be technically feasible and commercially viable and the related future revenues are expected to exceed the aggregate deferred and future development costs and related production, selling and administrative expenses, and if adequate resources exist or will be available to complete the project. Capitalized development costs include all directly attributable material, employee benefit and testing costs necessary to prepare the asset to be capable of operating in the manner intended. Research and development costs that were initially recognized as an expense are not to be capitalized at a later date.

Amortization of such a product is commenced when it is available for use. Unfinished products are tested annually for impairment. Capitalized development expenses are amortized on a straight-line basis over their expected useful lives, a maximum of five years.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the subsidiary, associated undertaking or joint venture acquired after January 1, 2004. Until 31.12.2009, any costs directly attributable to the business combination, such as professional fees, were included to the cost of an acquisition. From 1.1.2010 onwards, costs related to acquisitions are recognized directly to income statement. Goodwill from the combination of operations acquired prior to January 1, 2004 corresponds to the carrying amount according to the previous financial statement standards, which has been used as the assumed acquisition cost according to IFRS.

Goodwill is tested annually for impairment. For this purpose, goodwill has been allocated to cash generating units. Goodwill is measured at cost less any accumulated impairment loss, and is not amortized.

INTANGIBLE ASSETS

Intangible assets include customer relations, trademarks, capitalized development expenses, patents, copyrights, licenses and software. An intangible asset is recognized in the balance sheet only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. Intangible assets are stated at cost, amortized on a straight-line basis over the expected useful lives which vary from 3 to 15 years and

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

adjusted for any impairment charges. Trademarks and other intangible assets whose useful life is estimated to be indefinite are estimated to affect cash flow accumulation for an undefined period of time. The expected useful life for most trademarks is indefinite and therefore they are not amortized. These intangibles are measured at cost less any accumulated impairment loss and not amortized. Intangible assets with indefinite useful lives are tested for impairment annually. The valuation of intangible assets acquired in a business combination is based on fair value as at the date of acquisition.

Expected useful lives and indefinite lives of intangible assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

TANGIBLE ASSETS

Tangible assets are stated at historical cost, amortized on a straight-line basis over the expected useful life and adjusted for any impairment charges. The valuation of tangible assets acquired in a business combination is based on fair value as at the date of acquisition. Land is not depreciated as it is deemed to have an indefinite life.

Depreciation is based on the following expected useful lives:

Buildings	10–20 years
Machinery and equipment	5–10 years
Other tangible assets	3–10 years

Expected useful lives of tangible assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly. Ordinary maintenance and repair costs are expensed as incurred. The cost of significant renewals and improvements are capitalized and depreciated over the remaining useful lives of the related assets. Gains and losses on sales and disposals are determined by comparing the received proceeds with the carrying amount and are included in the income statement in the item other operating income and expenses.

Depreciation of a tangible asset is discontinued when the tangible asset is classified as being held-for-sale in accordance with IFRS 5 standard Non-Current Assets Held-for-sale and Discontinued Operations.

BORROWING COSTS

Borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalized as part of the cost of that asset. Other borrowing costs are expensed when incurred.

GOVERNMENT GRANTS

Government or other grants are recognized in the income statement as other operating income on a systematic basis over the periods necessary to match them with the related costs, which they are intended to compensate. Government grants relating to purchase of tangible assets are recognized as revenue on a systematic basis over the useful life of the asset when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. In the balance sheet, grants are deducted from the value of the asset they relate to. The grants are recognized to decrease depreciations over the useful life of the asset. Currently, all grants of the Group have been recognized in the income statement as other operating income.

IMPAIRMENTS OF TANGIBLE AND INTANGIBLE ASSETS

The carrying amounts of tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If indication exists, the recoverable amount is measured. Indications of potential need for impairment may be for example changes in market conditions and sales prices, decisions on significant restructurings or change in profitability. Goodwill, intangible assets with indefinite useful lives and unfinished tangible assets are in all cases tested annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level for which there are separately identifiable, mainly independent, cash inflows and outflows.

An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is determined by reference to discounted future net cash flows expected to be generated by the asset. Discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment loss is immediately recognized in the income statement. Impairment losses attributable to a cash-generating unit are used to deducting first the goodwill allocated to the cash-generating unit and, thereafter, the other assets of the unit on an equal basis. The useful life of the asset to be depreciated is reassessed in connection with the recognition of the impairment loss. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted value is higher than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill are not reversed.

ASSETS HELD-FOR-SALE

Non-current assets (or a disposal group) are classified as held-for-sale, if their carrying amount will be recovered principally through the disposal of the assets rather than through continuing use. For this to be the case, the sale must be highly probable, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary, the management must be committed to selling and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held-for-sale (or assets included in the disposal group) are measured at the lower of carrying amount and fair value less estimated selling expenditure. After an asset has been classified as held-for-sale, it is not depreciated. If the classification criterion is not met, the classification is reversed and the asset is measured at the lower of carrying amount prior to the classification less depreciation and impairment, and recoverable amount. A non-current asset held-for-sale and assets included in the disposal group classified as held-for-sale are disclosed separately from the other asset items.

ACCOUNTING FOR LEASES

Group as a lessee

Leases of tangible assets, where the Group has substantially all the rewards and risks of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the estimated present value of the underlying lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities with the interest element of the finance charge being recognized in the income statement over the lease period. Tangible assets acquired under finance lease contracts are depreciated over the shorter of the estimated useful life of the asset or lease period.

Leases of tangible assets, where the lessor retains all the risks and benefits of ownership, are classified as operating leases. Payments made there under, and under rental agreements, are expensed on a straight-line basis over the lease periods. Received incentives are deducted from the paid leases based on the time elapse of benefit.

Currently the Group does not have other arrangements that contain a lease.

Group as a lessor

Those leases under which the Group is a lessor are classified as operating leases. Leased assets are presented in the lessor's balance sheet under tangible assets according to the nature of the asset. They are depreciated over their estimated useful lives in accordance with the depreciation policy used for comparable assets in own use. Lease income is recognized in the income statement on a straight-line basis over the lease term.

FINANCIAL ASSETS

Financial assets are classified as financial assets at fair value through profit or loss, financial assets held-to-maturity, loans and receivables or available-for-sale financial assets. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate re-evaluates this designation at each financial year-end. Financial assets include current and non-current assets and they can be interest-bearing or non-interest-bearing.

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition as at fair value through profit or loss. The Group has not applied the fair value option. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. All of the Group's currency derivatives, which do not qualify for hedge accounting, are classified as financial assets held-for-trading.

Financial assets classified as held-for-trading are measured at fair value. Unrealized and realized changes in fair value are recognized in the income statement.

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has a positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest rate method less any allowance for impairment. Initially recognized amount includes directly attributable transaction costs. Gains and losses are recognized in the income statement when loans and receivables are derecognized, impaired, and through the amortization process.

Financial assets that are not classified in the two preceding categories are classified as available-for-sale. When available-for-sale financial assets are recognized initially, they are measured at fair value by using quota market rates and market prices, discounted cash flow analyses and other appropriate valuation models. Certain unlisted shares for which fair values cannot be measured reliably are reported at cost less impairment. The fair value changes of available-for-sale financial assets, net of tax, are recognized as other comprehensive income. Changes in fair value are transferred from the statement of other comprehensive income to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognized for the instrument. Purchases and sales of available-for-sale financial assets are recognized on the trade date.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group is exposed to financial risks related especially to changes in foreign currency exchange rates and interest rates for loans and borrowings. Derivative financial instruments are used, from time to time, to hedge financial risk. All derivatives are initially recognized at fair value on the date derivative contract is entered into, and are subsequently remeasured at fair value on each balance sheet date. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

Derivatives may be designated as hedging instruments, in which case hedge accounting is applied. If hedge accounting is not applied, fair value changes in derivatives are recognized in the income statement. In the case hedge accounting is applied, the accounting for hedging instruments is dependent on the particular nature of the hedging relationship.

In cash flow hedges, changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized as other comprehensive income and the ineffective portion is recognized immediately in the income statement. If hedge accounting is not applied, fair value changes in derivatives are recognized in the income statement. Gains and losses from derivative instruments recognized in the income statement are presented in other operating expenses and in financial income or expenses only when the derivative instrument is assigned to interest-bearing financial assets or liabilities. Accumulated fair value changes recognized in the statement of other comprehensive income are reclassified into income statement in the period when the hedged cash flow affects income or if the hedged subsidiary is sold or liquidated.

Changes of the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If derivative financial instrument does not qualify for hedge accounting, any changes in fair value are recognized in the income statement.

Currently, the Group has short-term zero-cost currency option pair instruments and currency forwards to which hedge accounting is not applied but which have been made to hedge operative cash flow against exchange rate risk. The fair values of these instruments are based on market valuations received from the bank.

The Group also has interest rate swaps, which are designated and effective as cash flow hedge. The fair values of interest rate derivatives have been calculated using a discounted cash flow method and are received from the bank. Currently, the Group does not have any fair value hedges or embedded derivatives.

Hedge accounting is applied to hedges of net investment in the foreign subsidiaries. Group hedges its net investments in foreign subsidiaries using currency loans. Hedges of net investments in foreign subsidiaries are recorded in the same way as cash flow hedges. Effective portion of changes in the fair value are recognized in translation differences in the statement of other comprehensive income and the ineffective portion is recognized in financial income and expenses. Accumulated fair value changes recognized in the items of other comprehensive income are reclassified into income statement if the hedged subsidiary is sold or liquidated.

If hedge accounting is applied, hedging programs are documented according to the requirements of IAS 39 and designated hedging instruments are subject to prospective and retrospective testing of effectiveness.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method or, alternatively, weighted average cost where it approximates FIFO. The cost of finished goods and work in progress comprises raw materials, direct labor, depreciation, other direct costs and related production overheads, but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

TRADE RECEIVABLES

Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance. A credit loss allowance of trade receivables is made when there is objective evidence (such as significant overdue of receivables and unsuccessful dunning attempts or known financial difficulties and thus increased probability of customer insolvency) that the Group will not be able to collect all amounts due according to the original terms of the receivables. The assessment and decision for credit loss allowances is done locally in each business unit on case-by-case –basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current interest-bearing loans.

OWN SHARES

Own shares acquired by the Group, including directly attributable costs, are presented as a deduction from the total equity on the day of trading in the consolidated financial statements. Purchases or subsequent sales of treasury shares are presented as changes in equity.

FINANCIAL LIABILITIES

Financial liabilities are initially recognized at the fair value of the consideration received plus directly attributable transactions costs. After initial recognitions, they are subsequently measured at amortized cost using the effective interest method. Also commercial paper programs are measured at amortized cost. Gains and losses are recognized in the income statement when the liabilities are derecognized, impaired and through the amortization process.

Financial liabilities include current and non-current liabilities and they can be interest-bearing or non-interest-bearing. Contingent considerations of business combinations are classified as non-interest-bearing financial liabilities.

RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities, except for derivatives and available-for-sale financial assets, are recognized at the settlement date.

A financial asset or a financial liability is recognized on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

A financial asset is derecognized when, and only when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset, so that all the risks and rewards of ownership of the financial asset are substantially transferred. A financial liability or a part of a financial liability is removed from the balance sheet when, and only when, it is extinguished, that the obligation specified in the contract is discharged or cancelled or expires.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether a financial asset or group of financial asset is impaired. An impairment loss in respect of loans and receivables is measured as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale

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financial asset is measured as a difference between its acquisition costs and its current fair value, less any impairment loss on that financial asset previously recognized in the income statement. An impairment loss in respect of an unquoted equity instrument that is not carried at fair value, because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses are recognized in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in the items of other comprehensive income is reclassified into income statement when the asset is sold or when the impairment is permanent.

A previously recognized impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets amortized at cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized in the statement of other comprehensive income. An impairment loss in respect of an unquoted equity instrument that is not carried at fair value, because its fair value cannot be reliably measured, cannot be reversed.

PROVISIONS

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are valued at the net present value of the expenses required to cover the obligation. The discount factor used when calculating present value is selected so that it describes the market view of the time value of the money and the risk relating to the obligation at the time of examination.

A warranty provision is recognized when a product containing a warranty clause is sold. The size of the sum involved is determined on the basis of what is known about past warranty costs. A restructuring provision is recognized when the Group has compiled a detailed restructuring plan, launched its implementation or has informed the parties concerned.

WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

The Group is a distributor of electrical equipment that falls under the EU Directive on Waste Electrical and Electronic Equipment. Expected costs are recognized as part of other operating expenses and as a current non-interest-bearing payable.

EMPLOYEE BENEFITS

Pension obligations

Throughout the Group operates various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate.

The Group operates defined benefit pension plans only in France and Sweden. For defined benefit plans, pension costs are assessed using the projected unit credit actuarial valuation method, in which the costs of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan. The pension obligation is measured as the present value of estimated future cash outflows. Defined benefit liability comprises of the present value of the defined benefit obligation less past service and actuarial gains and losses not yet recognized and less the fair value of plan assets. All actuarial gains and losses are recognized in the income statement over the average remaining service lives of employees, to the extent that they exceed 10% of pension obligations or the fair value of plan assets. The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or change to, a pension plan, past service cost is recognized immediately. In accordance with the exemption under IFRS 1, all cumulative actuarial gains and losses have been recognized in retained earnings at the date of transition, January 1, 2004.

Share-based payments

Currently, the Group has one separate share-based payments program: a synthetic option program settled in cash. Share-based payment programs are valued at fair value on the grant date and recognized as an expense in the income statement during the vesting period with a corresponding adjustment to the equity or liability. In the cash settled option program the liability is revalued at each balance sheet date with changes in fair value recognized in the income statement. The income statement effect of the share-based payments programs is recognized in employee benefit expenses.

The expense of the share-based payments determined at the grant date reflects the Group's estimate of the number of options or share rewards that will ultimately vest. Grant date is the date at which the entity and another party agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. The options are valued at fair value using Black-Scholes option-pricing model. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest. On a regular basis the Group reviews the assumptions made and revises its estimates of the share-based payments that are expected to be settled. The changes in the estimates are recognized in the income statement with a corresponding adjustment to the equity or liability.

When the share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium fund.

DIVIDEND

The dividend proposed by the Board of Directors is not deducted from distributable equity until approved by the Annual General Meeting of Shareholders.

EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to the shareholders of the Company by the weighted average number of shares in issue during the year, excluding shares purchased by the Group and held as treasury shares, if any.

Diluted earnings per share amounts have been calculated by applying the "treasury stock" method, as if the options were exercised at the beginning of the period, or on the issuance of options, if that occurs later during the period, and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the options. The assumption of exercise is not reflected in earnings per share when the exercise price of the options exceeds the average market price of the shares during the period. The share options have a diluting effect only when the average market price of the share during the period exceeds the exercise price of the options.

OPERATING PROFIT

The IAS 1 (Presentation of Financial Statements) standard does not define operating profit. The Group has defined it as follows: Operating profit is the net amount arising from adding other operating income to net sales, deducting cost of sales corrected for changes in inventories and cost of production for own use, deducting costs related to employee benefits, depreciation and possible impairments as well as other operating expenses. Foreign exchange differences and changes in the fair value of derivative financial instruments are included in operating profit in case they originate from operating business items; otherwise they are booked in financial income and expenses.

CASH FLOW STATEMENT

Cash and cash equivalents presented in the cash flow statement comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash generated from operating activities has been reported using the indirect method. All income taxes paid during the financial year are presented in net cash generated from operating activities, unless they can be particularly allocated to net cash from (used in) investing or financing activities. Unrealized exchange gains and losses from cash and cash equivalents denominated in foreign currencies and from transactions between Group companies are presented on a separate row before change in cash and cash equivalents, separate from cash generated from (used in) operating, investing and financing activities.

NON-RECURRING ITEMS

In order to improve comparability between reporting periods, the Group classifies certain items as non-recurring in its financial reporting. Non-recurring items include mainly income and expenses related to restructurings of Group's business operations, non-recurring impairments of assets, external costs related to mergers and acquisitions and other exceptional non-recurring items which materially distort the comparability of the Group's underlying profitability.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain estimates and assumptions that affect the amounts recognized in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. In addition, judgment has to be exercised in applying the accounting principles of the financial statements. Management's estimates and assumptions are based on historical experience and plausible future scenarios, which are continually evaluated. Possible changes in estimates and assumptions are recognized in the accounting period during which estimates and assumptions were fixed and in all subsequent accounting periods.

The key assumptions concerning the future and other key sources of uncertainty related to estimations at the balance sheet date, that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next accounting period, are discussed below.

Determining fair value of acquisitions

The fair values of acquired working capital and tangible assets were evaluated by Rapala and external appraisal personnel before the acquisition. The fair value of intellectual property rights (trademarks, patents and technology) and customer relations are established with discounting the related cash flows.

Impairment testing

The carrying amounts of tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Goodwill, intangible assets with indefinite useful lives and unfinished tangible assets are in all cases tested annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level for which there are separately identifiable, mainly independent, cash inflows and outflows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is determined by reference to discounted future net cash flows expected to be generated by the asset. These calculations require the use of estimates.

Income taxes

The Group reviews at each balance sheet date especially the carrying amount of deferred tax assets. Deferred taxes are provided using the liability method, as measured with enacted tax rates, to reflect the temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The main temporary differences arise from the depreciation difference on tangible assets, fair valuation of net assets in acquired companies, intra-group inventory profits, defined benefit pension plans, inventories and other provisions, untaxed reserves and tax losses carried forward. Temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized. The likelihood for the recovery of deferred tax assets from future taxable income is assessed, and to the extent the recovery is not considered likely the deferred asset is adjusted in accordance. At each balance sheet date the Group reviews whether distribution of earnings in subsidiaries is in its control and probable, and books a deferred tax accordingly.

Employee benefits

Pension costs for defined benefit plans are assessed using the projected unit credit actuarial valuation method. Several statistical and other actuarial assumptions are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, future salary increase and annual inflation rate. Statistical information used may differ from actual results. Changes in actuarial assumptions are charged or credited to income over the expected remaining service lives of the employees which could have a slight impact on the Group's income statement.

Share-based payments

The expense of the share-based payments determined at the grant date reflects the Group's estimate of the number of options or share rewards that will ultimately vest. Options are valued at fair value using Black-Scholes option-pricing model. Several assumptions are used in calculating the fair value of the option. These factors include dividend yield, risk free interest rate, expected life of option and personnel forfeit ratio. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest. On a regular basis the Group reviews the assumptions made and revises its estimates of the share-based payments that are expected to be settled. The changes in the estimates are recognized in the income statement.

Provisions

The timing of the recognition of a provision is based on management's estimate of the moment when the Group has a present legal or constructive obligation, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

ROUNDING OF FIGURES

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.

In the financial statements, EUR 0.0 million means the figure is less than EUR 50 000. If the amount is EUR 0, the cell is left empty.

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2. SEGMENT INFORMATION

Rapala Group is led as a whole, as an integrated chain of units engaged in sourcing, manufacturing and distributing fishing tackle equipment. The base unit of Group's management is a single subsidiary engaged in one or several activities within the integrated supply chain. The Group does not have any division structure, but nearly all of Group's subsidiaries report directly to the Group's CEO, who together with the Board is the ultimate decision maker. Despite the integrated nature of Group's operations, the type and source of products being processed by the units creates difference in Group's management approach. There is a distinction in the strategic and operative role of the products depending on whether the product sold is being manufactured by the Group itself; whether the product is sourced by the Group externally, but sold under one of Group's own brands; whether the product is a third party product represented and distributed by the Group; or whether the product is part of Group's core fishing tackle business or some supporting product category outside of fishing. This distinction between the type and source of products is the basis for Group's operating segments. Group's operating segments are Group Fishing Products, Other Group Products and Third Party Products. Group Fishing Products are fishing tackle products manufactured or sourced by the Group itself and sold under Group's brands. Group Fishing Products include Group Lures, Fishing Hooks, Fishing Lines and Fishing Accessories. Other Group Products include Group manufactured and/or branded products for winter sports and some other non-fishing businesses as well as gift products. Third Party Products include non-Group branded fishing products and third party products for hunting, outdoor and winter sports, which are distributed by the Group utilizing the same supply channel as Group Fishing Products and Other Group Products. The Group operates in four geographical areas which are North America, Nordic Countries, Rest of Europe and Rest of the World. The Group measures segment performance based on operating profit. Reported figures are consistent with IFRS accounting principles. Pricing of inter-segment transactions is based on market prices.

OPERATING SEGMENTS

					2010					2009
EUR million	Q1 1)	Q2 1)	Q3 1)	Q4 1)	YTD	Q1 1)	Q2 1)	Q3 1)	Q4 1)	YTD
Net Sales										
Group Fishing Products	**37.7**	**42.7**	**29.7**	**29.4**	**139.5**	37.3	37.9	25.0	26.7	126.8
Other Group Products	**5.0**	**4.0**	**5.8**	**10.4**	**25.2**	4.2	4.1	3.2	6.3	17.8
Third Party Products	**28.2**	**31.1**	**25.3**	**21.0**	**105.6**	23.8	25.9	22.2	18.7	90.6
Intra-segment Sales	**-0.2**	**-0.2**	**-0.2**	**-0.3**	**-0.9**	-0.1	-0.2	-0.1	-0.2	-0.6
Net Sales	**70.8**	**77.6**	**60.6**	**60.4**	**269.4**	65.2	67.7	50.2	51.4	234.6
Operating Profit										
Group Fishing Products	**8.1**	**8.6**	**0.7**	**4.0**	**21.4**	7.8	6.1	0.3	1.5	15.7
Other Group Products	**0.5**	**0.1**	**1.1**	**0.3**	**2.0**	0.1	-0.2	0.3	0.3	0.5
Third Party Products	**3.1**	**3.8**	**1.1**	**-0.2**	**7.8**	2.1	3.5	1.4	-1.2	5.8
Operating Profit	**11.7**	**12.5**	**2.9**	**4.2**	**31.3**	10.0	9.4	1.9	0.7	22.1

In 2010 operating profit included impairment related costs of 0.0 EUR million, which was allocated to Group Fishing Products, Other Group Products and Third Party Products. In 2009 operating profit included EUR 1.1 million of impairment related costs, which allocation to operating segments is following: Group Fishing Products EUR 0.4 million, Other Group Products EUR 0.4 million and Third Party Products EUR 0.2 million.

				2010				2009
EUR million	March 31 1)	June 30 1)	September 30 1)	December 31	March 31 1)	June 30 1)	September 30 1)	December 31
Assets								
Group Fishing Products	**182.4**	**186.0**	**185.3**	**190.5**	184.9	165.5	153.9	159.6
Other Group Products	**11.1**	**10.5**	**10.2**	**12.7**	11.6	9.1	9.3	10.2
Third Party Products	**78.4**	**75.6**	**69.3**	**71.1**	84.8	79.1	68.0	61.9
Intra-segment	**-0.1**		**-0.1**		-0.1	-0.1	-0.1	0.0
Non-interest bearing assets total	**271.9**	**272.1**	**264.7**	**274.3**	281.2	253.6	231.2	231.6
Unallocated interest-bearing assets	**26.9**	**40.7**	**33.4**	**29.7**	31.8	41.7	36.8	29.6
Total assets	**298.8**	**312.8**	**298.2**	**304.0**	313.0	295.2	267.9	261.2
Liabilities								
Group Fishing Products	**32.1**	**35.4**	**35.9**	**35.1**	33.3	27.3	24.4	30.8
Other Group Products	**2.2**	**2.3**	**2.4**	**2.9**	2.3	4.6	3.7	2.5
Third Party Products	**16.7**	**14.8**	**13.8**	**15.1**	23.0	10.3	9.0	7.2
Intra-segment	**-0.1**		**-0.1**		-0.1	-0.1	-0.1	0.0
Non-interest bearing liabilities total	**50.9**	**52.6**	**52.0**	**53.1**	58.5	42.0	37.1	40.5
Unallocated interest-bearing liabilities	**123.5**	**131.1**	**121.4**	**121.7**	144.1	142.7	120.0	109.1
Total liabilities	**174.4**	**183.7**	**173.3**	**174.8**	202.6	184.7	157.2	149.6

1) Quarterly figures are unaudited.

GEOGRAPHICAL INFORMATION

Net sales by unit location

EUR million	2010	2009
North America	**68.5**	61.1
Nordic	**110.4**	102.0
Rest of Europe	**104.6**	89.7
Rest of the World	**69.6**	55.3
Intra-segment Sales	**-83.8**	-73.5
Total Net Sales	**269.4**	234.6

External net sales by destination

EUR million	2010	2009
Finland	**25.5**	22.2
Other Nordic Countries	**37.7**	34.9
Nordic Total	**63.2**	57.1
Russia	**27.4**	18.9
France	**30.5**	27.2
Other European Countries	**39.4**	36.7
Rest of Europe Total	**97.3**	82.9
USA	**60.8**	55.0
Other North America	**12.2**	9.8
North America Total	**73.0**	64.8
Rest of the World	**35.9**	29.8
Total	**269.4**	234.6

Non-current assets by unit location

EUR million	2010	2009
Finland	**13.5**	13.6
Other Nordic Countries	**3.1**	2.9
Nordic Total	**16.6**	16.5
Rest of Europe Total	**16.6**	9.2
USA	**25.7**	24.6
Other North America	**4.3**	3.8
North America Total	**30.0**	28.4
China	**29.7**	28.5
Other countries	**3.6**	3.2
Rest of the World Total	**33.3**	31.7
Total	**96.5**	85.7

Based on IFRS 8, these non-current assets exclude non-current financial instruments and deferred tax assets.

