RAPALA VMC CORP.

HALF YEAR REPORT H1/2020

JULY 16, 2020

RAPALA VMC CORPORATION'S HALF YEAR REPORT H1/2020: NET SALES AND PROFITABILITY DECREASED FOLLOWING THE COVID-19 PANDEMIC; SUCCESSFUL MITIGATION RESULTED IN IMPROVED OPERATING CASH FLOW AND SIGNIFICANT REDUCTION IN INVENTORIES AND NET DEBT

January-June (H1) in brief:

- Net sales were 117.1 MEUR, down 17% from previous year (141.2). With comparable exchange rates sales were 17% down from previous year.
- Operating profit was -0.8 MEUR (11.4).
- Comparable operating profit* was 4.2 MEUR (12.0).
- Earnings per share was -0.12 EUR (0.17).
- Cash flow from operations was 13.4 MEUR (11.5).
- Inventories were 83.5 MEUR (108.6), down 23%.
- Net interest-bearing debt was 63.5 MEUR (104.1)
- Short-term outlook: End-consumer demand is currently on a good level in main markets, but it is still impossible to issue a financial guidance for 2020 due to lack of visibility and significant uncertainties related to the COVID-19 pandemic.

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

President and CEO Nicolas Warchalowski: "The first half of 2020 was truly exceptional as COVID-19 pandemic had a profound impact on the Group. Consequently, net sales decreased by 17% from previous year to 117.1 MEUR. Largest topline reductions came from North America and the Nordic region. In North America our distribution centres were closed for more than one month due to governmental lockdown measures. Furthermore, mild winter weathers impacted strongly winter sports business and exit from certain Third Party distribution agreements decreased sales in the Nordic region.

Fishing as a recreational sport has gained popularity during the pandemic and fishing participation has increased in many countries during the current summer fishing season. After a significant initial negative impact on our sales, we witnessed increased demand from end-May onwards and recorded strong double-digit growth in sales for the month of June. Furthermore, our investments in direct e-commerce business are yielding results. European e-commerce sales for the first six months doubled from prior year and in the USA, we recorded double digit growth despite the temporary warehouse closure.

We reacted quickly to the pandemic in March and implemented a strong COVID-19 mitigation plan, where our highest priorities were safeguarding the health and safety of our team members worldwide and protecting the financial position of the Group. We implemented a rapid and forceful ramp-down with fast reduction in operating expenses, cut in purchases and implementation of watchtowers to monitor cash flow and account receivables. We successfully executed the ramp-down plan and consequently our net debt reduced from 2019 year-end by 11.1 MEUR to 63.5 MEUR. Following central purchase quota allocation and new strict sales and operations planning routines, inventory decreased by 25.1 MEUR from June 2019 to 83.5 MEUR, which is the lowest inventory value recorded in more than 10 years. Furthermore, cash flow from operations increased from previous year and was 13.4 MEUR.

Execution of our strategy and the restructuring program initiated in October 2019 has progressed fully as planned and partly accelerated during the first half of the year. The objectives of the restructuring program are to increase efficiencies of operations, increase internal synergies and consequently decrease operating expenses and reduce net working capital. Leadership of European businesses has been centralized and warehouses will be consolidated to fewer locations, which will increase synergies and enable higher focus on sales growth. Another significant part of cost savings relates to Asian lure manufacturing operations, which will be gradually ramped down in the next six months. Overall, we are very confident in our strategy and its execution in order to make our product range even more innovative to win long term with the consumers of tomorrow."

Key figures

MEUR	**H1 2020**	H1 2019	**Change %**	FY 2019
Net sales	**117.1**	141.2	**-17%**	275.4
Operating profit	**-0.8**	11.4	**-107%**	13.4
% of net sales	**-0.7%**	8.1%		4.9%
Comparable operating profit *	**4.2**	12.0	**-65%**	17.8
% of net sales	**3.6%**	8.5%		6.5%
Cash flow from operations	**13.4**	11.5	**+17%**	25.9
Gearing %	**43.7%**	81.1%		49.2%
EPS, EUR	**-0.12**	0.17	**-171%**	0.10

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

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

Market Environment

During the first half of the year, trading conditions were significantly impacted by the COVID-19 pandemic. The pandemic started to deteriorate trading conditions in Asia to some extent in February and during the spring Europe and North America were significantly impacted. Furthermore, unexceptionally mild winter weathers in Nordics and North America impacted negatively winter sports and ice fishing businesses. The Group's sales began to recover during the end of May and in June sales were already ahead of previous year in most of the Group's main markets.

Business Review January–June 2020

The Group's net sales for the first half were 17% below last year mainly driven by the direct and indirect impacts of the COVID-19 pandemic. Changes in translation exchange rates did not have a material impact on the sales and with comparable translation exchange rates, net sales were organically also down by 17% from the comparison period.

North America

Sales in North America were 17% down from the comparison period with reported translation exchange rates and 19% with comparable translation exchange rates due to the depreciation of the US and Canadian dollars compared to the first half of 2019.

