

**RAPALA<sup>®</sup>**

Rapala VMC Corporation  
Financial Statements 2008

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# Review of the Board of Directors

## Market Situation and Sales

Year 2008 was a start for a challenging period in the fishing tackle business, although this industry is typically quite non-cyclical during recessions.

Market situation remained quite good for the first nine months of the year in Scandinavia, and very good in East Europe, whereas the last quarter was clearly affected by overall caution and uncertainty. Some markets in West Europe, and especially North America, suffered more than others from the downturn in the general economy. In the USA, the high petrol prices affected the peak season of fishing tackle but this effect softened with the decreasing fuel prices toward the end of the year. The general market conditions in Asia and Australia tightened during the second half of the year. Strong weakening of several currencies and the fluctuation of US dollar increased the uncertainty in the business environment.

Reported net sales for 2008 were just slightly above last year levels and amounted to EUR 243.0 million (2007: EUR 242.5 million). With comparable exchange rates net sales were up 4 %. Weakening of the US dollar, South African rand, Russian ruble and some other currencies decreased the net sales for the full year by EUR 9.1 million.

In the Nordic countries, net sales increased 10%. Boosted by continuous growth and strong performance in East Europe, net sales in Rest of Europe were also up 10%. Net sales in Rest of the world were 14% below last year mainly because of the weakening of US dollar and local currencies as well as the decline in general market conditions. As a result of the weak general economics, high fuel prices during the peak season and the weakening of the US dollar, net sales in North America decreased 14%. With comparable exchange rates, North American sales were down 8%.

The decrease of sales in North America affected strongly the net sales of Lures, which was down 11%. Net sales of Fishing Hooks decreased 9% and Fishing Lines 17%. Net sales of Fishing Accessories decreased 5%. Net sales of Third Party Fishing Products, boosted by increased sales of Shimano products in East Europe, were up 18%. Net sales of Other Products were up 3% mainly as a result of increased sales of hunting products in the Nordic countries. For more detailed segment information, see the note 2 to the consolidated financial statements.

## KEY FIGURES

EUR million	2008	2007	2006
Net sales	243.0	242.5	226.6
EBITDA	37.5	33.8	28.0
Operating profit (EBIT)	31.3	28.3	21.7
Profit before taxes	26.5	23.3	14.6
Net profit for the period	19.2	17.5	11.0
Net cash generated from operating activities	5.4	18.2	10.0
Total net cash used in investing activities	-6.8	-3.7	-14.7
Net interest-bearing debt at the end of the period	89.5	80.2	99.3
Equity-to-assets ratio at the end of the period, %	38.0	38.2	33.4
Debt-to-equity ratio (gearing) at the end of the period, %	86.4	82.8	122.2
Return on equity, %	19.2	19.7	14.1
Employee benefit expenses	57.5	65.0	54.1
Average personnel for the period, persons	4 143	4 577	3 987
Research and development expenses as a percentage of net sales, %	1.8	1.6	1.2
	0.7	0.7	0.5

## MANAGEMENT ANALYSIS

EUR million	2008	2007
<b>Net sales as reported</b>	<b>243.0</b>	<b>242.5</b>
Foreign exchange effects	9.1	
Comparable net sales	252.1	242.5
<b>Operating profit as reported</b>	<b>31.3</b>	<b>28.3</b>
Operating (profit) margin, %	12.9	11.7
Non-recurring items (net)	-0.8	-1.6
Foreign exchange effects	3.1	
Comparable operating profit	33.7	26.8
Comparable operating margin, %	13.3	11.0

## Financial Results

Operating profit for 2008 increased 11% to EUR 31.3 million (EUR 28.3 million). Also operating margin continued on the positive trend started in 2007 and increased to 12.9% (11.7%). Return on capital employed improved to 16.9% (15.9%). Operating profit was positively affected mainly by performance improvement actions and cost cuttings done in several manufacturing and distribution companies. The result also included a capital gain of EUR 1.4 million from the sale of the real estates in France and EUR 0.6 million of non-recurring costs related to the performance improvement and ongoing restructuring projects. The result also benefitted from decreased IFRS based option expenses. In 2007, operating profit included non-recurring gains of EUR +1.6 million (net).

Weakening of several currencies especially in the fourth quarter reduced the operating profit by EUR 3.1 million. The largest negative currency effects on operating profit in 2008 came from South African rand, Russian ruble and Canadian dollar. While the Group's net sales continue to be most sensitive to US dollar movements, its effect on operating profit has continuously decreased as a result of increased purchases in US dollar. The result of currency hedging related to operating profit (EUR +0.6 million) is booked in financial items. For more information on the management of financial risks, see the note 22 to the consolidated financial statements.

Comparable full year operating margin, excluding non-recurring items and foreign exchange effects, improved clearly from 2007 and reached 13.3% (11.0%).

Operating profit increased in Nordic countries and Rest of Europe. Comparable profitability of Nordic countries improved in line with improved sales and as a result of performance improvement actions. Improvement in operating profit in Rest of Europe was boosted by increased sales in East Europe and the French capital gains on real estate sales. Profitability in Rest of the world suffered mainly from the weakened South African rand and Australian dollar, strengthening of yuan as well as decreased sales in few Asian countries. Operating profit in North America suffered from the reduced sales. For more detailed segment information, see the note 2 to the consolidated financial statements.

Financial income and expenses were EUR -4.8 million (EUR -5.0 million). Net interest expenses were EUR 5.1 million (EUR 5.7 million) and currency exchange gains EUR 0.4 million (EUR 0.9 million). Most significant income and expenses recognized directly in equity are disclosed in the consolidated statement of changes in equity and note 19 to the consolidated financial statements.

Net profit for the year increased to EUR 19.2 million (EUR 17.5 million). Minority interest increased to EUR 1.6 million (EUR 0.3 million) as a result of the distribution joint venture with Shimano in the East Europe. Accordingly, earnings per share were on last year level at 0.45 EUR (0.45 EUR). For more share related and other key figures for 2004–2008, see pages 41 and 42. Definitions of key figures are on the page 16.

### Cash Flow and Financial Position

Cash flow from operating activities decreased from last year as a result of increased working capital. Increase in working capital came mainly from inventories, which increased EUR 16.7 million from previous year mainly as a result of decline in sales in the USA and few other countries as well as the new inventories built for the acquired Suffix fishing line business. A major working capital initiative was started in November to reduce inventories markedly in 2009.

Cash used in investing activities amounted to EUR 6.8 million (EUR 3.7 million). In addition to normal capital expenditure (EUR 7.1 million), it included the first installment (EUR 1.5 million) of the consideration for the acquired Suffix fishing line brand, increase of ownership in three Group companies and payments relating to old acquisitions (EUR 0.5 million) and proceeds from sale of assets (EUR 2.2 million). For more detailed information on acquisitions and disposals, see the note 3 to the consolidated financial statements.

Net interest-bearing debt increased to EUR 89.5 million (Dec 2007: EUR 80.2 million). The Group cash management was improved in 2008 by introducing international cash pooling. The first repayment (EUR 9.7 million) of the term-loan raised in 2006 was made in October. The liquidity of the Group remained good throughout the year and was further improved by raising a EUR 5 million pension loan in December. The commercial paper market collapsed during the second quarter of the year but started to recover gradually during the second half of the year. At the end of 2008, the Group had unused revolving credit facilities of EUR 23.5 million.

Equity-to-assets ratio remained at last year levels at 38.0% (Dec 2007: 38.2%) and gearing increased to 86.4% (Dec 2007: 82.8%).

### Strategy Implementation - Growth

During the year, the management continued discussions and negotiations regarding acquisitions and business combinations to further implement the Group's strategy for profitable growth. Development of organic growth also in terms of new product lines, extensions of current product categories as well as special marketing, sales and brand initiatives continued.

In July, Rapala and Yao I Co Ltd ("Yao I"), one of the leading manufacturers of fishing line in the world having its operations in Taiwan and China, concluded an exclusive supply agreement for the supply of fishing lines. In connection to this arrangement, Yao I sold its Suffix brand, including all intangible assets relating to Suffix branded and other fishing line business (excluding manufacturing related) to Rapala.

According to the terms of this exclusive supply agreement, after an interim period and under certain conditions, Rapala alone will be selling fishing lines manufactured by Yao I and Yao I will be manufacturing fishing lines for Rapala only, including subcontracted fishing lines for third party customers (OEM).

Suffix brand is very well known around the world already for more than 20 years. The largest market for Suffix is currently in the USA but the brand is well represented also in Europe, Asia and Oceania. As part of the deal, Rapala acquired the Suffix branded fishing line inventory from Suffix North America. Transfer and integration of Suffix business to Group companies around the world is proceeding on plan and the shipments of 2009 products have started through the Group distribution network.

Rapala aims to expand its fishing line sales in the next 2-3 years to above EUR 20 million. The strategic long-term target is to increase the fishing line sales to EUR 30-40 million and gain a significant market share of the global fishing line business. In 2008, the sales of Group-branded fishing lines were some EUR 5 million. In addition, Rapala sold some third party fishing lines.

The consideration for the Suffix brand, including all intangible assets relating to Suffix branded and other fishing line businesses, was USD 10 million. The consideration will be settled over a period of seven years, starting from 2008.

Strategic distribution alliance with Shimano continued to strengthen the Group's position in the fastest growing fishing tackle markets in Eastern Europe. In January 2008, Rapala started to distribute Shimano fishing tackle through its joint venture distribution company in Russia and Ukraine and, in September, in Czech Republic as well as through its sales office in Slovakia. Another new step in this cooperation took place in September

when Shimano started to distribute Rapala's products in the UK.

During the year, the Group opened two new sales offices in Russia, in Khabarovsk and Ekaterinburg. These offices are expected to contribute positively in the development of Russian fishing tackle market and distribution. After these, the Group has eight regional sales offices in Russia.

During 2008, the Group increased its shareholding in its distribution company in Thailand from 80% to 100% and in Lithuania from 82% to 100%. In Finland, the Group's ownership in the cross-country ski manufacturer Peltonen Ski was increased from 80% to 90%.

### Strategy Implementation - Profitability

Strong emphasis on performance improvement initiatives continued during 2008.

After closing the lure manufacturing unit in Ireland in April and completing the ramp-up of the lure assembly factory in Russia, the Group's European lure manufacturing operations started to contribute to the financial performance of the Group. After the restructuring, the full year savings are estimated to be EUR 0.7 million. The next step is to increase production volumes in the lure factories in line with the market demand.

The consolidation of France operations proceeded on plan and the moves of distribution unit Waterqueen and fishing line supplier Tortue to Morvillars were completed during the third quarter. Results of this initiative started to capitalize gradually during the fourth quarter. The consolidation will be finalized when the hook distributor VMC Europe completes its move into joint premises during next summer. After all relocations have been made and the new organisation is fully operational, the annual savings in France are expected to be EUR 1-2 million.

The performance improvement initiatives at the Group's manufacturing facilities in China proceeded with major operational changes. The physical separation of fishing tackle and gift businesses into separate premises and organizations made it possible to strongly and quickly develop processes separately for these two business lines. As a result of streamlining the operations, increasing subcontracting and cutting the capacity to more quickly adjust to and, more accurately meet the market requirements, the Group has reduced the headcount in China by some 1000 persons since June.

Also several smaller performance improvement initiatives were implemented in 2008 and their positive effects started to improve the Group's financial performance already during the year.

## Personnel and R&D

Number of personnel decreased 27% mainly during the second half of the year and was 3 197 (4 356) at the year end. This change is mainly due to the performance improvement initiatives and increased use of subcontracting in the Group's manufacturing unit in China. At the same time, the Group has further strengthened its organizations in the fastest growing markets. The average number of personnel decreased to 4 143 (4 577). For more detailed information on personnel see note 7 to the consolidated financial statements.

Research and development expenses increased 13% to EUR 1.8 million (EUR 1.6 million) in 2008.

## Risk Management and Environmental Affairs

The Group's emphasis and work on risk management and environmental affairs continued to increase in 2008. The work to further develop and implement environmental measurements progressed during the year. The principles for Group's risk management and environmental affairs as well as the work done and progress made in these areas are described in more detail in the sections "Risk Management" and "Environmental Affairs" attached to the consolidated financial statements.

## Shareholders and Corporate Governance

For information on shareholders, shareholder agreement, shares, options, board authorizations and corporate governance, see the sections "Shares and Shareholders" and "Corporate Governance" attached to the consolidated financial statements. Transactions with related parties are disclosed in the note 28 to the consolidated financial statements. Subsidiaries owned directly or indirectly by the parent company as well as foreign branches are listed in the note 33.

## Short-term Outlook

Market outlook for 2009 looks challenging. The slowdown and uncertainty in the US and European economies as well as in many Asian countries is expected to continue in the coming months. Fishing tackle business has typically been quite non-cyclical during recessions, which together with the Group's strong brands and distribution power raises cautious optimism even in the current market situation. In the history, fishermen and fisherwomen have continued their activity even in uncertain economic times and, therefore, the healthy demand for the Group products is expected to continue also in 2009.

In this business environment, it is expected that the net sales for 2009 will be at previous year levels or somewhat above. Excluding non-recurring

items, the target is to maintain the operating margin close to the good levels reached in 2008. The uncertainties are though now clearly higher than before.

While the Group continues to implement its strategy for profitable growth, the Group management will increase its emphasis on working capital management with a target to reduce the inventory levels markedly in 2009 by developing the Group supply chains and changing ways of working in production planning and internal order management. Increasing cash flow from operating activities will be one of the key themes in 2009 together with the finalization of the ongoing performance improvement initiatives and integration of the new fishing line business.

At the year end, the Group order backlog was at last year levels at EUR 34.5 million (EUR 35.2 million).

## Proposal for Profit Distribution

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.19 for 2008 (2007: EUR 0.18) per share be paid from the Group's distributable equity and that any remaining distributable funds be allocated to retained earnings. At December 31, 2008, the parent company's distributable equity totaled EUR 50.1 million.

No material changes have taken place in the Group's financial position after the end of the financial year 2008. 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 6, 2009

Board of Directors of Rapala VMC Corporation

# Auditors' Report

## 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 on December 31, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity 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.

## The Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with 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 perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 and the Managing Director of the parent company have complied with the Limited Liability Companies Act.

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 of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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.

The audit was performed in accordance with good auditing practice in Finland. 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, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company 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, February 12, 2009

Ernst & Young Oy  
Authorized Public Accountant Firm

Mikko Järventausta  
Authorized Public Accountant

## CONSOLIDATED INCOME STATEMENT

EUR million	Note	2008	2007
Net sales	2	243.0	242.5
Other operating income	4	3.1	6.7
Change in inventory of finished products and work in progress		15.6	12.7
Production for own use		0.1	0.1
Materials and services	6	-118.4	-114.9
Employee benefit expenses	7	-57.5	-65.0
Other operating expenses	5	-48.3	-48.3
Operating profit before depreciation and impairments		37.5	33.8
Depreciation and impairments	8	-6.2	-5.4
Operating profit		31.3	28.3
Financial income	10	6.6	4.6
Financial expenses	10	-11.4	-9.6
Share of results in associated companies	14	0.0	0.0
Profit before taxes		26.5	23.3
Income taxes	11	-7.3	-5.8
Net profit for the period		19.2	17.5
<b>Attributable to</b>			
Equity holders of the Company		17.7	17.3
Minority interest		1.6	0.2
<b>Earnings per share</b>	30		
Earnings per share, EUR		0.45	0.45
Diluted earnings per share, EUR		0.45	0.45
Weighted average number of shares, 1000 shares		39 403	38 781
Diluted weighted average number of shares, 1000 shares		39 403	38 781

## CONSOLIDATED BALANCE SHEET

EUR million	Note	2008	2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	13	43.8	43.4
Trademarks	13	10.5	4.1
Customer relations	13	1.4	1.7
Other intangible assets	13	1.9	1.9
Land	12	1.6	1.7
Buildings	12	8.2	8.1
Machinery and equipment	12	13.4	12.9
Other tangible assets	12	4.7	4.8
Advance payments and construction in progress	12	0.9	0.9
Investment in associated companies	14	0.0	0.0
Available-for-sale investments	15	0.5	0.6
Interest-bearing receivables	17		0.0
Non-interest-bearing receivables	17	0.2	0.1
Deferred tax assets	11	7.5	8.0
Total non-current assets		94.6	88.1
<b>Current assets</b>			
Inventories	16	98.4	84.3
Trade and other non-interest-bearing receivables	17	48.1	52.2
Income tax receivable		1.5	0.7
Derivatives	17, 22	0.3	
Interest-bearing receivables	17	0.0	0.1
Cash and cash equivalents	18	30.6	27.3
Total current assets		178.9	164.6
Assets classified as held-for-sale	12		0.9
Total assets		273.4	253.7

## CONSOLIDATED BALANCE SHEET

EUR million	Note	2008	2007
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		3.6	3.6
Share premium fund		16.7	16.7
Fair value reserve		-0.3	0.0
Fund for invested non-restricted equity		4.9	4.9
Own shares		-0.9	
Retained earnings		60.0	53.6
Net income for the period		17.7	17.3
Equity attributable to equity holders of the Company	19	101.7	96.0
Minority interest		1.9	0.9
Total equity		103.7	96.9
<b>Non-current liabilities</b>			
Interest-bearing liabilities	24	42.4	49.8
Non-interest-bearing liabilities	25	4.0	
Employee benefit obligations	20	0.8	0.7
Option programs to be settled in cash	29	0.1	0.4
Deferred tax liabilities	11	5.6	5.3
Provisions	21	0.0	0.1
Derivatives	22, 24	0.4	0.0
Total non-current liabilities		53.3	56.3
<b>Current liabilities</b>			
Interest-bearing liabilities	24	78.1	58.3
Trade and other non-interest-bearing payables	25	37.7	37.0
Income tax payable		0.5	1.8
Provisions	21	0.1	3.2
Derivatives	22, 24		0.1
Total current liabilities		116.4	100.5
Total shareholders' equity and liabilities		273.4	253.7



## CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	2008	2007
Net profit for the period		19.2	17.5
<b>Adjustments</b>			
Income taxes	11	7.3	5.8
Financial income and expenses	10	4.8	5.0
Reversal of non-cash items			
Depreciation and impairments	8	6.2	5.4
Option programs	7, 29	-0.2	0.7
Exchange rate differences	10	-0.8	0.2
Share of results in associated companies	14	0.0	0.0
Gains/losses on disposals of intangible, tangible assets and subsidiaries		-1.3	-5.3
Change in provisions and employee benefits		-3.1	3.3
Other items			-0.3
Interest paid		-6.2	-6.7
Interest received		0.7	1.0
Income taxes paid		-8.0	-5.6
Other financial items, net		-0.5	0.2
Total adjustments		-1.1	3.7
<b>Change in working capital</b>			
Change in receivables		3.1	-1.0
Change in inventories		-16.7	-12.1
Change in liabilities		0.9	10.0
Total change in working capital		-12.7	-3.1
Net cash generated from operating activities		5.4	18.2
<b>Net cash used in investing activities</b>			
Acquisition of intangible assets	13	-0.3	-0.2
Proceeds from sale of tangible assets	12	2.2	0.4
Acquisition of tangible assets	12	-6.8	-7.0
Acquisition of available-for-sale investments	15		0.0
Acquisition of Sufix trademark	3, 13	-1.5	
Acquisition of subsidiaries, net of cash	3	-0.5	-2.7
Proceeds from disposal of subsidiaries, net of cash	3		5.9
Change in interest-bearing receivables		0.0	-0.2
Total net cash used in investing activities		-6.8	-3.7

EUR million	Note	2008	2007
<b>Net cash generated from financing activities</b>			
Dividends paid		-6.9	-4.6
Proceeds from share subscriptions			5.0
Purchase of own shares		-0.9	
Non-current loan withdrawals		4.0	0.1
Current loan withdrawals		42.2	16.9
Non-current loan repayments		-9.7	-0.8
Current loan repayments		-23.0	-27.5
Payment of finance lease liabilities		-1.6	-0.1
Total net cash generated from financing activities		4.1	-11.1
<b>Adjustments</b>			
Change in cash and cash equivalents		3.6	3.8
Cash and cash equivalents at the beginning of the period		27.3	24.4
Foreign exchange rate effect		-0.4	-0.9
Cash and cash equivalents at the end of the period	18	30.6	27.3

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million	Attributable to equity holders of the Company								Total equity
	Share capital	Share premium fund	Fair value reserve	Fund for invested non-restricted equity	Own shares	Translation differences	Retained earnings	Minority interest	
Equity on Jan. 1, 2007	3.5	16.7	0.1			-7.1	67.6	0.6	81.3
Change in translation differences						-3.4			-3.4
Gains and losses on cash flow hedges, net of tax			0.0						0.0
Gains and losses on hedges of net investments, net of tax						0.7			0.7
Net income recognized directly in equity			-0.1			-2.7			-2.7
Net profit for the period							17.3	0.3	17.5
Total recognized income and expenses			-0.1			-2.7	17.3	0.3	14.8
Private offering	0.1			4.9					5.0
Dividends paid							-4.6		-4.6
Shares subscribed with options	0.0	0.0							0.0
Share option program							0.4		0.4
Other changes							0.0	0.1	0.1
Equity on Dec. 31, 2007	3.6	16.7	0.0	4.9		-9.8	80.6	0.9	96.9
Change in translation differences						-1.2			-1.2
Gains and losses on cash flow hedges, net of tax			-0.2						-0.2
Gains and losses on hedges of net investments, net of tax						-2.8			-2.8
Fair value changes on available-for-sale investments, net of tax			-0.1						-0.1
Net income recognized directly in equity			-0.3			-4.0			-4.3
Net profit for the period							17.7	1.6	19.2
Total recognized income and expenses			-0.3			-4.0	17.7	1.6	14.9
Purchase of own shares					-0.9				-0.9
Dividends paid							-6.9		-6.9
Share option program							0.1		0.1
Other changes							0.0	-0.5	-0.5
Equity on Dec. 31, 2008	3.6	16.7	-0.3	4.9	-0.9	-13.8	91.5	1.9	103.7

## 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 Helsinki stock exchange since 1998. The parent company Rapala VMC Oyj and its subsidiaries ("Rapala" or "the Group") operate in 30 countries and the Company is one of the leading fishing tackle companies in the world.

The Board of Directors of the Company has approved these financial statements for publication at its meeting on February 6, 2009. 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](http://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, 2008. The term 'IFRS standards' refers to standards and interpretations of these in Finnish legislation and provisions based on this approved for applying in the EU in accordance with the procedure established in EU regulation (EY) 1606/2002. 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 2008 the following new interpretations, which did not have impact on the Group's financial statements:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements (the interpretation has not yet been approved for application in the EU)
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has not early adopted any new or amended standards or interpretations.

#### ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN 2009–2010

The Group will adopt in 2009 the following new and amended standards and interpretations issued in 2007–2008:

- IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1, 2009). According to the standard, segment information would be required to be reported on the basis that management uses internally for evaluating operating segment performance and deciding how to allocate resources to operating segments (management approach). Such information may be different from that reported in the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the income statement and balance sheet. The Group's IFRS 8 based segments will be the following three: Group Fishing Products, Other Group Products and Third Party Products. This will have an impact on disclosures to Group's financial statements.
- IAS 1 Presentation of Financial Statements (amendment) (effective for annual periods beginning on or after January 1, 2009). This revised standard brings changes to definitions and presentation of consolidated financial statement calculations. However, the revision does not change the recognition and measurement of transactions and events, or existing Group disclosures. The Group estimates that this will affect the presentation of consolidation financial statements, especially the presentation of Group's consolidated income statement and statement of changes in equity.
- IAS 23 Borrowing costs (amendments) (effective for annual periods beginning on or after January 1, 2009). This revised standard requires capitalizing borrowing costs as part of the cost of assets that take a substantial period of time to get ready for use or sale. The Group estimates that amendment will not impact the Group's financial statements.
- IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (amendment) (effective for annual periods beginning on or after July 1, 2008). This revised allows to reclassify certain financial instruments out of the "held for trading" category into "held to maturity", "loans and receivables" or "available for sale". The reclassification will change the subsequent measurement of the transferred financial instrument. The Group estimates that amendment will not impact the Group's financial statements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008). This interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. The Group estimates that this adoption will not impact the Group's financial statements.
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009). This interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Group estimates that amendment will not impact the Group's financial statements. The interpretation has not yet been approved for application in the EU.
- IFRIC 16 Hedges of a Net Investment in a Foreign operation (effective for annual periods beginning on or after October 1, 2008). This interpretation applies

to entities that hedge the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. This interpretation provides guidance on identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation. The Group estimates that amendment will not impact the Group's financial statements. The interpretation has not yet been approved for application in the EU.

The Group will adopt in 2010 the following new and amended standards and interpretations issued in 2008:

- IFRS 3 Business Combinations (revision) and IAS 27 Consolidated and Separate Financial Statements (amendment) (effective for annual periods beginning on or after July 1, 2009). Amendments of standards IFRS 3 and IAS 27 will have significant impact on the accounting of business combinations. The main changes to existing requirements or practice are: measurement of non-controlling interests, step acquisitions, acquisition related costs and contingent consideration. The standard has not yet been approved for application in the EU.
- 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. The Group investigates the impact of this on the Group's financial statements. The interpretation 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 purchase method of accounting, according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The excess acquisition cost 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. In accordance with the exemption under IFRS 1, acquisitions prior to the IFRS transition date, January 1, 2004, have not been restated and these values are according to the previous financial statement standards. 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.

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 recog-

nized 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. Minority interest is presented separately from the net profit and disclosed as a separate item in the equity in accordance with the share of the minority interest. Minority interest of accrued losses is recognized in the consolidated financial statements up to a maximum of the amount of the investment. Acquisitions of minority interest are accounted for using the parent entity extension method, according to which the difference between the consideration and the carrying value of the share of the net assets acquired is recognized as goodwill. Disposals of minority interest are also accounted for using the parent entity extension method, according to which the Group's gain/loss from the disposal is recognized in the income statement. Calculation of Group's gain/loss from the disposal should also include the disposed share of previously recognized goodwill, which is also seen as being disposed of.

#### 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 part of a net investment in a foreign operation are recognized in a separate component of equity and recognized in profit or loss on disposal of the net investment.

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 are not euros, 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 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 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 good 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 equity 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. Any costs directly attributable to the business combination, such as professional fees, are included to the cost of an acquisition. 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 10 years and 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	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 are expensed as 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 as income as lower 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 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. 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. At present, the Group does not have any held-to-maturity financial assets.

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 in shareholders' equity. Changes in fair value are transferred from equity 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 directly in equity 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 income or 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 equity are released 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 standard and modified foreign currency forwards to which hedge accounting is not applied but which have been made to hedge operative cash flow exchange rate risk. Fair values of standard foreign currency forwards are determined by discounting the future nominal cash flows with relevant interest rates and then converting the discounted cash flows to the functional currency using spot rates. The fair values of modified foreign currency forwards are received from the bank.

The Group also has two interest rate swaps, of which one is 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 directly in translation differences of equity and the ineffective portion is recognized in financial income and expenses. Accumulated fair value changes recognized in equity are released into income 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 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 is when 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 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 equity is transferred to income statement.

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 directly in equity. 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 in France, Canada and Sweden only. 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*

The Group has applied the requirements of IFRS 2 (Share-based Payment) to all option programs granted after November 7, 2002 that were unvested as of January 1, 2005. The Group has two separate share-based payment programs: one share option program and one synthetic option program settled in cash. Share-based payments 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 cash settled option programs liability is remeasured at each balance sheet date with changes in fair value recognized in the income statement. The income statement effect of option programs is recognized in employee benefit expenses.

The expense of the options determined at the grant date reflects the Group's estimate of the number of options 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. These 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 number of shares 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. The Group has not decided on any option programs since the new Finnish Companies Act came into effect.

## DIVIDENDS

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.

#### **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 estimation uncertainty 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*

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 number of shares 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, an empty cell is used.



## DEFINITION OF KEY FIGURES

Operating profit before depreciation and impairments (EBITDA)	=	Operating profit + depreciation and impairments	Dividend/earnings ratio, %	=	$\frac{\text{Dividend for the period} \times 100}{\text{Net profit for the period attributable to the equity holders of the Company}}$
Net interest-bearing debt	=	Total interest-bearing liabilities - total interest-bearing assets	Equity per share, EUR	=	$\frac{\text{Equity attributable to equity holders of the Company}}{\text{Adjusted number of shares at the end of the period}}$
Capital employed	=	Total equity + net interest-bearing liabilities	Effective dividend yield, %	=	$\frac{\text{Dividend per share} \times 100}{\text{Adjusted share price at the end of the period}}$
Working capital	=	Inventories + total non-interest-bearing assets - total non-interest-bearing liabilities	Price/earnings ratio	=	$\frac{\text{Adjusted share price at the end of the period}}{\text{Earnings per share}}$
Total non-interest-bearing assets	=	Total assets - interest-bearing assets - intangible and tangible assets - assets classified as held-for-sale	Average share price, EUR	=	$\frac{\text{EUR amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$
Total non-interest-bearing liabilities	=	Total liabilities - interest-bearing liabilities	Year-end market capitalization, EUR	=	Number of shares at the end of the period x share price at the end of the period
Average interest rate on net interest-bearing debt, %	=	$\frac{(\text{Interest paid} - \text{interest received}) \times 100}{\text{Net interest-bearing debt}}$	Average number of personnel	=	Calculated as average of monthly averages
Net interest-bearing debt to EBITDA	=	$\frac{\text{Net interest-bearing debt}}{\text{Operating profit before depreciation and impairments}}$			
Return on capital employed (ROCE), %	=	$\frac{\text{Operating profit} \times 100}{\text{Capital employed (average for the period)}}$			
Return on equity (ROE), %	=	$\frac{\text{Net profit for the period} \times 100}{\text{Total equity (average for the period)}}$			
Debt-to-equity ratio (Gearing), %	=	$\frac{\text{Net interest-bearing liabilities} \times 100}{\text{Total equity}}$			
Equity-to-assets ratio, %	=	$\frac{\text{Total equity} \times 100}{\text{Total shareholders' equity and liabilities} - \text{advances received}}$			
Earnings per share, EUR	=	$\frac{\text{Net profit for the period attributable to the equity holders of the Company}}{\text{Adjusted weighted average number of shares}}$			
Dividend per share, EUR	=	$\frac{\text{Dividend for the period}}{\text{Adjusted number of shares at the end of the period}}$			

## 2. SEGMENT INFORMATION

The Group is led as a whole and not organized or managed in segments. For IFRS purposes, segments have though been established for financial reporting in accordance with IAS 14.

As a result of the strategically important acquisition of Sufix trademark and the additional emphasis on fishing lines Rapala added Fishing Lines to the product line based business segments.

Geographical segments (by unit location) provide products or services within a particular economic environment that is subject to risks and returns that are different from those of segments in other economic environments. Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Group's primary reporting segments are geographical segments, namely North America, Nordic, Rest of Europe, and Rest of the World. Secondary reporting segments are based on product lines, which are Lures, Fishing Hooks, Fishing Lines, Fishing Accessories, Third Party Fishing Products and Other Products. Third Party Fishing Products include non-Group branded fishing products, mostly rods, reels and fishing electronics. Other Products include non-Group branded (third party) products for hunting, outdoor and winter sports and Group branded products for winter sports and some other businesses. Pricing of inter-segment transactions is based on market prices.

### GEOGRAPHICAL SEGMENTS

<b>2008</b> EUR million	North America	Nordic	Rest of Europe	Rest of the World	Eliminations	Total
External net sales	57.2	64.4	85.8	35.6		243.0
Internal net sales	0.3	41.5	15.5	18.7	-76.0	
Net sales	57.5	105.9	101.3	54.3	-76.0	243.0
External net sales by destination	63.4	58.8	95.3	25.4		243.0
Operating profit	4.3	8.2	14.1	3.7	1.0	31.3
Financial income and expenses						-4.8
Income taxes						-7.3
Net profit for the period						19.2
Allocated assets	63.6	73.9	74.2	41.1	-18.3	234.5
Unallocated assets <sup>1)</sup>						38.9
Total assets						273.4
Allocated liabilities	7.5	29.0	22.9	17.2	-33.3	43.2
Unallocated liabilities <sup>1)</sup>						126.6
Total liabilities						169.7
Depreciation and impairments	-0.8	-1.7	-2.2	-1.6		-6.2
Capital expenditure	0.5	2.0	3.1	8.0		13.7
Non-recurring income and expenses	0.0	-0.2	1.0	0.0		0.8

<sup>1)</sup> Unallocated assets and liabilities include interest-bearing assets and liabilities as well as deferred tax assets and liabilities.

## GEOGRAPHICAL SEGMENTS

<b>2007</b>	North	Nordic	Rest of	Rest of the	Eliminations	Total
EUR million	America		Europe	World		
External net sales	66.5	64.5	72.8	38.6		242.5
Internal net sales	0.2	31.5	19.3	24.2	-75.2	
Net sales	66.7	96.0	92.1	62.9	-75.2	242.5
External net sales by destination	69.3	58.2	86.1	28.8		242.5
Operating profit	7.5	12.5	3.4	5.4	-0.3	28.3
Financial income and expenses						-5.0
Income taxes						-5.8
Net profit for the period						17.5
Allocated assets	61.2	68.7	64.2	35.0	-11.5	217.6
Unallocated assets <sup>1)</sup>						36.1
Total assets						253.7
Allocated liabilities	8.3	25.8	24.0	11.0	-25.8	43.3
Unallocated liabilities <sup>1)</sup>						113.5
Total liabilities						156.8
Depreciation and impairments	0.0	-1.7	-2.2	-1.5		-5.4
Capital expenditure	2.3	1.9	2.8	2.3		9.3
Non-recurring income and expenses	0.9	5.0	-4.3	0.1		1.6

1) Unallocated assets and liabilities include interest-bearing assets and liabilities as well as deferred tax assets and liabilities.

## BUSINESS SEGMENTS

<b>2008</b>								
EUR million	Lures	Fishing Hooks	Fishing Lines	Fishing Accessories	Third Party Fishing Products	Other Products	Eliminations	Total
Net sales	65.8	15.4	5.0	35.8	74.5	49.0	-2.5	243.0
Non-interest-bearing assets	106.3	14.9	12.5	33.8	49.9	24.6	-0.2	242.0
Interest-bearing assets								31.4
Total assets								273.4
Capital expenditure	2.3	1.2	6.5	0.6	1.3	1.8		13.7
<b>2007</b>								
EUR million	Lures	Fishing Hooks	Fishing Lines	Fishing Accessories	Third Party Fishing Products	Other Products	Eliminations	Total
Net sales	73.9	16.9	6.0	37.5	63.4	47.8	-3.2	242.5
Non-interest-bearing assets	102.3	14.6	6.2	30.5	43.4	28.9	-0.2	225.6
Interest-bearing assets								28.1
Total assets								253.7
Capital expenditure	4.3	0.6	0.2	0.7	1.3	2.2		9.3

### 3. ACQUISITIONS AND DISPOSALS

#### ACQUISITIONS IN 2008

Rapala increased its ownership in the Finnish cross country ski manufacturer Peltonen Ski Oy from 80% to 90% in January, ownership in the Lithuanian distribution company from 82% to 100% in March and ownership in the distribution company in Thailand from 80% to 100% in September.

In 2008, Rapala made the final payment of the Terminator acquisition (EUR 0.2 million) closed in 2007, the final payment of the Freetime acquisition (EUR 0.1 million) closed in 2005 and a payment of the minority acquisition of Normark Innovation Inc. (EUR 0.1 million) closed last year.

These acquisitions did not have an effect on Group's 2008 net sales and net income.

#### OTHER ACQUISITIONS IN 2008 - ACQUISITION OF SUFIX BRAND

On July, 2008, Rapala and Yao I Co Ltd ("Yao I"), one of the leading manufacturers of fishing line in the world having its offices in Changhua, Taiwan, and fishing line factories in Taiwan and China, concluded an exclusive supply agreement for the supply of fishing lines. In connection with this arrangement, Yao I sold its Sufix brand, including all intangible assets relating to Sufix branded and other fishing line business (excluding manufacturing related), to Rapala. The consideration for the Sufix brand, including all intangible assets relating to Sufix branded and other fishing line business, is USD 10 million and will be paid over the next seven years. In addition, Rapala paid USD 1.7 million for Sufix fishing line inventories in the USA.