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3. ACQUISITIONS AND DISPOSALS

CORPORATE ACQUISITIONS IN 2010

In February 2010, Rapala purchased a 10% share of the Group's Hungarian distribution company. This acquisition raised Rapala's ownership to 66.6%. Acquisition has no significant impact on the Group's consolidated financial statements.

On August 27th, Rapala acquired 100% of the share capital of UK based Dynamite Baits Ltd ("Dynamite"), a manufacturer of boilies, groundbaits, liquid attractants, pellets and bagged particle baits for sport fishing. The total consideration for the deal is some GBP 5.3 million (some EUR 6.5 million). The total consideration is subject to realization of contingent consideration. Dynamite has its own efficient distribution system in the UK securing deliveries directly to some 1 200 sales outlets. Its products enjoy an excellent reputation for catching fish. The acquisition of Dynamite brings Rapala into an important segment of the bait market in which it has not been represented before.

Acquisition of Dynamite contributed EUR 1.8 million to the I-IV/2010 net sales and EUR -0.3 million to the net profit for the year. If this acquisition had taken place at the beginning of the year, it would have contributed some EUR 8.2 million to the I-IV/2010 net sales and some EUR 0.2 million to the net profit for the year.

CORPORATE AND BRAND ACQUISITIONS IN 2009

In 2009, Rapala made the final payment of the acquisition of non-controlling interest of Normark Innovation Inc. (EUR 0.1 million) which was closed in 2007, as well as the second partial payment of the Sufix brand acquisition (EUR 1.1 million) which was closed in 2008. Rapala acquired also the remaining non-controlling interest of the Norwegian subsidiary Sandelin Berntsen Sport AS (EUR 0.0 million). Sandelin Berntsen Sport AS was merged to Elbe Normark AS in December 2009.

In December 2009, Rapala acquired Ultrabite trademark (EUR 0.9 million) and concluded agreements with Kiotech International PLC (Kiotech) and the Centre for Environment, Fisheries and Aquaculture Science (Cefas), an executive agency of the UK government's Department for Environment, Food and Rural Affairs, to exclusively commercialize Ultrabite branded and patented pheromone technology to the sport fishing industry and market worldwide. Since 2006, Rapala has been developing new products for worldwide sales exclusively using Ultrabite branded pheromone products developed by Cefas and licensed through Kiotech. Rapala concluded an exclusive licensing agreement directly with Cefas for an initial period of 12 years with a further option for 10 years thereafter for the use of pheromone technology. This direct co-operation will be key to the future development and success of this important market sector for a long-term basis.

ACQUISITIONS

EUR million	Note	2010 Fair value	2010 Seller's carrying value	2009 Fair value	2009 Seller's carrying value
Cash and cash equivalents and interest-bearing assets		0.2	0.2		
Inventories		1.4	1.4		
Trade and other non-interest-bearing receivables		1.2	1.2		
Intangible assets	12	6.4			
Tangible assets	13	0.5	0.5		
Trade and other non-interest-bearing payables		-1.7	-1.7		
Interest-bearing liabilities		-0.7	-0.7		
Deferred tax liability (net)	11	-1.6	0.2		
Non-controlling interest		0.0		0.0	
Fair value of acquired net assets		5.6	1.0	0.0	

EUR million	Note	2010	2009
Cash paid during financial year		5.0	0.0
Cash to be paid later [1]		1.3	
Contingent consideration		0.2	
Total purchase consideration		6.5	0.0
Excess of Group's interest in the net fair value of acquired net assets over cost			0.0
Goodwill	12	0.9	0.0
Net goodwill		0.9	0.1
Cash paid for the acquisitions [2]		5.0	0.1
Cash and cash equivalents acquired		-0.2	
Net cash flow		4.8	0.1

1) Paid to an escrow account.

2) Cash paid in 2009 includes the final payment of the acquisition of non-controlling interest of Normark Innovation Inc. (EUR 0.1) and the acquisition of non-controlling interest of the Norwegian subsidiary Sandelin Berntsen Sport AS (EUR 0.0 million).

EUR 1.3 million of the total consideration has been paid to an escrow account and will be released to sellers in 3 years.

The contingent consideration requires acquired company Dynamite Baits to receive a tax benefit of EUR 0.2 million based on preliminary tax calculations. Consideration will be paid to sellers when the tax benefit is finally confirmed, approximately in year 2012. The discounted value of the contingent consideration EUR 0.2 million was estimated by applying the income approach assuming a discount rate of 1%.

The transaction costs of EUR 0.2 million have been expensed and are included in the other operating expenses in the income statement and treated as a non-recurring item.

Acquired companies are accounted for using the purchase method of accounting, which involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

The fair value of acquired intellectual property rights is established with the estimated discounted royalty payments. Determination of fair value is the market based estimated royalty rate (normalized net cash flow), that an external party would be willing to pay for the license contract. The fair value of customer relations is established based on the estimated duration of customer relationship (average minimum duration) and discounted net cash flows of present customer relationships.

The goodwill of 2010 (EUR 0.9 million) resulted from acquiring Dynamite Goodwill is justified by expansion of product assortment and market coverage as well as utilization of economies of scale in production, sourcing and distribution. The goodwill has been tested for impairment.

None of the goodwill is expected to be deductible for income tax purposes.

4. OTHER OPERATING INCOME

EUR million	2010	2009
Royalty income	0.2	0.1
Rental income	0.1	0.1
Other gains from sale of intangible and tangible assets	0.1	0.3
Government grants	0.1	0.1
Insurance compensations	0.0	0.1
Scrap sales	0.0	0.0
Sale of Hong Kong office premises		0.5
Other income	0.1	0.0
Total	0.7	1.2

Other income, EUR 0.1 million (2009: 0.0 EUR million) is a combination of several smaller income items, of which none is individually significant.

5. OTHER OPERATING EXPENSES

EUR million	2010	2009
Selling and marketing expenses	-12.1	-10.3
Rents paid	-6.8	-6.1
Freight	-5.3	-4.4
Maintenance and utility expenses	-5.0	-4.3
Traveling expenses	-4.4	-3.9
Sales commissions	-3.6	-3.8
IT and telecommunication	-1.8	-1.7
Consulting expenses	-1.7	-1.3
Insurance expenses	-0.8	-0.8
Auditors' fees and services	-0.7	-0.8
Outsourced logistics	-0.6	-0.5
Valuation allowance for trade receivables	-0.6	-1.1
Other expenses	-6.4	-5.8
Total	-49.7	-44.7

AUDITORS' FEES AND SERVICES

EUR million	2010	2009
Audit fees	-0.6	-0.6
Fees for tax services	0.0	-0.2
Other fees	0.0	0.0
Total	-0.7	-0.8

NON-RECURRING INCOME AND EXPENSES INCLUDED IN OPERATING PROFIT

EUR million	2010	2009
Costs related to business acquisitions	-0.2	
Sale of Hong Kong office premises		0.5
Restructuring of Chinese manufacturing operations [1]		-0.4
Restructuring of Hungarian operations	-0.2	
Other restructuring costs	-0.1	-0.4
Other non-recurring items	-0.1	-0.1
Total included in EBITDA	-0.5	-0.3
Impairment of non-current assets in China	0.0	-0.7
Impairment of non-current assets in Hungary		-0.3
Total included in operating profit	-0.5	-1.4

1) Includes redundancy and other costs as well as gains and losses from the sale of fixed assets.

Non-recurring income is included in other operating income in the consolidated income statement. Non-recurring expenses are included in other operating expenses, employee benefit expenses and depreciation and impairments.

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6. MATERIALS AND SERVICES

EUR million	2010	2009
Materials, goods and supplies		
Purchases during the period	-123.1	-97.0
Change in inventory	0.2	-2.0
External services	-12.9	-5.9
Total	-135.7	-105.0

7. EMPLOYEE BENEFIT EXPENSES

EUR million	2010	2009
Wages and salaries	-48.0	-43.0
Pension costs - defined contribution plans	-3.6	-3.6
Pension costs - defined benefit plans	-0.3	-0.2
Other long-term employee benefits	-0.2	-0.1
Option programs to be settled in shares	0.1	-0.1
Option programs to be settled in cash	-0.1	-0.2
Other personnel expenses	-7.1	-6.6
Total	-59.1	-53.8

The employee benefit expenses in 2010 include EUR 0.3 million (2009: EUR 0.3 million) employee related restructuring expenses. For more details on employee benefits for top management and option programs, see notes 28 and 29.

AVERAGE PERSONNEL

Persons	2010	2009
North America	112	115
Nordic	468	434
Rest of Europe	842	717
Rest of the World	895	993
Total	2 317	2 259

8. DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

EUR million	2010	2009
Amortization and impairment of intangible assets		
Amortization of customer relations	-0.3	-0.2
Amortization of other intangible assets	-0.2	-0.2
Impairment losses of trademarks		-0.1
Depreciation and impairment of tangible assets		
Depreciation of buildings	-0.7	-0.7
Depreciation of machinery and equipment	-3.5	-3.5
Depreciation of other tangible assets	-1.4	-1.1
Impairment losses of other tangible assets	0.0	-0.9
Total	-6.1	-6.9

In 2010 and 2009 the impairments of intangible and tangible assets were related to the restructuring of the Group's Hungarian distribution company and the reorganization of the Chinese manufacturing operations.

9. RESEARCH AND DEVELOPMENT EXPENSES

Net profit for the period includes research and development expenses of EUR 2.1 million recognized as an expense in 2010 (2009: EUR 2.0 million). Group has not capitalized research and development costs.

10. FINANCIAL INCOME AND EXPENSES

EUR million	2010	2009
Foreign exchange gains		
From loans and receivables	**6.9**	2.9
From financial liabilities measured at amortized cost	**1.4**	3.2
Foreign exchange losses		
From loans and receivables	**-4.3**	-3.2
From financial liabilities measured at amortized cost	**-2.4**	-1.4
Interest and other financial income		
Interest income from loans and receivables	**0.2**	0.2
Other financial income	**0.0**	0.1
Interest and other financial expenses		
Interest expense on financial liabilities measured at amortized cost	**-3.4**	-3.8
Other financial expenses	**-0.3**	-0.2
Total	**-1.8**	-2.1

Interest expenses include interest expense of finance lease contracts of EUR -0.0 million in 2010 (2009: EUR -0.0 million).

RECOGNIZED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

EUR million	2010	2009
Change in fair value of interest rate derivatives - hedge accounted, net of tax	**-1.2**	-0.1
Gains and losses on hedges of net investments, net of tax	**-1.1**	0.2
Total	**-2.3**	0.1

In 2010 and 2009, hedges of net investments and interest rate derivatives, which fulfill IAS 39 effectiveness requirements, had no income statement effect.

EXCHANGE GAINS AND LOSSES IN THE INCOME STATEMENT

EUR million	2010	2009
In net sales	**0.9**	-0.3
In purchases	**-0.4**	1.2
In other operating expenses		
Change in fair value of currency derivatives, non-hedge accounted	**0.5**	0.4
In financial income and expenses		
Foreign exchange gains and losses, net	**1.6**	1.5
Change in fair value of interest-rate derivatives, non-hedge accounted		0.0
Total	**2.5**	2.8

11. INCOME TAXES

INCOME TAXES IN THE INCOME STATEMENT

EUR million	2010	2009
Income taxes for the current year	**-8.5**	-5.9
Deferred taxes	**-0.3**	0.3
Total	**-8.7**	-5.7

INCOME TAX RECONCILIATION

EUR million	2010	2009
Income taxes at Finnish corporate tax rate (26%)	**-7.7**	-5.2
Effect of different tax rates in foreign subsidiaries	**-0.3**	0.1
Non-deductible expenses and tax exempt income	**0.2**	0.1
Foreign withholding taxes	**-0.4**	0.0
Losses for which no deferred tax benefit is recognized	**-0.1**	-0.5
Taxes for prior years	**-0.7**	-0.5
Changes in the carrying amounts of deferred tax assets and liabilities from prior years	**0.2**	0.3
Impact of the changes in the tax rates on deferred tax balances	**0.0**	
Effect of consolidation and eliminations	**0.0**	0.0
Other items	**0.0**	0.0
Income taxes in the income statement	**-8.7**	-5.7

TAX EFFECTS RELATING TO EACH COMPONENT OF OTHER COMPREHENSIVE INCOME

2010 EUR million	Before tax	Tax expense/ benefit	Net of tax
Change in translation differences	7.8		7.8
Gains and losses on cash flow hedges	-1.6	0.4	-1.2
Gains and losses on hedges of net investment	-1.5	0.4	-1.1
Total	4.7	0.8	5.5

2009 EUR million	Before tax	Tax expense/ benefit	Net of tax
Change in translation differences	1.5		1.5
Gains and losses on cash flow hedges	-0.1	0.0	-0.1
Gains and losses on hedges of net investment	0.3	-0.1	0.2
Total	1.7	-0.1	1.6

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MOVEMENT OF DEFERRED TAXES

2010 EUR million	Jan. 1	Income statement	Equity	Translation differences	Acquisitions (see note 3)	Dec. 31
Tax losses and credits carried forward	1.9	0.4		0.0		2.3
Provisions	0.1	0.0		0.0		0.1
Pension obligations	0.2	0.0		0.0		0.3
Depreciation difference	0.2	-0.1		0.0		0.1
Effect of consolidation and eliminations	4.5	0.1		0.4		5.0
Other temporary differences	0.9	0.2	0.4	0.1	0.2	1.8
Total deferred tax assets	8.0	0.5	0.4	0.5	0.2	9.7
Depreciation difference and other untaxed reserves	2.1	0.3		0.2		2.6
Inventory	2.1	0.2		0.1		2.4
Fair value adjustments for acquired net assets	1.4	0.0		0.1	1.7	3.2
Other temporary differences	0.2	0.4		0.0		0.6
Total deferred tax liabilities	5.8	0.8		0.5	1.7	8.8
Net deferred tax asset	2.2	-0.3	0.4	0.0	-1.5	0.9

2009 EUR million	Jan. 1	Income statement	Equity	Translation differences	Acquisitions	Dec. 31
Tax losses and credits carried forward	2.1	-0.1		0.0		1.9
Provisions	0.2	-0.1		0.0		0.1
Pension obligations	0.2	0.0		0.0		0.2
Depreciation difference	0.2	0.1		0.0		0.2
Effect of consolidation and eliminations	4.3	0.2		0.0		4.5
Other temporary differences	0.5	0.4	0.0	0.0		0.9
Total deferred tax assets	7.5	0.5	0.0	0.0		8.0
Depreciation difference and other untaxed reserves	1.9	0.3	0.0	-0.1		2.1
Inventory	2.0	0.2		-0.1		2.1
Fair value adjustments for acquired net assets	1.4	-0.1		0.1		1.4
Other temporary differences	0.3	-0.1	0.0	0.0		0.2
Deferred tax liabilities	5.6	0.2	0.0	0.0		5.8
Net deferred tax asset	1.9	0.3	0.0	0.0		2.2

Deferred taxes have been reported as a net balance according to IAS 12. As of December 31, 2010, the Group had tax losses carried forward of EUR 6.8 million (2009: EUR 6.6 million), for which deferred tax assets have not been recognized in the consolidated financial statements because the realization of the tax benefit is not probable. EUR 3.6 million of these tax losses will expire during the next five years (2009: EUR 3.9 million).

Deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is in the control of the Group and such distribution is not probable within the foreseeable future.

The consolidated balance sheet includes deferred tax assets of EUR 0.4 million (2009: EUR 1.6 million) in subsidiaries, which have generated losses in financial year 2010 or 2009. The recognition of these assets is based on result estimates, which indicate that the realization of these deferred tax assets is probable.

12. INTANGIBLE ASSETS

2010 EUR million	Trademarks	Customer relations	Goodwill	Other intangible assets	Total
Acquisition cost Jan. 1	11.9	2.2	43.7	5.5	63.3
Additions	0.0			0.2	0.2
Acquisitions (see note 3)	5.3	1.0	0.9		7.3
Disposals	0.0			0.0	0.0
Reclassifications [1)]				0.1	0.1
Translation differences	0.4	0.3	1.9	0.1	2.7
Acquisition cost Dec. 31	17.7	3.5	46.5	5.8	73.5
Accumulated depreciation Jan. 1	-0.6	-0.9		-3.5	-5.0
Acquisitions (see note 3)					
Disposals	0.0			0.0	0.0
Reclassifications [1)]				0.0	0.0
Depreciation during the period	0.0	-0.3		-0.2	-0.5
Impairments					
Translation differences	0.0	-0.1		0.0	-0.2
Accumulated depreciation Dec. 31	-0.6	-1.3		-3.8	-5.7
Carrying value Jan. 1	11.3	1.3	43.7	1.9	58.3
Carrying value Dec. 31	17.1	2.2	46.5	2.0	67.8

2009 EUR million	Trademarks	Customer relations	Goodwill	Other intangible assets	Total
Acquisition cost Jan. 1	11.0	2.0	43.8	5.3	62.0
Additions	1.0		0.0	0.1	1.2
Disposals				0.0	0.0
Reclassifications [1)]	0.0	0.0		0.1	0.1
Translation differences	0.0	0.2	-0.1	0.0	0.0
Acquisition cost Dec. 31	11.9	2.2	43.7	5.5	63.3
Accumulated depreciation Jan. 1	-0.4	-0.6		-3.3	-4.4
Disposals				0.0	0.0
Reclassifications [1)]	0.0			0.0	0.0
Depreciation during the period		-0.2		-0.2	-0.4
Impairments	-0.1				-0.1
Translation differences	-0.1	-0.1		0.0	-0.1
Accumulated depreciation Dec. 31	-0.6	-0.9		-3.5	-5.0
Carrying value Jan. 1	10.5	1.4	43.8	1.9	57.6
Carrying value Dec. 31	11.3	1.3	43.7	1.9	58.3

1) Includes reclassifications between intangible and tangible assets.

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Other intangible assets include patents, licenses and computer software. Intangible assets are stated at cost, amortized on a straight line method over expected useful lives which vary from 3 to 15 years and adjusted for any impairment charges. The expected useful life for most trademarks is decades and therefore these intangibles are measured at cost less any accumulated impairment loss and not amortized. Goodwill is measured at cost less any accumulated impairment loss, and not amortized. Trademarks with indefinite lives and goodwill are tested for impairment annually.

GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES BY BUSINESS SEGMENTS

EUR million	Group Fishing Products	Other Group Products	Third Party Products	Total
2010				
Goodwill	**43.0**	**1.1**	**2.4**	**46.5**
Trademarks with indefinite lives	**16.4**	**0.1**	**0.6**	**17.1**
2009				
Goodwill	40.5	1.1	2.1	43.7
Trademarks with indefinite lives	10.8	0.0	0.5	11.3

IMPAIRMENT TESTING OF GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES

The Group is led as a whole and not organized nor managed in segments. Most of the units are also strongly interlinked i.e. some units do not have a sales or a production organization or some other functions or operations needed to operate on a stand-alone basis. However, according to IFRS, the lowest cash-generating unit (CGU) cannot be larger than an operating segment in the Group's segment reporting. As a consequence, goodwill and trademarks with indefinite lives are tested on the operating segment level.

The recoverable amount of the CGU is determined based on value-in-use calculations. Cash flow projections, which were used in these calculations, were based on most recent 5-year financial forecasts prepared by the management and approved by the Board. The estimated sales and production volumes are derived from the utilization of existing property, plant and equipment. The most important assumptions on which management has based its cash flow projections are the sales and gross margins. Discount rate is the weighted average pre-tax cost of capital (WACC), which was 6.0% in 2010 and 5.0% in 2009. In the impairment tests prepared in 2010 and 2009, the growth rate used to extrapolate the cash flow beyond the five-year period is 0%. As a result of the performed impairment tests, no impairment losses have been recognized in 2010 or 2009.

Key assumptions

Sales – The Group's estimated sales are based on present and future product assortment and utilization of distribution and manufacturing capacity. In addition, estimated sales are based on long-term growth of industry and further implementation of Group's strategic objectives.

EBITDA margin – The Group's estimated EBITDA margin, operating profit before depreciation and impairments compared to net sales, is based on past years actual margins and management's view on sales and gross margin development. The increase in general cost level has also been taken into account in the development of EBITDA margin.

Discount rate – Discount rate is the weighted average pre-tax cost of capital (WACC). Weighted average cost of capital represents the total cost of Group's equity and debt taken into account their different return requirements. The WACC has been determined using the Group's actual cost of debt as the basis for the cost of debt but adding the estimated premium that would be added if the loan portfolio was refinanced now, and for cost of equity, the fact that the risk factor of the Group's equity is markedly lower than the average risk level in the Finnish stock market.

Growth rate – Compared to actual growth rates during past 5 years, management has been conservative in determining the growth rate for impairment purposes.

Sensitivity analysis

The key sensitivity factors for the impairment test are the estimated EBITDA margin and the discount rate. It is the management's opinion that no probable change in any of the key sensitivity factors would lead to a situation where the carrying amount would exceed the recoverable amount. Even if the discount rate would be 5 percentage points higher or EBITDA margin 25% lower than used in the management's estimates, it would not lead to an impairment loss in any of the segments.

13. TANGIBLE ASSETS AND ASSETS HELD-FOR-SALE

2010 EUR million	Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	1.6	16.7	47.1	8.7	1.4	75.5
Additions	0.0	0.6	3.1	1.5	1.2	6.4
Acquisitions (see note 3)			1.1	0.3		1.4
Disposals			-3.4	-0.5	-0.5	-4.4
Reclassifications [1]		3.6	0.8	0.4	-1.4	3.5
Translation differences	0.1	0.5	1.1	0.5	0.0	2.2
Acquisition cost Dec. 31	1.8	21.4	49.8	10.9	0.7	84.6
Accumulated depreciation Jan. 1		-8.9	-35.0	-4.2		-48.0
Acquisitions (see note 3)			-0.7	-0.2		-1.0
Disposals			3.1	0.4		3.4
Reclassifications [1]		-3.6	0.3	-0.2		-3.5
Depreciation during the period		-0.7	-3.5	-1.4		-5.6
Impairment			0.0	0.0		0.0
Translation differences		-0.2	-0.8	-0.2		-1.2
Accumulated depreciation Dec. 31		-13.4	-36.6	-5.9		-55.9
Carrying value Jan. 1	1.6	7.8	12.1	4.5	1.4	27.5
Carrying value Dec. 31	1.8	8.0	13.2	5.0	0.7	28.7

2009 EUR million	Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	1.6	16.4	48.1	9.6	0.9	76.6
Additions		0.3	2.2	2.1	1.9	6.6
Disposals		-0.4	-3.8	-3.0	-0.2	-7.4
Reclassifications [2]		0.3	0.8	0.0	-1.2	-0.1
Translation differences	0.0	0.1	-0.2	-0.1	0.0	-0.2
Acquisition cost Dec. 31	1.6	16.7	47.1	8.7	1.4	75.5
Accumulated depreciation Jan. 1		-8.2	-34.8	-4.9		-47.9
Disposals		0.1	3.1	2.8		6.0
Reclassifications [2]			0.0	0.0		0.0
Depreciation during the period		-0.7	-3.5	-1.1		-5.4
Impairment				-0.9		-0.9
Translation differences		-0.1	0.2	0.0		0.2
Accumulated depreciation Dec. 31		-8.9	-35.0	-4.2		-48.0
Carrying value Jan. 1	1.6	8.2	13.4	4.7	0.9	28.7
Carrying value Dec. 31	1.6	7.8	12.1	4.5	1.4	27.5

1) Includes reclassifications between acquisition cost and accumulated depreciation.

2) Includes reclassifications between intangible and tangible assets.

The carrying value of the machinery included in tangible assets was EUR 12.7 million as of December 31, 2010 (2009: EUR 11.5 million).

ASSETS LEASED BY FINANCE LEASE AGREEMENTS

EUR million	2010 Machinery and equipment	2010 Other tangible assets	2009 Machinery and equipment
Carrying value Jan. 1	**0.1**		0.1
Additions	**0.2**		0.1
Acquisitions (see note 3)	**0.2**	**0.0**	
Reclassifications [1)]	**-0.1**	**0.1**	0.0
Depreciation during the period	**-0.1**	**0.0**	0.0
Translation differences	**0.0**	**0.0**	0.0
Carrying value Dec. 31	**0.4**	**0.1**	0.1
Accumulated depreciation Dec. 31	**-0.2**	**0.0**	0.0
Acquisition cost Dec. 31	**0.5**	**0.1**	0.2

1) Includes reclassification between machinery and equipment and other tangible assets.

14. INVESTMENTS IN ASSOCIATED COMPANIES

The Group has a 33.3% interest in unlisted Lanimo Oü. Its main activity is producing leather-haberdashery. The carrying amount of Lanimo Oü does not include goodwill or impairments. Lanimo Oü's figures are based on the information for the period ending on September 30, due to differences in reporting time schedule. Information for the financial period ending on December 31, 2009 is the following: assets EUR 0.1 million, liabilities EUR 0.1 million, sales EUR 0.2 million and loss EUR 0.0 million.