The sales decrease was mostly driven by the COVID-19 pandemic and consequential governmental lockdowns that affected the Group's distribution centres in North America. However, sales began to recover again in May after the lockdown period. Despite the temporary closure of the distribution centre in the USA, e-commerce sales in North America grew strongly.

Nordic

Sales in the Nordic market decreased from the comparison period by 28%. With comparable translation exchange rates sales were down by 27% from the first half of 2019.

The Group's distribution units were operating throughout the first half of the year, but COVID-19 pandemic had a negative impact on retail and customer demand. In addition, poor winter conditions as well as changes in certain Third Party distribution agreements reduced sales in the Nordic market. However, the beginning of the summer fishing season was strong and consequently Group Fishing sales ended up being higher than in the first half of 2019.

Rest of Europe

With reported translation exchange rates, the sales in Rest of Europe were 9% below the comparison period. With comparable translation exchange rates, sales were also down by 9% compared to the first half of 2019.

Governmental lockdown measures had a significant impact on retail shops in the region, which consequently had a negative impact on the Group's sales. The governmental restrictions were particularly heavy in some of the region's biggest markets in France, Russia and Spain. Furthermore, the upcoming changes in Third Party rod and reel distribution decreased sales from the comparison period.

Rest of the World

Sales in Rest of the World decreased from the comparison period by 18% with reported currencies and by 13% using comparable translation exchange rates.

COVID-19 pandemic started to impact sales already in February in the East Asian markets. Following the governmental business closures and other lockdown measures, the impacts gradually spread to other parts of the Rest of the World market area during the spring. Sales slowly began to recover in May and in June sales exceeded the level of June 2019. Despite the recovery, some of the markets in the region are still heavily impacted by the pandemic.

External net sales by area

MEUR	**H1 2020**	H1 2019	**Change %**	**Comparable change %**	FY 2019
North America	**40.4**	48.6	**-17%**	**-19%**	104.2
Nordic	**22.3**	30.9	**-28%**	**-27%**	56.6
Rest of Europe	**41.6**	45.9	**-9%**	**-9%**	81.3
Rest of the World	**12.8**	15.7	**-18%**	**-13%**	33.3
Total	**117.1**	141.2	**-17%**	**-17%**	275.4

Financial Results and Profitability

Comparable (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) operating profit decreased by 7.8 MEUR from the comparison period. The change in translation exchange rates did not have a material impact on operating profit. Reported operating profit decreased by 12.2 MEUR from the previous year and the items affecting comparability had a negative impact of 5.0 MEUR (0.6) on reported operating profit.

Comparable operating profit margin was 3.6% (8.5) for the first half. The decreased profitability compared to the first half of 2019 was mainly driven by lower sales, which were heavily impacted by the COVID-19 pandemic. Furthermore, exceptionally mild winter conditions had a negative impact on sales and profitability. However, the Group did react quickly to the pandemic by implementing a forceful COVID-19 mitigation plan to protect its financial position. As a result of the successful implementation of the mitigation plan, operating expenses decreased from the comparison period.

Reported operating profit margin was -0.7% (8.1) for the first half. Reported operating profit included impact of mark-to-market valuation of operative currency derivatives of -0.1 MEUR (-0.3). Net expenses of other items affecting comparability included in the reported operating profit were 4.9 MEUR (0.2). Other items affecting comparability consisted mainly of expenses related to the ramp down of Asian lure manufacturing operations.

Total financial (net) expenses were 1.9 MEUR (1.3) for the first half of the year. Net interest and other financing expenses were 1.6 MEUR (1.2) and (net) foreign exchange expenses were 0.3 MEUR (0.1).

Net profit for the first half decreased by 11.2 MEUR and was -3.8 MEUR (7.4) and earnings per share were -0.12 EUR (0.17). The share of non-controlling interest in net profit was at the same level compared to previous year and totalled 0.4 MEUR (0.4).

Key figures

MEUR	**H1 2020**	H1 2019	**Change %**	FY 2019
Net sales	**117.1**	141.2	**-17%**	275.4
Operating profit	**-0.8**	11.4	**-107%**	13.4
Comparable operating profit *	**4.2**	12.0	**-65%**	17.8
Net profit	**-3.8**	7.4	**-151%**	4.1

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

Bridge calculation of comparable operating profit

MEUR	**H1 2020**	H1 2019	Change %	FY 2019
Operating profit	**-0.8**	**11.4**	**-107%**	**13.4**
Mark-to-market valuations of operative currency derivatives	0.1	0.3		0.4
Other items affecting comparability	4.9	0.2		4.0
Comparable operating profit	**4.2**	**12.0**	-65%	**17.8**

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

Segment Review

Group Products

With comparable translation exchange rates, Group Products sales decreased by 16.9 MEUR from the comparison period. Although the summer fishing season began strongly in many of the Group's key markets, the overall impact of the COVID-19 pandemic pulled Group Products sales below the first half of 2019. Followed by the lower sales, the comparable operating profit for Group Products was also below the comparison period.