EUR million	Note	2008		2007	
		Fair value	Seller's carrying value	Fair value	Seller's carrying value
Working capital				2.7	2.7
Intangible assets	13			0.7	0.1
Tangible assets	12			0.1	0.1
Deferred tax liability	11			-0.5	
Minority interest		0.1			
Fair value of acquired net assets		0.1		2.9	2.9
<b>EUR million</b>	<b>Note</b>	<b>2008</b>		<b>2007</b>	
Cash paid			0.1		1.5
Cash paid later			0.0		0.4
Costs associated with the acquisitions					0.1
Total purchase consideration			0.2		2.1
Excess of Group's interest in the net fair value of acquired net assets over cost			0.0		-1.0
Goodwill	13		0.0		0.2
Net			0.0		-0.9
Cash paid <sup>1)</sup>			0.4		2.7
Cash and cash equivalents acquired			-		-
Net cash flow			0.4		2.7

1) Cash paid in 2008 includes a final payment of EUR 0.2 million for the Terminator acquisition, a final payment of EUR 0.1 million for the Freetime acquisition and a payment of the minority acquisition of Normark Innovation Inc. of EUR 0.1 million. Cash paid in 2007 includes a payment of EUR 0.8 million for the Freetime acquisition and the final payment of EUR 0.2 million for the Guigo acquisition.

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 purchase price of acquisitions in 2007 of EUR 2.1 million resulted in the fair value allocation of EUR 0.0 million in tangible assets, EUR 0.3 million to customer related intangibles, EUR 0.2 million to intellectual property rights related intangibles (trademarks, patents and technology), EUR 0.5 million to deferred tax liabilities and net goodwill of EUR 0.2 million. Excess of Group's interest in the net fair value of acquired net assets over cost in 2007 (EUR 1.0 million) is recognized in income statement.

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.

A goodwill of EUR 0.0 million (2007: EUR 0.2 million) arose from acquisitions in 2008. This goodwill is a combination of several small acquisitions and is not significant, therefore the goodwill has not been justified. Resulted goodwill has been tested for impairment. For more details on the impairment testing of goodwill, see note 13.

#### ACQUISITIONS IN 2007

In January, Rapala acquired the fishing tackle business of Outdoor Innovations LLC and Horizon Lures LP ("Terminator"), USA based manufacturers and distributors of Terminator branded spinner baits and other fishing lures. The deal includes patents for the use of nickel titanium wire in fishing lures, trademarks, customer lists, inventories, and trade receivables.

In April, Rapala acquired 10% minority stake of Rapala's Hungarian distribution company, Rapala Eurohold Ltd ("Rapala Eurohold"), from Mr Agh Senior. Acquisition raised Rapala's ownership to 80%.

Also in February and April, Rapala made a EUR 0.2 million final payment of the Guigo acquisition closed in 2004 and in May a EUR 0.8 million first settlement of final payment of the Freetime acquisition closed in 2005.

These acquisitions contributed EUR 1.5 million to the 2007 net sales and EUR 0.2 million to the net income of the Group. These figures would have been the same even if the acquisitions would have taken place in the beginning of the year.

#### PARTIAL DISPOSALS IN 2007

In May 2007, Rapala and Shimano, one of the leading manufacturers of rods and reels worldwide, strengthened their distribution alliance in Hungary and South-East Europe. Shimano subscribed a 33.4% shareholding in Rapala Eurohold. Rapala's ownership is now 56.6% and the Managing Director of Rapala Eurohold, Mr Agh Jr, owns the remaining 10%.

In October 2007, Rapala and Shimano decided to strengthen their distribution alliance in Russia and Ukraine by establishing a 50/50 joint venture company in Finland, controlled by Rapala. This joint venture company, Rapala Shimano East Europe Oy, acquired existing Rapala distribution companies in both of these countries. As a result of the new joint venture, these distribution companies started to distribute, in addition to their current product offering, Shimano reels, rods and other Shimano fishing tackle products on exclusive basis. The distribution company in Russia also started to distribute Shimano bicycle parts. This deal was closed in December and included also 50% of the Group's distribution company in Czech Republic.

In addition to these partial disposals, the assets of the French fishing tackle shop where sold in December 2007.

EUR million	2007
Disposed working capital	0.1
Share of disposed goodwill	0.4
Share of disposed minority interest	0.1
Gain on disposals	5.3
Total consideration	5.9
Consideration received in cash	5.9

#### 4. OTHER OPERATING INCOME

EUR million	2008	2007
Sale of 50% of Rapala Shimano East Europe Oy		4.9
Sale of French warehouse and office buildings	1.4	
Insurance compensations	0.1	0.2
Rental income	0.2	0.2
Scrap sales	0.2	0.3
Other gains from sale of intangible and tangible assets	0.1	0.5
Government grants	0.2	0.2
Royalty income	0.1	0.0
Other income	0.8	0.5
Total	3.1	6.7

Other income, EUR 0.8 million (2007: EUR 0.5 million) is a combination of several smaller income items, of which none is individually significant.

#### 5. OTHER OPERATING EXPENSES

EUR million	2008	2007
Selling and marketing expenses	-11.3	-11.6
Freight	-4.9	-5.1
Rents paid	-6.2	-5.1
Maintenance and utility expenses	-5.4	-5.3
Traveling expenses	-4.3	-4.5
Sales commissions	-3.3	-3.7
IT and telecommunication	-1.7	-1.5
Insurance expenses	-0.8	-0.9
Outsourced logistics	-0.5	-0.6
Consulting expenses	-1.2	-1.5
Auditors fees and services	-0.8	-0.7
Valuation allowance for trade receivables	-1.0	-0.8
Other expenses	-6.8	-6.9
Total	-48.3	-48.3

#### AUDITORS FEES AND SERVICES

EUR million	2008	2007
Audit fees	-0.7	-0.6
Fees for tax services	0.0	0.0
Other fees	0.0	-0.1
Total	-0.8	-0.7

#### NON-RECURRING INCOME AND EXPENSES INCLUDED IN OPERATING PROFIT

EUR million	2008	2007
Sale of 50% of Rapala Shimano East Europe Oy		4.9
Consolidation of French operations	-0.1	-2.8
Closure of Irish lure factory	0.0	-1.1
Sale of French warehouse and office buildings	1.4	
Other disposals of assets	0.0	0.4
Excess of Group's interest in the net fair values of acquired net assets over costs (negative goodwill)	0.0	1.0
Other restructuring costs	-0.3	-1.0
Other non-recurring items	-0.2	0.1
Total	0.8	1.6

#### 6. MATERIALS AND SERVICES

EUR million	2008	2007
Materials, goods and supplies		
Purchases during the period	-116.0	-112.4
Change in inventory	0.2	-0.6
External services	-2.7	-1.9
Total	-118.4	-114.9

#### 7. EMPLOYEE BENEFIT EXPENSES

EUR million	2008	2007
Wages and salaries	-47.0	-52.0
Pension costs - defined contribution plans	-3.2	-3.3
Pension costs - defined benefit plans	-0.1	0.0
Other long-term employee benefits	0.0	-0.1
Option programs to be settled in shares	-0.1	-0.4
Option programs to be settled in cash	0.3	-0.3
Other personnel expenses	-7.4	-8.8
Total	-57.5	-65.0

The employee benefit expenses in 2007 include EUR 3.1 million employee related expenses from the consolidation of French operations and closing of Irish lure factory, and EUR 0.9 million employee related expenses from other restructurings. For more details on employee benefits for top management and option programs, see notes 28 and 29.

#### AVERAGE PERSONNEL

Persons	2008	2007
North America	115	120
Nordic	456	446
Rest of Europe	804	788
Rest of the World	2 768	3 223
Total	4 143	4 577

#### 8. DEPRECIATION AND IMPAIRMENTS

EUR million	2008	2007
<b>Depreciation of intangible assets</b>		
Customer relations	-0.2	-0.2
Other intangible assets	-0.2	-0.3
Excess of Group's interest in the net fair value of acquired net assets over cost	0.0	1.0
<b>Depreciation of tangible assets</b>		
Buildings	-0.9	-1.0
Machinery and equipment	-3.7	-3.8
Other tangible assets	-1.2	-1.1
Total	-6.2	-5.4

#### 9. RESEARCH AND DEVELOPMENT EXPENSES

Net profit for the period includes research and development expenses of EUR 1.8 million recognized as an expense in 2008 (2007: EUR 1.6 million). Group has not capitalized research and development costs.

#### 10. FINANCIAL INCOME AND EXPENSES

EUR million	2008	2007
<b>Foreign exchange gains</b>		
From loans and receivables	2.3	0.5
From financial liabilities measured at amortized cost	3.6	3.1
<b>Foreign exchange losses</b>		
From loans and receivables	-2.5	-2.5
From financial liabilities measured at amortized cost	-3.0	-0.3
<b>Interest and other financial income</b>		
Interest income from loans and receivables	0.7	0.9
Other financial income	0.0	0.0
<b>Interest and other financial expenses</b>		
Interest expense on financial liabilities measured at amortized cost	-5.8	-6.6
Other financial expenses	-0.2	-0.2
Total	-4.8	-5.0

Interest expenses include interest expense of finance lease contracts of EUR -0.1 million in 2008 (2007: EUR -0.1 million).

#### RECOGNIZED DIRECTLY IN EQUITY

EUR million	2008	2007
Change in fair value of interest rate derivatives - hedge accounted, net of tax	-0.2	0.0
Gains and losses on hedges of net investments, net of tax	-2.8	0.7
Fair value changes on available-for-sale investments, net of tax	-0.1	
Total	-3.1	0.7

In 2008 and 2007, 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	2008	2007
In net sales	0.0	-1.0
In purchases	-0.1	-0.2
In other operating income and expenses		
Change in fair value of currency derivatives, non-hedge accounted	0.1	-0.1
In financial income and expenses	0.4	0.9
Change in fair value of interest-rate derivatives, non-hedge accounted	0.0	
Total	0.4	-0.4

#### 11. INCOME TAXES

##### INCOME TAXES IN THE INCOME STATEMENT

EUR million	2008	2007
Current income tax	-6.5	-7.7
Deferred tax	-0.8	1.9
Total	-7.3	-5.8

##### INCOME TAX RECONCILIATION

EUR million	2008	2007
Income taxes at Finnish corporate tax rate (26%)	-6.9	-6.1
Effect of different tax rates in foreign subsidiaries	0.0	0.8
Non-deductible expenses and tax exempt income	-0.3	0.5
Foreign withholding taxes		-0.2
Losses for which no deferred tax benefit is recognized	-0.7	-0.5
Taxes for prior years	0.4	-1.7
Changes in the carrying amounts of deferred tax assets and liabilities from prior years	0.0	0.3
Impact of the changes in the tax rates on deferred tax balances	0.0	0.0
Effect of consolidation and eliminations	0.2	1.0
Other items	0.0	0.0
Income taxes in the income statement	-7.3	-5.8

In 2007, current income taxes and taxes from previous years include a total of EUR 1.9 million of additional tax cost relating to an ongoing dispute with Finnish tax authorities concerning the taxation of the Group's parent company in years 2004-2007. The additional tax levied by the tax authorities has been fully booked but the Group has appealed to the Administrative Court in 2008.

## MOVEMENT OF DEFERRED TAXES

<b>2008</b>						
EUR million	Jan. 1	Income statement	Equity	Translation differences	Acquisitions (see note 3)	Dec. 31
Tax losses and credits carried forward	2.0	0.1		0.0		2.1
Provisions	0.2	0.1		0.0		0.2
Pension obligations	0.2	0.0		0.0		0.2
Depreciation difference	0.3	-0.2		0.0		0.2
Effect of consolidation and eliminations	4.5	-0.2		0.0		4.3
Other temporary differences	0.8	-0.3	0.1	-0.1		0.5
Total deferred tax assets	8.0	-0.6	0.1	-0.1		7.5
Depreciation difference and other untaxed reserves	1.8	0.0		0.0		1.9
Inventory	1.7	0.2		0.2		2.0
Fair value adjustments for acquired net assets	1.6	-0.3		0.0		1.4
Other temporary differences	0.1	0.3	0.0	-0.1		0.3
Total deferred tax liabilities	5.3	0.2	0.0	0.2		5.6
Net deferred tax asset	2.7	-0.8	0.1	-0.2		1.8
<b>2007</b>						
EUR million	Jan. 1	Income statement	Equity	Translation differences	Acquisitions (see note 3)	Dec. 31
Tax losses and credits carried forward	1.5	0.5		0.0		2.0
Provisions	0.3	-0.1		0.0		0.2
Pension obligations	0.2	0.0				0.2
Depreciation difference	0.2	0.2		0.0		0.3
Effect of consolidation and eliminations	3.4	1.5		-0.4		4.5
Other temporary differences	0.7	0.1		0.0		0.8
Total deferred tax assets	6.3	2.1		-0.4		8.0
Depreciation difference and other untaxed reserves	1.9	0.1		-0.2		1.8
Inventory	1.6	0.3		-0.2		1.7
Fair value adjustments for acquired net assets	1.3	-0.1		0.0	0.5	1.6
Other temporary differences	0.1	0.0				0.1
Deferred tax liabilities	4.9	0.3		-0.4	0.5	5.3
Net deferred tax asset	1.3	1.9		0.0	-0.5	2.7

At December 31, 2008, the Group had tax losses carried forward of EUR 4.9 million (2007: EUR 4.4 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 2.3 million of these tax losses will expire in years 2009 through 2014.

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 1.6 million (2007: EUR 1.6 million) in subsidiaries, which have generated losses in financial year 2008 or 2007. The recognition of these assets is based on result estimates, which indicate that the realization of these deferred tax assets is probable.



## 12. TANGIBLE ASSETS AND ASSETS HELD-FOR-SALE

2008 EUR million	Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	1.7	15.5	46.4	9.4	0.9	73.9
Additions		0.5	3.9	1.4	1.4	7.1
Disposals		0.0	-3.5	-0.9	-0.4	-4.8
Reclassifications		0.5	0.9	-0.3	-1.1	0.0
Translation differences	-0.1	-0.1	0.4	0.1	0.0	0.3
Acquisition cost Dec. 31	1.6	16.4	48.1	9.6	0.9	76.6
Accumulated depreciation Jan. 1		-7.4	-33.5	-4.6		-45.4
Disposals		0.0	2.8	1.0		3.8
Reclassifications		0.1	0.0	-0.1		
Depreciation during the period		-0.9	-3.7	-1.2		-5.8
Translation differences		0.0	-0.4	-0.1		-0.4
Accumulated depreciation Dec. 31		-8.2	-34.8	-4.9		-47.9
Carrying value Jan. 1	1.7	8.1	12.9	4.8	0.9	28.4
Carrying value Dec. 31	1.6	8.2	13.4	4.7	0.9	28.7

2007 EUR million	Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	1.9	18.1	44.8	8.0	0.6	73.5
Additions		0.7	2.9	2.2	1.7	7.4
Acquisitions (see note 3)			0.1	0.0		0.1
Disposals	0.0	-0.1	-1.0	-0.6	-0.4	-2.1
Reclassifications <sup>1)</sup>		0.0	1.0	0.2	-1.0	0.2
Transfer to assets held-for-sale	-0.2	-3.0				-3.2
Translation differences	0.0	-0.2	-1.3	-0.4	0.0	-2.0
Acquisition cost Dec. 31	1.7	15.5	46.4	9.4	0.9	73.9
Accumulated depreciation Jan. 1		-8.7	-31.4	-3.9		-44.0
Disposals		0.1	0.6	0.4		1.0
Reclassifications <sup>1)</sup>		0.0	0.0	-0.1		-0.1
Transfer to assets held-for-sale		2.2				2.2
Depreciation during the period		-1.0	-3.8	-1.1		-5.9
Translation differences		0.1	1.0	0.2		1.3
Accumulated depreciation Dec. 31		-7.4	-33.5	-4.6		-45.4
Carrying value Jan. 1	1.9	9.4	13.4	4.1	0.6	29.4
Carrying value Dec. 31	1.7	8.1	12.9	4.8	0.9	28.4

1) Includes reclassifications between intangible and tangible assets of EUR 0.1 million in 2007.

The acquisition value remaining after depreciation for machinery in tangible assets was EUR 12.3 million on December 31, 2008 (2007: EUR 11.7 million).

### ASSETS LEASED BY FINANCE LEASE AGREEMENTS

EUR million	Buildings	2008 Machinery and equipment	Buildings	2007 Machinery and equipment
Carrying value Jan. 1	1.2	0.1	1.3	0.2
Additions		0.1		
Purchase of asset leased by finance lease agreement	-1.2	0.0		
Reclassifications		0.0		-0.1
Depreciation during the period	-0.1	0.0	-0.1	-0.1
Translation differences	0.0	0.0	0.0	0.0
Carrying value Dec. 31		0.1	1.2	0.1
Accumulated depreciation Dec. 31		-0.1	-0.5	-0.1
Acquisition cost Dec. 31		0.2	1.8	0.2

The purchase option for the lease contract for the building of the Danish distribution company was used in October 2008.

### ASSETS HELD-FOR-SALE

As part of the consolidation of Rapala's French operations, Rapala sold the warehouse and office building in Saint Marcel and the warehouse and office building in Loudeac in 2008.