EUR million	2010	2009
Acquisition cost Jan. 1	**0.0**	0.0
Decrease	**0.0**	0.0
Acquisition cost Dec. 31	**0.0**	0.0

INFORMATION ON LANIMO OÜ

EUR million	Domicile	Assets	Liabilities	Sales	Profit/loss	Ownership, %
2010	Estonia	**0.1**	**0.1**	**0.1**	**0.0**	**33.3**
2009	Estonia	0.1	0.1	0.2	0.0	33.3

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR million	2010	2009
Carrying value Jan. 1	**0.3**	0.5
Additions		0.0
Disposals		-0.2
Translation differences	**0.0**	0.0
Carrying value Dec. 31	**0.3**	0.3

Available-for-sale financial assets comprise of unlisted shares that are measured at fair value. Certain unlisted shares for which fair values cannot be measured reliably are measured at cost less possible impairment. The fair value changes of available-for-sale financial assets, net of tax, are recognized in shareholders' equity. BRF Morkullan real estate in Sweden was sold in 2009. As Oy Tahkon Eagle is the most significant available-for-sale financial asset.

16. RECEIVABLES

EUR million	2010	2009
Non-current receivables		
Interest-bearing		
Loan receivables	**0.1**	0.1
Derivatives		0.0
Escrow deposit	**1.3**	
Non-interest-bearing		
Other receivables	**0.2**	0.2
Current receivables		
Interest-bearing		
Loan receivables	**0.0**	0.1
Derivatives	**0.0**	0.1
Non-interest-bearing		
Trade receivables	**53.0**	41.4
VAT receivable	**1.4**	0.8
Prepaid insurance expenses	**0.2**	0.1
Other prepaid expenses and accrued income	**1.9**	1.4
Other receivables	**1.1**	0.7
Valuation allowance for trade receivables	**-2.3**	-2.5
Total	**57.0**	42.5

Due to their short maturity, the fair value of current receivables is regarded as corresponding to their original carrying amount.

The weighted average interest rate of non-current loan receivables was 3.44% (2009: 2.44%). The weighted average interest rate of current loan receivables at December 31, 2010 was 2.56% (2009: 1.66%).

ALLOWANCE FOR TRADE RECEIVABLES

EUR million	2010	2009
Allowance for trade receivables Jan. 1	**2.5**	2.3
Additions	**0.7**	0.8
Deductions	**-1.0**	-0.6
Recovery	**-0.1**	0.0
Translation differences	**0.1**	0.0
Allowance for trade receivables Dec. 31	**2.3**	2.5

In most cases allowances are determined individually, when there is objective evidence (such as significant overdue of receivables and unsuccessful dunning attempts or known financial difficulties and thus increased probability of customer insolvency) that the Group will not be able to collect all amounts due according to the original terms of the receivables. Allowances have not been made on other receivables.

17. INVENTORIES

EUR million	2010	2009
Raw material	**8.1**	6.8
Work in progress	**9.7**	8.5
Finished products	**97.4**	82.1
Net realizable value provisions	**-3.0**	-3.0
Total	**112.2**	94.4

In 2010, the carrying value of inventories included a provision for net realizable value of EUR 3.0 million (2009: EUR 3.0 million).

18. CASH AND CASH EQUIVALENTS

EUR million	2010	2009
Cash at bank and in hand	**27.3**	27.4
Short-term deposits	**0.6**	1.6
Total	**27.9**	29.0

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current interest-bearing loans.

Fair value of cash and cash equivalents does not differ significantly from the carrying value.

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19. EQUITY ATTRIBUTABLE TO SHAREHOLDERS

EUR million	2010	2009
Share capital Jan. 1	**3.6**	3.6
Share capital Dec. 31	**3.6**	3.6
Share premium fund Jan. 1	**16.7**	16.7
Share premium fund Dec. 31	**16.7**	16.7
Fair value reserve Jan. 1	**-0.3**	-0.3
Gains and losses on cash flow hedges, net of tax	**-1.2**	-0.1
Fair value reserve Dec. 31	**-1.5**	-0.3
Fund for invested non-restricted equity Jan. 1	**4.9**	4.9
Fund for invested non-restricted equity Dec. 31	**4.9**	4.9
Own shares Jan. 1	**-1.4**	-0.9
Purchase of own shares	**-1.1**	-0.6
Own shares Dec. 31	**-2.5**	-1.4
Retained earnings Jan. 1	**84.0**	77.7
Translation differences	**7.4**	1.3
Gains and losses on hedges of net investments, net of tax	**-1.1**	0.2
Dividends paid	**-7.4**	-7.5
Share-based payments	**-0.1**	0.1
Other changes	**0.0**	0.0
Net income for the period	**18.0**	12.1
Retained earnings Dec. 31	**100.7**	84.0

In those cases where option rights were granted during the period when the old Finnish Companies Act (September 29, 1978/734) was in force, the proceeds received for option-based share subscriptions, net of any transaction costs, have been credited to share capital (nominal value) and share premium fund. The fund for invested non-restricted equity includes other investments of equity nature and subscription prices for shares to the extent that it is specifically not to be credited to share capital. The payments received for share subscriptions based on the options granted after the entry into force (September 1, 2006) of the new Finnish Companies Act (21 July 2006/624) are fully recognized in the fund for invested non-restricted equity. The Group has not decided on any option programs since the new Finnish Companies Act came into effect.

Translation differences contain exchange differences arising from the currency translation of foreign subsidiaries' financial statements and exchange differences arising from a monetary item that forms part of a net investment in a foreign company. Translation differences also contain fair value changes from hedging the net investment in foreign companies where this meets the conditions for hedge accounting. Fair value reserve includes movements in the fair values of available-for-sale financial assets and derivative instruments used for cash flow hedging. Own shares acquired by the Group, including directly attributable costs, are presented as a deduction from the total equity in the consolidated financial statements.

DIVIDENDS

For more details on dividends, see note 31.

SHARES AND SHARE CAPITAL

On December 31, 2010, the share capital fully paid and reported in the Trade Register was EUR 3.6 million and the total number of shares was 39 468 499 (2009: 39 468 499). The book value of a share is EUR 0.09.

OWN SHARES

Based on the decision of the Annual General Meeting on April 3, 2008, the Board continued to repurchase own shares in early 2009. Based on the decision of the Annual General Meeting on April 7, 2009, the repurchase of own shares continued until the end of year. At the end of December 2009, Rapala held 340 344 own shares, representing 0.9% of the total number and the total voting rights of Rapala shares. The average price for the repurchased own shares was EUR 4.31 in 2009.

On February 4, 2010, the Board decided to continue buying back own shares in accordance with the authorization granted by the AGM on April 7, 2009. The repurchasing of shares started on February 15, 2010 and ended on March 31, 2010 when Rapala held 368 144 own shares. Based on the authorization of the AGM held on April 14, 2010 the repurchasing of own shares continued from May 3 to June 30, from August 2 to September 30 and from November 1 to December 31, 2010. At the end of December 2010, Rapala held 540 198 own shares, representing 1.4% of the total number and the total voting rights of Rapala shares. The average price for the repurchased own shares in January-December 2010 was EUR 5.72. The average share price of all repurchased own shares held by Rapala was EUR 4.71.

CHANGES IN SHARE CAPITAL IN 2009–2010

There were no changes in the share capital in 2009 and 2010.

BOARD'S AUTHORIZATIONS

Based on authorization given by the Annual General Meeting (AGM) in April 2007, the Board can decide to issue shares through issuance of shares, options or special rights entitling to shares in one or more issues. The number of new shares to be issued including the shares to be obtained under options or special rights shall be no more than 10 000 000 shares. This authorization includes the right for the Board to resolve on all terms and conditions of the issuance of new shares, options and special rights entitling to shares, including issuance in deviation from the shareholders' preemptive rights. This authorization is in force for a period of 5 years from the resolution by the AGM.

The Board is also authorized to resolve to repurchase a maximum of 2 000 000 shares by using funds in the unrestricted equity. This amount of shares corresponds to less than 10% of all shares of the company. The shares will be repurchased through public trading arranged by NASDAQ OMX Helsinki at the market price of the acquisition date. The shares will be acquired and paid in pursuance of the rules of NASDAQ OMX Helsinki and applicable rules regarding the payment period and other terms of the payment. This authorization is effective until the end of the next AGM.

SHARE BASED PAYMENTS

For more details on share based payments, see note 29.

20. EMPLOYEE BENEFIT OBLIGATIONS

Most of the Group´s pension plans are defined contribution plans. The Group has defined benefit pension plans only in France and Sweden. In France, the retirement benefits are determined based on salary and period of employment. These French obligations are unfunded. In Sweden, the ITP-pension plans operated by Alecta are multi-employer defined benefit pension plans. Because it has not been possible to get sufficient information for the calculation of obligations and assets by employer from plan operations, and because these Swedish plans are not significant for the Group, they have been treated as defined contribution plans in the financial statements. The Group has no other post-employment benefit obligations. The pension security of the personnel of the Group's Finnish companies is arranged under the Finnish statutory employee pension plan (TYEL) through an external pension insurance company. Employee benefit obligations also include a long-term profit-sharing payable to the employees in France.

EXPENSES RECOGNIZED IN THE INCOME STATEMENT

EUR million	2010	2009
Current service cost	-0.3	-0.2
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Total	-0.3	-0.2

AMOUNTS RECOGNIZED IN THE BALANCE SHEET

EUR million	2010	2009
Present value of unfunded obligations	1.3	1.0
Unrecognized actuarial gains/losses	0.0	0.0
Unrecognized prior service cost	-0.1	
Net obligations	1.2	1.0

BALANCE SHEET RECONCILIATION

EUR million	2010	2009
Obligations Jan. 1	1.0	0.8
Current service cost	0.3	0.2
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Effect of any curtailments or settlements	-0.1	0.0
Obligations Dec. 31	1.2	1.0

MOVEMENT IN PLAN ASSETS

EUR million	2010	2009
Fair value of plan assets on Jan. 1		0.1
Benefits paid by the plans		-0.1
Fair value of plan assets on Dec. 31		

ASSUMPTIONS

%	2010	2009
Discount rate	4.8	5.0
Future salary increase	2.5	2.5
Annual inflation rate	2.0	2.0

AMOUNTS FOR CURRENT AND PREVIOUS FOUR PERIODS

EUR million	2010	2009	2008	2007	2006
Present value of funded obligations			0.1	0.1	
Fair value of plan assets			-0.1	-0.1	
Present value of unfunded obligations	1.3	1.0	0.7	0.7	0.9
Experience adjustment on plan liabilities	0.0	0.0	-0.1	-0.1	-0.1

The Group expects to contribute EUR 0.0 million to its defined benefit pension plans in 2011.

21. PROVISIONS

EUR million	2010	2009
Restructuring provisions		
Provisions Jan. 1	0.0	
Additions	0.1	0.0
Utilized provisions	0.0	
Translation differences	0.0	
Provisions Dec. 31	0.1	0.0
Warranty provisions		
Provisions Jan. 1	0.0	0.0
Reversal of unutilized provisions	0.0	0.0
Provisions Dec. 31		0.0
Other provisions		
Provisions Jan. 1	0.0	0.1
Additions	0.1	0.0
Utilized provisions	0.0	-0.1
Translation differences	0.0	
Provisions Dec. 31	0.1	0.0
Non-current	0.0	0.0
Current	0.2	0.0
Total provisions	0.2	0.1

Other provisions include distinct provisions, which are not significant individually. Short-term provisions are expected to realize within the next 12 months, and the long-term provisions are expected to realize during a longer period.

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22. FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

The main objective of the Group's financial risk management is to reduce the impacts of price fluctuations in financial markets and other factors of uncertainty on earnings, cash flows and balance sheet, as well as to ensure sufficient liquidity. The Board has approved the Group's risk management principles and CEO is responsible, together with the Group's finance management, for development and implementation of financial risk management procedures.

In 2010, the Group continued to develop its risk management processes. Group Risk Management, consisting of the Group CFO, Group Funding Manager and Financial Analyst, review financial risks on regular basis to manage Group's financial risk position and decide on necessary actions to manage financial risks. The normalization of global economy and financial markets started in 2010 and Group Risk Management continued monitoring and management of foreign exchange, interest rate, liquidity and counterparties' solvency risks.

Financial risks consist of market risks, credit and default risks and liquidity risks. This note also presents the Group's capital management.

MARKET RISKS

The Group's market risks are mainly caused by changes in foreign exchange and interest rates. These changes may have a significant impact on the Group's earnings, cash flows and balance sheet. The Group is also exposed to market price changes of certain raw materials, mainly metals and plastics, which are priced on commodity markets.

1. Foreign exchange risk

Major part of the Group's sales is in euros and US dollars. Also a significant part of expenses arise in euros, US dollars as well as HK dollars and Chinese yuans (renminbi). Group Risk Management monitors regularly the balance between Group's foreign currency sales and expenses as well as the development of the key currencies. Income and expenses within different currencies net each other out to some extent, creating an effective natural hedge in this respect. The Group's principle is not to hedge systematically all transactions or open positions, but to apply hedging dynamically based on the prevailing market situation and concentrate on the income statement impact of the most relevant currencies, especially US dollar.

In order to mitigate adverse impacts of foreign exchange movements on sales and purchases as well as forecasted cash flows and firm commitments, the Group uses derivative instruments. Derivative instruments are in most cases short term and with aim to hedge some proportion of the next season's foreign currency nominated sales or purchases. Instruments used may consist of foreign currency forward contracts, option contracts or combination instruments. Business units do most of their currency hedging against the Group's parent company. Group Risk Management monitors the Group's consolidated risk position and exercises external derivative instruments in line with general guidance and instructions set by the Board and CEO.

Group does not apply IAS 39 (hedge accounting) for the currency derivatives made to fix exchange rates of sales and purchases, but the derivatives are used for the purpose of reducing adverse impacts of market price changes on net earnings and cash flow. All derivatives are initially recognized at fair value on the date the derivative contract is entered into, and are subsequently revalued at fair value on each balance sheet date. The underlying hedged foreign currency denominated transaction will however take place at a later date. As IAS 39 (hedge accounting) is not applied, these derivatives cause timing differences between the Group's exchange gains/losses and sales/purchases.

Currently, currency derivatives used by the Group are short-term zero cost option pair instruments and forward instruments to which IAS 39 (hedge accounting) is not applied. The fair values of the options are received from the bank and are determined based on fair value calculations using the Black and Scholes model. All changes in fair value of currency derivatives are recognized in the income statement. In 2010, currency derivatives had an income statement effect of EUR 0.5 million (2009: EUR 0.4 million). Fair values of currency derivatives are summarized under section 4. Derivatives.

As a result of sales and purchases in foreign currencies as well as operations in several jurisdictions, Group has foreign currency denominated receivables and payables. These are revalued at each balance sheet date and consequently exposed to foreign exchange rate movements. Depending on whether foreign currency monetary receivables and payables relate to sales and purchases or financial items, the foreign exchange gains/losses are booked in the income statement either above or below operating profit.

Group Risk Management regularly monitors the balance between foreign currency denominated monetary receivables and payables and takes actions to increase or decrease the hedge if necessary and financially feasible.

The Group has its external loan payable portfolio in several foreign currencies and it aims to use them to partially hedge loans and accounts receivable as well as net income in these foreign currencies. However, the foreign exchange impact on these does not always meet in the same section of the income statement. The purpose of this hedging is thought to reduce the adverse impact of currency movements on the Group's net income and equity.

The Group has net investments in subsidiaries whose equity is in foreign currency and thus exposed to foreign exchange rate movements when translated into euro. At the end of 2010, the Group hedged partially its net investments in JPY and USD currency denominated subsidiaries using equivalent currency loans. Hedging relationships are treated according to IAS 39 as effective hedges of a net investment in a foreign subsidiary, which means that the effective portion of foreign exchange effect on these loans is recorded directly in equity. The total non-euro-denominated equity of the Group's foreign subsidiaries was EUR 116.8 million on December 31, 2010 (2009: EUR 100.8 million), of which 12.3% was on Dec. 31 subject to equity hedging (2009: 18.4%). If the currencies linked to Euro based on ERM II (DKK, EEK, LTL and LVL) are excluded, the hedge ratio was 15.6% (2009: 23.4%).

The most relevant non-euro-denominated equities not subject to equity hedging are in HKD-, EEK- and CAD-currencies.

Group Risk Management monitors regularly the amounts of foreign exchange nominated net investments and decides on equity hedging actions accordingly.

Hedging of net investments in foreign subsidiaries

	2010						2009					
	Total net investment (currency million)	Loans used for hedging (currency million)	Total net investment (EUR million)	Loans used for hedging (EUR million)	Hedge rate (%)	Booked in translation difference in equity (EUR million)	Total net investment (currency million)	Loans used for hedging (currency million)	Total net investment (EUR million)	Loans used for hedging (EUR million)	Hedge rate (%)	Booked in translation difference in equity (EUR million)
Non-euro currency												
USD	**37.7**	**18.3**	**28.2**	**13.7**	**48.4**	**-1.1**	34.1	21.4	23.7	14.9	62.8	0.6
JPY	**138.7**	**75.0**	**1.3**	**0.7**	**54.1**	**-0.1**	127.8	75.0	1.0	0.6	58.7	0.0
NOK	**7.2**		**0.9**			**-0.1**	16.3	16.0	2.0	1.9	98.4	-0.1
AUD	**5.5**		**4.2**			**-0.2**	5.6	2.0	3.5	1.2	35.7	-0.3
Other			**82.2**			**0.0**			70.7			0.0
Total			**116.8**	**14.4**	**12.3**	**-1.5**			100.8	18.6	18.4	0.3

Exposure to foreign exchange risk from transactions

Foreign currency exposure in companies whose reporting currency is other than the currency under analysis. The connections possibly prevailing between different currencies are not take into account, e.g. US dollar and Hong Kong dollar are considered as separate currencies in this analysis.

Balance sheet items include both Group's external and internal items. Income statement items do not include internal items to the extent reported currency is foreign currency for both transaction parties and hence does not expose the Group to foreign exchange risk.

The positions of other currencies are smaller.

			2010			2009
EUR million	USD	CNY	EUR	USD	CNY	EUR
Foreign currency trade receivables Dec. 31.	**9.0**	**0.1**	**16.6**	10.5	0.1	14.0
Foreign currency trade payables Dec. 31.	**-16.4**	**-2.8**	**-2.2**	-9.6	-3.0	-2.6
Foreign currency loans receivable Dec. 31.	**11.0**	**0.3**	**0.1**	8.7	1.0	0.1
Foreign currency loans payable Dec. 31. [1]	**-20.3**		**-5.9**	-14.9		-6.7
Foreign currency cash and cash equivalents Dec. 31.	**6.6**	**0.6**	**0.9**	7.3	0.2	0.9
Net exposure in balance sheet Dec. 31.	**-10.1**	**-1.8**	**9.6**	2.1	-1.6	5.8
Actual foreign currency sales Jan. 1 - Dec. 31	**52.1**	**1.0**	**0.7**	38.7	1.2	0.9
Actual foreign currency expenses Jan. 1 - Dec. 31	**-56.8**	**-26.4**	**-14.7**	-42.4	-16.0	-14.3
Net exposure in the income statement Jan. 1 - Dec. 31	**-4.7**	**-25.4**	**-14.0**	-3.7	-14.8	-13.4
Currency derivatives Dec. 31. [2]	**9.0**			7.1		
Net exposure	**-5.8**	**-27.1**	**-4.5**	5.5	-16.4	-7.6

1) Excluding loans used for hedging net investments in foreign subsidiaries.

2) Currency derivatives are used to hedge a portion of purchases in foreign currency.

Sensitivity analysis

The effect of a 10% weakening of USD, HKD, CNY, AUD, NOK, CAD, SEK and RUB (against euro) in euro based on the following assumptions and factors:

- The sensitivity analysis is based on change of value in a single analyzed currency and assumes other variables (including values of other currencies) to remain unchanged. The connections possibly prevailing between some currencies are not taken into account.
- The sensitivity is analyzed against income statement and balance sheet conversion rates prevailing at Dec. 31.
- The analysis includes the effect of income statement transactions made in the analyzed currency between Jan. 1 and Dec. 31 in Group companies, whose reporting currency is other than the analyzed currency (so called transaction impact) as well as in Group companies, whose reporting currency equals to the analyzed currency (so called translation impact). The analysis takes into account the currency forward contracts in place at Dec. 31. The sensitivity analysis of income statement transactions excludes Group's internal items as these net out.
- The sensitivity analysis includes the effect of valuation of the most significant financial assets and liabilities included in the balance sheet as per Dec. 31 in companies whose reporting currency is other than the analyzed currency. The balance sheet items include both Group's external and internal items. Hedging of net investments as per Dec. 31 is taken into account in the analysis of the balance sheet items.
- The sensitivity analysis includes the effect of the translation of subsidiaries' equity as per Dec. 31 in subsidiaries, whose reporting currency equals to the analyzed currency, taking into account the hedging of the net investment as per Dec. 31.
- The tax effect included in the sensitivity analysis is calculated by using the Group's total effective tax rate. Translation differences in equity do not include any tax effect.
- On average, the effect of other currencies is smaller than the ones analyzed here.

								2010								2009
EUR million	USD	HKD	CNY	AUD	NOK	CAD	SEK	RUB	USD	HKD	CNY	AUD	NOK	CAD	SEK	RUB
Operating profit	**-0.6**	**0.1**	**2.8**	**-0.4**	**-0.7**	**-0.8**	**-0.4**	**-1.9**	-0.8	0.5	1.8	-0.3	-0.7	-0.7	-0.7	-1.7
Net income (net of tax)	**-0.3**	**0.1**	**1.9**	**-0.4**	**-0.8**	**-0.6**	**-0.3**	**-1.3**	-0.6	0.4	1.2	-0.4	-0.9	-0.5	-0.6	-1.2
Equity (net of tax) [3]	**-1.9**	**-2.2**	**0.0**	**-0.4**	**-0.1**	**-1.0**	**-0.5**	**-0.7**	-1.1	-1.6	0.0	-0.3	-0.1	-1.0	-0.3	-0.5

3) Without the effect of net income.

A 10% strengthening would have the equal but opposite effect with exception of USD, where 10% strengthening would have EUR 0.6 million larger opposite effect on operating profit and net income than stated above as a result of the used hedging instruments.

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2. Interest rate risk
The Group has interest-bearing borrowings and interest rate swaps, where the interest is variable and connected to market rates. Consequently the Group is exposed to changes in market interest rates.

	2010		2009	
EUR million	Non-current	Current	Non-current	Current
Loans from financial institutions with fixed interest rate	**0.1**	**0.1**	0.1	0.1
Pension loans with fixed interest rate	**6.6**	**4.9**	8.2	3.8
Loans from financial institutions with variable interest rate	**18.3**	**67.8**	27.2	49.8
Commercial paper program with variable interest rate		**21.0**		19.0

The Group's borrowings are mainly in euros and US dollars, which have a substantial contribution to the overall interest rate risk. The Group's borrowings are almost fully flowing through the Group's parent company, which is consequently managing the Group's overall interest rate risk. The Group's interest rate risk is monitored as cash flow and fair value risks. Group Risk Management analyzes regularly the interest rate risk and agree on actions if needed. These actions may include changing the currency split of the external loan portfolio, selection between different sources of loan financing, changing the interest rate periods as well as entering into derivative financial instruments available to manage the interest rate risk. The Group does not have a fixed policy on how interest rates are fixed to different time periods, but this is decided based on prevailing market conditions.

Most of the Group's interest-bearing liabilities have an interest period of less than one year. In order to manage the interest rate risk and to take benefit of favorable interest rate levels, EUR 11.8 million of the Group's loans payable is connected to fixed interests or interest periods of 12-month or longer (2009: EUR 12.2 million). In 2010, the interest rate risk was spread by taking pension loans with fixed interest rates.

The interest rate risk may also be managed by using interest rate swaps, where the Group pays a fixed rate and receives variable rate. As of Dec. 31 the Group had 12 interest rate swaps, which were designated and effective as cash flow hedges in accordance with IAS 39. The market price based fair values of interest rate derivatives are received from issuer bank. In 2010, interest rate derivatives had an equity effect of EUR -1.2 million (2009: EUR -0.1 million) and no income statement effect (2009: EUR 0.0 million). Fair values of interest rate derivatives are summarized under section 4. Derivatives.

Sensitivity analysis
The effect of liabilities with variable interest rate and interest rate swaps on net income and equity if there was a 1% increase in interest rates. The sensitivity analysis is based on following assumptions and factors:
- All other variables, in particular foreign exchange rates, are assumed to remain unchanged.
- The sensitivity is analyzed against interest rates applicable on Dec. 31.
- The sensitivity analysis includes interest rate swaps and liabilities and with variable interest rate in force on Dec. 31.
- The sensitivity analysis of interest rate swaps is based on calculations received from the bank.
- The tax effect included in the sensitivity analysis is calculated by using the Group's total effective tax rate.