Third Party Products

With comparable translation exchange rates, Third Party Products sales were 7.2 MEUR below the comparison period. COVID-19 pandemic impacted Third Party Products sales negatively. In addition, certain changes in Third Party distribution agreements decreased sales in the Nordic market and the upcoming changes in third party rod and reel distribution more broadly in the Group. Followed by the decreased sales, the comparable operating profit for Third Party Products was below the comparison period.

Net sales by segment

MEUR	**H1 2020**	H1 2019	**Change %**	**Comparable change %**	FY 2019
Group Products	**78.3**	95.2	**-18%**	**-18%**	185.2
Third Party Products	**38.8**	46.0	**-16%**	**-14%**	90.2
Total	**117.1**	141.2	**-17%**	**-17%**	275.4

Comparable operating profit by segment

MEUR	**H1 2020**	H1 2019	**Change %**	FY 2019
Group Products	**4.3**	11.7	**-63%**	19.5
Third Party Products	**-0.1**	0.2	**-150%**	-1.6
Comparable operating profit	**4.2**	12.0	**-65%**	17.8
Items affecting comparability	**-5.0**	-0.6		-4.4
Operating profit / loss	**-0.8**	11.4	**-107%**	13.4

Financial Position

As a result of a successful implementation of the COVID-19 mitigation plan, cash flow from operations increased by 1.9 MEUR from the comparison period being 13.4 MEUR (11.5). Key driver for the improved cash flow from operations was the favorable development of working capital. The impact of net change of working capital to cash flow from operations increased 6.2 MEUR from previous year and was 5.9 MEUR (-0.3).

End of June 2020 inventory was 83.5 MEUR (108.6). The impact of change in allowance on inventory and changes in translation exchange rates on inventory was neutral. The improvement of the inventory value resulted from tight inventory and purchase control, which was a crucial part of the COVID-19 mitigation plan.

The Group's COVID-19 response and mitigation plan on supply chain management was overall successful. The direct impacts of the pandemic to the Group's sourcing and own factories were limited. As a result of decreased demand, finished goods purchases decreased in the first six months of the year compared to last year and factory capacities were reduced via temporary layoffs and furloughs.

Net cash used in investing activities decreased from the level of the comparison period amounting to 1.6 MEUR (2.8). Capital expenditure was 2.0 MEUR (3.5) and disposals 0.4 MEUR (0.7). Disposals were related to sales of some manufacturing equipment.

Liquidity position of the Group was good. Undrawn committed long-term credit facilities amounted to 49.9 MEUR at the end of the period. Gearing ratio decreased significantly and equity-to-assets ratio strengthened from last year. The Group has agreed with its lenders to temporarily change financial covenants used in its loan agreements for the periods from Q2/2020 to Q1/2021. The new financial covenants include limits on the amount of indebtedness, available liquidity, EBITDA as well as gearing ratio. The Group is currently compliant with all financial covenants and expects to comply with all requirements set in the financing agreements also in the future. As a result of successful COVID-19 mitigation, cash balance included excess cash at the end of the period, which will decrease in the next months as short-term commercial paper loans will mature.

Group equity includes a hybrid bond of 25.0 MEUR issued in November 2019. The accrued non-recognized interest on hybrid bond at June 30, 2020 was 0.5 MEUR (0.6).

Key figures

MEUR	**H1 2020**	H1 2019	**Change %**	FY 2019
Cash flow from operations	**13.4**	11.5	**+17%**	25.9
Net interest-bearing debt at end of period	**63.5**	104.1	**-39%**	74.6
Gearing % [1)]	**43.7%**	81.1%		49.2%
Equity-to-assets ratio at end of period, %	**45.9%**	40.4%		52.4%

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

Strategy Implementation

The strategic target of the Group is to build a solid financial and operational platform for growth. The Group is taking determined actions to improve its profitability and working capital efficiency as well as to improve operational performance. In longer term, the target is to return to a more aggressive growth track.

The Group's existing assets and capabilities form the foundation for future strategies, both in short and long term. Future strategies are built upon utilizing and capitalizing the brand portfolio, manufacturing and sourcing platform, research and development knowledge, as well as the broad distribution network and strong local presence around the world supporting the sales of Group's own and selected synergistic Third Party products.

The execution of the group strategy is progressing as planned. Several organic growth projects are ongoing utilizing deep market and customer understanding. Special focus has been set to leverage the Group's global innovation power to address growing product categories and niches within fishing. After acquiring 49% ownership in DQC International Corporation, known as "13 Fishing", the Group has entered the rod and reel business with a worldwide approach. The Group will invest outside USA in marketing and product development of 13 Fishing products to serve fishermen and retailers in the best possible manner. After the changes made in 2019 in distribution agreements with Shimano, the Group will also focus on growth in the large European fishing tackle markets in Germany, United Kingdom, Italy and Benelux countries, previously served by Shimano.