### 13. INTANGIBLE ASSETS

2008 EUR million	Trademarks	Customer relations	Goodwill	Other intangible assets	Total
Acquisition cost Jan. 1	4.5	2.2	43.4	5.2	55.3
Additions		0.0	0.0	0.3	0.3
Acquisition of Sufix trademark (see note 3)	6.6				6.6
Disposals				-0.2	-0.2
Reclassifications		0.0		0.0	0.0
Translation differences	-0.1	-0.2	0.5	0.0	0.1
Acquisition cost Dec. 31	11.0	2.0	43.8	5.3	62.0
Accumulated depreciation Jan. 1	-0.4	-0.4		-3.4	-4.3
Disposals				0.2	0.2
Depreciation during the period		-0.2		-0.2	-0.4
Translation differences		0.1		0.0	0.1
Accumulated depreciation Dec. 31	-0.4	-0.6		-3.3	-4.4
Carrying value Jan. 1	4.1	1.8	43.4	1.9	51.1
Carrying value Dec. 31	10.5	1.4	43.8	1.9	57.6

2007 EUR million	Trademarks	Customer relations	Goodwill	Other intangible assets	Total
Acquisition cost Jan. 1	4.3	2.0	45.4	5.8	57.5
Additions	0.0			0.2	0.2
Acquisitions (see note 3)	0.3	0.3	0.2	0.0	0.8
Disposals			-0.4	-0.3	-0.6
Reclassifications <sup>1)</sup>				-0.2	-0.2
Translation differences	0.0	-0.1	-1.8	-0.4	-2.3
Acquisition cost Dec. 31	4.5	2.2	43.4	5.2	55.3
Accumulated depreciation Jan. 1	-0.4	-0.2		-3.5	-4.2
Disposals				0.3	0.3
Reclassifications <sup>1)</sup>				0.1	0.1
Depreciation during the period		-0.2		-0.3	-0.5
Translation differences		0.0		0.1	0.1
Accumulated depreciation Dec. 31	-0.4	-0.4		-3.4	-4.3
Carrying value Jan. 1	3.9	1.8	45.4	2.3	53.3
Carrying value Dec. 31	4.1	1.8	43.4	1.9	51.1

1) Includes reclassifications between intangible and tangible assets of EUR 0.1 million in 2007.

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 10 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

2008 EUR million	Lures	Fishing Hooks	Fishing Lines	Fishing Accessories	Third Party Fishing Products	Other Products	Total
Goodwill	33.0	0.8	0.1	6.8	1.8	1.3	43.8
Trademarks with indefinite lives	1.8	0.1	6.8	1.2	0.5	0.1	10.5

2007 EUR million	Lures	Fishing Hooks	Fishing Lines	Fishing Accessories	Third Party Fishing Products	Other Products	Total
Goodwill	32.2	0.8	0.1	6.9	2.1	1.3	43.4
Trademarks with indefinite lives	1.9	0.1	0.2	1.2	0.6	0.1	4.1

#### 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 a segment based on either the entity's primary or the entity's secondary segment reporting. As a consequence, goodwill and trademarks with indefinite lives are tested on the business segment (product lines) 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 5.0% in 2008 (2007: 6.5%). The growth rate used to extrapolate the cash flow beyond the five-year period is 0% (2007: 0%). As a result of the performed impairment tests, no impairment losses have been recognized in 2008 or in 2007.

#### 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.

**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 for the impairment test is the EBITDA margin and discount rate. It is management's opinion that no probable change in any of the key sensitivities would lead to a situation where the carrying amount would exceed the recoverable amount. Even if EBITDA margin would be 20% lower than estimated by management or if the discount rate would be 5 percentage points higher than used in the management's calculations, it would not lead to an impairment loss in any of the cash generating units.

## 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 financial period ending on September 30, due to differences in reporting time schedule. Information for the financial period ending on December 31, 2007 is the following: assets EUR 0.1 million, liabilities EUR 0.1 million, sales EUR 0.2 million and profit/loss EUR 0.0 million.

EUR million	2008	2007
Acquisition cost Jan. 1	0.0	0.0
Additions	0.0	0.0
Acquisition cost Dec. 31	0.0	0.0

### INFORMATION ON LANIMO OÜ

EUR million	Domi- cile	Assets	Liabili- ties	Sales	Profit/ loss	Owner- ship, %
2008	Estonia	0.1	0.1	0.2	0.0	33.3
2007	Estonia	0.1	0.1	0.2	0.0	33.3

## 15. AVAILABLE-FOR-SALE INVESTMENTS

EUR million	2008	2007
Carrying value Jan. 1	0.6	0.6
Additions		0.0
Fair value changes	-0.1	
Translation differences	0.0	-0.1
Carrying value Dec. 31	0.5	0.6

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, which corresponds approximately to their fair value. The fair value changes of available-for-sale investments, net of tax, are recognized in shareholders' equity. Principal available-for-sale investments comprise of real estate Oy Brinkhaga, Kanavagolf Vääksy Oy, Arctic Circle Santa Claus Oy, As Oy Tahkon Eagle, BRF Morkullan and Gup Rk Rgts real estate.

## 16. INVENTORIES

EUR million	2008	2007
Raw material	9.0	9.0
Work in progress	6.3	7.0
Finished products	85.5	70.8
Net realizable value provisions	-2.4	-2.4
Total	98.4	84.3

In 2008, the carrying value of inventories differed from its net realizable value by EUR 2.4 million (2007: EUR 2.4 million).

## 17. RECEIVABLES

EUR million	2008	2007
<b>Non-current receivables</b>		
Interest-bearing		
Loan receivables		0.0
Non-interest-bearing		
Other receivables	0.2	0.1
<b>Current receivables</b>		
Interest-bearing		
Loan receivables	0.0	0.0
Derivatives	0.3	
Other receivables	0.0	0.1
Non-interest-bearing		
Trade receivables	44.9	47.1
VAT receivable	1.4	1.4
Prepaid insurance expenses	0.2	0.2
Other prepaid expenses and accrued income	1.7	2.4
Other receivables	2.3	2.8
Valuation allowance for trade receivables	-2.3	-1.8
Total	48.6	52.4

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 in 2007 was 8.00%. The weighted average interest rate of current loan receivables at December 31, 2008 was 7.98% (2007: 5.61%).

Other current interest-bearing receivables include interest receivable and deposits with maturities of over three months.

### CREDIT LOSS ALLOWANCE FOR TRADE RECEIVABLES

EUR million	2008	2007
Credit loss allowance for trade receivables Jan. 1	1.8	1.7
Additions	1.0	0.7
Deductions	-0.3	-0.6
Recovery	0.0	0.0
Translation differences	-0.1	-0.1
Credit loss allowance for trade receivables Dec. 31	2.3	1.8

In most cases credit loss 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. Credit allowances have not been made on other receivables.

## 18. CASH AND CASH EQUIVALENTS

EUR million	2008	2007
Cash at bank and in hand	28.7	21.7
Short-term deposits	1.9	5.7
Total	30.6	27.3

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.

## 19. EQUITY ATTRIBUTABLE TO SHAREHOLDERS

EUR million	2008	2007
Share capital Jan. 1	3.6	3.5
Private offering		0.1
Shares subscribed with options		0.0
Share capital Dec. 31	3.6	3.6
Share premium fund Jan. 1	16.7	16.7
Shares subscribed with options		0.0
Share premium fund Dec. 31	16.7	16.7
Fair value reserve Jan. 1	0.0	0.1
Gains and losses on cash flow hedges, net of tax	-0.2	0.0
Fair value changes on available-for-sale investments, net of tax	-0.1	
Fair value reserve Dec. 31	-0.3	0.0
Fund for invested non-restricted equity Jan. 1	4.9	
Private offering		4.9
Fund for invested non-restricted equity Dec. 31	4.9	4.9
Own shares Jan. 1		
Purchase of own shares	-0.9	
Own shares Dec. 31	-0.9	
Retained earnings Jan. 1	70.9	60.5
Translation differences	-1.2	-3.4
Gains and losses on hedges of net investments, net of tax	-2.8	0.7
Dividends paid	-6.9	-4.6
Share option program	0.1	0.4
Other changes	0.0	0.0
Net income for the period	17.7	17.3
Retained earnings Dec. 31	77.7	70.9

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, 2008, 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 (2007: 39 468 449). The book value of a share is EUR 0.09. Each share from both classes is entitled to one vote.

Until October 24, 2008 shares were divided to two classes: 38 578 769 old shares (trading code RAP1V) and 889 680 new restricted shares (RAP1VNO107). 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. The new restricted shares did not give right to dividend paid from the financial year 2007 and they had a lock-up period of 12-months.

### OWN SHARES

On April 23, 2008 the Board decided to start buying back own shares in accordance with the authorization granted by the Annual General Meeting on April 3, 2008. At December 31, 2008 Rapala held 212 665 of its own shares, representing 0.5% of the total number of Rapala shares and the total voting rights. The average price for the repurchased own shares was EUR 4.01.

### CHANGES IN SHARE CAPITAL IN 2008

There were no changes in the share capital in 2008.

## 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, Canada and Sweden. In French plans retirement benefits are determined based on salary and period of employment. These French obligations are unfunded. The supplementary pension arrangement to the CEO of subsidiary in Canada is classified as a funded defined benefit plan. ITP-pension plans operated by Alecta in Sweden are multi-employer defined benefit pension plans. However, it has not been possible to get sufficient information for the calculation of obligations and assets by employer from plan operations, and therefore these plans have been accounted for as defined contribution plans in the financial statements. From Group's point of view the Swedish plans are not significant. 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.

### EXPENSES RECOGNIZED IN THE INCOME STATEMENT

EUR million	2008	2007
Current service cost	-0.1	-0.2
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Effect of any curtailments or settlements	0.0	0.2
Total	-0.1	-0.1

#### AMOUNTS RECOGNIZED IN THE BALANCE SHEET

EUR million	2008	2007
Present value of funded obligations	0.1	0.1
Fair value of plan assets	-0.1	-0.1
Present value of unfunded obligations	0.7	0.7
Unrecognized actuarial gains/losses	0.0	0.1
Unrecognized prior service cost		0.0
Net obligations	0.8	0.7

#### BALANCE SHEET RECONCILIATION

EUR million	2008	2007
Obligations Jan. 1	0.7	0.7
Current service cost	0.1	0.2
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Effect of any curtailments or settlements	0.0	-0.2
Paid contributions	0.0	0.0
Obligations Dec. 31	0.8	0.7

#### MOVEMENT IN PLAN ASSETS

EUR million	2008	2007
Fair value of plan assets on Jan. 1	0.1	
Contributions paid into the plans	0.0	0.1
Expected return on plan assets	0.0	0.0
Fair value of plan assets on Dec. 31	0.1	0.1

Plan assets comprise of cash.

#### ASSUMPTIONS

%	2008	2008
	Canada	France
Discount rate	5.3	6.0
Future salary increase	0.0	2.5
Annual inflation rate	2.5	2.0
Expected return on plan assets	6.0	

%	2007	2007
	Canada	France
Discount rate	5.3	5.5
Future salary increase	4.0	2.5
Annual inflation rate	2.5	2.0
Expected return on plan assets	6.0	

#### AMOUNTS FOR CURRENT AND PREVIOUS FOUR PERIODS

EUR million	2008	2007	2006	2005	2004
Present value of funded obligations	0.1	0.1			
Fair value of plan assets	-0.1	-0.1			
Present value of unfunded obligations	0.7	0.7	0.9	0.8	0.8
Experience adjustment on plan liabilities	-0.1	-0.1	-0.1	0.0	0.0

The Group expects not to contribute to its defined benefit pension plans in 2009.

#### 21. PROVISIONS

EUR million	2008	2007
<b>Restructuring provisions</b>		
Provisions Jan. 1	3.2	
Additions		3.6
Utilized provisions	-3.2	-0.4
Translation differences	0.1	
Provisions Dec. 31		3.2
<b>Warranty provisions</b>		
Provisions Jan. 1	0.1	0.1
Reversal on unutilized provisions	0.0	
Provisions Dec. 31	0.0	0.1
<b>Other provisions</b>		
Provisions Jan. 1	0.1	1.9
Additions	0.1	0.0
Utilized provisions	-0.1	-1.8
Reclassification <sup>1)</sup>		-0.1
Translation differences		0.0
Provisions Dec. 31	0.1	0.1
Non-current	0.0	0.1
Current	0.1	3.2
Total provisions	0.2	3.3

<sup>1)</sup> Includes reclassifications between provisions and accrued liabilities and deferred income of EUR 0.1 million in 2007.

Other provisions include distinct provisions, but no amounts which are individually significant. Other provisions are expected to realize within the next 12 months.

#### RESTRUCTURING PROVISIONS

In the last quarter of 2007, Group booked a restructuring provision of EUR 2.5 million relating to the consolidation of operations in France to the same premises in Morvillars. Restructuring provision was booked when discussions with personnel and trade unions were completed. The relocation of distribution unit Ragot was completed in 2007. The moves of distribution unit Waterqueen and fishing line supplier Tortue to Morvillars were completed during the third quarter of 2008. The consolidation will be finalized when hook distributor VMC Europe completes its move into joint premises latest summer of 2009.

In the fourth quarter of 2007, Group also booked a restructuring provision of EUR 1.1 million for the costs related to the closing of the factory in Ireland. The decision of closing was part of the European restructuring and development of lure manufacturing operations. The manufacturing operations in Ireland ended in April of 2008.

## 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 2008, the Group continued to develop its risk management processes. Group Risk Management, consisting of the CFO, Group Treasurer and Group Risk Manager, review financial risks on regular basis to manage Group's financial risk position and decide on necessary actions to manage financial risks.

The emphasis of monitoring and management of financial risks has increased during 2008, as the global turbulence in the world economy and financial markets have triggered significant changes e.g. in foreign exchange and interest rates and raised questions e.g. on counterparties' solvency and availability of financing from the commercial paper markets.

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

### MARKET RISK

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, 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), of which especially HK dollar closely follows US dollar. Group Risk

Management monitors regularly the balance between Group's foreign currency sales and expenses as well as the development of the key currencies. There is quite a good balance between the income and expenses in different currencies, which provide quite an effective hedge in it self. This has also affected the Group's principle not to hedge all transactions nor all open positions.

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 flows related to business and financing activities. All derivatives are initially recognized at fair value on the date the derivative contract is entered into, and are subsequently remeasured 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, all currency derivatives used by the Group are short-term standard and modified foreign currency forwards to which IAS 39 (hedge accounting) is not applied. Fair values of standard foreign currency forwards are determined by discounting the future nominal cash flows with relevant interest rates and then converting the discounted cash flows to the functional currency using spot rates. The fair values of modified foreign currency forwards are received from banks. All changes in fair value of currency derivatives are recognized in the income statement. In 2008, currency derivatives had an income statement effect of

EUR 0.1 million (2007: EUR -0.1 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 though 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. In 2008, the Group continued to partially hedge its net investments in USD, AUD, JPY and NOK currency denominated foreign subsidiaries using equivalent currency loans payable. 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 86.2 million on December 31, 2008 (2007: EUR 71.8 million), of which 7.6% was on Dec. 31 subject to equity hedging. If the currencies that are linked to euro based on ERM II (DKK, EEK, LTL and LVL) were excluded, hedge rate was 9.6%.

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

	2008						2007					
	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)
<b>Non-euro currency</b>												
USD	31.6	6.0	22.7	4.3	19.0	-3.7	29.7	3.0	20.2	2.0	10.1	0.7
AUD	5.5	2.0	2.7	1.0	36.3	0.1	4.8	3.0	2.9	1.8	62.0	0.0
NOK	15.2	6.0	1.6	0.6	39.4	0.3	15.2	16.0	1.9	2.0	105.3	0.0
JPY	108.3	75.0	0.9	0.6	69.2	-0.1	91.5	75.0	0.6	0.5	82.0	0.0
Other			58.3			0.0			46.2			0.0
<b>Total</b>			<b>86.2</b>	<b>6.5</b>	<b>7.6</b>	<b>-3.5</b>			<b>71.8</b>	<b>6.3</b>	<b>8.8</b>	<b>0.7</b>

### Exposure to foreign exchange risk from transactions

Foreign currency exposure in companies whose reporting currency is other than the currency under analysis. The effect of other currencies is smaller. 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.

EUR million	2008			2007		
	USD	CNY	EUR	USD	CNY	EUR
Foreign currency trade receivables Dec. 31.	7.6	0.1	0.5	9.0	0.1	0.3
Foreign currency trade payables Dec. 31.	-14.6	-2.1	-2.7	-9.8	-4.5	-3.9
Foreign currency loans receivable Dec. 31.	11.5	0.7	0.6	13.5		
Foreign currency loans payable Dec. 31. <sup>1)</sup>	-33.4		-6.5	-31.4		-3.3
Foreign currency cash and cash equivalents Dec. 31.	8.3	0.4	2.9	6.8	0.3	1.8
Net exposure in balance sheet Dec. 31.	-20.5	-0.9	-5.2	-12.0	-4.1	-5.1
Actual foreign currency sales Jan. 1 - Dec. 31	42.3		0.4	46.7		0.5
Actual foreign currency expenses Jan. 1 - Dec. 31	-49.4	-17.0	-12.8	-41.7	-19.3	-14.6
Net exposure in the income statement Jan. 1 - Dec. 31	-7.1	-17.0	-12.4	5.0	-19.3	-14.0
Currency derivatives Dec. 31. <sup>2)</sup>	7.2			7.3		
Net exposure	-20.5	-17.9	-17.6	0.3	-23.4	-19.1

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 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 exclude 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.
- 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.
- Comparative figures have been specified by taking into account the effect of tax and cash and cash equivalents.
- On average, the effect of other currencies is smaller than in the ones analyzed here.

EUR million	2008								2007							
	USD	HKD	CNY	AUD	NOK	CAD	SEK	RUB	USD	HKD	CNY	AUD	NOK	CAD	SEK	RUB
Operating profit	0.6	0.7	1.9	-0.5	-0.7	-0.7	-0.5	-1.9	-2.2	0.9	2.4	-0.5	-0.5	-0.8	-0.5	-0.8
Net income (net of tax)	1.5	0.6	1.3	-0.4	-0.5	-0.5	-0.4	-1.3	-0.5	0.7	1.8	-0.4	-0.4	-0.6	-0.6	-0.6
Equity (net of tax) <sup>3)</sup>	-2.0	-1.7	0.0	-0.2	-0.1	-0.9	-0.3	-0.5	-1.6	-1.1	0.0	-0.1	0.0	-0.8	-0.3	0.0

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 0.3 million bigger opposite effect on operating profit and net income than stated above as a result of used hedging instruments.