	2010		2009	
EUR million	Net income (net of tax)	Equity (net of tax) [4]	Net income (net of tax)	Equity (net of tax) [4]
Loans from financial institutions with variable interest rate	**-0.6**	**1.0**	-0.6	1.2
Commercial paper program with variable interest rate	**-0.1**		-0.1	

4) Without the effect of net income.

3. Other market price risks
The Group purchases some raw-materials, which are priced on global financial markets. These include commodity metals such as copper, zinc and lead, and some plastics. The value of these purchases is still relatively low and market price risk management actions are done in each manufacturing unit locally. Group Risk Management also monitors the development of these raw-material prices. No commodity hedging is currently carried out.

The Group does not own any such publicly traded shares or securities which would be subject to market price risks. The Group's investments in available-for-sale financial instruments are insignificant and consist of real estate investments and other unlisted shares for which no clear market price exists.

4. Derivatives

	2010				2009		
EUR million	Foreign currency options	Foreign currency forwards	Interest rate swaps	Total	Foreign currency options	Interest rate swaps	Total
Nominal amount	**9.0**	**0.1**	**86.3**	**95.4**	7.1	98.0	105.0
Positive fair values	**0.0**	**0.0**		**0.0**	0.1	0.0	0.2
Negative fair values	**0.3**	**0.0**	**2.0**	**2.3**		0.5	0.5
Net fair values	**-0.3**	**0.0**	**-2.0**	**-2.3**	0.1	-0.5	-0.3

All foreign currency forwards and options mature within the next 12 months. Interest rate swaps, which are effective and mature between 2011 and 2013, generate following non-discounted cash flows, calculated based on interest rates and foreign exchange rates prevailing as per Dec. 31: EUR -0.9 million during year 2011, EUR -1.2 million during year 2012 and EUR -1.0 million during year 2013.

LIQUIDITY RISK
Generally, the seasonality of the Group's cash flow is fairly predictable and Group's finance management monitors Group's liquidity position using the cash pooling system as well as monthly cash flow and liquidity reporting.

Group's finance management raises most of the Group's interest-bearing debt centrally. The Group seeks to reduce liquidity and refinancing risks with balanced maturity profile of loans as well as by keeping sufficient amount of credit lines available. As from 2007, the flexibility of the Group's liquidity management has been increased with a EUR 25 million domestic commercial paper program, which together with Group's credit limits is utilized to balance the seasonality of the Group's cash flow. The size and maturity of issued commercial papers is decided by the CFO and Group Funding Manager, based on forecasted cash flows, status of commercial paper markets and applicable interest rates. The renewal of commercial papers upon maturity creates certain liquidity risk, which is managed by maintaining sufficient other liquidity reserves available at the maturity dates.

The domestic commercial paper market normalized during 2010 and the situation improved significantly. The commercial paper program was used actively as part of Group funding and competitively priced debt was acquired through this market.

In year 2010 the Group continued to utilize the possibility of pension contribution relending in order to increase the flexibility of the liquidity and spread the interest risk. The Group also continued to expand the application of the international cash pooling system.

Group's loan facilities, which were renewed in 2006, include ordinary loan covenants, which set conditions among other things on corporate restructurings, continuation of business, disposal of assets and external obligations as well as the Group's financial indicators like investments, equity-to-assets and gearing ratios, net debt to EBITDA ratio and cash flow to total debt service ratio. Increased sales in 2010 and consequently increased working capital levels have put pressure on the cash flow covenant. The Board and Group management are monitoring the fulfillment of the bank covenants on a monthly

basis. In the end of 2010, the Group negotiated with its lenders waivers and waiver commitments for the cash flow covenant for the first quarter of 2011. The Group does not foresee that the bank covenants would create exposures to its liquidity in near future.

The Group's credit limits not drawn at December 31, 2010 were EUR 19.8 million (2009: EUR 46.6 million). Major part of the Group's credit limits is part of the Group's loan facilities renewed in 2006 and maturing in 2013. Group's domestic commercial paper program not sold at December 31, 2010 was EUR 4.0 million (2009: EUR 6.0 million).

Maturity of the group's financial liabilities

The following are the contractual maturities of financial liabilities, including interest payments.

2010 EUR million	Carrying value	Financial liabilities [2]	Contractual cash flows	2011	2012	2013	2014	2015	Later	Total
Interest-bearing liabilities										
Loans from financial institutions [1]	86.3	86.3	87.6	68.8	10.4	8.3	0.0	0.0		87.6
Pension loans	11.5	11.5	12.0	5.2	4.6	2.1	0.1			12.0
Commercial paper program	21.0	21.0	21.0	21.0						21.0
Finance lease	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.0		0.4
Other interest-bearing liabilities [3]	0.2	0.2	0.0	0.0						0.0
Non-interest-bearing liabilities										
Trade and other non-interest-bearing payables	43.0	31.8	31.8	27.5	1.0	2.0	0.6	0.7		31.8
Derivatives, net settled [4]										
Liabilities (payments)										
Interest rate derivatives, hedge accounted	2.0	2.0	3.1	0.9	1.2	1.0				3.1
Currency derivatives, non-hedge accounted	0.3	0.3	0.0	0.0						0.1
Assets (receipts)										
Currency derivatives, non-hedge accounted	0.0	0.0	0.0	0.0						0.0
Total	164.6	153.5	156.0	123.7	17.3	13.5	0.9	0.7		156.1

2009 EUR million	Carrying value	Financial liabilities [2]	Contractual cash flows	2010	2011	2012	2013	2014	Later	Total
Interest-bearing liabilities										
Loans from financial institutions	77.2	77.2	78.7	50.7	10.1	9.9	8.0			78.7
Pension loans	12.0	12.0	12.5	4.1	4.0	3.4	1.0			12.5
Commercial paper program	19.0	19.0	19.0	19.0						19.0
Finance lease	0.1	0.1	0.1	0.1						0.1
Other interest-bearing liabilities [3]	0.3	0.3	0.0	0.0						0.0
Non-interest-bearing liabilities										
Trade and other non-interest-bearing payables	32.4	27.2	27.2	24.1	0.6	0.6	0.6	0.6	0.8	27.2
Derivatives, net settled [4]										
Liabilities (payments)										
Interest rate derivatives, hedge accounted	0.5	0.5	4.4	1.0	1.0	1.3	1.1			4.4
Interest rate derivatives, non-hedge accounted	0.0	0.0	0.0	0.0						0.0
Assets (receipts)										
Currency derivatives, non-hedge accounted	0.1	0.1	0.1	0.1						0.1
Total	141.3	136.1	141.8	98.9	15.7	15.2	10.6	0.6	0.8	141.8

1) EUR 65.9 million of the interest-bearing liabilities maturing in 2011 is part of Group's revolving credit facilities, which mature in 2013 or later.

2) The proportion of the carrying values which are classified as financial liabilities according to IAS 39.

3) Maturity of interest payable has been presented in the contractual cash flows of loans and commercial paper program.

4) Cash flows of interest rate and currency derivatives are calculated based on interest and foreign exchange rates as per Dec. 31

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CREDIT AND DEFAULT RISK

The Group followed actively credit and default risks associated with customers and other counterparties in 2010. The Group's credit and default risk portfolio did not significantly change during the course of the year. The proportional amount of Group's trade receivables, which are past due date, stayed on the same level as in 2009. Credit loss net allowances for trade receivables decreased moderately from year 2009 to year 2010.

The Group's accounts receivables are generated by a large number of customers worldwide. Consequently, the credit risk is spread against multiple counterparties. The credit risk management is allocated to each operative business unit. Before providing credit to any new customer, background checks are carried out. Cash, advance payments and letters of credit are also applied with new and existing customers. Customer specific credit limits and financial situation of the existing credit customers are monitored locally in each business unit. Customers' payment behavior is monitored regularly and delays in payments may trigger payment reminders, stopping the shipments, requirements for advance payments for future shipments and eventually legal collection procedures. In significant cases, business units consult with the CFO before final decisions. In exceptional cases, payment terms may be renegotiated.

Group Risk Management manages most of the credit and default risk related to financial instruments. It seeks to reduce these risks by limiting the counterparties to banks, which have a good credit standing. Majority of the Group's bank deposits and forward contracts have been made with the Group's leading banks (Nordea Bank Finland Plc and Pohjola Bank Plc), whose credit ratings are Aa2 (Moody's) and AA- (Standard&Poor's) for both. Group's all investments related to liquidity management are made in liquid instruments with low credit risk. For instance, commercial paper investments are not made.

The Group's maximum credit and default risk is the carrying amount of all financial assets which are disclosed in note 23.

For information on allowance for trade receivables, see note 17. An allowance of trade receivables is made when there is objective evidence (such as significant overdue of receivables and unsuccessful dunning attempts or known financial difficulties and thus increased probability of customer insolvency) that the Group will not be able to collect all amounts due according to the original terms of the receivables. The assessment and decision for allowances is done locally in each business unit on case-by-case basis.

No allowance is made on overdue trade receivables from customers, whose solvency is considered solid.

Analysis of trade receivables that where due but not impaired

EUR million	2010	2009
Neither past due or impaired	**39.7**	30.4
Past due but not impaired		
Less than 1 month	**4.4**	3.1
1–3 months	**2.3**	3.1
4–5 months	**1.3**	1.1
6–7 months	**1.3**	0.5
Over 7 months	**1.7**	0.7
Total	**50.8**	38.9

CAPITAL MANAGEMENT

The objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and to maximize shareholder value. Therefore, the Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group manages its capital structure and makes adjustments to it taking into account changes in economic conditions and requirements of strategy implementation. To maintain or develop the capital structure, the Group may adjust the dividend payments and repayments of capital to shareholders by buying back shares, issue new shares and/or increase/decrease the amount of borrowings.

The Group monitors the effectiveness of its capital management using gearing ratio, return on equity, average interest rate on net interest-bearing debt, net interest-bearing debt to EBITDA and equity-to-assets ratio. The Group objective for capital management is to keep:

1. Gearing ratio below 150%,
2. Return on equity clearly above the average interest rate on net interest-bearing debt,
3. Net interest-bearing debt to EBITDA below 4.0, and
4. Equity-to-assets ratio above 33%.

For definitions of key figures, see page 81.

EUR million	2010	2009
Non-current interest-bearing liabilities	**27.1**	36.0
Current interest-bearing liabilities	**94.6**	73.1
Cash and cash equivalents	**27.9**	29.0
Interest-bearing receivables	**1.8**	0.7
Net interest-bearing debt at the end of the period	**92.0**	79.4
Total equity Dec. 31	**129.2**	111.7
Debt-to-equity (gearing) ratio, %	**71.2**	71.1
Net profit for the period	**20.7**	14.3
Total equity Jan. 1	**111.7**	103.7
Total equity Dec. 31	**129.2**	111.7
Total equity (average for the period)	**120.4**	107.7
Return on equity, %	**17.2**	13.3
Net interest expense	**3.1**	3.5
Net interest-bearing debt Dec. 31	**92.0**	79.4
Average interest rate on net interest-bearing debt, %	**3.4**	4.4
Net interest-bearing debt at the end of the period	**92.0**	79.4
Operating profit before depreciation and impairments (EBITDA)	**37.4**	28.9
Net interest-bearing debt to EBITDA - ratio	**2.5**	2.7
Total equity	**129.2**	111.7
Total shareholders' equity and liabilities - advances received	**303.6**	261.1
Equity-to-assets ratio, %	**42.6**	42.8

In 2010, the Group met its objectives for capital management:

1. Gearing ratio was 71.2% (2009: 71.1%).
2. Return on equity, 17.2% (2009: 13.3%), was clearly higher than the average interest rate on net interest-bearing debt, which was 3.4% (2009: 4.4%).
3. Net interest-bearing debt to EBITDA was 2.5 (2009: 2.7).
4. Equity-to-assets ratio was 42.6% (2009: 42.8%).

The Group capital structure is reviewed by the Board annually. The Group is not subject to externally imposed capital requirements other than the financial covenants set by the banks. For more information on financial covenants set by the banks, see section on liquidity risks.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

23. FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES AND FAIR VALUES

EUR million	2010 Carrying value	2010 Financial assets and liabilities*	2010 Fair value of financial assets and liabilities*	2009 Carrying value	2009 Financial assets and liabilities*	2009 Fair value of financial assets and liabilities*	Note
FINANCIAL ASSETS							
Loans and receivables							
Non-current financial assets							
Loan receivables	**0.1**	**0.1**	**0.1**	0.1	0.1	0.1	16
Other interest-bearing receivables	**1.3**	**1.3**	**1.3**				16
Non-interest-bearing receivables	**0.2**	**0.2**	**0.2**	0.2	0.2	0.2	16
Current financial assets							
Cash and cash equivalents	**27.9**	**27.9**	**27.9**	29.0	29.0	29.0	18
Loan receivables	**0.0**	**0.0**	**0.0**	0.1	0.1	0.1	16
Trade and other non-interest-bearing receivables	**55.3**	**53.9**	**53.9**	41.9	41.0	41.0	16
Available-for-sale financial assets							
Available-for-sale investments	**0.3**	**0.3**	**0.3**	0.3	0.3	0.3	15
Financial assets at fair value through income statement - held-for-trading							
Currency derivatives - non-hedge accounted	**0.0**	**0.0**	**0.0**	0.1	0.1	0.1	16, 22
Hedge accounted derivatives							
Interest rate derivatives - hedge accounted				0.0	0.0	0.0	16
FINANCIAL LIABILITIES							
Financial liabilities at fair value through income statement - held-for-trading							
Currency derivatives - non-hedge accounted	**0.3**	**0.3**	**0.3**				22, 24
Interest rate derivatives - non-hedge accounted				0.0	0.0	0.0	22, 24
Hedge accounted derivatives							
Interest rate derivatives - hedge accounted	**2.0**	**2.0**	**2.0**	0.5	0.5	0.5	22, 24
Financial liabilities measured at amortized cost							
Non-current financial liabilities							
Loans from financial institutions	**18.4**	**18.4**	**18.4**	27.3	27.3	27.3	24
Pension loans	**6.6**	**6.6**	**6.7**	8.2	8.2	8.1	24
Finance lease	**0.3**	**0.3**	**0.3**	0.0	0.0	0.0	24
Other non-interest-bearing liabilities	**4.3**	**4.3**	**4.3**	3.1	3.1	3.1	25
Current financial liabilities							
Loans from financial institutions	**67.9**	**67.9**	**67.9**	49.9	49.9	49.9	24
Commercial paper program	**21.0**	**21.0**	**21.0**	19.0	19.0	19.0	24
Pension loans	**4.9**	**4.9**	**4.9**	3.8	3.8	3.8	24
Finance lease	**0.1**	**0.1**	**0.1**	0.1	0.1	0.1	24
Other interest-bearing liabilities	**0.2**	**0.2**	**0.2**	0.3	0.3	0.3	24
Trade and other non-interest-bearing payables	**38.6**	**27.5**	**27.5**	29.3	19.7	19.7	25

* The proportion of the carrying value which is classified as financial assets and liabilities according to IAS 39.

FAIR VALUE HIERARCHY OF THE FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

				2010				2009
EUR million	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
FINANCIAL ASSETS AT FAIR VALUE								
Available-for-sale financial assets								
Available-for-sale investments	**0.3**			**0.3**	0.3			0.3
Financial assets at fair value through income statement - held-for-trading								
Currency derivatives - non-hedge accounted	**0.0**		**0.0**		0.1		0.1	
Hedge accounted derivatives								
Interest rate derivatives - hedge accounted					0.0		0.0	
Total	**0.3**		**0.0**	**0.3**	0.4		0.1	0.3
FINANCIAL LIABILITIES AT FAIR VALUE								
Financial liabilities at fair value through income statement - held-for-trading								
Currency derivatives - non-hedge accounted	**0.3**		**0.3**					
Interest rate derivatives - non-hedge accounted					0.0		0.0	
Hedge accounted derivatives								
Interest rate derivatives - hedge accounted	**2.0**		**2.0**		0.5		0.5	
Total	**2.3**		**2.3**		0.5		0.5	

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy levels

The fair values of the financial assets and liabilities on the hierarchy level 1 are based on quoted market prices of similar financial instruments traded in an active market. Currently there are no financial instruments on level 1.

The fair values of the financial assets and liabilities on the hierarchy level 2 are based on other price information than quoted market prices for a significant part of the valuation. This information is supported by observable market inputs either directly (i.e. prices) or indirectly (i.e. derived from prices).

The fair values of the financial assets and liabilities on the hierarchy level 3 are calculated using a valuation technique based on assumptions that are not supported by available observable market data. For example management estimates are utilized in generally accepted valuation models of the financial instruments on the Level 3.

The fair value hierarchy level, into which the entire financial asset or liability is classified, is determined based on the lowest-hierarchy-level information being significant for the valuation of that particular financial asset or liability. The significance of the information is estimated considering the financial asset or liability in its entirety.

No significant transfers between the hierarchy levels took place during the financial period.

Available-for-sale investments

Available-for-sale investments comprise of unlisted shares that are measured at fair value. Certain unlisted shares for which fair values cannot be measured reliably are measured at cost less possible impairment.

Derivatives

All derivatives are initially recognized at fair value on the date derivative contract is entered into, and are subsequently remeasured at fair value on each balance sheet date. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

Finance leases

The fair value of finance lease liabilities corresponds to their book value. The fair value of finance leases is based on discounted future cash flows. The discount rate used corresponds to that applied to similar finance leases.

Current financial assets and liabilities

Due to their short maturity, the fair value of current financial assets and liabilities is regarded as corresponding to their original carrying amount.

Non-current financial assets

The fair value of non-current financial assets is based on discounted future cash flows. The discount rate used corresponds to the market rate on the balance sheet date.

Non-current interest-bearing liabilities

On December 31, 2010, 77.5% of non-current loans based on floating rates was connected to one-month euribor, libor or similar and the rest to maximum three-month euribor, libor or similar (2009: 74.8%). Therefore, the fair value of non-current loans based on floating rates is regarded as equaling their book value. A part of non-current loans on floating rates is hedged with separate interest rate derivatives which are described in Note 22. The fair value of non-current loans on fixed rates is based on discounted future cash flows. The discount rate used corresponds to the market rate on the balance sheet date.

Non-current non-interest-bearing liabilities

Contingent considerations of business combinations and other acquisitions are recognized at fair value on the date of acquisition. Determination of fair values is based on discounted future cash flows.

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24. INTEREST-BEARING LIABILITIES

EUR million	2010 Average interest rate, % [1]	2010	2009
Non-current interest-bearing liabilities			
Loans from financial institutions	1.59	**18.4**	27.3
Pension loans	2.23	**6.6**	8.2
Finance lease	4.73	**0.3**	0.0
Derivatives		**1.8**	0.4
Current interest-bearing liabilities			
Loans from financial institutions	1.94	**57.9**	39.1
Current portion of non-current loans from financial institututions	1.55	**10.0**	10.8
Commercial paper program	1.69	**21.0**	19.0
Pension loans	2.20	**4.9**	3.8
Finance lease	4.75	**0.1**	0.1
Derivatives		**0.4**	0.0
Other current liabilities		**0.2**	0.3
Total		**121.7**	109.1

1) Some of the loans are subject to interest rate swaps. Average interest rates are calculated without the effect of the interest rate swaps. More information in note 22.

INTEREST-BEARING LIABILITIES BY CURRENCY

	2010		2009	
EUR million	Non-current	Current	Non-current	Current
Loans from financial institutions				
EUR	**9.4**	**24.7**	14.6	14.9
USD	**8.8**	**29.6**	12.7	24.0
NOK		**7.0**		4.8
GBP	**0.1**	**0.6**		
AUD	**0.1**	**1.6**	0.1	1.3
DKK		**1.4**		2.2
ZAR		**0.4**		0.5
JPY		**0.7**		0.6
CHF		**2.0**		1.7
Pension loans and commercial paper program				
EUR	**6.6**	**25.9**	8.2	22.8
Finance lease				
GBP	**0.1**	**0.1**		
NOK	**0.1**		0.0	0.0
Other	**0.0**	**0.0**	0.0	0.0
Total	**25.1**	**93.9**	35.5	72.8

FINANCE LEASE

	2010		2009	
EUR million	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	**0.1**	**0.1**	0.1	0.1
1–3 years	**0.2**	**0.2**	0.0	0.0
3–5 years	**0.1**	**0.1**		
Later than 5 years				
Total minimum lease payments	**0.4**	**0.4**	0.1	0.1
Less future finance charges	**0.0**		0.0	
Present value of minimum lease payments	**0.4**	**0.4**	0.1	0.1

Finance lease contracts are for machinery and equipment and other tangible assets, and are not individually significant.

25. NON-INTEREST-BEARING LIABILITIES

EUR million	2010	2009
Non-current non-interest-bearing liabilities		
Other non-current liabilities	**4.3**	3.1
Current non-interest-bearing liabilities		
Advances received	**0.5**	0.2
Trade payables	**19.9**	12.6
Accrued employee-related expenses	**9.5**	8.0
VAT payable	**1.6**	1.6
Other accrued expenses and deferred income	**5.4**	4.2
Other current liabilities	**1.8**	2.8
Total	**43.0**	32.4

Other non-current non-interest-bearing liabilities include contingent considerations of business combinations and other acquisitions on the date of acquisition. Contingent considerations of business combinations are recognized at fair value. Determination of fair values is based on discounted future cash flows.

Due to their short maturity, the fair value of current non-interest-bearing liabilities is regarded as corresponding to their book value.

26. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

EUR million	2010	2009
On own behalf		
Business mortgages	**16.1**	16.1
Guarantees	**0.1**	0.1
Total	**16.2**	16.2

The mortgages given as security for own commitments include a business mortgage of the parent company of EUR 16.1 million. Since Normark Sport Finland Oy, a 100% owned subsidiary of Rapala VMC Corporation, is the legal shareholder of the distribution joint venture with Shimano, the parent company has guaranteed to Shimano the fulfillment of its subsidiary's obligations related to the joint venture.

Group's lease commitments are presented in note 27.

DISPUTES AND LITIGATIONS

In 2008, the Group appealed to the Administrative Court against the Finnish tax authorities' decision made in 2007, based on which the parent company's taxation has been amended since 2004. The appeal has not yet been processed. The taxes and the penalties for delayed payments levied by the tax authorities have been fully paid and booked. The cumulative disputed taxes totaled EUR 4.5 million on December 31, 2010.

Group's subsidiary has been sued in the US on alleged infringement of two patents, that the Group has denied. Due to the ongoing court proceedings it is not possible to give any prediction or forecast of the likely outcome of the case. Based on the current estimates and the fact that the Group is fully indemnified by a third party against any expenses or payments resulting from the claim against one of the two patents, the case is not expected to have any material financial impact to the Group Financial Statements. The Financial Statements do not include any provisions related to these claims.

The Group's management does not have knowledge of any other open disputes or litigations, which would have a significant impact on the Company's financial position.

27. LEASE CONTRACTS

THE GROUP AS A LESSEE

Future minimum rental payable under non-cancellable operating lease commitments

EUR million	2010	2009
Within one year	**5.3**	4.5
1–3 years	**2.7**	4.1
3–5 years	**0.6**	0.8
Later than 5 years	**0.6**	0.8
Total	**9.3**	10.3

The Group leases offices, warehouses and manufacturing facilities under several non-cancellable operating leases. The leases have varying terms and lengths, some of which may contain renewal options.

THE GROUP AS A LESSOR

Future minimum rental receivable under non-cancellable operating leases

EUR million	2010	2009
Within one year	**0.1**	0.1
1–3 years	**0.1**	0.0
Total	**0.2**	0.1

Some of the offices, warehouses and manufacturing facilities that are currently not used by the Group are leased to external parties. The leases have varying terms and lenghts, some of which may contain renewal options.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

28. RELATED PARTY TRANSACTIONS

Subsidiaries owned directly or indirectly by the parent company as well as foreign branches are listed in note 33. Related party transactions between Group companies have been eliminated.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

EUR million	Purchases	Paid rents	Other expenses	Receiv-ables	Payables
2010					
Associated company Lanimo Oü	0.1			0.0	
Entity with significant influence over the Group [1]		0.2	0.1	0.0	
Management		0.3		0.0	0.1
2009					
Associated company Lanimo Oü	0.1			0.0	
Entity with significant influence over the Group [1]		0.2	0.1	0.0	
Management		0.3	0.0	0.0	0.0

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

EMPLOYEE BENEFITS FOR TOP MANAGEMENT

EUR million	2010	2009
Salaries and other short-term employee benefits	**-2.9**	-2.6
Costs for option programs to be settled in cash	**0.0**	0.0
Costs for share rewards	**0.1**	-0.1
Total	**-2.9**	-2.7

Top management consists of members of the Board of Directors, CEO and other members of the Executive Committee. In 2010 one new member was appointed to the Executive Committee and one member resigned.

On December 31, 2010, the members of the Board and the Executive Committee held directly a total of 1 773 843 (on December 31, 2009: 1 795 319) Company shares and indirectly through a controlled corporation 1 130 000 (1 160 000) shares. Top management owned approximately 7.4% (7.5%) of the issued share capital and voting rights of Rapala on December 31, 2010.

In 2010 and 2009, no options were granted to top management. On December 31, 2010, top management held 137 500 options which were also exercisable (on December 31, 2009, 291 250 options of which 213 750 options were exercisable). The option scheme principles are the same for top management as for other employees.