The Group initiated in October 2019 a restructuring program, which aims at increasing efficiencies of operations, increase internal synergies and consequently decreasing operating expenses and reducing net working capital. Execution of the program has developed fully as planned and accelerated with focus on direct consumer e-commerce sales, tighter inventory management, centralized purchase quotas and new sales and operations planning routines. The targeted cost savings consist mainly of savings related to European business as well as the Asian lure manufacturing operations, which will be gradually ramped down in the next six months. In relation to the ramp-down of the Indonesian factory, in total 4.0 MEUR of expenses were booked as other items affecting comparability in the first half of the year.

In order to increase the efficiency of global manufacturing operations, lean projects are ongoing in several factories, and a new chapter in Rapala history has now been entered to increase the focus in manufacturing units on product innovation to leverage strong Group capabilities and top worldwide brands. In the first six months of 2020 assembly of ice augers was centralized to the manufacturing hub in Estonia. Additionally, transfer of knife manufacturing from Rovaniemi in Finland to existing manufacturing location in Vääksy, Finland, started in the spring. Further investments will be made to the hub in Pärnu, Estonia, to increase groupwide synergies and utilization of strong local knowhow in operational excellence.

The Group has made investments in group-wide common IT systems and resources to increase efficiencies and enable better end-to-end supply chain and product management. The Group has also increased sales and marketing investments towards digital channels and direct consumer contacts in order to exploit these opportunities stronger in the future. Increasing proportion of Group's products sales is reaching consumers through digital channels, either by e-tailers, omni-channel retailers or Group's own e-commerce platform.

Product Development

Continuous product development and consistent innovation are core competences for the Group and major contributors to the value and commercial success of the brands.

Due to the COVID-19 pandemic, several fishing tackle consumer shows and Europe's most important fishing tackle trade show, EFTTEX, were cancelled. However, during the first half of the year that didn't have a significant impact on the new product launches, which were carried out on schedule and as planned. The most important launches during the first six months of the year were the introduction of X-Rap Haku – a bait designed for large predator fishing – in Europe, the release of CountDown Elite – a hard bait designed for trout fishing – in Japan and elsewhere in Asia as well as the launch of Rap-V Blade – an all-round blade bait – in North America. All new lures were well received in the regions and will be introduced to all market areas globally in the right seasons.

Preparations for the 2020 second half and 2021 new item launches were well under way.

Organization and Personnel

Average number of personnel was 2 179 (2 751) for the first half of the year. At the end of June, the number of personnel was 2 051 (2 768). The decrease of personnel was mostly related to the ramp down of Asian lure manufacturing operations.

The Board of Directors of Rapala VMC Corporation appointed on February 12, 2020 Nicolas Warchalowski as the new President and Chief Executive Officer of Rapala VMC Corporation. He started at Rapala on March 1, 2020.

Short-term Outlook and Risks

The Group withdrew its guidance for 2020 on March 26, 2020 due to lack of visibility caused by the COVID-19 pandemic. End-consumer demand for recreational fishing products is currently on a good level in the Group's key markets. The Group's supply chain, including own factories and subcontractors, is currently working robustly and fulfilling customer orders. However, there is still lack of visibility caused by direct and indirect impacts of the COVID-19 pandemic in the Group's key markets. Furthermore, several risks have arisen from the pandemic for the second half of the year. Daily new infections of COVID-19 have lately increased in the United States and risks for a second wave in Europe and Asia have increased. Furthermore, potential lockdown measures could have a significant impact either on the Group's operations or customers' retail shops. As a result, it is still impossible to issue a financial guidance for 2020.

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

Other significant events

Annual General Meeting

The Annual General Meeting (AGM) kept on March 26, 2020 approved the Board of Director's proposal that no dividend is paid. A separate stock exchange release on the decisions of the AGM has been given, and up to date information on the Board's authorizations and other decisions of the AGM are available also on the corporate website.

Helsinki, July 16, 2020

Board of Directors of Rapala VMC Corporation

For further information, please contact:

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A conference call on the first half year result will be arranged on Friday July 17, 2020 at 10:00 a.m. Finnish time (8:00 a.m UK time). Please dial +44 (0)330 336 9401 or +1 929 477 0338 or +358 (0)9 7479 0359 (pin code: 615325) five minutes before the beginning of the event. A replay facility will be available for 14 days following the teleconference. The number to dial is +44 (0)207 660 0134 (pin code: 7783083). Financial information and teleconference replay facility are available at www.rapalavmc.com.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

STATEMENT OF INCOME MEUR	**H1** **2020**	H1 2019	FY 2019
Net sales	**117.1**	141.2	275.4
Other operating income	**0.5**	0.5	2.2
Materials and services	**57.7**	63.6	131.2
Personnel expenses	**32.8**	35.9	71.6
Other costs and expenses	**19.5**	24.4	48.6
Share of results in associates	**-0.8**	0.0	-0.2
Depreciation, amortization and impairments	**7.6**	6.3	12.6
Operating profit (EBIT)	**-0.8**	11.4	13.4
Financial income and expenses	**1.9**	1.3	3.6
Profit before taxes	**-2.7**	10.1	9.8
Income taxes	**1.1**	2.7	5.8
Net profit for the period	**-3.8**	7.4	4.1
Attributable to:			
Equity holders of the company	**-4.2**	7.0	4.4
Non-controlling interests	**0.4**	0.4	-0.4
Earnings per share for profit attributable to the equity holders of the company:			
Earnings per share, EUR (diluted = non-diluted)	**-0.12**	0.17	0.10