## 2. Interest rate risk

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

EUR million	2008		2007	
	Non-current	Current	Non-current	Current
Loans from financial institutions with fixed interest rate	0.1	0.2	0.3	0.1
Pension loan with fixed interest rate	4.0	1.0		
Loans from financial institutions with variable interest rate	38.3	72.7	48.0	42.5
Commercial paper program with variable interest rate		4.0		15.0

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 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 19.3 million of the Group's loans payable is fixed to a 12-month or longer interest period. In 2008, the interest risk was further spread by taking a pension loan with a five year's fixed interest rate.

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 two interest rate swaps, of which one is designated and effective as a cash flow hedge in accordance with IAS 39. In 2008, interest rate derivatives had EUR 0.0 million (2007: -) income statement effect and an equity effect of EUR -0.3 million (2007: 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 swap 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 the liabilities and interest rate swaps with variable interest rate in force on Dec. 31.
- The tax effect included in the sensitivity analysis is calculated by using the Group's total effective tax rate. Also the comparative figures have been specified by taking into account the effect of tax.

EUR million	2008		2007	
	Net income (net of tax)	Equity (net of tax) <sup>4)</sup>	Net income (net of tax)	Equity (net of tax) <sup>4)</sup>
Loans from financial institutions with variable interest rate	-0.8	0.1	-0.7	0.2
Commercial paper program with variable interest rate	0.0		-0.1	

4) Without the effect of net income.

## 3. Other market price risks

The Group purchases some raw-materials, which are priced on regulated markets. These include commodity metals such as copper, zinc and lead. 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, but this alternative has been investigated during 2008.

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

EUR million	2008			2007		
	Foreign currency forwards	Interest rate swaps	Total	Foreign currency forwards	Interest rate swaps	Total
Nominal amount	7.2	14.1	21.3	7.9	12.9	20.8
Positive fair values	0.3	0.0	0.3			
Negative fair values		0.4	0.4	0.1	0.0	0.2
Net fair values	0.3	-0.4	-0.1	-0.1	0.0	-0.2

All foreign currency forwards mature within the next 12 months. Based on 31.12. interest rates, the interest rate swaps, which terminate in 2010, have net cash flows maturing as follows: EUR -0.2 million during year 2009 and EUR -0.1 million during year 2010.



## 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 25.0 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 Treasurer, 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.

In 2008, the turbulence in the financial markets had an impact on the domestic commercial paper markets disturbing the sales of the Group's commercial papers from time to time. In order to improve the effectiveness of the commercial paper program a new distribution channel was added in 2008.

In 2008, the Group's parent company utilized the possibility of pension contribution relending in order to increase the flexibility of the liquidity and spread the interest risk. In 2008, the Group also introduced an international cash pooling system to further enhance its liquidity management.

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. In 2008, due to increased working capital caused by the Group's expanded operations and one-off payments relating to the performance improvement initiatives, the covenant relating to the cash flow was breached. As a consequence, the banks increased the interest rate margin slightly and reduced the minimum requirement for this covenant for a 12-month period ending on July 1, 2009. The Board and Group management are monitoring the fulfillment of the bank covenants on a monthly basis.

The Group's credit limits not drawn at December 31, 2008 were EUR 23.5 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, 2008 was EUR 21.0 million (2007: EUR 10.0 million).

## Maturity of group's financial liabilities

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

2008 EUR million	Carrying value	Financial liabilities <sup>2)</sup>	Contractual cash flows	2009	2010	2011	2012	2013	Later	Total
<b>Interest-bearing liabilities</b>										
Loans from financial institutions <sup>1)</sup>	111.3	111.3	116.4	75.2	11.6	10.1	9.8	9.6		116.4
Pension loans	5.0	5.0	5.4	1.1	1.1	1.1	1.0	1.0		5.4
Commercial paper program	4.0	4.0	4.0	4.0						4.0
Finance lease	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other interest-bearing liabilities <sup>3)</sup>	0.2	0.2	0.1	0.1						0.1
<b>Non-interest-bearing liabilities</b>										
Trade and other non-interest-bearing payables	41.7	31.0	31.0	27.0	1.0	0.6	0.6	0.6	1.1	31.0
<b>Derivatives, net settled</b>										
Liabilities (payments)										
Interest rate derivatives, hedge accounted	0.4	0.4	0.4	0.2	0.1					0.4
Assets (receipts)										
Currency derivatives, non-hedge accounted	0.3	0.3	0.3	0.3						0.3
Interest rate derivatives, non-hedge accounted	0.0	0.0	0.0	0.0						0.0
<b>Total</b>	<b>162.3</b>	<b>151.6</b>	<b>157.0</b>	<b>107.4</b>	<b>13.9</b>	<b>11.9</b>	<b>11.5</b>	<b>11.2</b>	<b>1.1</b>	<b>157.0</b>

<sup>1)</sup> EUR 61.0 million of the interest-bearing liabilities maturing in 2009 is part of Group's revolving credit facilities, which mature in 2013 or later.

2007 EUR million	Carrying value	Financial liabilities <sup>2)</sup>	Contractual cash flows	2008	2009	2010	2011	2012	Later	Total
<b>Interest-bearing liabilities</b>										
Loans from financial institutions	90.8	90.8	99.1	46.5	11.8	11.1	10.8	9.6	9.3	99.1
Commercial paper program	15.0	15.0	15.0	15.0						15.0
Finance lease	1.6	1.6	2.5	0.2	0.2	0.2	0.2	0.2	1.6	2.5
Other interest-bearing liabilities <sup>3)</sup>	0.7	0.7	0.1	0.0	0.0					0.1
<b>Non-interest-bearing liabilities</b>										
Trade and other non-interest-bearing payables	37.0	25.7	25.7	25.7						25.7
<b>Derivatives, net settled</b>										
Liabilities (payments)										
Currency derivatives, non-hedge accounted	0.1	0.1	0.1	0.1						0.1
Interest rate derivatives, hedge accounted	0.0	0.0	0.0	0.0	0.0	0.0				0.0
<b>Total</b>	<b>145.3</b>	<b>133.9</b>	<b>142.4</b>	<b>87.5</b>	<b>12.0</b>	<b>11.3</b>	<b>11.0</b>	<b>9.8</b>	<b>10.9</b>	<b>142.4</b>

<sup>2)</sup> The proportion of the carrying value which is classified as financial liabilities according to IAS 39.

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

## CREDIT AND DEFAULT RISK

In 2008, the uncertainties relating to the development of the world economy and the financial markets increased the emphasis of monitoring the credit and default risks associated with customers and other counterparties. However, there has not been significant changes in the Group's credit and default risk portfolio.

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 and set 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 or Group Risk Manager before final decisions. In exceptional cases, payment terms may be renegotiated. In one country, credit risk is further reduced with credit insurance.

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 Aa1 (Moody's) and AA-(Standard&Poor's) for both. 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 credit loss allowance for trade receivables, see note 17. 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.

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

## Analysis of trade receivables that were due but not impaired

EUR million	2008	2007
Neither past due or impaired	29.5	33.6
Past due but not impaired		
Less than 1 month	5.0	5.1
1-3 months	4.2	3.6
4-5 months	1.7	1.8
6-7 months	1.1	0.8
Over 7 months	1.0	0.5
Total	42.5	45.4

## 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 4.5, and
4. Equity-to-assets ratio above 30%.

For definitions of key figures, see page 16.

EUR million	2008	2007
Non-current interest-bearing liabilities	42.8	49.8
Current interest-bearing liabilities	78.1	58.4
Cash and cash equivalents	30.6	27.3
Interest-bearing receivables	0.9	0.8
Net interest-bearing debt at the end of the period	89.5	80.2
Total equity Dec. 31	103.7	96.9
Debt-to-equity (gearing) ratio, %	86.4	82.8
Net profit for the period	19.2	17.5
Total equity Jan. 1	96.9	81.3
Total equity Dec. 31	103.7	96.9
Total equity (average for the period)	100.3	89.1
Return on equity, %	19.2	19.7
Paid net interest expense	5.5	5.7
Net interest-bearing debt Dec. 31	89.5	80.2
Average interest rate on net interest-bearing debt, %	6.2	7.1
Net interest-bearing debt at the end of the period	89.5	80.2
Operating profit before depreciation and impairments (EBITDA)	37.5	33.8
Net interest-bearing debt to EBITDA - ratio	2.4	2.4
Total equity	103.7	96.9
Total shareholders' equity and liabilities		
- advances received	272.7	253.5
Equity-to-assets ratio, %	38.0	38.2

In 2008, the Group met its objectives for capital management:

1. Gearing ratio was 86.4% (2007: 82.8%).
2. Return on equity, 19.2% (2007: 19.7%), was clearly higher than the average interest rate on net interest-bearing debt, which was 6.2% (2007: 7.1%).
3. Net interest-bearing debt to EBITDA was 2.4 (2007: 2.4).
4. Equity-to-assets ratio was 38.0% (2007: 38.2%).

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.

## 23. FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES AND FAIR VALUES

EUR million	Carrying value	Financial assets and liabilities*	2008 Fair value of financial assets and liabilities *	Carrying value	Financial assets and liabilities *	2007 Fair value of financial assets and liabilities *	Note
<b>FINANCIAL ASSETS</b>							
<b>Loans and receivables</b>							
Non-current financial assets							
Loan receivables				0.0	0.0	0.0	17
Non-interest-bearing receivables	0.2	0.2	0.2	0.1	0.1	0.1	17
Current financial assets							
Cash and cash equivalents	30.6	30.6	30.6	27.3	27.3	27.3	18
Loan receivables	0.0	0.0	0.0	0.0	0.0	0.0	17
Other interest-bearing receivables	0.0	0.0	0.0	0.1	0.1	0.1	17
Trade and other non-interest-bearing receivables	48.1	46.6	46.6	52.2	50.9	50.9	17
<b>Available-for-sale financial assets</b>							
Available-for-sale investments	0.5	0.5	0.5	0.6	0.6	0.6	15
<b>Financial assets at fair value through income statement - held-for-trading</b>							
Currency derivatives - non-hedge accounted	0.3	0.3	0.3				17,22
Interest rate derivatives - non-hedge accounted	0.0	0.0	0.0				17,22
<b>FINANCIAL LIABILITIES</b>							
<b>Financial liabilities at fair value through income statement - held-for-trading</b>							
Currency derivatives - non-hedge accounted				0.1	0.1	0.1	22,24
<b>Hedge accounted derivatives</b>							
Interest rate derivatives - hedge accounted	0.4	0.4	0.4	0.0	0.0	0.0	22,24
<b>Financial liabilities measured at amortized cost</b>							
Non-current financial liabilities							
Loans from financial institutions	38.4	38.4	38.4	48.2	48.2	48.2	24
Pension loans	4.0	4.0	3.9				24
Finance lease	0.1	0.1	0.1	1.5	1.5	1.5	24
Other interest-bearing liabilities				0.1	0.1	0.1	24
Other non-interest-bearing liabilities	4.0	4.0	4.0				25
Current financial liabilities							
Loans from financial institutions	72.9	72.9	72.9	42.6	42.6	42.6	24
Commercial paper program	4.0	4.0	4.0	15.0	15.0	15.0	24
Pension loans	1.0	1.0	1.0				24
Finance lease	0.0	0.0	0.0	0.1	0.1	0.1	24
Other interest-bearing liabilities	0.2	0.2	0.2	0.6	0.6	0.6	24
Trade and other non-interest-bearing payables	37.7	27.0	27.0	37.0	25.7	25.7	25

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

## FAIR VALUE ON FINANCIAL ASSETS AND LIABILITIES

### Available-for-sale investments

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

### Derivatives

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 value is based on quoted market prices and rates, discounting of cash flows and option valuation models.

### Finance leases

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

### Current financial assets and liabilities

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

### Non-current interest-bearing liabilities

On December 31, 2008, 74,5 % 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. Therefore, the fair value of non-current loans based on floating rates is regarded as equaling their book value. The fair value of non-current loans on fixed rates based on discounted future cash flows. The discount rate used corresponds to the market rate on 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.

## 24. INTEREST-BEARING LIABILITIES

EUR million	2008 Average interest rate, %	2008	2007
<b>Non-current interest-bearing liabilities</b>			
Loans from financial institutions	3.04	38.4	48.2
Pension loans	2.55	4.0	
Finance lease	6.92	0.1	1.5
Derivatives		0.4	0.0
Other non-current liabilities			0.1
<b>Current interest-bearing liabilities</b>			
Loans from financial institutions	3.25	72.9	42.6
Commercial paper program	4.29	4.0	15.0
Pension loans	2.55	1.0	
Finance lease	6.48	0.0	0.1
Derivatives			0.1
Other current liabilities		0.2	0.6
<b>Total</b>		<b>121.0</b>	<b>108.3</b>

On December 31, 2008, 74.5% 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. Therefore, the fair value of non-current loans based on floating rates is regarded as equaling their book value. 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 balance sheet date. Fair value of non-current loans on fixed rates are presented in note 23.

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

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.

Other current liabilities include interest payable.

### INTEREST-BEARING LIABILITIES BY CURRENCY

EUR million	2008		2007	
	Non-current	Current	Non-current	Current
<b>Loans from financial institutions</b>				
EUR	19.6	27.4	25.4	7.5
USD	17.8	31.4	21.5	24.7
NOK		5.1		4.9
SEK		1.1		
AUD	0.0	1.8	0.1	1.8
DKK	0.9	1.6	1.2	0.3
ZAR		0.4		0.6
JPY		0.6		0.5
PLN		0.1		0.8
CHF		1.7		1.5
THB		1.6		
HUF		0.2		
Other		0.0		
<b>Pension loans and commercial paper program</b>				
EUR	4.0	5.0		15.0
<b>Finance lease</b>				
DKK	0.0	0.0	1.5	0.1
Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>42.4</b>	<b>77.9</b>	<b>49.7</b>	<b>57.7</b>

## FINANCE LEASE

EUR million	2008		2007	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	0.0	0.0	0.2	0.1
1-3 years	0.1	0.1	0.3	0.2
3-5 years	0.0	0.0	0.3	0.2
Later than 5 years			1.6	1.2
Total minimum lease payments	0.1	0.1	2.5	1.6
Less future finance charges	0.0		-0.9	
Present value of minimum lease payments	0.1	0.1	1.6	1.6

The purchase option for the lease contract for the building of the Danish distribution company was used in October 2008. Other finance lease contracts are for machinery and equipment and are not individually significant.

## 25. NON-INTEREST-BEARING LIABILITIES

EUR million	2008	2007
<b>Non-current non-interest-bearing liabilities</b>		
Other non-current liabilities	4.0	
<b>Current non-interest-bearing liabilities</b>		
Advances received	0.7	0.1
Trade payables	20.1	18.6
Accrued employee-related expenses	10.1	10.3
VAT payable	0.6	1.0
Other accrued expenses and deferred income	3.8	4.9
Other current liabilities	2.4	2.0
Total	41.7	37.0

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 non-interest-bearing liabilities is regarded as corresponding to their book value.

## 26. COMMITMENTS AND CONTINGENCIES

### COMMITMENTS

EUR million	2008	2007
<b>On own behalf</b>		
Business mortgages	16.1	16.1
Guarantees	0.3	0.3
Total	16.4	16.3

The mortgages given as security for own commitments include 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 new 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 Administrative Court against the tax adjustment made by the Finnish tax authorities concerning the taxation of Group's parent company for years 2004-2007. As per 31.12.2008, the additional tax cost, including delay penalties, caused by Finnish tax authorities' disputed interpretation, was EUR 2.7 million, which was paid and expensed by the end of 2007.

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

EUR million	2008	2007
<b>Future minimum rental payable under non-cancellable operating lease commitments</b>		
Within one year	4.0	2.9
1-3 years	4.5	3.6
3-5 years	1.8	1.2
Later than 5 years	1.1	1.9
Total	11.3	9.5

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

EUR million	2008	2007
<b>Future minimum rental receivable under non-cancellable operating leases</b>		
Within one year	0.1	0.1
1-3 years	0.1	0.1
Total	0.2	0.2

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 lengths, some of which may contain renewal options.

## 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	Receivables	Payables
<b>2008</b>					
Associated company Lanimo Oü	0.1			0.0	
Entity with significant influence over the Group <sup>1)</sup>		0.2	0.1	0.0	0.0
Management		0.2	0.0	0.0	0.0
<b>2007</b>					
Associated company Lanimo Oü	0.1			0.0	
Entity with significant influence over the Group <sup>1)</sup>		0.1	0.1	0.0	

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

### EMPLOYEE BENEFITS FOR TOP MANAGEMENT

EUR million	2008	2007
Salaries and other short-term employee benefits	-2.4	-3.2
Option programs to be settled in shares	0.0	-0.1
Option programs to be settled in cash	-0.1	-0.1
Total	-2.5	-3.4

Top management consists of members of the Board of Directors, CEO and other members of the Executive Committee. In 2008, one new member was appointed to the Executive Committee and one member resigned.

On December 31, 2008, members of the Board and the Executive Committee held directly a total of 912 056 Company shares and indirectly through a controlled corporation 1 160 000 shares. Top management owned on December 31, 2008 approximately 5.2% of the issued share capital and voting rights of Rapala.

In 2008 and 2007, no options were granted to top management. On December 31, 2008, top management held 427 500 options of which exercisable 272 500 options (on December 31, 2007, 604 572 options of which exercisable 304 322 options). The option scheme principles are the same for top management as for other employees. The total estimated value of options in place on December 31, 2008 is EUR 0.7 million. For more details on option programs, see note 29. Details of top management shareholdings and options are given on page 52.

The Group has no business transactions or outstanding balances with top management or close members of their family.

### EMPLOYEE BENEFITS FOR CHIEF EXECUTIVE OFFICER

EUR million	2008	2007
Salaries and other short-term employee benefits	-0.5	-0.6
Option programs to be settled in shares	0.0	0.0
Option programs to be settled in cash	0.0	0.0
Total	-0.5	-0.6

The monthly salary of CEO is EUR 23 620. CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus accrued for 2008 totaled EUR 110 000. 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. 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	2008	2007
Salaries and other short-term employee benefits	-1.7	-2.4
Option programs to be settled in shares	0.0	-0.1
Option programs to be settled in cash	0.0	0.0
Total	-1.8	-2.5

In addition to the monthly salary, CEO and other members of the Executive Committee participate in the Group's senior management bonus scheme. The amount and payment of the bonus requires that the EBITDA 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	2008	2007
Salaries and other short-term employee benefits	-0.2	-0.2
Option programs to be settled in shares	0.0	0.0
Total	-0.3	-0.3

Chairman of the Board is paid an annual remuneration of EUR 60 000 and other Members of the Board of Directors 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 corresponding to 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 2008 (2007: EUR 240 000).