For more information on share-based payments, see note 29 and the section 'Shares and Shareholders'. Details of top management shareholdings and options are given on pages 96–97.

The Group's business transactions or outstanding balances with top management or close members of their family are presented in the table 'Transactions and balances with related parties'.

EMPLOYEE BENEFITS FOR CHIEF EXECUTIVE OFFICER

EUR million	2010	2009
Salaries and other short-term employee benefits	**-0.5**	-0.4
Costs for option programs to be settled in cash	**0.0**	0.0
Costs for share rewards	**0.0**	0.0
Total	**-0.5**	-0.4

The monthly salary of the CEO is EUR 23 542. CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus accrued for 2010 totaled EUR 153 464 (2009: EUR 109 400). In addition to the mandatory pension insurance, CEO has the right to receive further compensation of EUR 8 400 annually to be placed in a voluntary pension scheme or a similar arrangement. The retirement age and pension of CEO are determined in accordance with the legislation in force. A supplementary pension has not been arranged for the CEO. The Company shall give notice at any time or using 24 months notice period and CEO shall give notice 3 or 6 months prior to terminating the service contract. The term of notice is dependent on the cause for termination of employment. If the service agreement is terminated by the Company without a cause, CEO is entitled to severance compensation corresponding to 24 months' salary (excluding profit bonuses).

EMPLOYEE BENEFITS FOR OTHER MEMBERS OF THE EXECUTIVE COMMITTEE

EUR million	2010	2009
Salaries and other short-term employee benefits	**-2.2**	-2.0
Costs for option programs to be settled in cash	**0.0**	0.0
Costs for share rewards	**0.1**	-0.1
Total	**-2.2**	-2.1

In addition to the monthly salary members of the Executive Committee participate in the Group's senior management bonus scheme. The amount and payment of the bonus requires that the result and cash flow targets are achieved. If the targets are not achieved, payment of bonus is fully at the discretion of the Board of Directors. Bonuses awarded under the scheme are paid in two installments, the first when the audited results for the relevant financial year are known and the second after a predetermined vesting period of a few months, to encourage retention of senior management.

EMPLOYEE BENEFITS FOR BOARD OF DIRECTORS

EUR million	2010	2009
Salaries and other short-term employee benefits	**-0.2**	-0.2
Total	**-0.2**	-0.2

Chairman of the Board is paid an annual remuneration of EUR 60 000 and other Members of the Board of Directors an annual remuneration of EUR 30 000. The members of the Remuneration Committee do not receive further compensation. Members of the Board of Directors are paid a daily travel allowance and reimbursed for travel expenses following the company's traveling compensation principles. Members of the Board of Directors were paid a total of EUR 240 000 for their work on the Board of Directors and the Remuneration Committee in the financial year 2010 (2009: EUR 240 000).

29. SHARE-BASED PAYMENTS

The Group had one share-based payment program in place on December 31, 2010: synthetic option program settled in cash (2006). Share-based payment programs are valued at fair value on the grant date and recognized as an expense in the income statement during the vesting period with a corresponding adjustment to the equity or liability. In the cash settled option program and in the share reward program the liability is revalued at each balance sheet date with changes in fair value recognized in the income statement. The income statement effect of the share-based payment programs is recognized in employee benefit expenses.

On March 31, 2010, the exercise period for the 2004B share option program expired. The 2009 Share Reward Program's expired on December 31, 2010. For more information on share-based payment programs, see section 'Shares and Shareholders'.

GENERAL TERMS AND CONDITIONS OF THE SHARE-BASED PAYMENTS PROGRAMS

	2004B I (expired)	2004B II (expired)	2006A	2006B	2009
Nature of program	Granted share options	Granted share options	Granted synthetic options	Granted synthetic options	Performance share plan
Personnel at the grant date	95	11	113	116	50
Number of options/share rewards granted	453 750	46 250	483 500	495 000	max 200 000
Number of options/share rewards outstanding	0	0	440 000	436 000	max 200 000
Exercise price, EUR [1]	6.09	6.09	6.14	5.95	-
Share price at the grant date, EUR	6.15	6.40	5.93	5.93	4.07
Term of contract	June 8, 2004–Mar. 31, 2010	Feb. 14, 2006–Mar. 31, 2010	Dec. 14, 2006–Mar. 31,2011 [3]	Dec. 14, 2006–Mar. 31,2012 [3]	June 23, 2009–Mar. 15, 2011
Vesting period	June 8, 2004–Mar. 31, 2008	Feb. 14, 2006–Mar. 31, 2008	Dec. 14, 2006–Mar. 31,2009	Dec. 14, 2006–Mar. 31,2010	June 23, 2009–Mar. 15, 2011
Conditions of the agreement	[2]	[2]	[2]	[2]	[2]
Execution	In shares	In shares	In cash [3]	In cash [3]	In shares [4]

1) The exercise price has been reduced by the amount of dividends distributed after the subscription period for option rights has ended and before the commencement of the subscription period for shares. For more details on dividends, see note 31.

2) Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.

3) The share-specific cash value will be determined in accordance with the end price on the test date (i.e. vesting date) or, as the case may be, on an additional test date. End price is the volume weighted average price of the share during the ten trading days before the test date. If at test date the difference between the exercise price and the end price (including the dividend adjustment) is positive, the reward will be paid. If the difference between the exercise price and end price on the test date (including the dividend adjustment) is negative, the end price will be determined again on an additional test date, which is the six, twelve, eighteen and twenty-four months' anniversary of the test date. If the difference between the exercise price and the end price is positive on any of the additional test dates, the reward will be paid and this incentive scheme shall automatically expire.

4) The potential reward from the plan will be based on the Group´s earnings per share (EPS) in 2010. As a general rule, the reward will be paid in shares.

INPUT TO THE MODEL

2010	2004B I (expired)	2004B II (expired)	2006A	2006B
Expected volatility, %	38	18	11	12
Expected life of option at the grant date (years)	5.8	4.1	4.3	5.3
Risk-free interest rate, %	3.74	3.16	0.11	0.56
Estimated forfeit ratio at the grant date, %	10	5	5	7
Fair value of the option at the grant date, EUR	2.61	1.41	1.09	1.34
Option-pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

2009	2004B I	2004B II	2006A	2006B
Expected volatility, %	38	18	14	30
Expected life of option at the grant date (years)	5.8	4.1	4.3	5.3
Risk-free interest rate, %	3.74	3.16	0.58	1.08
Estimated forfeit ratio at the grant date, %	10	5	5	7
Fair value of the option at the grant date, EUR	2.61	1.41	1.09	1.34
Option-pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

The expected volatility has been determined by using the historical volatility of the share price. Period very close to Initial Public Offering, in December 1998, has been excluded from the history, since it is not considered to be qualitative for volatility estimation purposes. The historical volatility is calculated based on the weighted average remaining life of the share options. The expected life of the option is based on historical data. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest.

In 2009 and 2010, no new options were granted. The options exercised in 2010 were synthetic options, and the weighted average share price during the ten trading days before the exercise date was EUR 5.99. No options were exercised in 2009. The weighted average remaining contractual life for the share options outstanding as of December 31, 2010 is 0.25 years (2009: 1.27 years). The exercise price (reduced by the amount of dividends distributed) for options outstanding at the end of the year 2010 was EUR 6.14 (2009: EUR 5.95–6.14).

MOVEMENT IN NUMBER OF OPTIONS AND WEIGHTED AVERAGE EXERCISE PRICES OF OPTIONS DURING THE YEAR

	2010		2009	
	Pcs.	Weighted average exercise price EUR/share	Pcs.	Weighted average exercise price EUR/share
Outstanding Jan. 1	**1 343 500**	**6.06**	1 822 000	6.08
Forfeited during the year	**-34 500**	**6.01**	-21 000	6.05
Expired during the year	**-433 000**	**6.09**	-457 500	5.96
Outstanding Dec. 31	**876 000**	**6.05**	1 343 500	6.06
Exercisable at the end of the year	**876 000**	**6.05**	884 500	6.12

SHARE-BASED PAYMENT RECOGNITION IN THE INCOME STATEMENT

EUR million	2010	2009
Employee benefit expenses		
Share-based payment programs to be settled in shares	**0.1**	-0.1
Option programs to be settled in cash	**-0.1**	-0.2
Social security expense liability for share-based payments	**0.1**	0.0
Deferred taxes	**0.0**	0.0
Total	**0.1**	-0.2

SHARE-BASED PAYMENT RECOGNITION IN THE BALANCE SHEET

EUR million	2010	2009
Assets		
Deferred tax assets	**0.1**	0.1
Equity and liabilities		
Equity	**-0.3**	-0.3
Liabilities from option programs to be settled in cash	**0.3**	0.3
Social security expense liability for share-based payments [1]	**0.0**	0.1

1) Included in current other non-interest-bearing payables.

30. EARNINGS PER SHARE

	2010	2009
Net profit for the period attributable to the equity holders of the Company, EUR million	**18.0**	12.1
Weighted average number of shares, 1000 shares	**39 038**	39 208
Diluted weighted average number of shares, 1000 shares	**39 038**	39 208
Earnings per share, EUR	**0.46**	0.31
Diluted earnings per share, EUR	**0.46**	0.31

For more details on the calculations of earnings per share, see accounting principles for the consolidated accounts page 48.

31. DIVIDEND PER SHARE

The dividend paid for 2009 was EUR 0.19 per share, totaling EUR 7.4 million. A dividend of EUR 0.23 per share, a total of EUR 9.0 million, is proposed for the Annual General Meeting of Shareholders to be held on April 5, 2011. This dividend payable is not reflected in the financial statements for 2010.

32. EVENTS AFTER THE BALANCE SHEET DATE

The Group has no knowledge of any significant events after the balance sheet date that would have a material impact on the financial statements for 2010. Material events after the balance sheet date have been discussed in the Review of the Board of Directors.

33. GROUP COMPANIES

Subsidiaries by geographical area		Country	Group holding %	Nature of activity
Nordic				
Normark Denmark A/S	*	Denmark	100	Distribution
KL-Teho Oy	*	Finland	100	Manufacturing
Marttiini Oy	*	Finland	100	Manufacturing
Normark Sport Finland Oy	*	Finland	100	Distribution
Normark Suomi Oy		Finland	100	Distribution
Peltonen Ski Oy		Finland	90	Manufacturing
Rapala Shimano East Europe Oy	3)	Finland	50	Administration
Rapala VMC Iceland ehf	* 1)	Iceland	100	Distribution
Elbe Normark AS	*	Norway	100	Distribution
Remen Slukfabrikk AS		Norway	100	Administration
Vangen AS		Norway	100	Administration
Normark Scandinavia AB	*	Sweden	100	Distribution
Rest of Europe				
FLLC Normark	1)	Belarus	100	Distribution
Rapala Finance N.V.	*	Belgium	100	Administration
Normark S.r.o.	3)	Czech Republic	50	Distribution
Normark Sport Ltd.		England	100	Administration
Dynamite Baits Ltd.	* 2)	England	100	Manufacturing/Distribution
Marttiini Oü		Estonia	100	Manufacturing
Normark Eesti Oü		Estonia	100	Distribution
Rapala Eesti AS	*	Estonia	100	Manufacturing
Rapala France SAS	*	France	100	Distribution
VMC Péche SA	*	France	100	Manufacturing
Rapala Eurohold Ltd.	*	Hungary	66.6	Distribution
SIA Normark Latvia		Latvia	100	Distribution
Normark UAB		Lithuania	100	Distribution
Rapala B.V.	*	Netherlands	100	Administration
Normark Polska Sp.z.o.o.	*	Poland	100	Distribution
Normark Portugal SA		Portugal	100	Distribution
SC Normark Sport Romania S.r.l.		Romania	66.6	Distribution
OOO Raptech	*	Russia	100	Manufacturing
ZAO Normark	3)	Russia	50	Distribution
Normark Spain SA	*	Spain	100	Distribution
Rapala-Fishco AG	*	Switzerland	100	Distribution
VMC-Water Queen Ukraine	3)	Ukraine	50	Distribution

Subsidiaries by geographical area		Country	Group holding %	Nature of activity
North America				
Normark Inc.		Canada	100	Distribution
NC Holdings Inc.	*	USA	100	Administration
Normark Corporation		USA	100	Distribution
Normark Innovations, Inc.		USA	100	Sourcing/design/ manufacturing
VMC Inc.		USA	100	Distribution
Rest of the World				
Rapala Freetime Australia Pty Ltd.	*	Australia	100	Distribution
Rapala V.M.C. Do Brazil	*	Brazil	100	Distribution
Kentec Gift (Shenzhen) Ltd	1)	China	100	Distribution
Rapala VCM China Co.	*	China	100	Distribution
Rapala VMC (Hong Kong) Ltd	*	Hong Kong	100	Administration/sourcing/ design
Willtech (PRC) Ltd.		Hong Kong	100	Manufacturing
Rapala Japan K.K.	*	Japan	100	Distribution
Rapala VMC (Asia Pacific) Sdn Bhd.	*	Malaysia	100	Distribution
Rapala VMC South-Africa Distributors Pty Ltd.	*	South Africa	70	Distribution
Rapala VMC Korea Co., Ltd	*	South Korea	100	Distribution
Rapala VMC (Thailand) Co., Ltd.	*	Thailand	100	Distribution

Associated companies by geographical area	Country	Group holding %	Nature of activity
Lanimo Oü	Estonia	33.3	Manufacturing

Foreign branches

Rapala VMC (Hong Kong) Ltd., agency in China
Rapala VMC (Hong Kong) Ltd., branch office in Taiwan
Normark S.r.o., branch office in Slovak Republic

1) Established in 2010
2) Acquired in 2010
3) Controlled by Rapala
* Shares owned by the parent company

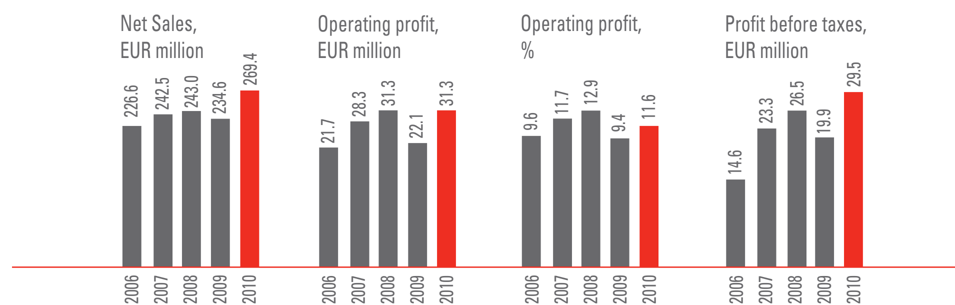
In January 2011, new distribution company was established in Indonesia.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

KEY FINANCIAL FIGURES

SCOPE OF ACTIVITY AND PROFITABILITY

		2006	2007	2008	2009	2010
Net sales	EUR million	226.6	242.5	243.0	234.6	**269.4**
Operating profit before depreciation and impairments	EUR million	28.0	33.8	37.5	28.9	**37.4**
as a percentage of net sales	%	12.4	13.9	15.5	12.3	**13.9**
Operating profit	EUR million	21.7	28.3	31.3	22.1	**31.3**
as a percentage of net sales	%	9.6	11.7	12.9	9.4	**11.6**
Profit before taxes	EUR million	14.6	23.3	26.5	19.9	**29.5**
as a percentage of net sales	%	6.5	9.6	10.9	8.5	**10.9**
Net profit for the period	EUR million	11.0	17.5	19.2	14.3	**20.7**
as a percentage of net sales	%	4.9	7.2	7.9	6.1	**7.7**
Attributable to						
Equity holders of the Company	EUR million	10.8	17.3	17.7	12.1	**18.0**
Non-controlling interest	EUR million	0.2	0.3	1.6	2.2	**2.8**
Capital expenditure	EUR million	13.8	9.3	13.7	7.6	**12.7**
as a percentage of net sales	%	6.1	3.8	5.6	3.2	**4.7**
Research and development expenses	EUR million	1.2	1.6	1.8	2.0	**2.1**
as a percentage of net sales	%	0.5	0.7	0.7	0.9	**0.8**
Net interest-bearing debt at the end of the period	EUR million	99.3	80.2	89.5	79.4	**92.0**
Capital employed at the end of the period	EUR million	180.6	177.1	193.2	191.1	**221.3**
Return on capital employed (ROCE)	%	12.3	15.9	16.9	11.5	**15.2**
Return on equity (ROE)	%	14.1	19.7	19.2	13.3	**17.2**
Equity-to-assets ratio at the end of the period	%	33.4	38.2	38.0	42.8	**42.6**
Debt-to-equity ratio (gearing) at the end of the period	%	122.2	82.8	86.4	71.1	**71.2**
Average personnel for the period	Persons	3 987	4 577	4 143	2 259	**2 317**
Personnel at the end of the period	Persons	3 921	4 356	3 197	2 271	**2 313**



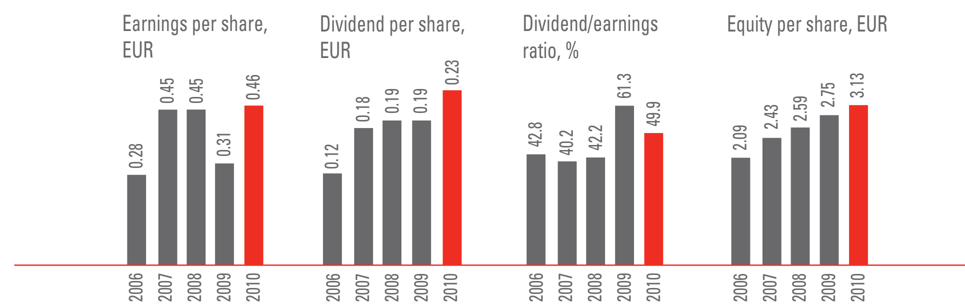
SHARE RELATED KEY FIGURES [1]

		2006	2007	2008	2009	2010
Earnings per share	EUR	0.28	0.45	0.45	0.31	**0.46**
Fully diluted earnings per share	EUR	0.28	0.45	0.45	0.31	**0.46**
Equity per share	EUR	2.09	2.43	2.59	2.75	**3.13**
Dividend per share [2]	EUR	0.12	0.18	0.19	0.19	**0.23**
Dividend/earnings ratio [2]	%	42.8	40.2	42.2	61.3	**49.9**
Effective dividend yield [2]	%	1.94	3.24	5.46	3.82	**3.35**
Price/earnings ratio		22.1	12.5	7.8	16.1	**14.9**
Share price at the end of the period	EUR	6.19	5.55	3.48	4.97	**6.86**
Lowest share price	EUR	5.60	5.40	2.95	3.50	**4.80**
Highest share price	EUR	6.75	6.27	5.65	5.16	**6.86**
Average share price	EUR	6.26	5.82	4.21	4.46	**5.75**
Number of shares traded	Shares	12 468 161	8 684 433	4 144 626	3 138 597	**4 051 489**
Number of shares traded of average number of shares	%	32.33	22.51	10.52	8.01	**10.38**
Share capital	EUR million	3.5	3.6	3.6	3.6	**3.6**
Dividend for the period [2]	EUR million	4.6	6.9	7.5	7.4	**9.0**
Year end market capitalization [3]	EUR million	238.8	219.3	136.6	194.5	**267.0**
Number of shares at the end of the period excluding own shares [3]	1000 shares	38 576	39 468	39 256	39 128	**38 928**
Weighted average number of shares [3]	1000 shares	38 565	38 781	39 403	39 208	**39 038**
Fully diluted number of shares at the end of the period [3]	1000 shares	38 620	39 468	39 256	39 128	**38 928**
Fully diluted weighted average number of shares [3]	1000 shares	38 609	38 781	39 403	39 208	**39 038**

1) In 2007, new restricted shares (RAP1VN0107) granted their holders the same rights as the old shares (RAP1V), except that these new shares did not give right to dividend paid from financial year 2007 and there was a lock-up period of 12 months. The new class of shares was combined to the old class of shares on October 24, 2008 when the difference regarding the right to dividend between the classes ended. For more details on RAP1VN0107 shares and its effect on share related key figures of 2007, see Annual Report 2007.

2) Year 2010 board proposal.

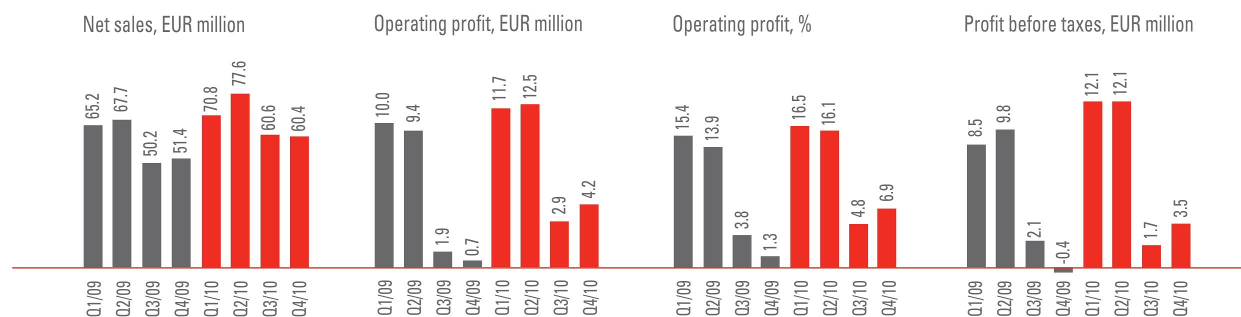
3) Excluding own shares.



KEY FIGURES BY QUARTER

		Q1/09	Q2/09	Q3/09	Q4/09	Q1/10	Q2/10	Q3/10	Q4/10
Net sales	EUR million	65.2	67.7	50.2	51.4	**70.8**	**77.6**	**60.6**	**60.4**
Operating profit before depreciation and impairments	EUR million	11.6	11.5	3.3	2.5	**13.1**	**14.1**	**4.5**	**5.7**
as a percentage of net sales	%	17.7	17.1	6.6	4.8	**18.6**	**18.2**	**7.4**	**9.5**
Operating profit	EUR million	10.0	9.4	1.9	0.7	**11.7**	**12.5**	**2.9**	**4.2**
as a percentage of net sales	%	15.4	13.9	3.8	1.3	**16.5**	**16.1**	**4.8**	**6.9**
Profit before taxes	EUR million	8.5	9.8	2.1	-0.4	**12.1**	**12.1**	**1.7**	**3.5**
as a percentage of net sales	%	13.0	14.5	4.1	-0.8	**17.1**	**15.6**	**2.8**	**5.8**
Net profit for the period	EUR million	6.2	7.4	1.5	-0.8	**9.1**	**8.4**	**1.4**	**1.8**
as a percentage of net sales	%	9.5	11.0	2.9	-1.5	**12.9**	**10.8**	**2.4**	**3.0**
Attributable to									
Equity holders of the Company	EUR million	6.0	6.2	0.8	-0.9	**8.6**	**7.2**	**0.5**	**1.7**
Non-controlling interest	EUR million	0.2	1.3	0.6	0.1	**0.6**	**1.1**	**0.9**	**0.1**
Capital expenditure	EUR million	1.5	1.0	1.7	3.3	**1.8**	**1.5**	**7.7**	**1.7**
Net interest-bearing debt at the end of the period	EUR million	112.3	101.0	83.3	79.4	**96.6**	**90.4**	**87.9**	**92.0**
Capital employed at the end of the period	EUR million	222.7	211.5	194.0	191.1	**221.0**	**219.6**	**212.8**	**221.3**
Return on capital employed (ROCE)	%	19.3	18.6	4.0	1.4	**22.6**	**24.4**	**5.7**	**8.1**
Return on equity (ROE)	%	23.1	27.8	5.4	-2.9	**31.0**	**27.8**	**4.8**	**5.9**
Equity-to-assets ratio at the end of the period	%	35.3	37.5	41.4	42.8	**41.7**	**41.3**	**41.9**	**42.6**
Debt-to-equity ratio (gearing) at the end of the period	%	101.7	91.4	75.2	71.1	**77.7**	**70.0**	**70.4**	**71.2**
Average personnel for the period	Persons	2 446	2 447	2 356	2 261	**2 178**	**2 214**	**2 308**	**2 341**
Personnel at the end of the period	Persons	2 393	2 233	1 976	2 271	**2 275**	**2 285**	**2 322**	**2 313**

Quarterly key figures are unaudited.