STATEMENT OF COMPREHENSIVE INCOME MEUR	**H1** **2020**	H1 2019	FY 2019
Net profit for the period	**-3.8**	7.4	4.1
Other comprehensive income, net of tax			
Change in translation differences*	**-2.1**	1.2	2.4
Gains and losses on cash flow hedges*	**0.0**	0.0	0.0
Gains and losses on hedges of net investments*	**-0.7**	0.6	1.2
Actuarial gains (losses) on defined benefit plan	**0.0**	0.0	-0.1
Total other comprehensive income, net of tax	**-2.7**	1.8	3.5
Total comprehensive income for the period	**-6.5**	9.3	7.5
Total comprehensive income attributable to:			
Equity holders of the Company	**-6.7**	8.6	7.8
Non-controlling interests	**0.2**	0.7	-0.2

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

STATEMENT OF FINANCIAL POSITION MEUR	**Jun 30** **2020**	Jun 30 2019	Dec 31 2019
ASSETS			
Non-current assets			
Intangible assets	**74.3**	74.8	75.5
Property, plant and equipment	**24.3**	29.5	26.9
Right-of-use assets	**11.9**	12.3	13.3
Non-current assets			
Interest-bearing	**7.8**	0.0	7.8
Non-interest-bearing	**8.5**	6.0	9.2
	126.9	122.7	132.8
Current assets			
Inventories	**83.5**	108.6	92.6
Current assets			
Interest-bearing	**-**	-	-
Non-interest-bearing	**56.2**	61.4	51.8
Cash and cash equivalents	**50.0**	24.7	12.3
	189.7	194.7	156.7
Total assets	**316.6**	317.4	289.5
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the company	**115.3**	122.4	121.9
Non-controlling interests	**4.9**	5.8	4.6
Hybrid bond	**25.0**	-	25.0
	145.2	128.3	151.6
Non-current liabilities			
Interest-bearing	**46.0**	51.0	46.0
Non-interest-bearing	**9.7**	7.9	8.5
Lease liabilities	**7.6**	7.4	9.0
	63.2	66.3	63.5
Current liabilities			
Interest-bearing	**63.2**	65.3	35.3
Non-interest-bearing	**40.4**	52.4	34.7
Lease liabilities	**4.6**	5.0	4.4
	108.2	122.8	74.4
Total equity and liabilities	**316.6**	317.4	289.5

STATEMENT OF CASH FLOWS MEUR	**H1** **2020**	H1 2019	FY 2019
Net profit for the period	**-3.8**	7.4	4.1
Adjustments to net profit for the period *	**13.8**	8.8	18.4
Financial items and taxes paid and received	**-2.5**	-4.3	-7.9
Change in working capital	**5.9**	-0.3	11.4
Net cash generated from operating activities	**13.4**	11.5	25.9
Investments	**-2.0**	-3.5	-5.6
Proceeds from sales of assets	**0.4**	0.7	3.2
Acquisition of associated company DQC International	**-**	-	-4.4
Change in interest-bearing receivables	**-**	0.0	-7.8
Net cash used in investing activities	**-1.6**	-2.8	-14.6
Dividends paid to parent company's shareholders	**-**	-1.1	-2.3
Dividends paid to non-controlling interests	**-**	-	-1.0
Net funding	**29.3**	33.3	-2.8
Change in lease liabilities	**-2.9**	-3.0	-6.1
Hybrid bond	**-**	-26.3	-1.6
Directed issue of own shares	**-**	-	0.7
Net cash generated from financing activities	**26.5**	2.9	-13.2
Change in cash and cash equivalents	**38.2**	11.6	-1.9
Cash & cash equivalents at the beginning of the period	**12.3**	13.4	13.4
Foreign exchange rate effect	**-0.5**	-0.3	0.8
Cash and cash equivalents at the end of the period	**50.0**	24.7	12.3

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

Changes in liabilities included in net funding

MEUR	
Liabilities Jan 1, 2020	**81.3**
Drawdowns	62.9
Repayments	-34.6
Unrealized foreign exchange differences*	
Liabilities Jun 30, 2020	**109.2**

Net funding

Drawdowns and repayments from loans	28.3
Derivatives and other realized foreign exchange on financial activities	1.0
Net funding	29.3