## 29. SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 (Share-based Payment) to all option programs granted after November 7, 2002 that were unvested as of January 1, 2005. The Group had two separate share-based payment programs in place on December 31, 2008: one share option program (2004 programs) and one synthetic option program settled in cash (2006 program). Share-based payments 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. The total estimated value of the programs in place is EUR 2.4 million.

On March 31, 2008, the exercise period for the 2003B share option program expired. As a result of the share subscriptions with the 2004 stock option program, and if all stock options are fully exercised, the Group's share capital may still be increased by a maximum of EUR 80 955 and the number of shares by a maximum of 899 500 shares. The shares that can be subscribed with these stock options correspond to 2.3% of the Company's shares and voting rights.

GENERAL TERMS AND CONDITIONS OF THE OPTION PROGRAMS

	2003A (expired)	2003B (expired)	2004A I	2004A II	2004B I	2004B II	2006A	2006B
Nature of program	Granted share options	Granted share options	Granted share options	Granted share options	Granted share options	Granted share options	Granted synthetic options	Granted synthetic options
Personnel at the grant date	90	90	95	11	95	11	113	116
Number of options granted	500 000	500 000	453 750	46 250	453 750	46 250	483 500	495 000
Number of options outstanding	0	0	411 250	46 250	399 250	42 750	455 500	467 000
Exercise price, EUR <sup>1)</sup>	4.68	6.02	5.96	5.96	6.09	6.09	6.14	6.14
Share price at the grant date, EUR	6.15	6.15	6.15	6.40	6.15	6.40	5.93	5.93
Term of contract	June 8, 2004– Mar. 31, 2007	June 8, 2004– Mar. 31, 2008	June 8, 2004– Mar. 31, 2009	Feb. 14, 2006– Mar. 31, 2009	June 8, 2004– Mar. 31, 2010	Feb. 14, 2006– Mar. 31, 2010	Dec. 14, 2006– Mar. 31, 2011 <sup>2)</sup>	Dec. 14, 2006– Mar. 31, 2012 <sup>2)</sup>
Vesting period	June 8, 2004– Mar. 31, 2005	June 8, 2004– Mar. 31, 2006	June 8, 2004– Mar. 31, 2007	Feb. 14, 2006– Mar. 31, 2007	June 8, 2004– Mar. 31, 2008	Feb. 14, 2006– Mar. 31, 2008	Dec. 14, 2006– Mar. 31, 2009	Dec. 14, 2006– Mar. 31, 2010
Conditions of the agreement	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.	Employment during vesting period. As a general rule, in case of prior employment termination, options are forfeited.
Execution	In shares	In shares	In shares	In shares	In shares	In shares	In cash <sup>2)</sup>	In cash <sup>2)</sup>

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) 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.

INPUT TO THE MODEL

2008	2003A (expired)	2003B (expired)	2004A I	2004A II	2004B I	2004B II	2006A	2006B
Expected volatility, %	27	38	38	18	38	18	28	24
Expected life of option at the grant date (years)	2.8	3.8	4.8	3.1	5.8	4.1	4.3	5.3
Risk-free interest rate, %	2.96	3.25	3.54	2.99	3.74	3.16	2.15	2.49
Estimated forfeit ratio at the grant date, %	0	5	7	0	10	5	5	7
Fair value of the option at the grant date, EUR	2.13	2.07	2.35	1.33	2.61	1.41	1.09	1.34
Option-pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

2007	2003A (expired)	2003B	2004A I	2004A II	2004B I	2004B II	2006A	2006B
Expected volatility, %	27	38	38	18	38	18	16	17
Expected life of option at the grant date (years)	2.8	3.8	4.8	3.1	5.8	4.1	4.3	5.3
Risk-free interest rate, %	2.96	3.25	3.54	2.99	3.74	3.16	4.12	4.15
Estimated forfeit ratio at the grant date, %	0	5	7	0	10	5	5	7
Fair value of the option at the grant date, EUR	2.13	2.07	2.35	1.33	2.61	1.41	1.09	1.34
Option-pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

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.

Weighted average share price at the date of exercise for the options exercised in 2007 was EUR 5.83. No options were exercised in 2008. The weighted average remaining contractual life for the share options outstanding as at December 31, 2008 is 1.76 years (2007: 2.30 years). No options were granted in 2008 and 2007. The range of exercise prices (reduced by the amount of dividends distributed) for options outstanding at the end of the year 2008 was EUR 5.96–6.14 (2007: EUR 5.96–6.32).

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

	2008		2007	
	Pcs.	Weighted average exercise price EUR/share	Pcs.	Weighted average exercise price EUR/share
Outstanding Jan. 1	2 318 668	6.15	2 354 168	6.22
Correction to options granted in 2006			-12 000	6.41
Forfeited during the year	-50 500	6.14	-21 000	6.19
Exercised during the year			-2 500	4.68
Expired during the year	-446 168	6.02		
Outstanding Dec. 31	1 822 000	6.08	2 318 668	6.15
Exercisable at the end of the year	899 500	6.02	903 668	5.99

#### SHARE-BASED PAYMENT RECOGNITION IN THE INCOME STATEMENT

EUR million	2008	2007
Employee benefit expenses		
Option programs to be settled in shares	-0.1	-0.4
Option programs to be settled in cash	0.3	-0.3
Social security expenses liability from option programs	0.1	-0.1
Deferred taxes	-0.1	0.1
Total	0.2	-0.7

#### SHARE-BASED PAYMENT RECOGNITION IN THE BALANCE SHEET

EUR million	2008	2007
<b>Assets</b>		
Deferred tax assets	0.0	0.1
<b>Equity and liabilities</b>		
Equity	-0.1	-0.4
Liabilities from option programs to be settled in cash	0.1	0.4
Social security expenses liability from option programs <sup>3)</sup>	0.1	0.2

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

When the stock options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium fund. In 2007 EUR 0.0 million was credited to share capital and EUR 0.0 to share premium fund. No stock options were exercised in 2008.

#### 30. EARNINGS PER SHARE

	2008	2007
Net profit for the period attributable to the equity holders of the Company, EUR million	17.7	17.3
Weighted average number of shares, 1000 shares	39 403	38 781
Effect of dilution	–	–
Diluted weighted average number of shares, 1000 shares	39 403	38 781
Earnings per share, EUR	0.45	0.45
Diluted earnings per share, EUR	0.45	0.45

Weighted average number of shares in 2007 includes both old shares (RAP1V) and new restricted shares (RAP1VN0107). The new class of shares was combined to the old class of shares on October 24, 2008. For more details on the calculations of earnings per share, see accounting principles for the consolidated accounts page 14.

#### 31. DIVIDEND PER SHARE

The dividend paid for 2007 was EUR 0.18 per share. A dividend of EUR 0.19 per share is proposed for the Annual General Meeting of Shareholders to be held on April 7, 2009. This dividend payable is not reflected in the financial statements for 2008.

#### 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 2008. 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
<b>Europe</b>				
Rapala Finance N.V.	* 1)	Belgium	100	Administration
Normark S.r.o.	2)	Czech Republic	50	Distribution
Elbe Lystfiskeudstyr ApS		Denmark	100	Administration
Normark Denmark A/S	*	Denmark	100	Distribution
Normark Sport Ltd.		England	100	Administration
Marttiini Oü		Estonia	100	Manufacturing
Normark Eesti Oü		Estonia	100	Distribution
Rapala Eesti AS	*	Estonia	100	Manufacturing
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	2)	Finland	50	Administration
Cannelle SA		France	100	Distribution
Rapala France SAS	*	France	100	Distribution
Tortue SAS		France	100	Distribution
VMC Péche SA	*	France	100	Manufacturing
Rapala Eurohold Ltd.	*	Hungary	56.6	Distribution
Rapire Teo	*	Ireland	100	Administration
SIA Normark Latvia		Latvia	100	Distribution
Normark UAB		Lithuania	100	Distribution
Rapala B.V.	*	Netherlands	100	Administration
Elbe Normark AS	*	Norway	100	Distribution
Remen Slukfabrikk AS		Norway	100	Administration
Sandelin Berntsen Sport AS		Norway	76	Distribution
Vangen AS		Norway	100	Administration
Normark Polska Sp.z.o.o.	*	Poland	100	Distribution
Normark Portugal SA		Portugal	100	Distribution
OOO Raptech	*	Russia	100	Manufacturing
ZAO Normark	2)	Russia	50	Distribution
Normark Spain SA	*	Spain	100	Distribution
Normark Scandinavia AB	*	Sweden	100	Distribution
Normark Trading AB		Sweden	100	Distribution
Rapala-Fishco AG	*	Switzerland	100	Distribution
VMC Waterqueen Ukrainia	2)	Ukraine	50	Distribution

Subsidiaries by geographical area		Country	Group holding %	Nature of activity
<b>North America</b>				
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

<b>Rest of the World</b>				
Freetime Pty Ltd.	*	Australia	100	Distribution
Rapala V.M.C. Do Brazil	*	Brazil	100	Distribution
Rapala VCM China co.		China	100	Distribution
Willtech Industrial 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

Willtech Industrial Ltd., agency in China  
Normark S.r.o., branch office in Slovak Republic

1) Established in 2008

2) Controlled by Rapala

\* Shares owned by the parent company

## KEY FINANCIAL FIGURES

### SCOPE OF ACTIVITY AND PROFITABILITY

		2004	2005	2006	2007	2008
Net sales	EUR million	173.5	196.1	226.6	242.5	243.0
Operating profit before depreciation and impairments	EUR million	24.9	26.3	28.0	33.8	37.5
as a percentage of net sales	%	14.3	13.4	12.4	13.9	15.5
Operating profit	EUR million	19.9	21.5	21.7	28.3	31.3
as a percentage of net sales	%	11.4	11.0	9.6	11.7	12.9
Profit before taxes	EUR million	16.0	18.6	14.6	23.3	26.5
as a percentage of net sales	%	9.2	9.5	6.5	9.6	10.9
Net profit for the period	EUR million	12.1	14.0	11.0	17.5	19.2
as a percentage of net sales	%	7.0	7.1	4.9	7.2	7.9
Attributable to						
Equity holders of the Company	EUR million	12.0	14.0	10.8	17.3	17.7
Minority interest	EUR million	0.1	0.0	0.2	0.3	1.6
Capital expenditure	EUR million	9.2	21.7	13.8	9.3	13.7
as a percentage of net sales	%	5.3	11.0	6.1	3.8	5.6
Research and development expenses	EUR million	0.6	0.7	1.2	1.6	1.8
as a percentage of net sales	%	0.3	0.4	0.5	0.7	0.7
Net interest-bearing debt at the end of the period	EUR million	81.7	95.9	99.3	80.2	89.5
Capital employed at the end of the period	EUR million	140.6	171.3	180.6	177.1	193.2
Return on capital employed (ROCE)	%	14.2	13.8	12.3	15.9	16.9
Return on equity (ROE)	%	21.7	20.8	14.1	19.7	19.2
Equity-to-assets ratio at the end of the period	%	31.4	33.1	33.4	38.2	38.0
Debt-to-equity ratio (gearing) at the end of the period	%	139.0	127.1	122.2	82.8	86.4
Average personnel for the period	Persons	3 067	3 780	3 987	4 577	4 143
Personnel at the end of the period	Persons	3 361	3 986	3 921	4 356	3 197

**SHARE RELATED KEY FIGURES <sup>1)</sup>**

		<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Earnings per share	EUR	0.32	0.37	0.28	0.45	0.45
Fully diluted earnings per share	EUR	0.32	0.37	0.28	0.45	0.45
Equity per share	EUR	1.55	1.96	2.09	2.43	2.59
Dividend per share	EUR	0.09	0.11	0.12	0.18	0.19
Dividend/earnings ratio	%	28.2	30.3	42.8	40.2	42.2
Effective dividend yield	%	1.55	1.80	1.94	3.24	5.46
Price/earnings ratio		18.2	16.5	22.1	12.5	7.8
Share price at the end of the period	EUR	5.82	6.10	6.19	5.55	3.48
Lowest share price	EUR	5.24	5.50	5.60	5.40	2.95
Highest share price	EUR	6.85	6.88	6.75	6.27	5.65
Average share price	EUR	5.87	5.91	6.26	5.82	4.21
Number of shares traded	Shares	5 090 048	23 027 428	12 468 161	8 684 433	4 144 626
Number of shares traded of average number of shares	%	13.56	60.81	32.33	22.51	10.52
Share capital	EUR million	3.4	3.5	3.5	3.6	3.6
Dividend for the period	EUR million	3.4	4.2	4.6	6.9	7.5
Year end market capitalization <sup>2)</sup>	EUR million	218.5	234.8	238.8	219.3	136.6
Number of shares at the end of the period excluding own shares <sup>2)</sup>	1000 shares	37 543	38 498	38 576	39 468	39 256
Weighted average number of shares <sup>2)</sup>	1000 shares	37 543	37 871	38 565	38 781	39 403
Fully diluted number of shares at the end of the period <sup>2)</sup>	1000 shares	37 560	38 516	38 620	39 468	39 256
Fully diluted weighted average number of shares <sup>2)</sup>	1000 shares	37 560	37 889	38 609	38 781	39 403

1) In 2007, new restricted shares (RAP1VN0107) granted its 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) Excluding own shares.

KEY FIGURES BY QUARTER

		Q1/07	Q2/07	Q3/07	Q4/07	Q1/08	Q2/08	Q3/08	Q4/08
Net sales	EUR million	63.4	73.4	52.0	53.7	65.1	74.2	52.7	50.9
Operating profit before depreciation and impairments	EUR million	12.3	12.6	4.6	4.3	12.2	15.4	5.2	4.8
as a percentage of net sales	%	19.5	17.2	8.8	7.9	18.8	20.7	9.8	9.5
Operating profit	EUR million	12.0	11.0	2.9	2.4	10.6	13.8	3.6	3.2
as a percentage of net sales	%	18.9	15.0	5.6	4.5	16.3	18.7	6.8	6.4
Profit before taxes	EUR million	11.0	9.8	1.4	1.1	9.3	12.8	2.6	1.9
as a percentage of net sales	%	17.3	13.4	2.7	2.1	14.3	17.2	4.9	3.7
Net profit for the period	EUR million	7.7	6.7	1.1	2.0	6.8	9.4	2.0	1.0
as a percentage of net sales	%	12.2	9.1	2.1	3.7	10.5	12.7	3.7	2.0
Attributable to									
Equity holders of the Company	EUR million	7.6	6.6	1.0	2.0	6.3	8.2	1.2	1.9
Minority interest	EUR million	0.1	0.1	0.1	0.1	0.5	1.2	0.7	-0.9
Capital expenditure	EUR million	3.4	1.7	1.6	2.5	1.8	1.4	8.2	2.3
Net interest-bearing debt at the end of the period	EUR million	109.1	101.9	89.5	80.2	96.5	98.7	89.0	89.5
Capital employed at the end of the period	EUR million	197.5	192.7	180.7	177.1	196.3	201.4	195.3	193.2
Return on capital employed (ROCE)	%	25.4	23.6	6.4	5.4	22.8	29.3	7.7	7.0
Return on equity (ROE)	%	36.3	31.2	5.2	9.0	27.8	37.7	7.8	4.0
Equity-to-assets ratio at the end of the period	%	32.9	33.2	36.2	38.2	36.3	37.5	39.4	38.0
Debt-to-equity ratio (gearing) at the end of the period	%	123.5	112.3	98.1	82.8	96.7	96.1	83.7	86.4
Average personnel for the period	Persons	4 051	4 337	4 510	4 576	4 398	4 489	4 477	4 259
Personnel at the end of the period	Persons	4 717	4 622	4 957	4 356	4 692	4 664	3 546	3 197

## PARENT COMPANY FINANCIAL STATEMENTS, FAS

### PARENT COMPANY INCOME STATEMENT

EUR million	2008	2007
Net sales	28.0	27.3
Other operating income	0.1	0.1
Change in inventory of finished products and work in progress	0.8	1.0
Production for own use	0.1	0.1
Materials and services	-12.9	-13.5
Employee benefit expenses	-9.1	-9.1
Other operating expenses	-3.9	-4.1
Operating profit before depreciation and impairments	3.1	1.7
Depreciation and impairments	-1.1	-1.1
Operating profit	2.0	0.7
Financial income and expenses	-2.7	6.7
Profit / loss before extraordinary items	-0.6	7.4
Extraordinary items	1.1	1.2
Profit / loss before appropriations and taxes	0.4	8.6
Appropriations	0.0	0.1
Income taxes	-1.3	-2.2
Net profit / loss for the period	-0.8	6.5

### PARENT COMPANY BALANCE SHEET

#### ASSETS

EUR million	2008	2007
<b>Non-current assets</b>		
Intangible assets	1.0	1.4
Tangible assets	5.1	5.0
Investments	109.3	98.6
Interest-bearing receivables	15.1	25.7
Non-interest-bearing receivables	1.0	1.0
Total non-current assets	131.5	131.6
<b>Current assets</b>		
Inventories	5.9	5.4
Current financial assets		
Interest-bearing	23.1	19.8
Non-interest-bearing	20.4	13.6
Cash and cash equivalents	10.8	6.9
Total current assets	60.3	45.8
Total assets	191.8	177.4

### SHAREHOLDERS' EQUITY AND LIABILITIES

EUR million	2008	2007
<b>Shareholders' equity</b>		
Share capital	3.6	3.6
Share premium fund	16.7	16.7
Fair value reserve	-0.4	0.0
Fund for invested non-restricted equity	4.9	4.9
Own shares	-0.9	
Retained earnings	47.3	47.7
Net income for the period	-0.8	6.5
Total shareholders' equity	70.3	79.3
Appropriations	0.1	0.1
<b>Non-current liabilities</b>		
Interest-bearing	41.9	46.5
Total non-current liabilities	41.9	46.5
<b>Current liabilities</b>		
Interest-bearing	57.8	33.3
Non-interest-bearing	21.7	18.2
Total current liabilities	79.5	51.5
Total shareholder's equity and liabilities	191.8	177.4

### PARENT COMPANY SHARE CAPITAL

	2008		2007	
	Shares	EUR	Shares	EUR
Old shares	39 468 449	3 552 160	38 578 769	3 472 089
New restricted shares			889 680	80 071
Total	39 468 449	3 552 160	39 468 449	3 552 160

Each share is entitled to one vote.