DEFINITION OF KEY FIGURES

Key figure		Definition
Operating profit before depreciation and impairments (EBITDA)	=	Operating profit + depreciation and impairments
Net interest-bearing debt	=	Total interest-bearing liabilities - total interest-bearing assets
Capital employed	=	Total equity + net interest-bearing liabilities
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
Average interest rate on net interest-bearing debt, %	=	(Interest paid - interest received) x 100 / Net interest-bearing debt
Net interest-bearing debt to EBITDA	=	Net interest-bearing debt / Operating profit before depreciation and impairments
Return on capital employed (ROCE), %	=	Operating profit x 100 / Capital employed (average for the period)
Return on equity (ROE), %	=	Net profit for the period x 100 / Total equity (average for the period)
Debt-to-equity ratio (Gearing), %	=	Net interest-bearing liabilities x 100 / Total equity
Equity-to-assets ratio, %	=	Total equity x 100 / Total shareholders' equity and liabilities - advances received
Earnings per share, EUR	=	Net profit for the period attributable to the equity holders of the Company / Adjusted weighted average number of shares
Dividend per share, EUR	=	Dividend for the period / Adjusted number of shares at the end of the period

Key figure		Definition
Dividend/earnings ratio, %	=	Dividend for the period x 100 / Net profit for the period attributable to the equity holders of the Company
Equity per share, EUR	=	Equity attributable to equity holders of the Company / Adjusted number of shares at the end of the period
Effective dividend yield, %	=	Dividend per share x 100 / Adjusted share price at the end of the period
Price/earnings ratio	=	Adjusted share price at the end of the period / Earnings per share
Average share price, EUR	=	EUR amount traded during the period / Adjusted number of shares traded during the period
Year-end market capitalization, EUR	=	Number of shares at the end of the period x share price at the end of the period
Average number of personnel	=	Calculated as average of monthly averages

PARENT COMPANY FINANCIALS, FAS

PARENT COMPANY INCOME STATEMENT

EUR million	2010	2009
Net sales	31.0	28.1
Other operating income	0.1	0.1
Change in inventory of finished products and work in progress	1.1	-0.7
Production for own use	0.1	0.1
Materials and services	-14.0	-12.2
Employee benefit expenses	-9.8	-8.8
Other operating expenses	-5.1	-4.1
Operating profit before depreciation and impairments	3.5	2.5
Depreciation and impairments	-1.3	-1.3
Operating profit	2.2	1.2
Financial income and expenses	-0.8	-0.6
Profit before extraordinary items	1.3	0.6
Extraordinary items	2.8	1.5
Profit before appropriations and taxes	4.1	2.1
Appropriations	-0.4	-0.4
Income taxes	-1.6	-1.1
Net profit for the period	2.1	0.6

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

ASSETS

EUR million	2010	2009
Non-current assets		
Intangible assets	1.2	1.7
Tangible assets	5.8	5.7
Investments	146.5	138.5
Interest-bearing receivables	6.4	3.2
Non-interest-bearing receivables	0.9	0.9
Total non-current assets	160.8	150.1
Current assets		
Inventories	7.1	5.4
Current financial assets		
Interest-bearing	17.9	7.8
Non-interest-bearing	12.3	11.4
Cash and cash equivalents	5.9	6.1
Total current assets	43.2	30.7
Total assets	204.0	180.8

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR million	2010	2009
Shareholders' equity		
Share capital	3.6	3.6
Share premium fund	16.7	16.7
Fair value reserve	-2.0	-0.5
Fund for invested non-restricted equity	4.9	4.9
Own shares	-2.5	-1.4
Retained earnings	32.2	39.0
Net income for the period	2.1	0.6
Total shareholders' equity	54.9	62.9
Appropriations	0.9	0.5
Non-current liabilities		
Interest-bearing	30.7	35.8
Non-interest-bearing	1.5	
Total non-current liabilities	32.2	35.8
Current liabilities		
Interest-bearing	91.2	62.5
Non-interest-bearing	24.7	19.1
Total current liabilities	115.9	81.6
Total shareholders' equity and liabilities	204.0	180.8

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

EUR million	2010	2009
Share capital Jan. 1	3.6	3.6
Share capital Dec. 31	3.6	3.6
Share premium fund Jan. 1	16.7	16.7
Share premium fund Dec. 31	16.7	16.7
Fair value reserve Jan. 1	-0.5	-0.4
Gains and losses on cash flow hedges	-1.6	-0.1
Fair value reserve Dec. 31	-2.0	-0.5
Fund for invested non-restricted equity Jan. 1	4.9	4.9
Fund for invested non- restricted equity Dec. 31	4.9	4.9
Own shares Jan. 1	-1.4	-0.9
Purchase of own shares	-1.1	-0.6
Own shares Dec. 31	-2.5	-1.4
Retained earnings Jan. 1	39.6	46.4
Dividends paid	-7.4	-7.5
Net income for the period	2.1	0.6
Retained earnings Dec. 31	34.3	39.6

DISTRIBUTABLE EQUITY

Distributable earnings		
Retained earnings	39.6	46.4
Dividends paid	-7.4	-7.5
Purchase of own shares	-2.5	-1.4
Gains and losses on cash flow hedges	-2.0	-0.5
Net income for the period	2.1	0.6
Distributable earnings	29.8	37.7
Other distributable equity		
Fund for invested non-restricted equity	4.9	4.9
Total distributable equity	34.7	42.6

PARENT COMPANY SHARE CAPITAL

	2010	2009
Shares	39 468 449	39 468 449
EUR	3 552 160	3 552 160

Each share is entitled to one vote. For more information on board's authorizations and acquitions of own shares, see Consolidated Financial Statements' note 19.

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR million	2010	2009
Net profit for the period	2.1	0.6
Adjustments		
Income taxes	1.6	1.1
Financial income and expenses	0.8	0.6
Reversal of non-cash items		
Depreciation and impairments	1.3	1.3
Other items	-2.0	-0.8
Interest paid	-3.1	-2.8
Interest received	0.6	2.1
Income taxes paid	-1.5	-1.2
Dividends received	3.2	0.3
Other financial items, net	-0.1	0.1
Profit after adjustments	2.9	1.3
Change in working capital		
Change in receivables	-1.8	-3.7
Change in inventories	-1.7	0.5
Change in liabilities	5.8	-3.2
Total change in working capital	2.3	-6.3
Net cash generated from operating activities	5.3	-5.0
Net cash used in investing activities		
Purchases of intangible assets	-0.1	-1.1
Proceeds from disposal of tangible assets		0.2
Purchases of tangible assets	-1.3	-1.6
Acquisition of subsidiaries	-6.4	-27.8
Escrow deposit related to Dynamite Baits acquisition	-1.3	
Change in interest-bearing receivables	-7.3	36.8
Total net cash used in investing activities	-16.4	6.6
Net cash generated from financing activities		
Dividends paid	-7.4	-7.5
Purchase of own shares	-1.1	-0.6
Loan withdrawals	106.1	46.5
Loan repayments	-87.2	-44.8
Total net cash generated from financing activities	10.3	-6.3
Change in cash and cash equivalents	-0.8	-4.8
Cash and cash equivalents at the beginning of the period	6.1	10.8
Foreign exchange rate effect	0.6	0.1
Cash and cash equivalents at the end of the period	5.9	6.1

The financial statements of Rapala VMC Oyj have been prepared according to the Finnish Accounting Standards (FAS). Parent company's complete financial statements are available at the Group's website www.rapala.com.

RISK MANAGEMENT

The objective of Rapala's risk management is to support the implementation of the Group's strategy and execution of business targets. This is done by monitoring and mitigating the related threats and risks and simultaneously identifying and managing opportunities.

Rapala's Approach to Risk Management

The Board evaluates the Group's financial, operational and strategic risk position regularly and establishes related policies and instructions to be implemented and coordinated by Group management. The daily risk management activities are primarily delegated to the management of business units.

The importance of risk management has increased as the Group has continued to expand its operations. Risk management continued to receive significant attention and new development initiatives by Group management also in 2010. Focus of Group level risk management was on foreign exchange, liquidity, interest rate and hazard risks and on further development of Group wide insurance programs and on strategic supply chain management. Development of internal controls was also continued.

Below is a summary of key strategic, operational and financial risks as well as the main actions to mitigate these risks.

Strategic Risks

Sport fishing is one form of leisure hobby and the Group's products are competing against a wide range of other hobbies. The Group is promoting the attractiveness of sport fishing through active sales and marketing as well as brand management. By utilizing its unique research and development processes and resources, the Group is constantly developing new products to meet consumer needs and creating new needs for the consumers.

Brand portfolio and corporate reputation are among the most valuable intangible assets of the Group. Rapala is actively managing its brands and their identity and securing that the value of the brands or corporate reputation is not jeopardized or violated by any means. The Group's brands are also legally protected.

Consumers relate the Group's brands to high quality, unique fishing experience, special functional features and trustworthy distribution channel. Consumers are able to differentiate illegal product copies and these do not constitute a strategic threat for the Group. The Group protects vigorously its intellectual property rights and acts against illegal copiers and distributors.

Sport fishing is dependent on availability of fresh fishing waters for fish to live and breed in. Increased pollution and potential environmental catastrophes are growing concerns for the Group. Rapala is actively promoting initiatives to enhance environmental protection and increasing preparedness to comply with continuously tightening environmental regulations by taking steps to reduce the environmental impacts of its operations and products. The Group is also acting in the forefront to develop products, e.g. "catch and release" equipment, to comply with fish protection initiatives. For more details on environmental actions, see the section "Corporate Responsibility and Sustainable Development".

The Group faces competition in all the markets where its products are sold. Due to uniquely wide distribution network, the Group's geographical market risk is truly globally spread, evening out seasonal and local market fluctuations.

Rapala has limited amount of global competitors. The biggest competitors do have significant power in their home markets, but globally the geographical scope of their operations is narrower. Rapala's global distribution network is unique in the industry and difficult to imitate. Within each market, Rapala's competitors are in many cases local fishing tackle producers operating with limited geographical scope and limited range of products. In some countries, competition is created by fishing tackle retailers selling private label products. Cross-border internet sales are an increasing trend and could cause some price erosion. Established fishing tackle brands' expansion into new product categories is also creating competition in some product segments. The strength of the Group's product development and brand portfolio, as well as flexibility to serve different markets with market-specific product ranges, are essential in succeeding in this competition.

The Group's production is spread out in several countries. Some of these countries have higher political risks but simultaneously provide access to competitive labor cost. The Group monitors the country risks and costs and is actively seeking ways to manage the risk of rising production and distribution costs.

Manufacturing of sport fishing products is not dependent on any proprietary manufacturing technologies or patents. The Group's manufacturing units are actively monitoring the development of generic manufacturing technologies and considering different production applications.

Distribution of third party fishing and outdoor products creates a material part of the Group's sales. Due to geographical spread and multitude of the existing and potential suppliers, the Group is not critically dependent on any single product or raw material supplier. Rapala's strategic partnerships with Shimano (for the distribution of mainly rods and reels) and Yao I (the producer of Group's Sufix fishing lines) have proven to be successes.

Rapala's customer base is geographically and quantitatively well diversified. Customers are mostly country-specific and not operating globally. The Group is not critically dependent on any single customer: even the biggest single customer represents less than 5% of the Group's net sales. Rapala is not largely engaged in direct consumer retailing. This is not considered to be a risk as consumer demand is largely driven by brand consciousness and alternative routes to market can be established when needed.

Rapala is expanding through organic growth as well as mergers and acquisitions. Careful target selection, proper due diligence process and post-merger integration have been and will be key issues in securing that the expansion initiatives are successful and in line with the Group's strategic objective of profitable growth.

The Board evaluates the Group's strategic risks annually as part of the strategy process and Group management continuously monitors changes in the business environment. Strategic risk management in local jurisdictions is delegated to the management of each business unit.

Operational and Hazard Risks

The fishing tacke business has not been traditionally strongly influenced by economic downturns, but this may however affect the Group's financial performance temporarily. The potential decrease of inventories in the retailer level, as well as retailer's financial challenges, may decrease sales of fishing tackle. Retailers may also decrease their investments in advertising and promotion campaigns, which may affect consumer spending. Also rapid and strong increases in living expenses and uncertainties concerning employment may temporarily affect consumer spending. History has however shown that the underlying consumer demand is fairly solid.

The underlying consumer demand for the Group's products is seasonal and also impacted by unforeseeable factors such as weather. To offset the seasonality, the Group is engaged in production and distribution of winter fishing and winter sports equipment. To mitigate the effects of seasonality, the Group has also expanded its own distribution network to the southern hemisphere and is developing its production planning to better respond to the market demand.

Due to the seasonality in demand, the Group's product shipments concentrate annually to relatively short time periods, where supply problems could endanger the sales of the season. Similarly, lower than expected sales volumes may lead to excess inventories, as it is difficult to cancel committed orders within short notice.

There is a high level of dependency between the Group's manufacturing and distribution units and interruption at earlier stage of the supply chain can have knock-on effects throughout the rest of the organization. The importance of proper order forecasting and production planning has increased. The related risks are managed with high level of cooperation between manufacturing and distribution units, safety stocks and extensive insurance coverage. The Group-wide supply chain and logistics initiatives continued in 2010 and mitigated these risks relating to operational efficiencies.

The Group's sales prices are primarily fixed annually or bi-annually, normally before each season. Sudden changes in raw material prices or foreign exchange rates may have significant impact on costs of some products. The Group aims to push increases in costs to the sales prices immediately or during a period of time. The Group's market risks and mitigation actions are analyzed in more detail in the sections "Financial Risks" and in note 22.

In respect of manufacturing activities, the Group is not critically dependent on any single external production factor supplier. The increased use of subcontractors in China requires proper supplier management, but as such the Group is not critically dependent on any of these subcontractors. Availability of competent production labor is essential and the Group aims to maintain good employer reputation and labor relations.

There are significant dependencies between the Group's manufacturing units, which could cause supply problems e.g. in case of fire or other hazard. Such hazard could lead to property damages but also to business interruption losses throughout the supply chain. Therefore, Rapala has increased the emphasis of hazard risk management. The Group has together with its insurance company continued to conduct hazard prevention reviews to Group's key locations. Group management has also continued to build risk awareness throughout the organization.

The Group is, with assistance of its insurance broker, further developing the global insurance programs, which cover most of the Group companies. Global insurance policies, which take into account the Group's interdependency, are in place for property damage and business interruption, transportation as well as general and product liabilities.

The Board evaluates the Group's operational risks at least once a year as part of operational plans and budgets. Group management monitors and coordinates the continuous management of operational risks, which is the responsibility of the management of each business unit.

Financial Risks

The Group's financial risks consist of market risks, credit and default risks and liquidity risks. The Board evaluates financial risks several times during the year and Group management monitors and manages them continuously. Financial risks are discussed in detail, as required by IFRS 7, in the note 22 of the consolidated financial statements.

CORPORATE RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Rapala recognizes its responsibility in relation to the shareholders, clients, employees and society as well as those with whom the Group does business. Rapala is committed to carry on business in an ethically correct manner and according to local or international legislation and regulations. The mission of Rapala is to provide a positive and strong human experience in the nature and especially in sport fishing and, therefore, the Group lives from and promotes a clean and healthy environment.

Group Strategy and Management Approach to Sustainable Development

Rapala's strategic objective is profitable growth, which is founded on a unique manufacturing, sourcing and R&D platform, a leading global distribution network in the fishing tackle industry and a strong brand portfolio with several leading brands. The Group's unique manufacturing platform consists of Europe's largest lure production facility with specialized factories in Finland, Estonia and Russia, streamlined manufacturing operations located in China, the most advanced treble hook factory located in France, the Europe's leading Carp bait production facility in the UK and high-quality knife manufacturing in Finland. Rapala has also developed an extensive sourcing platform and process to ensure high-quality but low-cost third party manufacturing for its selected products.

The Group's own personnel operate in 33 countries and its products are sold to over 100 countries. Rapala has been in the lure business, which was the first product category for the Group, for some 70 years. The VMC hook operations acquired in 2000 celebrated its 100-year anniversary in 2010. Marttiini knife manufacturing, acquired in 2005, has operated for more than 80 years already. Many products still offered by the Group, have a life-cycle of several dozens of years. Almost all of the Group's products relate to outdoor life and sports with a close connection to nature.

In its operations, Rapala takes into account its personnel, the local societies and environment as well as health and safety issues. All Group companies worldwide co-operate transparently, honestly and responsibly with authorities, local societies and other relevant parties in economic, social and environmental matters.

Economic Responsibility

Rapala's purpose is to create value for its stakeholders including customers, personnel, suppliers and subcontractors as well as shareholders and investors who are interested in the Group's financial performance. The financial success provides the Group companies with the resources and possibilities to develop their operations in a responsible and sustainable way also in the future.

Rapala focuses on profitable growth to increase shareholder value. This objective is achieved by providing customers with high-quality products and service, creating long-lasting partnerships with suppliers, subcontractors and customers, and offering employees competitive compensation and good working conditions. With operations in some 33 countries worldwide, Rapala also influences and creates well-being for the local societies. The Group's value added is distributed to these different stakeholders as shown in the graph next page.

Rapala creates value for its customers by offering its products and services worldwide. By market areas, North America contributed 27% (28%), Nordic countries 24% (24%), Rest of Europe 36% (35%) and Rest of the World 13% (13%) to the Group's total net sales. See Note 2 to the consolidated financial statements for detailed geographical information.

In 2010, Group companies paid interests of EUR 3.3 million (EUR 3.4 million) to financial institutions and corporate income taxes of EUR 8.8 million (EUR 5.3 million) to tax authorities worldwide. As presented in the graph next page, the shareholders of Rapala were paid dividends of EUR 7.4 million in 2010 (EUR 7.5 million).

Social Responsibility

Importance of Competent and Motivated Personnel

With more than 2 000 employees in some 33 countries worldwide, Rapala recognizes the importance of competent and well-motivated personnel. Rapala appreciates the continuous development of its employees who have possibilities to both on-the-job learning and special training or education. The Group's strategy for profitable growth requires that the management systems, the group-wide knowledge sharing and the everyday practices are developed systematically in all Group companies. Personnel coaching and instructions together with good working conditions and appropriate protective equipment are important to minimizing occupational health and safety risks. The human resources management practices vary between the Group companies depending on the nature of the business units' operations in manufacturing, distribution, research and development and administration, and, to some extent, between different geographical areas due to the different regulations and local practices.

One of the Group's key values in the corporate culture is entrepreneurship. Rapala respects diversity and equal opportunities of all employees irrespective of color, nationality, gender, age or religion. Rapala employs men (47%) and women (53%) of all ages as shown in the graph below. Rapala's employees represent tens of different nationalities worldwide. There is no use of child labor in the Group's manufacturing or other operations. At the end of 2010, 61% (64%) of the employees worked in manufacturing or R&D, 16% (14%) in administration and 23% (22%) in distribution.

The Group's employee benefit expenses of EUR 59.1 million (EUR 53.8 million) represent 22% (23%) of the consolidated net sales. The employee benefits include wages, salaries, pensions and other social security costs as well as other performance incentives. The CEO and senior management participate in the Group's senior management bonus scheme encouraging the achievement of the Group's targets andperformance improvement. More information on top management remuneration can be found on page 99.

The operational changes and performance improvement initiatives carried out during the past years in the Group's Chinese manufacturing facilities and in the European operations target to the positive development of the Group's profitability with enhanced efficiencies and quality. While these improvement initiatives resulted in personnel reductions, Rapala strived to act responsibly and in accordance with local legislation and practices as well as good human resources management principles.

Supporting Local Societies and Human Rights

When operating in 33 countries and expanding its business into new markets, Rapala supports the sustainable development of local societies and the protection of human rights. Group companies worldwide contribute to many fundraising campaigns of local societies, and, for example, donate fishing equipment as prizes and encouragement for fishing competitions and environmental cleaning projects organized by non-profit organizations.

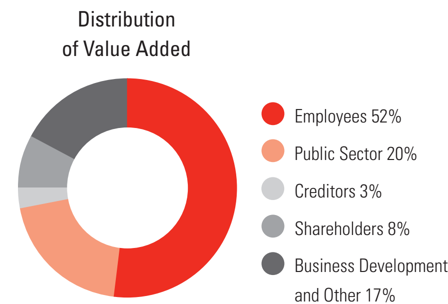
Rapala was a founder member of the European Fishing Tackle Trade Association (EFTTA) which was established in London in 1981, as an international, independent association to serve the European fishing tackle trade by campaigning to promote sport fishing, environmental issues and international business. Rapala has its own representative in EFTTA's Board. EFTTA supports annually several environmental and training projects across Europe.

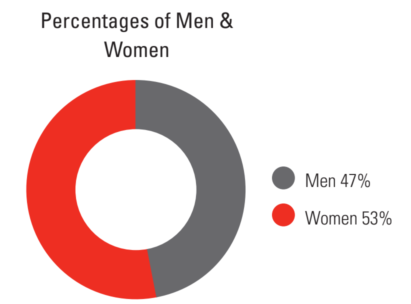
For more than a decade already, Rapala's Swedish subsidiary has been the sole supporting partner to one of the world's most professional sport fishing educational institute, the Sport Fishing Academy (SFA) in Sweden. SFA has educated more than 600 dedicated and advanced sport fishing instructors and guides, marine conservationists and specialists to the international markets. Rapala provides the students and their teachers with fishing tackle and with business and fishing expertise. SFA has expanded also to hunting and each year Rapala awards four scholarships to the academy's fishing and hunting branches.

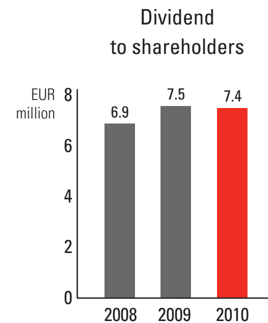
Rapala's South-African subsidiary has been participating in fundraising of Eco-Care Trust, which is a non-governmental organization focused on the conservation of South Africa's natural water sources and ecosystems. The subsidiary has also conducted several seminars and workshops in 2010 under the name "Rapala Fishing for the Future" related to encouraging to responsible fishing.

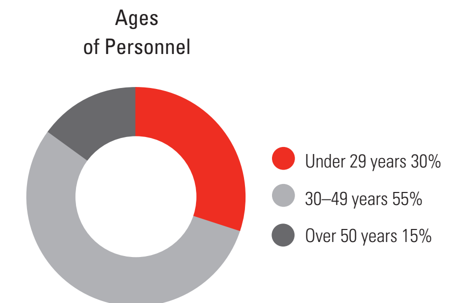
With two well-known local non-profit organizations, Rapala has established and sponsors a fish farm in North-West Tanzania. The objective of the project is to help the local population to have access to a steady supply of protein-rich food as well as a regular employment and long-term income to all those involved in the activity. Additionally, fish farming relieves the pressure of over-fishing on Lake Victoria and improves Lake Victoria's ecology and wealth.

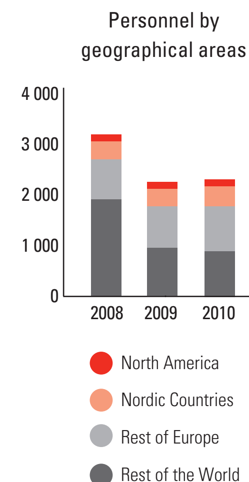
In Sortavala, Russia, Rapala supports the local kindergarten and elementary school encouraging the children to educate and develop themselves.

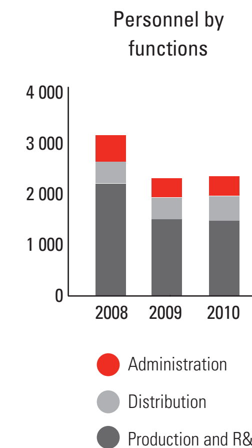












High-Quality Products and Services

Today Rapala's distribution network covers the four major continents and is locally present in 31 different countries. It allows the Group to introduce new products efficiently and effectively to these markets and to build long lasting partnerships and alliances with local retailers and fishermen.

Rapala's research and development is globally well known and respected for its capability to continuously bring new high-quality products with new and exceptional features to meet the fishermen's demanding expectations. The Group's wide distribution network acts as a channel for market and customer input, which is used for product development.

As a proof of the quality and continuous development, Rapala holds the number one position in world records with more than 880 world-record catches according to the International Game Fish Association (IGFA). More information on world records can be found on page 34.

Rapala's research and development expenses of EUR 2.1 million in 2010 (EUR 2.0 million) represent 10% (14%) of the Group's net profit for the period.

Environmental Responsibility

Rapala's Approach to Environmental Affairs

Healthy and clean environment is important for Rapala for the reason that its sport fishing, hunting and outdoor businesses originate from, and are based on, human experience in the nature. Industrial and business activities inevitably create various impacts on the environment that the Group is trying to manage in a way that also future generations of man would be able to go and experience the nature using Rapala's products. In addition, the Group promotes environmental issues beyond its own operations.

The use of raw materials, airborne emissions and waste are the most significant environmental impacts of the Group. Rapala is improving its environmental performance through continuous development efforts, by increasing awareness and actively developing processes to replace hazardous materials and decreasing the use of energy and increasing the effectiveness in the use of raw materials. The Group aims to develop its products, manufacturing processes and operating methods so that their environmental impact throughout the product's lifecycle will remain as small as possible. This process is long-lasting and, meanwhile, changes in production volumes and product mix may have greater short-term effects than the development trend as such.

Less than 50% of the products sold by Rapala are produced in the Group's own manufacturing facilities. Rapala's manufacturing sites develop their environmental operations in accordance with local legislation and regulations.

Possible safety risks in manufacturing operations are caused by handling of flammable and toxic raw materials during the production process.

More than one third of Rapala's sales come from outsourced and third party products. The most significant environmental impacts of these products, while in Group ownership, are related to transportation and storage of goods.

Rapala and its Group companies operate in line with the local environmental laws and regulations. Ways of conducting business, including internal and external business processes, are continuously developed keeping in mind the environmental aspects and the principles of sustainable development.

Several Group companies are members of local and national environmental organizations. They take part in the funding of these organizations, providing education on clean and healthy waters and other environmental issues and participating in clean-up actions.