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company									
MEUR	Share capital	Share premium fund	Hedging fund	Fund for invested non-restricted equity	Own shares	Translation differences	Retained earnings	Non-controlling interests	Hybrid bond	**Total equity**
Equity on Jan 1, 2019	**3.6**	**16.7**	**0.0**	**4.9**	**-5.6**	**-11.2**	**108.6**	**5.1**	**25.0**	**147.1**
Comprehensive income *	-	-	0.0	-	-	1.6	7.1	0.7	-	**9.3**
Dividends	-	-	-	-	-	-	-2.3	-	-	**-2.3**
Hybrid bond	-	-	-	-	-	-	-	-	-25.0	**-25.0**
Hybrid bond expenses*	-	-	-	-	-	-	-1.1	-	-	**-1.1**
Share option program	-	-	-	-	-	-	0.2	0.0	-	**0.3**
Equity on Jun 30, 2019	**3.6**	**16.7**	**0.0**	**4.9**	**-5.6**	**-9.7**	**112.5**	**5.8**	**-**	**128.3**
Equity on Jan 1, 2020	**3.6**	**16.7**	**0.0**	**4.9**	**-4.9**	**-7.6**	**109.2**	**4.6**	**25.0**	**151.6**
Comprehensive income*	-	-	-	-	-	-2.5	-4.2	0.2	-	**-6.5**
Share option program	-	-	-	-	-	-	0.1	0.0	-	**0.1**
Equity on Jun 30, 2020	**3.6**	**16.7**	**0.0**	**4.9**	**-4.9**	**-10.0**	**105.1**	**4.9**	**25.0**	**145.2**

* For the period, (net of tax)

NOTES TO THE INCOME STATEMENT AND FINANCIAL POSITION

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

Apart from the changes in accounting principles stated below, the accounting principles adopted in the preparation of this report are consistent with those used in the preparation of the financial statements 2019.

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

Accounting treatment of government grants (IAS 20) due to COVID-19

As a response to the COVID-19 pandemic, governments around the world implemented support measures to help businesses and economies. Government assistance comes in many forms and therefore Rapala VMC Corporation has specified its accounting policy concerning grants received.

The Group recognizes a government grant or subsidy when there is reasonable assurance that it will comply with all conditions attached and the grant will be received. Government grants are recognised in statement of income over the periods in which Group recognises the expenses which the grants are intended to compensate. However, the accounting treatment for grants depends on nature and type of the grant.

Due to the COVID-19 situation, Rapala VMC Corporation has received 1.3 MEUR of governmental subsidies related to salaries and other personnel expenses, which are shown as deduction of personnel expenses in statement of income. These subsidies concern typically a period of a few months during 2020. In some countries there are terms and conditions related to the subsidies which prohibit redundancies of employees during the subsidized period.

General business subsidies received amount to 0.2 MEUR. These are shown as other income in statement of income. Generally, there are no significant terms and conditions for receiving the subsidies. However, in some countries there are certain restrictions of cross-border money transfers related to receiving the subsidies, but these don’t have major impacts on Group’s normal practices.

The Group has been granted government-backed loans which amount to 12.2 MEUR and for which the terms differ from market-based terms. The Group accounts for the benefit of government-backed loans at a below-market interest rate as a government grant. The difference between the fair value of the loan on initial recognition and the amount received is accrued and recognized as grant in other operating income. This amounted in June to EUR 44 thousand.

Additionally, rent reliefs of 0.1 MEUR have been received. These are granted by private lessors and are therefore outside of the scope of IAS 20. These concern rent contracts treated according to IFRS 16 and impacts are therefore shown accordingly, as minor deductions in depreciations and financial expenses in statement of income. These are also reflected in right-of-use assets and lease liabilities in statement of financial position.

Impairment assessment has been performed due to COVID-19 situation and there was no indication that assets may be impaired.

Use of estimates and rounding of figures

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

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

Events after the end of the half year period

The Group has no knowledge of any significant events after the end of the reporting period that would have a material impact on the financial statements for January-June 2020. Material events after the end of the half year period, if any, have been discussed in the commentary section of the Board of Directors.

Acquisitions

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

Key figures	**H1 2020**	H1 2019	FY 2019
EBITDA, % of net sales	**5.8%**	12.5%	9.4%
Operating profit, % of net sales	**-0.7%**	8.1%	4.9%
Return on capital employed, %	**-0.8%**	10.2%	6.0%
Capital employed at end of period, MEUR	**208.7**	232.4	226.2
Net interest-bearing debt at end of period, MEUR	**63.5**	104.1	74.6
Equity-to-assets ratio at end of period, %	**45.9%**	40.4%	52.4%
Debt-to-equity ratio at end of period, %	**43.7%**	81.1%	49.2%
Earnings per share, EUR (diluted = non-diluted)	**-0.12**	0.17	0.10
Equity per share at end of period, EUR	**2.99**	3.20	3.16
Average personnel for the period	**2 179**	2 751	2 604

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

Key figures by half year MEUR	H1 2018	H2 2018	H1 2019	H2 2019	**H1 2020**
Net sales	142.5	119.9	141.2	134.2	**117.1**
EBITDA	18.5	3.9	17.7	8.3	**6.8**
Operating profit	15.3	-0.5	11.4	2.0	**-0.8**
Profit before taxes	14.1	-1.4	10.1	-0.3	**-2.7**
Net profit for the period	9.7	-3.2	7.4	-3.4	**-3.8**