In 2007, new restricted shares (RAP1VN0107) granted its 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.

On April 23, 2008 the Board decided to start buying back own shares in accordance with the authorization granted by the Annual General Meeting on April 3, 2008. At December 31, 2008 Rapala held 212 665 of its own shares, representing 0.5% of the total number of Rapala shares and the total voting rights. The average price for the repurchased own shares was EUR 4.01.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

EUR million	2008	2007
Share capital Jan. 1	3.6	3.5
Private offering		0.1
Shares subscribed with options		0.0
Share capital Dec. 31	3.6	3.6
Share premium fund Jan. 1	16.7	16.7
Shares subscribed with options		0.0
Share premium fund Dec. 31	16.7	16.7
Fair value reserve Jan. 1	0.0	
Gains and losses on cash flow hedges	-0.4	0.0
Fair value reserve Dec. 31	-0.4	0.0
Fund for invested non-restricted equity Jan. 1	4.9	
Private offering		4.9
Fund for invested non-restricted equity Dec. 31	4.9	4.9
Own shares Jan. 1		
Purchase of own shares	-0.9	
Own shares Dec. 31	-0.9	
Retained earnings Jan. 1	54.2	52.3
Dividends paid	-6.9	-4.6
Net income for the period	-0.8	6.5
Retained earnings Dec. 31	46.4	54.2

DISTRIBUTABLE EQUITY

**Other distributable funds**

Retained earnings	54.2	52.3
Dividends paid	-6.9	-4.6
Purchase of own shares	-0.9	
Gains and losses on cash flow hedges	-0.4	0.0
Net income for the period	-0.8	6.5
Distributable earnings	45.2	54.2

**Other distributable equity**

Fund for invested non-restricted equity	4.9	4.9
Total distributable equity	50.1	59.1

PARENT COMPANY CASH FLOW STATEMENT

EUR million	2008	2007
Profit / loss before extraordinary items	-0.6	7.4
<b>Adjustments</b>		
Depreciation	1.1	1.1
Unrealized foreign exchange gains and losses	2.2	-1.6
Other non-cash items		-0.1
Financial income and expenses	1.2	-5.5
Cash flow before change in working capital	3.9	1.3
<b>Change in working capital</b>		
Increase (-) / decrease (+) in current non-interest-bearing receivables	-6.2	7.0
Increase (-) / decrease (+) in inventories	-0.5	-1.3
Increase (+) / decrease (-) in current non-interest-bearing liabilities	3.5	8.6
Cash flow before financial items and taxes	0.7	15.6
Interest and other financial expenses paid from operating activities	-4.8	-4.9
Dividends received from operating activities		7.4
Interest received from operating activities	2.9	3.4
Income taxes paid	-1.9	-1.0
Cash generated from operating activities	-3.1	20.5
<b>Cash used in investing activities</b>		
Purchases of tangible and intangible assets	-0.8	-1.4
Proceeds from disposal of tangible and intangible assets		0.4
Acquisition of subsidiary shares	-1.9	-1.2
Cash used in investing activities	-2.7	-2.2
<b>Cash generated from financing activities</b>		
Purchase of own shares	-0.9	
Granted loans	-24.3	-31.5
Repayments of loans receivable	23.0	35.4
Current loan withdrawals	43.0	27.7
Current loan repayments	-18.5	-50.6
Non-current loan withdrawals	4.0	
Non-current loan repayments	-9.7	
Proceeds from issue of shares		5.0
Dividends paid	-6.9	-4.6
Cash generated from financing activities	9.7	-18.6
Change in cash and cash equivalents	3.9	-0.3
Cash and cash equivalents at the beginning of the period	6.9	7.2
Cash and cash equivalents at the end of the period	10.8	6.9

## PARENT COMPANY NOTES

### 1. ACCOUNTING PRINCIPLES

The financial statements of Rapala VMC Oyj have been prepared according to Finnish Accounting Standards (FAS).

#### FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies are translated into euros using the exchange rates at the balance sheet date and exchange differences arising from translation are recognized in the income statement.

#### REVENUE RECOGNITION

Sales of goods and services are recognized on accrual basis when the significant risks related to goods and services sold have passed to the buyer and it is not probable that the client would return the goods. Net sales comprise of gross sales less cash discounts and sales taxes.

#### RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred, unless they clearly relate to developing new business areas. Such development costs 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 accrued and future development costs and related production, selling and administrative expenses, and other possible costs related to the project.

Capitalized development expenses are amortized on a straight-line basis over their expected useful lives, a maximum of five years.

#### INVENTORIES

Inventories are valued at the lower of cost or net realizable value using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises of raw materials, direct labor costs including social costs and other direct costs. Inventories are shown net of a reserve for obsolete or slow-moving inventories.

#### TANGIBLE AND INTANGIBLE ASSETS

Tangible and intangible assets are stated at historical cost excluding accumulated depreciation according to plan. Planned depreciation is based on historical cost and expected useful life.

Land is not depreciated. Depreciation is based on the following expected useful lives:

Intangible assets	3 – 8 years
Buildings	20 years
Machinery and equipment	5 – 10 years
Other tangible assets	3 – 10 years

#### PENSION ARRANGEMENTS

All of the company's pension arrangements are defined contribution plans, with the majority being local statutory arrangements. Pension costs are funded as incurred.

#### VALUATION OF FINANCIAL DERIVATIVES

Financial derivatives are valued at fair value. Currently, the company has short-term standard and modified foreign currency forwards to which hedge accounting is not applied but which have been made to hedge cash flow exchange risk. Fair value of standard foreign currency forwards are determined by discounting the future nominal cash flows with relevant interest rates and then converting the discounted cash flows to the foreign currency using spot rates. The fair value of modified foreign currency forwards are received from the bank. The company also has an interest rate swap, which is designated and effective as cash flow hedge, in which the company pays fixed interest and received variable interest. The fair value of interest rate derivatives have been calculated using a discounted cash flow method and are received from the bank.

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 directly in equity and the ineffective portion is recognized immediately in the income statement.

#### CASH FLOW STATEMENT

Changes in financial position are presented as cash flows from operating, investing and financing activities.

### 2. NET SALES

EUR million	2008	2007
<b>By destination</b>		
North America	14.4	13.6
Nordic	2.6	3.1
Rest of Europe	7.5	7.0
Rest of the World	3.5	3.6
Total	28.0	27.3

For business segment purposes, parent company's net sales are allocated to Lure Business.

### 3. OTHER OPERATING INCOME

EUR million	2008	2007
Rental income	0.1	0.1
Government grants	0.0	0.0
Other income	0.0	0.0
Total	0.1	0.1

Other income, EUR 0.0 million (2007: EUR 0.0 million) is a combination of several smaller income items, of which none is individually significant.

### 4. OTHER OPERATING EXPENSES

EUR million	2008	2007
Maintenance	-1.2	-1.1
Selling and marketing expenses	-0.5	-0.5
Traveling expenses	-0.5	-0.5
Rents paid	-0.2	-0.3
IT and telecommunication	-0.3	-0.2
Research and development expenses	0.0	0.0
Auditors fees and services	-0.1	-0.2
Freight	-0.1	-0.1
Sales commissions	0.0	0.0
Other expenses	-0.9	-1.2
Total	-3.9	-4.1

### 5. MATERIALS AND SERVICES

EUR million	2008	2007
Materials, goods and supplies		
Purchases during the financial year	-12.5	-13.8
Change in inventory	-0.3	0.3
External services	-0.1	-0.1
Total	-12.9	-13.5

## 6. EMPLOYEE BENEFIT EXPENSES

EUR million	2008	2007
Wages and salaries	-7.4	-7.3
Pension costs	-1.2	-1.2
Other personnel expenses	-0.6	-0.6
Total	-9.1	-9.1
<b>Average personnel for the period</b>	<b>203</b>	<b>202</b>

The remuneration of the Board of Directors amounted to EUR 0.2 million (2007: EUR 0.2 million).

## 7. DEPRECIATION AND IMPAIRMENTS

EUR million	2008	2007
<b>Depreciation of intangible assets</b>		
Intangible assets	-0.4	-0.4
<b>Depreciation of tangible assets</b>		
Buildings	-0.2	-0.1
Machinery and equipment	-0.6	-0.5
Total	-1.1	-1.1

## 8. FINANCIAL INCOME AND EXPENSES

EUR million	2008	2007
Dividend income from subsidiaries		7.4
Dividend income from third parties	0.0	0.0
Foreign exchange gains	0.9	3.6
Foreign exchange losses	-2.4	-2.3
Interest and other financial income		
Interest income	3.1	2.8
Other financial income	0.0	
Interest and other financial expenses		
Interest expense	-4.3	-4.7
Other financial expenses	0.0	0.0
Total	-2.7	6.7

## FINANCIAL INCOME AND EXPENSES FROM AND TO SUBSIDIARIES

EUR million	2008	2007
Dividend income from subsidiaries		7.4
Interest and other financial income		
Interest income	2.9	2.5
Other financial income	0.0	
Interest and other financial expenses		
Interest expense	-0.2	0.0
Total	2.7	9.9

## TRANSLATION DIFFERENCES RECOGNIZED IN THE INCOME STATEMENT

EUR million	2008	2007
Translation differences recognized in net sales	0.1	-0.6
Translation differences included in purchases and other expenses	0.5	0.0
Foreign exchange gains and losses in financial income and expenses	-1.5	1.3
Total	-0.9	0.7

## 9. EXTRAORDINARY ITEMS

EUR million	2008	2007
Group contributions received	1.0	1.2
Other extraordinary items	0.1	
Total	1.1	1.2

Other extraordinary items includes compensation received from an insurance company.

## 10. APPROPRIATIONS

EUR million	2008	2007
<b>Change in accelerated depreciation</b>		
Buildings	0.0	0.0
Machinery and equipment	0.0	0.1
Total	0.0	0.1

## 11. INCOME TAXES

### INCOME TAXES IN THE INCOME STATEMENT

EUR million	2008	2007
<b>Current income tax</b>		
Income taxes for the current year	-1.0	-1.0
Taxes from previous financial years	-0.2	-1.2
Total	-1.3	-2.2

Deferred tax assets and liabilities of the parent company are not presented in the parent company's balance sheet.

## 12. INTANGIBLE ASSETS

EUR million	2008	2007
Acquisition cost Jan. 1	7.3	7.2
Additions	0.1	0.0
Acquisition cost Dec. 31	7.3	7.3
Accumulated depreciation Jan. 1	-5.9	-5.5
Depreciation during the period	-0.4	-0.4
Accumulated depreciation Dec. 31	-6.3	-5.9
Book value Jan. 1	1.4	1.7
Book value Dec. 31	1.0	1.4



### 13. TANGIBLE ASSETS

2008 EUR million	Land	Buildings	Machinery and equipment	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	0.1	4.3	12.3	0.7	17.5
Additions		0.1	0.8	1.1	1.9
Disposals			-0.1	-1.0	-1.1
Acquisition cost Dec. 31	0.1	4.4	13.0	0.8	18.3
Accumulated depreciation Jan. 1		-3.2	-9.2		-12.4
Depreciation during the period		-0.2	-0.6		-0.7
Accumulated depreciation Dec. 31		-3.4	-9.8		-13.1
Book value Jan. 1	0.1	1.1	3.1	0.7	5.0
Book value Dec. 31	0.1	1.0	3.2	0.8	5.1

2007 EUR million	Land	Buildings	Machinery and equipment	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	0.1	4.2	11.5	0.6	16.5
Additions		0.0	0.8	0.5	1.3
Disposals			0.0	-0.3	-0.4
Acquisition cost Dec. 31	0.1	4.3	12.3	0.7	17.5
Accumulated depreciation Jan. 1		-3.1	-8.7		-11.8
Depreciation during the period		-0.1	-0.5		-0.7
Accumulated depreciation Dec. 31		-3.2	-9.2		-12.4
Book value Jan. 1	0.1	1.2	2.8	0.6	4.7
Book value Dec. 31	0.1	1.1	3.1	0.7	5.0

### 14. INVESTMENTS

EUR million	2008	2007
<b>Shareholdings in subsidiaries</b>		
Book value Jan. 1	98.3	98.6
Additions	10.6	0.7
Acquisitions of subsidiaries	0.1	
Disposals		-1.0
Book value Dec. 31	109.1	98.3
<b>Available-for-sale investments</b>		
Book value Jan. 1	0.2	0.2
Book value Dec. 31	0.2	0.2

### 15. INVENTORIES

EUR million	2008	2007
Raw material	1.2	1.5
Work in progress	2.7	2.7
Finished products	1.9	1.2
Total	5.9	5.4

### 16. RECEIVABLES

EUR million	2008	2007
<b>Non-current receivables</b>		
Interest-bearing		
Loan receivables	15.1	25.7
Non-interest-bearing		
Other receivables	1.0	1.0
<b>Current receivables</b>		
Interest-bearing		
Loan receivables	22.8	19.7
Derivatives	0.3	0.0
Non-interest-bearing		
Trade receivables	17.1	12.0
Prepaid expenses and accrued income	3.4	1.6
Total	59.6	60.1

### RECEIVABLES FROM SUBSIDIARIES

EUR million	2008	2007
<b>Non-current receivables</b>		
Interest-bearing		
Loan receivables	15.1	25.7
Non-interest-bearing		
Other receivables	1.0	1.0
<b>Current receivables</b>		
Interest-bearing		
Loan receivables	22.8	19.7
Derivatives	0.0	0.0
Non-interest-bearing		
Trade receivables	16.8	11.6
Prepaid expenses and accrued income	3.0	1.3
Total	58.6	59.3

In addition to receivables from subsidiaries, prepaid expenses and accrued income consists of VAT and other tax receivables and other accrued income, but of which none is individually significant. Data for year in comparison has partly been reclassified.

## 17. LIABILITIES

EUR million	2008	2007
<b>Non-current liabilities</b>		
Interest-bearing		
Loans from financial institutions	37.5	46.4
Pension loans	4.0	
Derivatives	0.4	0.0
Other non-current liabilities		0.1
Non-interest-bearing		
Other liabilities		
<b>Current liabilities</b>		
Interest-bearing		
Loans from financial institutions	43.9	15.6
Commercial paper program	4.0	15.0
Pension loans	1.0	
Derivatives	0.1	0.1
Other current liabilities	8.7	2.5
Non-interest-bearing		
Advances received	0.1	0.1
Trade payables	19.5	14.8
Accrued liabilities and deferred income	2.1	3.2
Other current liabilities		0.1
<b>Total</b>	<b>121.4</b>	<b>98.0</b>

### CURRENT LIABILITIES TO SUBSIDIARIES

EUR million	2008	2007
<b>Interest-bearing</b>		
Derivatives	0.1	0.1
Other non-current liabilities	8.7	2.5
Non-interest-bearing		
Advances received	0.1	
Trade payables	11.5	8.4
Accrued liabilities and deferred income		
<b>Total</b>	<b>20.4</b>	<b>11.0</b>

EUR 0.0 million (2007: EUR 9.3 million) of loans from financial institutions matures later than in five years.

Accrued liabilities and deferred income consists of VAT, other taxes, interests, personnel costs and prepaid income, of which none is individually significant.

## 18. LEASE CONTRACTS

### PARENT COMPANY AS A LESSEE REPAYMENT SCHEDULE OF NON-CANCELLABLE OPERATING LEASE COMMITMENTS

EUR million	2008	2007
Within one year	0.2	0.2
1-3 years	0.3	0.2
<b>Total</b>	<b>0.6</b>	<b>0.4</b>

### PARENT COMPANY AS A LESSOR RENTAL RECEIVABLE SCHEDULE OF NON-CANCELLABLE OPERATING LEASES

EUR million	2008	2007
Within one year	0.0	0.0
1-3 years	0.1	0.1
<b>Total</b>	<b>0.1</b>	<b>0.1</b>

## 19. COMMITMENTS AND CONTINGENCIES

### COMMITMENTS

EUR million	2008	2007
<b>On own behalf and on behalf of subsidiaries</b>		
Business mortgage	16.1	16.1
Guarantees	3.3	2.8
<b>Total</b>	<b>19.4</b>	<b>18.9</b>

Commitments are to secure Group's loans from financial institutions and pension loan.

Since Normark Sport Oy, a 100% owned subsidiary of Rapala VMC Corporation, is the legal shareholder of the new distribution joint venture with Shimano Inc., the parent company has guaranteed to Shimano the fulfillment of its subsidiary's obligations related to the joint venture.

## 20. DERIVATIVES

EUR million	2008	2007
<b>Currency derivatives with bank</b>		
Fair value	0.3	-0.1
Nominal value	7.2	7.9
<b>Currency derivatives with subsidiaries</b>		
Fair value	-0.1	0.0
Nominal value	5.0	10.2
<b>Interest rate derivatives</b>		
Fair value	-0.4	0.0
Nominal value	13.7	12.9

In 2008, currency derivatives had an income statement effect of EUR 0.3 million (2007: EUR -0.1 million). Change in fair value of interest rate derivative has been directly booked to fair value reserve in equity.

# Corporate Governance and Management

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 advice concerning listed companies of the NASDAQ OMX Helsinki. Until the end of 2008 and including the Financial Statements and the Annual Report for 2008, Rapala complied with the Corporate Governance Recommendation issued in 2003. Starting from the beginning of 2009, Rapala adheres to the new Finnish Corporate Governance Code that was approved by the Finnish Securities Market Association in October 2008. The full version of Rapala's Corporate Governance document is available at the website [www.rapala.com](http://www.rapala.com).

## 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 such as the acceptance of the financial statements, increasing or decreasing share capital, amendments to the Articles of Association and proposed dividend, the release from liability of members of the Board of Directors (Board) and the President and CEO, the election of the members of the Board and the auditors, and the compensation paid to them.