The following is a summary of practical actions and measurements the Group is taking to minimize the negative impacts of its business to environment and actions to improve environmental affairs in areas where it operates.

Production Processes

In Rapala's own production, in order to minimize the waste in painting, the lures are electronically engaged for better adherence of the paint. With this advanced painting technique, also usage and waste of lacquer is minimized.

Production waste is separated into energy, plastics, bio materials, metals, carton, paper waste and hazardous materials to promote and increase recycling. In addition, some of the Group's factories have replaced oil as an energy source with gas, which is more environmentally friendly. In Finland and partly also in China, paint has partly been changed from soluble dies to water-dilutable to reduce VOC emissions. The long-term plan is to develop qualities of current paint to fully replace soluble dies with water-dilutable paints.

Raw Materials

Hard-body lures manufactured by the Group are made of balsa, apache and plastics. An important part of the wood is sourced from the registered farms that respect the local law and regulations and sustainable development rules in farming and forestry. The Group's research and development department continuously seeks for possibilities to replace currently used raw materials with more environmentally friendly substitutes that do not decrease the desired features of the products. For example, some metal lures contain led, but to the extent functionally feasible, led is being replaced with other metals such as zinc or tungsten. The Group is also working in cooperation with external suppliers in order to find more environmentally friendly raw materials.

Products

Most of the Group products are long-lasting, kept and used by consumers for years and even decades. All of the wooden parts of the Group products are biodegradable and most of the metal used in the Group products can be recycled. The biggest environmental challenge has been the plastic products but the Group has successfully progressed in developing and replacing certain models with biodegradable plastics. Even if some of the products may end up in the water or nature during e.g. the sport fishing activities, the important challenge is to get the consumers to make their unused or damaged products available for recycling.

Also, emphasis has been given on sustainable packaging. More efficient packaging, for example, reducing the package size, increasing the count in the inner packs and using recyclable packages saves energy in production and transportation in addition to creating less waste.

Transportation and Storage of Goods

To reduce the environmental impacts of transportation, the Group aims to maximize sea transportation and minimize air transportation between the continents, from the factories to distribution units. The Group also aims to consolidate the shipments so that small quantities will not be shipped separately. The storage of goods does not have much impact on environment other than use of energy for heating and lighting of the premises. The Group also optimizes its production to minimize the shipping volumes between factories and distribution companies and manages inventories to minimize the volume of goods stored.

Special Issues and Actions in 2010

In 2010, Rapala has continued to develop and increased the reporting and follow-up of environmental affairs. More work is still needed to further develop these indicators and to standardize the measurement but especially to implement new ways of working to ensure long-term improvement in the underlying environmental effects.

Environmental R&D work especially on biodegradable plastics proceeded in 2010. The first biodegradable products under Trigger X brand launched in 2008 have been well received by the markets, and development work for new models is under way.

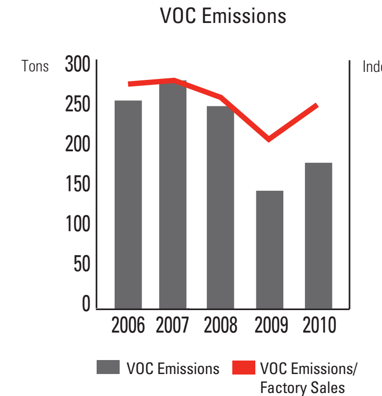
In 2010, the Group companies participated in several countries in fisheries restoration and recreational fishing promotion campaigns. In the following paragraphs we summarize a few of these actions.

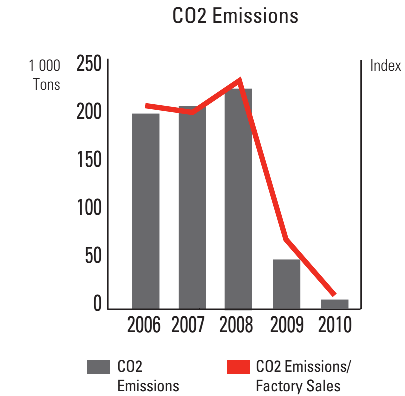
In the USA, Rapala continued the participation in a project organized by Northwest Sportfishing Industry Association (NSIA) to support the efforts to preserve and restore the fisheries environment. Through the efforts of NSIA, fisheries that had been closed to fishing for decades are now open due to a mass marking program of all Columbia River hatchery salmon and steelhead. NSIA has also convinced the Columbia River hydroelectric owners to increase the spill over the dams to further assist the down river migration of salmon and steelhead smolts, which has significantly increased their survival rates.

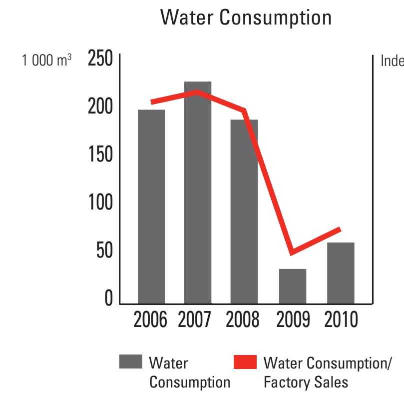
In Norway, the Group participated in several projects, which aim to restore fisheries and certain species of fish, and promote recreational fishing experience. Norwegian subsidiary is a supporter of Oslo Fishing Organization (OFA), which aims to keep the waters around the capital of Norway, Oslo, attractive for fishing and increase sport fishing by raising fish, cultivating waters and other activities. In Finland Rapala also supported a project to clean Lake Vesijärvi and surrounding small lakes. In addition, the Group supported cleaning of lakes, rivers and sea shores as well as environmental and fishing related education in many countries such as South Africa and Sweden.

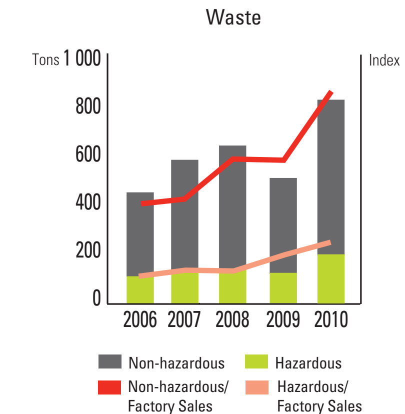
Dynamite Baits Ldt, a carp bait company located in the UK that Rapala acquired in 2010, has been working closely with the Carbon Trust, which is a non-profit company providing support to reducing carbon emissions and saving energy. This year's project has entailed removing diesel fired generators from the site by improving electrical supply to the site to reduce greenhouse gases.

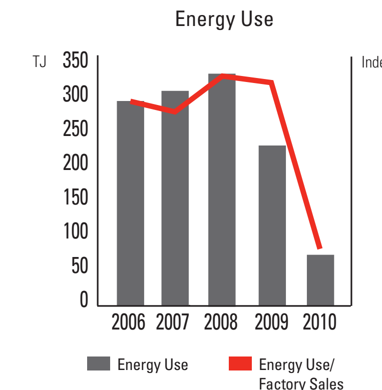
No material non-compliance, environmental accidents or hazards occurred in 2010.











Environmental Performance in 2010

Rapala monitors the emissions to air of its own manufacturing operations globally. In 2009, the Group changed the operating model of its Chinese manufacturing operations into more decentralized, outsourced based manufacturing. The Group's Chinese manufacturing operations consist now of four own factories and dozens of outsourcing partners. Accordingly, the level of in-house manufacturing is much smaller than compared to 2008. These developments have resulted also in significant changes in the direct environmental measures of the Group manufacturing operations as shown in the presented graphs.

The most significant emissions for the Group are the volatile organic compounds (VOC) and carbon dioxides (CO_2). Rapala's VOC emissions are calculated based on materials used in production, and carbon dioxides are calculated based on energy purchased and fuel used. In 2010, Rapala's VOC emissions were 176 (134) tons and carbon dioxide emissions were 15 (52) thousand tons. VOC emissions originate mainly from different types of solvent used in conjunction with painting operations. Majority of the CO_2 emissions are created indirectly when energy produced elsewhere is purchased and consumed by the Group factories. The main reason for the decrease in CO_2 emissions is that in some factories the use of heating oil has been reduced and replaced with natural gas.

Rapala's operations generate e.g. metal, wood, plastics, cardboard and municipal waste. Significant part of the waste is biodegradable like wood or recyclable like metals. Waste is recycled in compliance with local regulations and practices. In 2010, Rapala's operations generated 840 tons (485 tons) of waste of which 181 tons (108 tons) were hazardous waste, which is processed by disposal facilities dedicated for hazardous waste.

Rapala's manufacturing is not very energy-intensive but energy consumption is an environmental aspect measured by the Group. The majority of the energy is consumed in the form of electricity, natural gas and district heat. Fuel oil is used in some units for reserve and additional energy. In 2010, Rapala's total energy consumption was 69 TJ (229 TJ). The majority of this is electricity. This amount does not include the fuels used in transportation and vehicles.

Rapala manufacturing units do not use much water in their processes. Most of the use is for sanitation and catering purposes. In 2010, the water consumption was 58 000 m^3 (31 000 m^3).

In 2010, the Group's environmental expenses were some EUR 0.2 million (EUR 0.3 million) and environmental investments some EUR 0.2 million (EUR 0.1million).

SHARES AND SHAREHOLDERS

Rapala's shares have been traded on the NASDAQ OMX Helsinki since 1998. In 2010, the shares traded between EUR 4.80 and 6.86 with an average price of EUR 5.75.

Shares and Voting Rights

On December 31, 2010, the share capital fully paid and reported in the Trade Register was EUR 3.6 million and the total number of shares was 39 468 449 (2009: 39 468 449). The book value of a share is EUR 0.09. Each share is entitled to one vote.

Board's Authorizations

Based on authorization given by the Annual General Meeting (AGM) in April 2007, the Board can decide to issue shares through issuance of shares, options or special rights entitling to shares in one or more issues. The number of new shares to be issued including the shares to be obtained under options or special rights shall be no more than 10 000 000 shares. This authorization includes the right for the Board to resolve on all terms and conditions of the issuance of new shares, options and special rights entitling to shares, including issuance in deviation from the shareholders' preemptive rights. This authorization is in force for a period of 5 years from the resolution by the AGM. The Board is also authorized to resolve to repurchase a maximum of 2 000 000 shares by using funds in the unrestricted equity. This amount of shares corresponds to less than 10% of all shares of the Company. Shares can be repurchased by deviating from the proportion in which the company's shareholders own shares in the company. The shares will be repurchased through public trading arranged by NASDAQ OMX Helsinki at the market price of the acquisition date. The shares will be acquired and paid in pursuance of the rules of NASDAQ OMX Helsinki and applicable rules regarding the payment period and other terms of the payment. This authorization is effective until the end of the next AGM.

Own Shares

On February 4, 2010, the Board decided to continue buying back own shares in accordance with the authorization granted by the Annual General Meeting on April 7, 2009. The repurchasing of shares started on February 15, 2010 and ended on March 31, 2010 when Rapala held 368 144 own shares. Based on the authorization of the AGM held on April 14, 2010 the repurchasing of own shares continued from May 3 to June 30, from August 2 to September 30 and from November 1 to December 31, 2010. At the end of December 2010, Rapala held 540 198 own shares, representing 1.4% of the total number and the total voting rights of Rapala shares. The average price for the repurchased own shares in January-December 2010 was EUR 5.72. The average share price of all repurchased own shares held by Rapala was EUR 4.71.

Changes in Share Capital

There were no changes in the share capital in 2010.

Shareholder Register

The shares of the Company belong to the Book Entry Securities System. Shareholders should notify the particular register holding their Book Entry Account about changes in address or account numbers for payment of dividends and other matters related to ownership of shares.

Shareholder Agreement

Viellard Migeon & Cie (VM&C) and Utavia S.à.r.l (Utavia) entered into a shareholders' agreement on June 29, 2006 with respect to their shares in Rapala, and the shareholders of Utavia have agreed to be bound by the said shareholders' agreement. The main shareholder of Utavia is the CEO of Rapala, Jorma Kasslin, with ca. 42% shareholding. The other shareholders are Board members or managers of the Group. In total, Utavia has some 40 shareholders. On June 29, 2006, Utavia purchased from De Pruines Industries (DPI) 1 610 000 shares representing ca. 4.08% of the issued share capital and voting rights in Rapala. DPI is a subsidiary of VM&C. On December 31, 2010, VM&C owned directly or through its subsidiaries approximately 28.7% of the issued share capital and voting rights of Rapala.

In the shareholders' agreement, Utavia has undertaken to vote in Rapala's General Meetings of shareholders in favor of the resolutions approved and/or submitted by VM&C and authorized VM&C to exercise the voting rights attached to the Rapala shares held by it. VM&C has a right of first refusal to any shares sold by Utavia. The parties to the shareholders' agreement undertake to use and exercise the votes that they control at the General Meetings of Rapala so that two persons designated by VM&C and one person designated by Utavia (the first person appointed being Jorma Kasslin in this respect) are appointed as members of the Board.

Share-Based Incentive Plans

The Group had one share-based payment program in place on December 31, 2010: a synthetic option program settled in cash. On March 31, 2010, the exercise period for options issued under the Share Option Program 2004B expired and the 2009 Share Reward Program ended on December 31, 2010. The share-based payment program is in place for senior and middle management (non-executive Board members have not participated in any share based remuneration programs):

PRINCIPAL SHAREHOLDERS ON DECEMBER 31, 2010 *

Shareholders	Number of shares	%
Viellard Migeon & Cie	11 217 661	28.4
Sofina S.A.	7 500 000	19.0
William Ng	1 770 843	4.5
Odin Finland I-II	1 629 754	4.1
Utavia S.a.r.l	1 610 000	4.1
Odin Norden I-II c/o Odin Forvaltnings AS	1 569 372	4.0
The State Pension Fund	1 200 000	3.0
Ilmarinen pension insurance company	914 487	2.3
Shimano Singapore Private Limited	889 680	2.3
Nordea Nordic Small Cap Fund	744 588	1.9
Administrative registrations	3 869 042	9.8
Rapala VMC Oyj (own shares)	540 198	1.4
Other shareholders total	6 012 824	15.2
Total number of shares	39 468 449	100

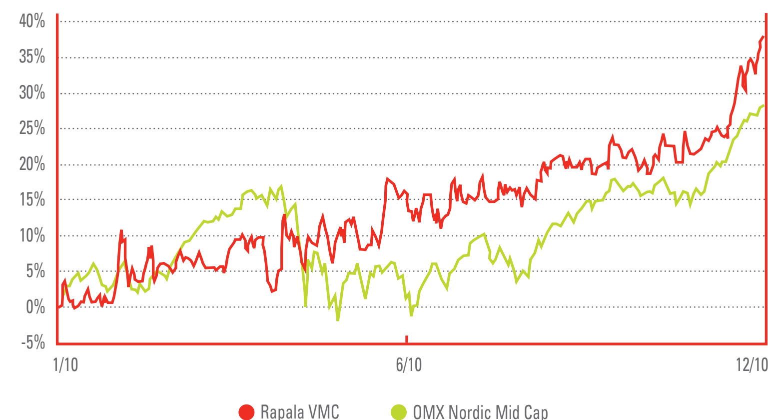
SHAREHOLDERS BY CATEGORY ON DECEMBER 31, 2010 *

Shareholder category	Number of shares	%
Private and public corporations	979 352	2.5
Financial and insurance companies	3 993 730	10.1
Public institutions	2 904 487	7.4
Non-profit organizations	109 322	0.3
Individuals	1 265 863	3.2
International shareholders	24 736 653	62.7
Administrative registrations [1]	5 479 042	13.9
Total	39 468 449	100

1) Includes shares owned by Utavia S.a.r.l. (1 610 000 shares).

SHARE PRICE DEVELOPMENT IN 2006–2010, EUR

SHARE PRICE IN 2010, %



DISTRIBUTION OF SHAREHOLDING ON DECEMBER 31, 2010 *

Number of shares	Number of shareholders	%	Total shares	%
1 - 100	621	31.3	45 144	0.1
101 -500	795	40.1	226 156	0.6
501 - 1 000	286	14.4	239 400	0.6
1 001 - 10 000	224	11.3	677 524	1.7
10 001 - 1 000 000	50	2.5	8 227 129	20.8
1 000 001 -	8	0.4	30 053 096	76.1
Total	1 984	100	39 468 449	100

* Number of shares includes 540 198 own shares held by the parent company.

• The 2006 Synthetic Option Program: A maximum of 1 000 000 options were issued to 116 managers: 500 000 options exercisable between March 31, 2009 and March 31, 2011 at an exercise price of EUR 6.44 per share (2006A), and 500 000 options exercisable between March 31, 2010 and March 31, 2012 at an exercise price of EUR 6.44 per share (2006B). Exercise price represents the weighted average share price during the period from January 1 to March 31, 2006. The share-specific cash value will be determined in accordance with the end price on the test date (i.e. vesting date) or, as the case may be, on an additional test date. End price is the volume weighted average price of the share during the ten trading days before the test date. If at test date the difference between the exercise price and the end price (including the dividend adjustment) is positive, the reward will be paid. If the difference between the exercise price and end price on the test date (including the dividend adjustment) is negative, the end price will be determined again on an additional test date, which is the six, twelve, eighteen and twenty-four months' anniversary of the test date. If the difference between the exercise price and the end price is positive on any of the additional test dates, the reward will be paid and this incentive scheme shall automatically expire. The exercise price shall be reduced by the amount of dividends distributed after the subscription period for option rights has ended and before the commencement of the share subscription period.

For more details on share-based payments see note 29 in the consolidated financial statements.

Management Shareholding

On December 31, 2010, the members of the Board and the Executive Committee held directly a total of 1 773 843 Company shares and indirectly through a controlled corporation 1 130 000 Company shares, corresponding to 7.4% of all shares and voting rights. Details of management shareholdings are given on pages 96–97.

Trading and Performance of the Company's Shares

The Company share (RAP1V) is quoted on the NASDAQ OMX Helsinki. The 2010 closing price on December 31 was EUR 6.86. The highest price in 2010 was EUR 6.86, the lowest price EUR 4.80 and the average price EUR 5.75. The share price increased 38.0% in 2010. The OMX Nordic Mid Cap price index increased 28.3% in 2010. A total of 4 051 489 Rapala shares were traded in 2010. This represents 10.3% of all shares on December 31, 2010.

At the end of 2010, the market capitalization of all outstanding shares, excluding own shares, was EUR 267.0 million. Earnings per share (basic) were EUR 0.46 (EUR 0.31 in 2009). For more share related key figures see page 79.

Dividend

The Board proposes to the AGM that a dividend of EUR 0.23 per share will be paid for the financial year 2010.

BOARD OF DIRECTORS AND MANAGEMENT

Board of Directors

Emmanuel Viellard
Chairman
Chairman of the Rapala Board since 2005
President of Viellard Migeon & Cie
Vice Chairman and Executive Vice President of Lisi Industries
B.A., CPA
Year of birth: 1963
Shareholding and options*: -
Indirect shareholding through a controlled corporation*: 100 000

Jorma Kasslin
President and Chief Executive Officer
Rapala Board member since 1998
M.Sc. (Eng.)
Year of birth: 1953
Shareholding*: -
Indirect shareholding through a controlled corporation*: 680 000
Options*: 32 000

Eero Makkonen
Rapala Board member since 1998
Chairman of the Rapala Board 1999–2005
B.Sc. (Eng.)
Year of birth: 1946
Shareholding and options*: -
Indirect shareholding through a controlled corporation*: 100 000

Jan-Henrik Schauman
Rapala Board member since 1999
M.Sc. (Econ.), MBA
Year of birth: 1945
Shareholding and options*: -

Christophe Viellard
Rapala Board member since 2000
Chairman of Viellard Migeon & Cie
Diploma ESCP
Year of birth: 1942
Shareholding and options*: -
Indirect shareholding through a controlled corporation*: 100 000

King Ming (William) Ng
Head of Rapala's Chinese Manufacturing Operations and Hong Kong Office
Rapala Board member since 2001
B.Sc. (Eng.)
Year of birth: 1962
Shareholding*: 1 770 843
Options*: -

Marc Speeckaert
Rapala Board member since 2005
MBA
Year of birth: 1951
General Manager of Sofina
Shareholding and options*: -

*Shareholdings and options on December 31, 2010. Options include synthetic options.

Executive Committee

Jorma Kasslin
President and Chief Executive Officer (CEO)
Rapala Executive Committee member since 1998
See information in section "Board of Directors"

Jussi Ristimäki
Chief Financial Officer (CFO)
Rapala Executive Committee member since 2010
Shareholding*: -
Options*: 4 500

King Ming (William) Ng
Head of Chinese Manufacturing Operations and Hong Kong Office
Rapala Executive Committee member since 2001
See information in section "Board of Directors"

Olli Aho
Company Counsel, Secretary of the Board and Investor Relations
Rapala Executive Committee member since 1998
Shareholding*: -
Indirect shareholding through a controlled corporation*: 70 000
Options*: 22 000

Juhani Pehkonen
Head of Lure Business
Rapala Executive Committee member since 1998
Shareholding*: -
Indirect shareholding through a controlled corporation*: 30 000
Options*: 22 000

Stanislas de Castelnau
Head of Fishing Hook Business
Rapala Executive Committee member since 2002
Shareholding*: -
Indirect shareholding through a controlled corporation*: 10 000
Options*: 22 000

Tom Mackin
President of Rapala USA
Rapala Executive Committee member since 2007
Shareholding*: 3 000
Indirect shareholding through a controlled corporation*: 10 000
Options*: 22 000

Lars Ollberg
Head of Fishing Line and Accessory Business
Rapala Executive Committee member since 2008
Shareholding*:
Indirect shareholding through a controlled corporation*: 30 000
Options*: 13 000

Jouni Grönroos was a member of the Executive Committee from May 9, 2005 until October 31, 2010.

*Shareholdings and options on December 31, 2010. Options include synthetic options.

Other Group Key Managers

LURES
Jari Kokkonen, Sales
Teemu Mäkelä, Marketing – Lures, Fishing Lines and Accessories
Jukka Sairanen, Research & Development – Rapala
Arto Nygren, Vääksy Factory
Rauno Rantanen, Pärnu Factory
Marina Sharapova, Sortavala Factory
Björn Flogerhagen, Willtech Fishing Products
Kevin Au, Willtech Lures Factory
Marcus Twidale, Dynamite Baits Factory and Distribution in Great Britain

FISHING HOOKS
Cyril Alexeline, Sales and Marketing (Europe)
Cyrille Mathieu, Sales and Marketing (USA)
Rodolphe Jacques, Asian operations

FISHING ACCESSORIES
Päivi Ohvo, Marttiini Knives
Brian Wong, Willtech Accessories
Peter Nordlander, Sourcing, Distribution in China, Taiwan and South-Korea

OTHER PRODUCTS
Juhani Eskelinen, Peltonen Cross Country Skis
Cynthia Foong, Willtech Gift Products
Tapio Nirkkonen, KL-Teho Parts and Products

ADMINISTRATION
Esko Jäntti, Group Funding and Vääksy Factory
Anu Koskinen, Group Reporting and Control
Nina Serlachius, Group Supply Chain Management

DISTRIBUTION
Gregg Wollner, USA
Nancy Adelmann, USA
John Newton, Canada
Philippe Guigo, France
Jean-Philippe Nicolle, France and VMC
Janne Paukkunen, Spain, Portugal and South America
Saku Kulmala, Finland
Matts Baum, Sweden
Nils Larsen, Denmark
Hasse Coucheron-Aamot, Norway and Iceland
Thomas Brumann, Switzerland
Victor Skvortsov, Russia
Mikko Häikiö, Czech, Slovakia,Poland and Ukraine
Mirek Adamski, Poland
Roman Sereda, Ukraine
Remigijus Zubavicius, Lithuania
Vitas Miskinis, Baltic countries and Belarus
Daniel Sirucka, Czech Republic
Mati Banhard, Estonia
Hannu Murtonen, Hungary
Dorel Tomescu, Romania
Manabu Kimoto, Japan
Leong Loke, Malaysia and Thailand
Jay Choi, South Korea
Aku Valta, Australia and Southeast Asia
Grant Pledger, South Africa
Mark Pledger, South Africa

CORPORATE GOVERNANCE STATEMENT

Rapala's Corporate Governance is based on Finnish Companies Act, other regulations concerning publicly listed companies, Rapala's Articles of Association and the rules and instructions concerning listed companies of the NASDAQ OMX Helsinki. Rapala adheres to the Finnish Corporate Governance Code, which is publicly available e.g. on the website of the Securities Market Association at www.cgfinland.fi. The full version of Rapala's Corporate Governance document, as well as this Corporate Governance Statement, is available at the website www.rapala.com. This Corporate Governance Statement is presented separately from the Review of the Board of Directors (Board), which can be found on pages 36–38.

General Meeting

The General Meeting is the highest decision-making body of a limited company where the shareholders participate in the supervision and management of the company. The Annual General Meeting (AGM) decides on the matters stipulated in the Companies Act and Rapala's Articles of Association.

The Group President, the Chairman of the Board and a sufficient number of Directors shall attend the General Meeting. A person nominated for the first time to be elected as a member of the Board shall participate in the General Meeting where the election takes place unless there are well founded reasons for the absence.