Bridge calculation of comparable operating profit MEUR	**H1 2020**	H1 2019	Change %	FY 2019
Operating profit/loss	**-0.8**	**11.4**	**-107%**	**13.4**
Items affecting comparability				
Mark-to-market valuations of operative currency derivatives	**0.1**	0.3		0.4
Other items affecting comparability				
Restructurings				
Management restructuring	**0.3**	-		1.1
Restructuring of Asian lure manufacturing operations	**4.0**	-		1.1
Other restructurings	**0.6**	0.2		2.1
Acquisition expenses of DQC International Corp.	-	-		0.8
Other items	-	-		-1.0
Comparable operating profit	**4.2**	**12.0**	**-65%**	**17.8**

Segment information

MEUR **Net sales by operating segment**	**H1 2020**	H1 2019	FY 2019
Group Products	**78.3**	95.2	185.2
Third Party Products	**38.8**	46.0	90.2
Total	**117.1**	141.2	275.4
Operating profit by operating segment			
Group Products	**4.3**	11.7	19.5
Third Party Products	**-0.1**	0.2	-1.6
Comparable operating profit	**4.2**	12.0	17.8
Items affecting comparability	**-5.0**	-0.6	-4.4
Operating Profit	**-0.8**	11.4	13.4

Assets by operating segment MEUR	**Jun 30** **2020**	Jun 30 2019	Dec 31 2019
Group Products [1]	**218.1**	224.7	219.8
Third Party Products [2]	**40.6**	68.0	49.6
Non-interest-bearing assets total	**258.7**	292.7	269.4
Unallocated interest-bearing assets	**57.9**	24.7	20.1
Total assets	**316.6**	317.4	289.5

[1]Includes IFRS 16 right-of-use assets 8.8 MEUR (7.9) . [2] Includes IFRS right-of-use assets 3.2 MEUR (4.4).

External net sales by area MEUR	**H1** **2020**	H1 2019	FY 2019
North America	**40.4**	48.6	104.2
Nordic	**22.3**	30.9	56.6
Rest of Europe	**41.6**	45.9	81.3
Rest of the world	**12.8**	15.7	33.3
Total	**117.1**	141.2	275.4

Commitments MEUR	**Jun 30** **2020**	Jun 30 2019	Dec 31 2019
Minimum future lease payments other than IFRS 16 leases	**0.4**	0.5	0.6

The accrued non-recognized interest on hybrid bond at June 30, 2020 is EUR 0.5 million (0.6).

Related party transactions MEUR	Sales and other income	Pur-chases	Rents paid	Other expen-ses	Recei-vables	Paya-bles
H1 2020						
Associated company DQC International Corp.	**2.8**	**0.2**	**-**	**-**	**7.1**	**-**
Associated company Lanimo Oü	**-**	**0.1**	**-**	**-**	**-**	**-**
Entity with significant influence over the Group*	**-**	**-**	**0.1**	**0.1**	**0.0**	**-**
Management	**0.0**	**-**	**0.1**	**0.0**	**0.7**	**0.1**
H1 2019						
Associated company Lanimo Oü	0.0	0.0	-	-	-	-
Entity with significant influence over the Group*	-	-	0.1	0.1	0.0	-
Management	-	-	0.1	0.0	-	0.1
FY 2019						
Associated company DQC International Corp.	0.4	0.2	-	-	7.1	-
Associated company Lanimo Oü	0.0	0.0	-	-	-	-
Entity with significant influence over the Group*	-	-	0.2	0.1	0.0	-
Management	0.0	-	0.4	0.0	0.7	0.0

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

Open derivatives		**H1 2020**		H1 2019		FY 2019
MEUR	**Nominal Value**	**Fair Value**	Nominal Value	Fair Value	Nominal Value	Fair Value
Non-hedge accounting derivative financial instruments						
Interest rate swaps, 1 to 5 years	**21.0**	**-0.1**	21.0	-0.2	21.0	-0.1
Currency derivatives, less than 12 months	**40.7**	**-0.5**	44.3	-0.2	48.3	-0.4
Total	**61.7**	**-0.6**	65.3	-0.4	69.3	-0.5

The changes in the fair values of derivatives that are designated as hedging instruments but do not qualify for hedge accounting are recognized based on their nature either in operative costs, if the hedged item is an operative transaction, or in financial income and expenses if the hedged item is a monetary transaction.