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, generally in April. 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 Meetings. Each shareholder is entitled to one vote in AGM.

Under the Articles of Association the shareholders of the Company

are invited to the General Meeting by publishing the invitation in a widely circulated daily paper and on the Company website as decided by the Board. The invitation to the General Meeting shall state the matters to be handled at the General Meeting.

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

## Composition of the Board of Directors

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 Directors' duties and the possibility to devote sufficient time to the work. The current Board comprises seven members: the Group President & CEO, the Head of Rapala's Chinese Manufacturing Operations and Hong Kong Office, and five non-executive independent 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. Rapala does not follow the Corporate Governance recommendation for the independency of Board members to the extent that the 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. The Board does not have deputy members.

The members of the Board are elected by the AGM. The term of a member of the Board lasts until the date of the next AGM. The Board elects a Chairman to serve until the date of the next AGM. During the financial year 2008, the Board met 15 times. The average attendance rate at these meetings was 95%.

More information on Board members can be found on page 52.

## Responsibilities and Working Charter of the Board of Directors

The duties and responsibilities of the Boards 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, approving the financial statements and the interim reports and approving business plans, annual budgets, stock exchange releases and considerable investments or divestments.

## Board Committees in 2008

In 2008, the Board had only one Board committee, the Remuneration Committee.

In December 2008, the Board decided that 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 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 Jan-Henrik Schauman and Eero Makkonen. Committee members' appointments run concurrently with a Director's term as a member of the Board. In 2008, the Committee met four times. The attendance rate at these meetings was 100%.

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.

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 respon-

sibilities of the President are set forth in the Finnish Companies Act. The President and CEO are 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 52.

### Business Organization and Responsibilities

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.

Responsibility for the management of these subsidiaries rests with each company's Board, which typically comprises, the Group President, the Group Chief Financial Officer, and the Company Counsel and the subsidiary's President. In addition, they have management teams of their own. The Group's business organization can be divided among the manufacturing and distribution activities and, moreover, into six different product lines: Lures, fishing hooks, fishing lines and fishing accessories, as well as third party fishing products and other products.

### Remuneration

In 2008, 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 23 620. 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 2008 totaled EUR

110 000. 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 CEO and senior management of the Group participate in the Group's senior management bonus scheme. Every second year, a profit bonus scheme is established for the following two years. 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 page 52.

### Internal Control, Risk Management and Internal Audit

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

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 Treasurer and Group Risk Manager 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.

The President 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.

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. In 2008, three such internal audits were performed. The absence of an in-house internal audit organization is also taken into account in the external audit.

### Insiders 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 information, 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 function of its own is reflected in the scope and content of the audit. In 2008, the Group arranged a competitive bidding for providing audit services for the Group. Based on the results of this process, the Board proposes to the AGM that the auditor to be elected for the financial year 2009 is Ernst & Young Oy.

## BOARD OF DIRECTORS

### Emmanuel Viellard

*Chairman*  
Chairman of the Rapala Board since 2005  
B.A., CPA  
Year of birth: 1963  
Vice Chairman and Executive Vice President of Lisi Industries  
Shareholding\*: -  
Indirect shareholding through a controlled corporation\*: 100 000  
Options\*: 20 000

### 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\*: 82 000

### Eero Makkonen

Rapala Board member since 1998  
Chairman of the Rapala Board 1999-2005  
B.Sc. (Eng.)  
Year of birth: 1946  
Shareholding\*: -  
Indirect shareholding through a controlled corporation\*: 100 000  
Options\*: 20 000

### Jan-Henrik Schauman

Rapala Board member since 1999  
M.Sc. (Econ.), MBA  
Year of birth: 1945  
Shareholding\*: -  
Options\*: 20 000

### Christophe Viellard

Rapala Board member since 2000  
Diploma ESCP  
Year of birth: 1942  
Shareholding\*: -  
Indirect shareholding through a controlled corporation\*: 100 000  
Options\*: 20 000

### 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\*: 890 580  
Options\*: 30 000

### Marc Speeckaert

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

\*Shareholdings and options December 31, 2008. Options also 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"

### Jouni Grönroos

*Chief Financial Officer (CFO)*  
Rapala Executive Committee member since 2005  
Shareholding\*: 16 001  
Indirect shareholding through a controlled corporation\*: 30 000  
Options\*: 44 500

### 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\*: 42 000

Hannu Murtonen was a member of the Executive Committee from July 18, 2007 until April 15, 2008.

\*Shareholdings and options on December 31, 2008. Options also include synthetic options.

### Juhani Pehkonen

*Head of Lure Business*  
Rapala Executive Committee member since 1998  
Shareholding\*: -  
Indirect shareholding through a controlled corporation\*: 30 000  
Options\*: 42 000

### Stanislas de Castelnaud

*Head of Fishing Hook Business*  
Rapala Executive Committee member since 2002  
Shareholding\*: -  
Indirect shareholding through a controlled corporation\*: 10 000  
Options\*: 37 000

### Tom Mackin

*President of Rapala USA*  
Rapala Executive Committee member since 2007  
Shareholding\*: 3 000  
Indirect shareholding through a controlled corporation\*: 10 000  
Options\*: 42 000

### Lars Ollberg

*Head of Fishing Line and Accessory Business*  
Rapala Executive Committee member since 2008  
Shareholding\*: 2 475  
Indirect shareholding through a controlled corporation\*: 30 000  
Options\*: 28 000

## OTHER GROUP KEY MANAGERS

### LURES

**Jari Kokkonen**, Sales and Marketing  
**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  
**LF Yung**, Willtech Factory  
**DQ Yung**, Willtech Factory  
**Kevin Au**, Willtech Lures

### FISHING HOOKS

**Christian Victor**, Sales and Marketing (Europe)  
**Rodolphe Jacques**, Sales and Marketing (ROW excl. USA)

### FISHING ACCESSORIES

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

### OTHER PRODUCTS

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

### ADMINISTRATION

**Mikko Häikiö**, Financial Planning and Business Control  
**Esko Jäntti**, Group Treasury  
**Anu Koskinen**, Group Reporting and Financial Control  
**Jussi Ristimäki**, Group Tax and Risk Management

### DISTRIBUTION

**Gregg Wollner**, USA  
**Nancy Adelmann**, USA  
**Roger Cannon**, Canada (until January 1, 2009)  
**John Newton**, Canada (from January 1, 2009)  
**Philippe Guigo**, France  
**Jean-Philippe Nicolle**, France and VMC  
**Janne Paukkunen**, Spain, Portugal and Brazil  
**Saku Kulmala**, Finland and Eastern Europe  
**Matts Baum**, Sweden  
**Nils Larsen**, Denmark  
**Hasse Coucheron-Aamot**, Norway  
**Thomas Brumann**, Switzerland  
**Victor Skvortsov**, Russia  
**Mirek Adamski**, Poland  
**Roman Sereda**, Ukraine  
**Janis Adamovics**, Latvia  
**Remigijus Zubavicius**, Lithuania  
**Vitas Miskinis**, Eastern Europe  
**Daniel Sirucka**, Czech Republic  
**Mati Banhard**, Estonia  
**Karoly Agh jr.**, Hungary  
**Manabu Kimoto**, Japan  
**Leong Loke**, Malaysia and Thailand  
**Jay Choi**, South Korea  
**Brian Hale**, Australia (until January 15, 2009)  
**Aku Valta**, Australia (from January 15, 2009)  
**Grant Pledger**, South Africa  
**Mark Pledger**, South Africa

# 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 activity is primarily allocated to the management of the business units.

The importance of risk management has increased when the Group has continued to expand its operations. Risk management continued to receive increased attention and new development initiatives by Group management also in 2008. In 2008, focus of Group level risk management actions was on foreign exchange, credit, liquidity, raw material and hazard risks and further development of Group wide insurance programs.

The following is a summary of key strategic, operational and financial risks and what the Group has done to mitigate these risks.

## Strategic Risks

Sport fishing is one form of leisure hobby and the Group's products are competing against wide range of other hobbies. The Group is promoting the attractiveness of sport fishing through active sales and marketing as well as brand management. The Group is constantly developing new products to meet consumer's 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 the 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 copy products and this does 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 fishes to live and breed. Increased pollution of the environment is a growing concern 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. The Group is also acting in the forefront to develop products, e.g. catch-and-release equipment, to comply with the fish protection initiatives. For more details on the environmental actions, see the section Environmental Affairs.

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. Consolidation of Pure Fishing and Shakepeare into Jarden in 2007 created a major fishing tackle company, increasing the competition especially in the USA. This acquisition has not had any dramatic impact on Rapala's overall operations or competitive position. The Group'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 their private label products. 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 is essential in succeeding in this competition.

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

Manufacturing of sport fishing products is not dependent of any proprietary manufacturing technologies or patents. The Group's manufacturing

units are actively monitoring the development of generic manufacturing technologies and considering the applications to production of its products.

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 distribution partnership with Shimano has proven to be a success and the distribution co-operation was further expanded in 2008. Strategic co-operation with Taiwanese Yao I on production of Suffix fishing line was formalized in 2008 with an exclusive supply agreement.

Rapala's customer base is extensively diversified geographically and quantitatively. 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 clearly 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 considerably through organic growth as well as mergers and acquisitions. Careful target selection, proper due diligence process and post-merger integration are key issues in securing that the expansion initiatives are successful and in line with the Group's strategic objective of profitable growth.

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 allocated to the management of each business unit.

## Operational and Hazard Risks

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 sports equipment. The Group has also expanded its own distribution network to the southern hemisphere to mitigate the effects of seasonality.

Due to the seasonality in demand, the Group's product shipments con-



centrate annually to relatively short time periods, where supply problems could endanger the sales of the season.

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. This risk is managed with high level of cooperation between the manufacturing and distribution units, safety stocks and proper insurances.

The Group's sales prices are primarily fixed annually or bi-annually, normally before each season. The Group's purchases include raw materials for which the purchase price may fluctuate during the season. For some products, like metal lures, raw materials represent a significant element in the cost of production. The Group has increased its focus on raw material price risk management and is investigating possibilities to enter into price hedging contracts. The Group also aims to push any raw material price increases to the sales prices immediately or during a period of time.

In respect of manufacturing activities, the Group is not critically dependent on any single external production factor supplier. Availability of competent production labor is essential and the Group aims to maintain good employer reputation and personnel relations to achieve this.

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 an insurance company planned and executed a series of 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 an 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.

Board evaluates the Group's operational risks at least once a year as part of the 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. 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 note 22 to the consolidated financial statements.

# Environmental Affairs

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.

## 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.

Our manufacturing sites develop their environmental operations in accordance with local legislation and regulation.

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

Close to 50% of the products sold by Rapala are produced in the Group's own manufacturing facilities. 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 environmental friendly. In Finland and partly also in China, paint has partly been changed from soluble dyes to water-dilutable to reduce VOC emissions.

## 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. The Group is also working in cooperation with external suppliers in order to find more environmental 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 plastic products. 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.

## 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 lightning 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 2008

In 2008, Rapala has developed and increased the reporting and follow-up of environmental affairs. The first results of this work are demonstrated in the environmental indicators and graphs on these pages. 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 2008. The first biodegradable products were launched in 2008 for the 2009 season under the Trigger X brand.

In 2008, the Group companies participated in several countries in fisheries restoration and recreational fishing promotion campaigns. In the following paragraphs we summarize few of these actions.



In the USA, Rapala participated 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. In Finland, Rapala supported a project to study the move of salmon and trout in the River Vantaa and raise the awareness of environmental aspects and the fishing opportunities close to the capital of Finland. In addition, the Group supported cleaning of lakes, rivers and sea shores as well as environmental and fishing related education in many countries including Spain, South Africa and Japan.

No material non-compliance, environmental accidents or hazards occurred in 2008.

### Environmental Performance in 2008

Rapala monitors the emissions to air of its own manufacturing operations globally. The most significant emissions for the Group are the volatile organic compounds (VOC) and carbon dioxides (CO<sub>2</sub>). 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 2008, Rapala's VOC emissions were 246 (281) tons and carbon dioxide emissions were 219 (196) thousand tons. VOC emissions originate mainly from different types of solvent used in conjunction with painting operations. Majority of the CO<sub>2</sub> emissions are created indirectly when energy produced elsewhere is purchased and consumed by the Group factories.

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 2008, Rapala's operations generated 641 tons (573 tons) of waste of which 113 tons (137 tons) were hazardous waste, which is processed by disposal facilities dedicated for hazardous waste.

Rapala manufacturing is not very energy-intensive but energy consumption is an environmental aspect measured by for 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 2008, Rapala's total energy consumption was 331 TJ (305 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 2008, the water consumption was 184 000 m<sup>3</sup> (227 000 m<sup>3</sup>).

In 2008, the Group environmental expenses were some EUR 0.2 million (EUR 0.3 million) and environmental investments some EUR 0.2 million (EUR 0.2 million).

# Shares and Shareholders

Rapala's shares have been traded on the NASDAQ OMX Helsinki since 1998. In 2008, the shares traded between EUR 5.65 and 2.95 with an average price of EUR 4.21.

## Shares and Voting Rights

On December 31, 2008, 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 (2007: 39 468 449). The book value of a share is EUR 0.09. Each share is entitled to one vote.

Until October 24, 2008 shares were divided into two classes: 38 578 769 old shares (trading code RAP1V) and 889 680 new restricted shares (RAP1VN0107). 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. The new restricted shares did not give right to dividend paid from the financial year 2007 and they had a lock-up period of 12-months.

## 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 purchase 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.

## Own Shares

On April 23, 2008, the Board decided to start buying back own shares in accordance with the authorization granted by the AGM on April 3, 2008. At December 31, 2008, Rapala held 212 665 of its own shares, representing 0.5% of the total number of Rapala shares and voting rights. The average price for the repurchased own shares was EUR 4.01.

## Changes in Share Capital

There were no changes in the share capital in 2008.

## 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. 43% 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, 2008 VM&C owned directly or through its subsidiaries approximately 28.1% 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. The parties to the shareholders' agreement have agreed to support Jorma Kasslin as the CEO of Rapala for a period of three years from the execution of the shareholders' agreement and election of Emmanuel Viellard as the chairman of the Board during the same period.

## Option Programs

The Group has two separate share-based payment programs: one share option programs settled with new shares (2004 program) and one synthetic option program settled in cash (2006 program). The following option schemes are currently in place mainly for senior and middle management (2004 program is also for non-executive Board members):

- The 2004 Share Option Program: A maximum of 1 000 000 options were issued to 106 managers, 500 000 exercisable between March 31, 2007 and March 31, 2009 at an exercise price of EUR 6.16 per share (2004A), and 500 000 exercisable between March 31, 2008 and March 31, 2010 at an exercise price of EUR 6.41 per share (2004B). Exercise price represents the weighted average share price in March 2005 (2004A) and March 2006 (2004B).
- The 2006 Synthetic Option Program (share-based incentive plan): A maximum of 1 000 000 options were issued to 116 managers, 500 000 exercisable between March 31, 2009 and March 31, 2011 at an exercise price of EUR 6.44 per share (2006A), and 500 000 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 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

PRINCIPAL SHAREHOLDERS ON DECEMBER 31, 2008 \*

Shareholder	Number of shares	%
Viellard Migeon & Cie	10 992 661	27.9
Sofina S.A.	7 500 000	19.0
Odin Finland	1 761 754	4.5
Odin Norden c/o Odin Forvaltnings AS	1 669 422	4.2
Utavia S.a.r.l.	1 610 000	4.1
The State Pension Fund	1 200 000	3.0
So Wai Hang	890 580	2.3
Shimano Singapore Private Limited	889 680	2.3
OP-Finland Small Firm Fund	612 000	1.6
Etera pension insurance company	599 792	1.5
Administrative registrations	6 642 594	16.8
Other shareholder's total	5 099 966	12.9
Total number of shares	39 468 449	100

SHAREHOLDERS BY CATEGORY ON DECEMBER 31, 2008 \*

Shareholder category	Number of shares	%
Private and public corporations	517 092	1.3
Financial and insurance companies	2 275 687	5.8
Public institutions	3 250 615	8.2
Non-profit organizations	153 162	0.4
Individuals	1 148 942	2.9
International shareholders	23 870 357	60.5
Administrative registrations <sup>1)</sup>	8 252 594	20.9
Total	39 468 449	100

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

DISTRIBUTION OF SHAREHOLDING ON DECEMBER 31, 2008 \*

Number of shares	Number of shareholders	%	Total shares	%
1 - 100	487	30.4	37 574	0.1
101 - 500	614	38.3	180 527	0.5
501 - 1 000	229	14.3	192 024	0.5
1 001 - 10 000	213	13.3	631 686	1.6
10 001 - 1 000 000	36	2.2	878 854	2.2
1 000 001 -	23	1.4	37 547 784	95.1
Total	1 602	100	39 468 449	100

\* Number of shares includes own shares (212 665 shares).

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.

The outstanding options under 2004 share option program represented a 2.3% interest in the Company's outstanding shares on December 31, 2008. For more details on share-based payments see note 29 in the consolidated financial statements.

### Management Shareholding

On December 31, 2008, members of the Board and the Executive Committee held directly a total of 912 056 Company shares and indirectly through a controlled corporation 1 160 000 Company shares, corresponding to 5.2% of all shares and voting rights. If the share option program 2004 were exercised in their entirety, shareholdings and aggregate voting rights held by the members of the Board and Executive Committee would increase by 0.7%. Details of management shareholdings are given on page 52.

### Trading and Performance of the Company's Shares

The Company share (RAPIV) is quoted on the NASDAQ OMX Helsinki. The 2008 closing price on December 31 was EUR 3.48. The highest price in 2008 was EUR 5.65, the lowest price EUR 2.95 and the average price EUR 4.21. The share price decreased 37.3% in 2008. The OMX Nordic Mid Cap price index decreased 56.4% in 2008. A total of 4 144 626 Rapala shares were traded in 2008. This represents 10.5% of all shares on December 31, 2008.

At the end of 2008, the market capitalization of all outstanding shares was EUR 136.6 million. Earnings per share (basic) were EUR 0.45 (EUR 0.45 in 2007). For more share related key figures see page 42.

### Dividend

The Board proposes to the AGM that a dividend of EUR 0.19 per share will be paid.