The AGM of the Company is held once a year. According to the Articles of Association, the AGM shall be held before the end of June. An extraordinary General Meeting is to be convened when necessary. The shareholders exercise their rights of vote and action at the General Meeting. Each share is entitled to one vote in the AGM.

Under the Articles of Association the shareholders of the Company are invited to the General Meeting by publishing the invitation and the agenda in a widely circulated daily paper and on the Company website as decided by the Board. The invitation to the Annual General Meeting shall state the matters to be handled at the General Meeting. The minutes of the AGM are published on Rapala's website at www.rapala.com.

More information on the AGM is found in the Annual Report's section "Shareholder information" and on the Company website.

Board of Directors

The members of the Board are elected by the AGM. The term of a member of the Board lasts until the next AGM. The Board elects the Chairman to serve until the next AGM.

The duties and responsibilities of the Board are principally based on the Finnish Companies Act and the Company's Articles of Association. All significant issues concerning the Company are decided by the Board. These include, but are not limited to, appointing and removing the CEO, approving strategic guidelines, financial statements, interim reports, business plans, annual budgets, stock exchange releases and considerable investments or divestments.

The Articles of Association provide that the Board consists of no fewer than five and no more than ten members. A person elected as a member of the Board shall have the qualifications required to perform the Director's duties and the possibility to devote sufficient time to the work. The current Board comprises seven members: two members dependent on the Company: the Group President & CEO, the Head of Rapala's Chinese Manufacturing Operations and Hong Kong Office, and five non-executive members: Mr. Emmanuel Viellard, Mr. Eero Makkonen, Mr. Jan-Henrik Schauman, Mr. Marc Speeckaert and Mr. Christophe Viellard. In addition, all members of the Board, other than Mr. Emmanuel Viellard, Mr. Christophe Viellard and Marc Speeckaert, are independent of significant shareholders of the Company. Group President & CEO as well as Head of Group Chinese Manufacturing Operations and Hong Kong Office are members of the Board in addition to their executive positions. Their membership in the Board is based on their significant shareholding in the Company as well as a broad know-how and long-term experience in fishing tackle industry. Nor does Rapala follow the Corporate Governance Code of having both genders represented on the Board of Directors. According to the majority of shareholders the current composition and the number of Rapala's Board members is sufficient considering Rapala's operations. The Board does not have deputy members.

During the financial year 2010, the Board met 15 times. The average attendance rate at these meetings was 90.5%.

More information on Board members can be found on page 96.

Board Committees in 2010

In 2010, the Board had only one Board committee, the Remuneration Committee. The Remuneration Committee operates under its charter and its main responsibility is to prepare the decisions of the Board relating to the remuneration of key employees of the Group. The Committee's other tasks include reviewing and making recommendations with respect to the terms of employment of the CEO and reviewing the remuneration packages of the Executive Committee members and some other senior managers.

The Remuneration Committee is chaired by the Chairman of the Board, Emmanuel Viellard. Its members are drawn from the Company's non-executive and independent Directors and currently consist of Eero Makkonen and Jan-Henrik Schauman. Committee members' appointments run concurrently with a Director's term as a member of the Board. In 2010, the Committee met one time. The attendance rate at this meeting was 100%.

Since the Company does not have a separate Audit Committee, the entire Board is responsible for the tasks of an Audit Committee. These include the control of the financial reporting, external accounting, internal control and risk management issues. Of the seven Board members, at least three have the necessary financial expertise to assume these duties. The Board is regularly in contact with the auditors of the Company.

The Board has not appointed a Nomination Committee due to the size of the Group and the significant shareholding represented by the current members of the Board. Nomination issues are managed by the Board.

President and CEO

The CEO is appointed by the Board. Since 1998, Mr. Jorma Kasslin has acted as the CEO and as a member of the Board.

The CEO also acts as the Group's President. The duties and responsibilities of the President are set forth in the Finnish Companies Act. The President & CEO is responsible for the day-to-day management of the Group in accordance with the instructions and rules given by the Board. Unless separately authorized by the Board, the CEO shall not take actions, which may be considered unusual or far-reaching in view of the scope and nature of the Company's business. The CEO is entitled to represent the Company in any matter within his/her authority. The CEO chairs the Executive Committee. The CEO's service terms and conditions have been specified in writing in a service agreement approved by the Board.

Executive Committee

The Executive Committee assists the CEO in planning and managing the operations of the Group. The members of the Executive Committee report to the CEO. The Executive Committee convenes under the leadership of the CEO and is composed of different Executive Committee members depending on the matters at hand.

More information on Executive Committee members can be found on page 97.

Business Organization

The Group comprises the parent company and the manufacturing and distribution subsidiaries. The head offices of the Group are located in Helsinki and Brussels. The share of the Company is quoted on the NASDAQ OMX Helsinki. The Group's business organization consists of three operating segments: Group Fishing Products, Other Group Products and Third Party Products.

Remuneration

In 2010, the annual fee to the Chairman of the Board was EUR 60 000 and the fee to other Board members was EUR 30 000. The members of the Remuneration Committee do not receive further compensation. Members of the Board are paid a daily travel allowance and reimbursed for travel expenses corresponding to the Company's traveling compensation principles.

The monthly salary of the CEO is EUR 23 542. The CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus accrued for 2010 totaled EUR 153 464. In addition to the mandatory pension insurance, the CEO has the right to receive further compensation of EUR 8 400 annually to be placed in a voluntary pension scheme or a similar arrangement. The retirement age and pension of CEO are determined in accordance with the legislation in force. The Company shall give notice at any time or using 24 months notice period and the CEO shall give notice 3 or 6 months prior to terminating the service contract. The term of notice is dependent on the cause for termination of employment. If the service agreement is terminated by the Company without a cause, the CEO is entitled to severance compensation corresponding to 24 months' salary (excluding profit bonuses). The Remuneration Committee prepares and makes proposals to the Board of Directors for the compensation of the CEO. The Board approves the compensation of the CEO.

The CEO and senior management of the Group participate in the Group's senior management bonus scheme. Every year, a profit bonus scheme is established for the following year. The amount and payment of the bonus requires that EBITDA and cash flow targets set by the Board are achieved. If the targets are not achieved, payment of bonus is fully at the discretion of the Board. Bonuses awarded under the scheme are paid in two installments, the first when the audited results for the relevant financial year are known and the second after a predetermined vesting period of few months, to encourage retention of senior management.

For compensation of the Board, the CEO and the Executive Committee, see note 28 in the consolidated financial statements. Shareholdings and options of the Board, the CEO and the Executive Committee are given on pages 96–97. Remuneration Statement it is available at Rapala's website www.rapala.com.

Responsibilities and Internal Control

The Group has a strong entrepreneurial and business oriented corporate culture that supports local decision making. This culture influences the set up of Group's internal control and management. The Group's management model is strongly based on people management, delegation of responsibility and recognition of differences in business environments, which all enable quick and flexible decision making. Instead of formal and heavily structured processes, the internal control of the Group is based on a flat and transparent organization where Group management is in frequent and personal interaction with Group companies. Number of personnel of Group management is relatively small, which enables focused and centralized information management and direct and tight relationships with operational and financial management of the business units. Business units are closely monitored through financial indicators and by observing the operative actions.

The Group comprises the parent company and the manufacturing and distribution subsidiaries. Group's internal controls and management are based on this legal structure. Responsibility for the management of these subsidiaries rests with each company's Board of Directors, which typically comprises the Group CEO, the Group CFO, and the Company Counsel and the subsidiary's managing director. In addition, the Group subsidiaries have their own management teams which together with each subsidiary's managing director have responsibility over the operative decision making.

The CEO, the members of the Board of Directors, and the managing director of each Group company are responsible for ensuring that the accounting and administration in their respective areas of responsibility are in compliance with the local laws, the Group's operating principles, and the instructions and rules issued by the Board of Directors of the Company.

The aim of internal controls is to ensure the effectiveness and efficiency of the Group's operations, reliability of financial and operational reporting and compliance with the applicable regulations, practices and policies.

The Board of Directors monitors the business activities of the Company and is responsible for ensuring that accounting, reporting and asset management are appropriately organized.

The Group has a harmonized chart of accounts, uniform accounting principles (IFRS) and related reporting process. This year the Group adopted a Group wide information technology system, which improves the transparency of supply chain and inventories. The Group's financial management monitors the functionality and reliability of financial reporting process. The key instructions and regulations concerning financial reporting and risk management are available to managing directors and financial management of each subsidiary on Rapala finance intranet.

The Board of Directors monitors the Group's business risks on an ongoing basis. All Group companies report their financial performance and position at least once a month to the management that prepares for the Board of Directors a monthly management report, which explains the main recent developments in the business of the Group and the major Group companies.

Communication and personal interaction between Group management and subsidiaries is frequent and tight. Group management and managing directors and financial management of all subsidiaries meet several times during the year, where also business performance and internal control issues are reviewed. In addition representatives of Group management visit subsidiaries regularly in different assemblies. The purpose of these meetings is to share information mutually. These meetings enable Group management to monitor and give guidance to the subsidiaries.

Risks and Risk Management

Rapala Group's risks consist of strategic, operational and hazard risks as well as financial risks.

The main strategic risks relate to the status of sport fishing as a leisure time hobby, environmental issues affecting the fishing opportunities, success in developing new products, competitor actions, value of Group's brands, corporate reputation and other intangible assets, managing the costs and productivity, development of Group's strategic supplier partnerships, country and political risks as well as success in merger and acquisition projects.

The main operational risks relate to the effects the changes in economic cycles may have on consumer demand and customer behavior, annual seasonality of the business, weather, high interdependency between the Group's units and consequent supply chain, inventory and supplier management issues and availability of competent production labor. Group's main hazard risks relate to fire or other similar disaster scenarios, which could lead to property damages but also to business interruption losses throughout the supply chain.

The main financial risks relate to market prices, liquidity and counterparty risks. The main market price risks relate to foreign exchange rates, interest rates and raw material prices. Liquidity risks relate to availability of sufficient funding even at the peaks of the seasons. Counterparty risk relates to creditworthiness of customers and other counterparties, such as banks.

The objective of Rapala's risk management is to support the implementation of the Group's strategy and execution of business targets. This is done by monitoring and mitigating the related threats and risks while simultaneously identifying and managing opportunities. The Board evaluates the Group's financial, operational and strategic risk position on a regular basis and establishes related policies and instructions to be implemented and coordinated by Group management.

The CEO and Group Risk Management continuously monitor changes in business environment and coordinate the management of the Group's strategic, operational and financial risks. Group Risk Management consists of Group CFO, Group Funding Manager and Financial Analyst and convenes on a regular basis. The daily risk management activity is primarily allocated to the management of the business units, who are responsible for managing the local strategic, operational and financial risks.

Internal Audit

The Group does not have a separate Internal Audit organization due to the size of the Group's operations. The Group Finance, lead by the CFO, is responsible for regular reviews of financial performance and internal control procedures at Group companies and reporting significant findings to the CEO and the Board. From time to time, management conducts or buys external services, if needed, to conduct specific and limited internal audits. The absence of an in-house internal audit organization is also taken into account in the external audit.

The managing director and controller of each subsidiary meet annually with the local auditor to discuss internal control and statutory compliance issues. The auditors of each subsidiary provide an audit opinion to the auditors of the Company at the conclusion of each annual audit. Each annual audit may also give rise to the preparation of a management letter to the Company outlining their audit findings in greater detail and recommending any improvements in internal controls. In addition, the auditors of the Company meet regularly the Group Management representatives of the Company to discuss and review the business and related financial, accounting, internal control and risk management issues.

Insider Administration

The Group's guidelines on insider administration follow the Guidelines for Insiders issued by the NASDAQ OMX Helsinki. Under the Group's guidelines on insider administration, both permanent and project specific insiders are subject to trading restrictions regarding the Company's securities. The permanent insiders as well as persons under their custody and the corporations controlled by them are prohibited from trading with the securities three weeks prior to the publication of an annual or quarterly report of the Company. The project specific insiders are prohibited from trading with the securities during their project participation. The Company arranges internal communication, training and supervision of insider issues.

Information on persons included in the public insider register can be found on the Company's website.

Audit

Ernst & Young is responsible for the audit of the majority of Group companies globally. The auditors of the parent company, Ernst & Young Oy, are responsible for instructing and coordinating the audit in all Group companies. The auditor in charge is Mikko Järventausta, CPA. The fact that the Group has no separate internal audit organization of its own is reflected in the scope and content of the audit.

SHAREHOLDER INFORMATION

Annual General Meeting

The Annual General Meeting (AGM) of Rapala VMC Corporation will be held at noon (12.00) on April 5, 2011 at Rapala Office, Arabiankatu 12, Helsinki, Finland.

Each shareholder who is registered in the Company's shareholder register maintained by Euroclear Finland Oy on March 24, 2011 has the right to participate in the AGM. A holder of nominee registered shares who wish to attend the AGM should give notice for temporary entry into the company's shareholders' register for participation in the AGM at the latest on the date of registration for the general meeting on March 31 at 10.00 AM (Finnish time). A holder of nominee registered shares is advised to request necessary instructions regarding the registration in the shareholder's register of the company, the issuing of proxy documents and registration for the general meeting from his/her custodian bank.

Shareholders who wish to attend the AGM must notify the Company no later than March 31, 2011 at 4 p.m. (Finnish time). Instructions for submitting notice of attendance, as well as additional information on the AGM, are available at www.rapala.com.

Financial Reporting Schedule in 2011

In 2011, Rapala will publish financial information as follows:

- 1st Quarter 2011 Interim Report on May 3, 2011
- 2nd Quarter 2011 Interim Report on July 27, 2011
- 3rd Quarter 2011 Interim Report on October 27, 2011

Contacts

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Analysts Covering Rapala

These analysts follow Rapala and prepare investment analysis on it.
These persons cover Rapala on their own initiative.

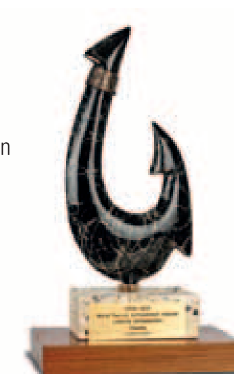
Evli	Mika Karppinen
Nordea	Rauli Juva
SEB Enskilda	Jutta Rahikainen
Swedbank	Tomi Tiilola
Ålandsbanken	Ville Lähde
Carnegie	Tommy Ilmoni
Pohjola	Jari Räisänen

Stock Exchange Releases, Announcements and Press Releases in 2010

October 21	Interim Report Q3
October 21	Financial Reporting in 2011
October 21	Rapala Continues to Buy Back Own Shares
August 27	Rapala Acquires Premium Carp Bait Company Dynamite Baits
August 6	Changes in Rapala's Executive Committee
July 22	Interim Report Q2
July 22	Rapala Continues to Buy Back Own Shares
July 22	Rapala's new Sufix 832 Fishing Line awarded in the USA
May 4	Rapala Receives IGFA's Life Time Achievement Award
April 27	Interim Report Q1
April 27	Rapala Continues to Buy Back Own Shares
April 14	Decisions of Annual General Meeting
March 25	Appointments in Rapala's East-European Distribution Organization
March 15	Annual Report and Corporate Governance Statement 2009
March 11	Notice to Convene the Annual General Meeting
February 4	Annual Accounts 2009
February 4	Rapala Continues to Buy Back Own Shares
January 29	Annual Summary 2009

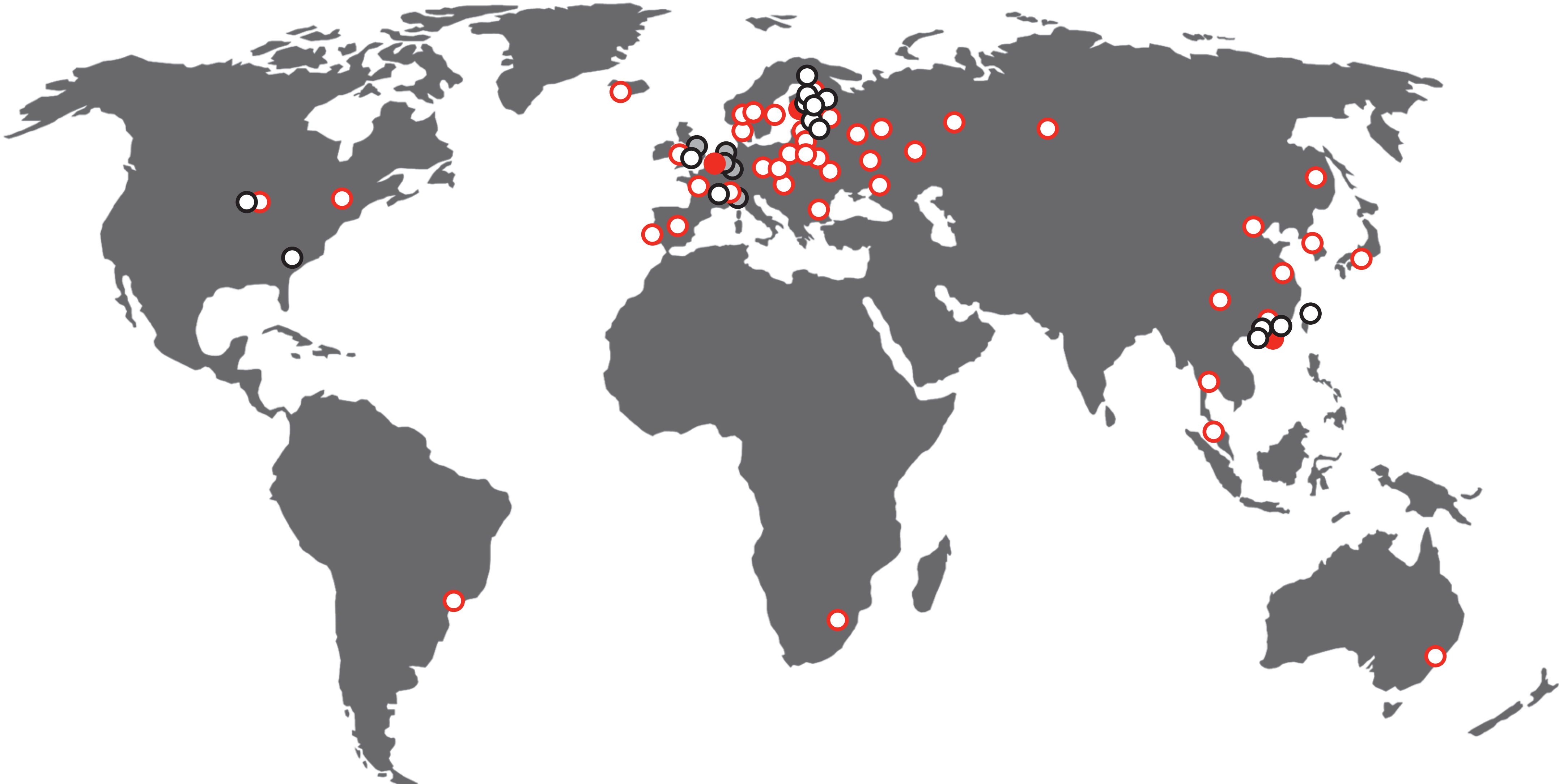
August 27

July 22


May 4

Full stock exchange releases, announcements and press releases are available at www.rapala.com. Rapala announced on February 4, 2010 and on April 27, 2010 as well as on July 22, 2010 and on October 21, 2010 that it continues to acquire its own shares. The Company has authorized a brokerage company to communicate these acquisitions. Releases related to these share buy-backs are available at www.rapala.com.

LOCATIONS OF BUSINESS OPERATIONS



Group manufacturing and sourcing units

Group distribution units

Group administration units

Shimano distribution units

EXAMPLES OF GROUP PRODUCTS

Rapala®

Rapala Clackin' Crank
Plastic Hard Bait

Rapala Flat Rap
Balsa Hard Bait

Rapala Fish 'N Fillet Knife

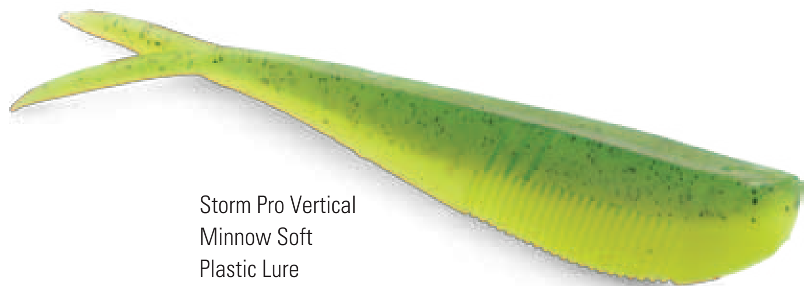
Rapala Touch
Screen Scale

Rapala Shallows Vest

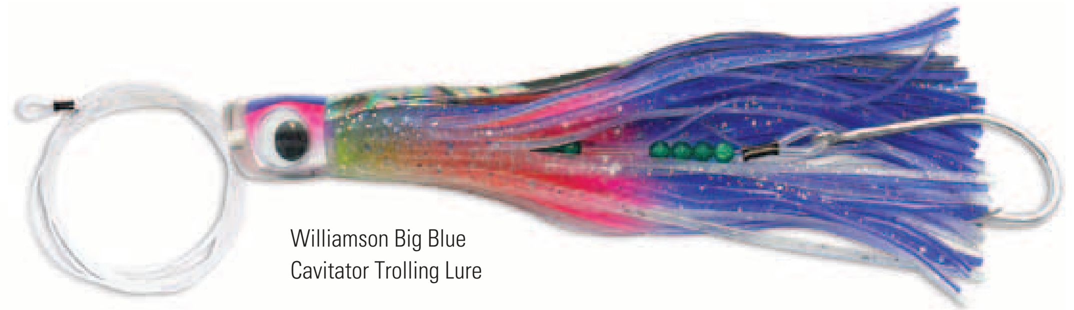
Rapala Waterproof
Tackle Bag

Storm Live
Kickin' Minnow
Hybrid Lure

Storm Wiggle
Wart Hard Bait



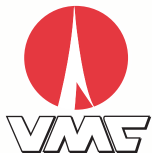
Storm Pro Vertical
Minnow Soft
Plastic Lure



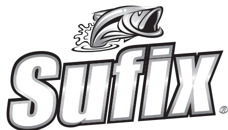
Williamson Big Blue
Cavitator Trolling Lure

Williamson Live Little
Tunny Trolling Lure

Examples of Group Products



VMC Spark Point
3 x Strong Treble Hook



Sufix 832 Braided Line

Blue Fox Vibrax Bullet
Fly Spinner

Luhr Jensen
Krocodile Spoon

Trigger X
Earth Worm Baits

Dynamite Baits Savoury Spice Attractants and Baits

Marttiini
The Sharpest Choice since 1928.

Marttiini Lynx Knife

PELTONEN

Peltonen Nanogrip CL Race Skis

Colormotion

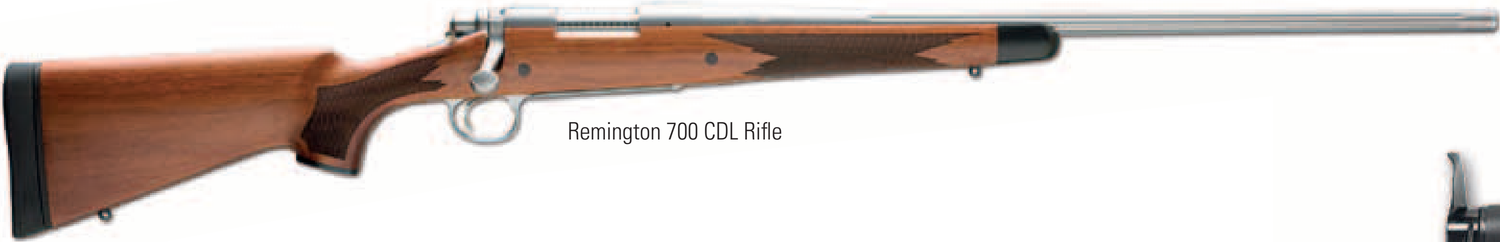
Color Motion Kooky Pen

EXAMPLES OF THIRD PARTY PRODUCTS

Bushnell Elite 4200
Rifle Scope

Magellan
Triton 2000
GPS Navigator

Minn Kota
Terrova 55
Electric Motor



Remington 700 CDL Rifle

Alpina Elite
CS Skating
Ski Boot

Rex Wizard Ski Pole

Shimano Stella
Spinning Reel

Plano 6103
Tackle Box

Humminbird 1197 GPS / Fish Finder

Shimano Lesath AX Rod

PRODUCTS IN THE IMAGES

Cover	Rapala Max Rap, CAD drawing
Page 7	Hand carved Original Rapala Floater, circa 1949
Page 9	Rapala Clackin' Minnow, CAD drawing
Page 11	Rapala Clackin' Minnow
Page 13	Vera Lounge Chair
Page 19	Rapala Max Rap
Page 21	Storm Live Kickin' Shad
Page 23	VMC Black Nickel treble hook
Page 25	Sufix 832 braided line construction
Page 27	Rapala Aluminum Pliers
Page 29	Peltonen Supra-X World Cup Racing Concept
Page 31	Shimano Stella 4000
Page 33	Remington 700 CDL DM

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Rapala Annual Report 2010

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www.rapala.com