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

	H1 2020	H1 2019	FY 2019
Included in operating profit	**-0.1**	-0.3	-0.4

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

Fair values of financial instruments		**Jun 30 2020**		Jun 30 2019		Dec 31 2019
MEUR	**Carrying value**	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
Assets						
Other Shares (level 3)	**0.2**	**0.2**	0.3	0.3	0.2	0.2
Derivatives (level 2)	**0.2**	**0.2**	0.4	0.4	0.3	0.3
Total	**0.5**	**0.5**	0.7	0.7	0.6	0.6
Liabilities						
Non-current interest-bearing liabilities (excl. derivatives)	**46.0**	**46.0**	51.0	50.9	46.0	46.0
Derivatives (level 2)	**0.8**	**0.8**	0.8	0.8	0.9	0.9
Total	**46.8**	**46.8**	51.8	51.7	46.8	46.8

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

Shares and share capital

The Annual General Meeting (AGM) kept on March 26, 2020 approved the Board of Director's proposal that no dividend is paid. A separate stock exchange release on the decisions of the AGM has been given, and up to date information on the Board's authorizations and other decisions of the AGM are available also on the corporate website.

Share related key figures	**Jun 30 2020**	Jun 30 2019
Number of shares	**39 000 000**	39 000 000
Number of shares, average	**39 000 000**	39 000 000
Number of treasury shares	**452 208**	677 208
Number of treasury shares, %	**1.2%**	1.7%
Number of outstanding shares	**38 547 792**	38 322 792
Number of shares traded, YTD	**2 661 417**	1 864 602
Share price, EUR	**2.61**	3.02
Highest share price, YTD, EUR	**3.43**	3.43
Lowest share price, YTD, EUR	**2.15**	2.85
Average price of treasury shares, all time, EUR	**4.95**	5.08

Short term risks and uncertainties

The objective of Rapala VMC Corporation's risk management is to support implementation of the Group's strategy and execution of business targets. Group management continuously develops its risk management practices and internal controls. Detailed descriptions of the Group's strategic, operative and financial risks as well as risk management principles are included in the Financial Statements 2019.

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

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

The Group‘s credit facilities include some profitability, liquidity, net debt and equity related financial covenants, which are actively monitored. The Group expects to continue to fulfill the requirements of its lenders. Liquidity and refinancing risks are well under control, but higher leverage level puts pressure on the Group’s financing costs.

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

The global nature of the Group's sales and operations diversifies market risks. The Group is cautiously monitoring the development both in global macro economy as well as in the various local markets it operates in. While Group’s customer base is generally diversified, changes in retail landscape may have impact on purchase behavior of customers. New distribution agreements, termination of old agreements or changes in product offering made by the principal may affect sales and profitability of Third Party Products. Cash collection and credit risk management is high on the agenda of local management and this may affect sales to some customers. Quality of the accounts receivables is monitored closely.

The COVID-19 pandemic has increased risks for the Group. The direct and indirect impacts of the pandemic or its counter measures may affect the Group’s ability to operate and run its manufacturing sites or distribution centres. Furthermore, potential governmental lockdown measures may also impact the Group’s clientele. The Group has introduced new safety measure in its operations to protect health and safety of its employees as well as to protect continuation of its operations.

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

No significant changes are identified in the Group's strategic risks or business environment with the exception of increased risks related to the COVID-19 pandemic.

Definitions of key figures

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

Reconciliation of key figures to IFRS MEUR	**H1 2020**	H1 2019	FY 2019
Items affecting comparability			
Change in mark-to-market valuations of operative derivatives	**0.1**	0.3	0.4
Other items affecting comparability	**4.9**	0.2	4.0
Items affecting comparability	**5.0**	**0.6**	**4.4**
Other items affecting comparability			
Restructuring costs	**4.9**	0.2	4.3
Acquisition expenses of DQC International Corp.	**-**	-	0.8
Other non-operational items	**-**	-	-1.0
Other items affecting comparability	**4.9**	**0.2**	**4.0**
Capital employed (average for the period)			
Total equity (average for the period)	**148.4**	137.7	149.3
Net interest-bearing debt (average for the period)	**69.0**	87.2	72.5
Capital employed (average for the period)	**217.4**	**224.9**	**221.8**
Return on capital employed (ROCE), %			
Operating profit (full-year adjusted)	**-1.7**	22.8	13.4
Capital employed (average for the period)	**217.4**	224.9	221.8
Return on capital employed (ROCE), %	**-0.8%**	**10.2%**	**6.0%**
Equity-to-assets ratio, %			
Total equity	**145.2**	128.3	151.6
Total equity and liabilities	**316.6**	317.4	289.5
Advances received	**0.4**	0.2	0.4
Equity-to-assets ratio, %	**45.9%**	**40.4%**	**52.4%**
Earnings per share, EUR			
Net profit for the period attributable to the equity holders of the parent company	**-4.2**	7.0	4.4
Hybrid capital accrued unrecognised interests after tax	**-0.5**	-0.6	-0.6
Adjusted weighted average number of shares	**38 547 792**	38 322 792	38 387 341
Earnings per share, EUR	**-0.12**	**0.17**	**0.10**
Equity per share, EUR			
Equity attributable to equity holders of the parent company	**115.3**	122.4	121.9
Adjusted number of shares at the end of the period	**38 547 792**	38 322 792	38 547 792
Equity per share, EUR	**2.99**	**3.20**	**3.16**