



Q3 Interim Report 2008

October 22, 2008



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Q3 in Brief

EUR million	III/2008	III/2007	I-III/2008	I-III/2007	2007
Sales	52.7	52.0	192.1	188.8	242.5
EBITDA	5.2	4.6	32.7	29.5	33.8
Operating Profit (EBIT)	3.6	2.9	28.1	25.9	28.3
Profit Before Taxes	2.6	1.4	24.6	22.2	23.3
Net Profit for the Period	2.0	1.1	18.2	15.5	17.5
EPS (basic), EUR	0.03	0.03	0.40	0.40	0.45
Equity-to-assets, %	39.4	36.2	39.4	36.2	38.2
Net Interest-bearing Debt	89.0	89.5	89.0	89.5	80.2

- Q3 2008 a new Q3 sales record, up 1% from last year.
- Q3 operating profit up 24% to 3.6 MEUR.
- Performance improvement initiatives starting to capitalize.
- Outlook for 2008: Net sales expected to increase 5-10% with 2007 fx-rates.
Operating margin expected to improve from 2007 with 2007 fx-rates & without one-offs.



Group Organization & Cornerstones of Strategy

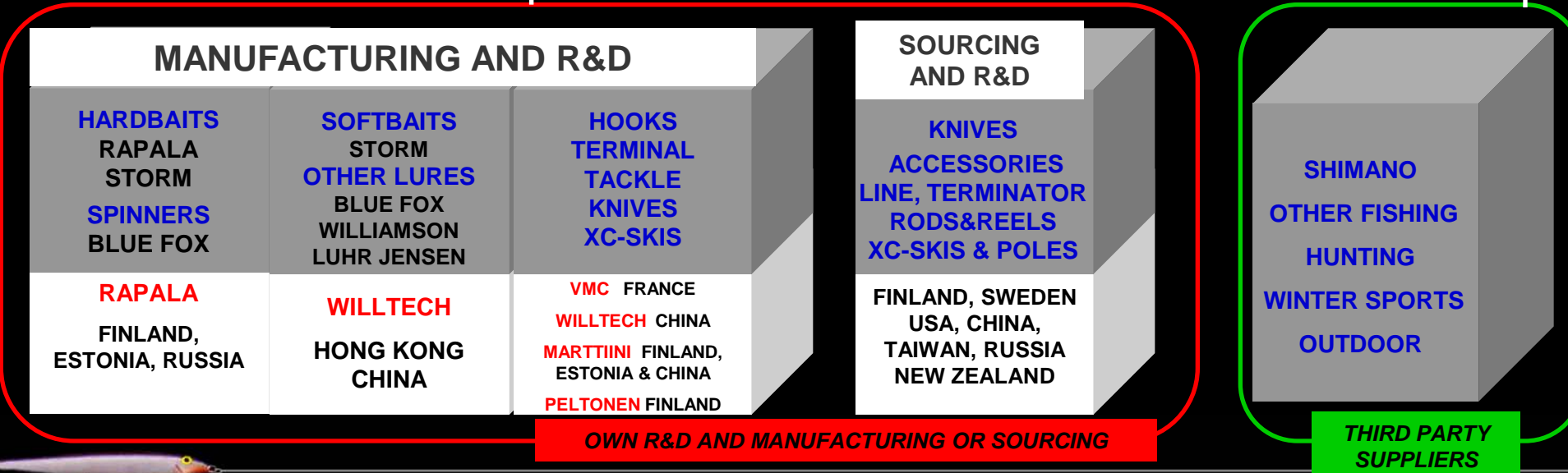
Distribution



Group Brands



Supply SOURCE PRODUCT



THE NEXT LEVEL



Restructuring of European Operations



Marttiini

- Knife manufacturing
- 80 employees in Rovaniemi & Pärnu

Vääksy

- Focus on skilled and technical tasks in lures manufacturing
- 200 employees

Sortavala

- Lure assembly
- Start-up in 2007
- 70 employees

Pärnu

- Focus on finishing, testing & shipping
- 210 employees

Consolidation of French operations

- Move from Bretagne completed in Q4 2007
- Move from Central France completed in Q3 2008
- Move of VMC Europe during summer 2009
- Both real estates sold (gain of 1.4 MEUR)

Development of lure manufacturing

- Sortavala ramp-up completed
- Inverin closed in end of April 2008 as planned
- Production transfers between factories

Inverin

- Closed in April 2008
- Liabilities cleared

Morvillars

- Manufacture of treble hooks & distribution
- 150->250 employees
- Location for consolidated operations

Inverin
(Ireland)

Vääksy

Rovaniemi
(Finland)

Sortavala
(Russia)

Pärnu
(Estonia)

Morvillars
(France)



Enhancement of Chinese Manufacturing



- Major operational changes and improvements to enhance production efficiencies & shorten lead times and physical split of fishing tackle & gifts
- International task force established to support the development initiatives.
- Since June number of personnel reduced by 1000 persons.

Guangzhou

- Rapala sourcing office
- 15 employees
- Local sourcing, design/development, quality control etc.



Shenzhen

- Willtech manufacturing facility
- Some 2 000 employees
- Lures (metal & plastic)
- Hook manufacturing
- Knife manufacturing
- Gift production
- Consolidated shipments

Hong Kong

- Management for Willtech Fishing and Willtech Gift business
- 50 employees



Competition & Major Players in the Industry



- No major changes in the competitive environment in Q3

Company	Worldwide sales MUSD	Major product categories	Comments
Jarden Pure Fishing + Shakespeare	450**	Rods, reels, combos, line, soft plastics	US sales ca. 50% of sales
Shimano	430*	Rods, reels, accessories	Japan ca. 50% of total sales
Daiwa	425*	Rods, reels, lures	Japan ca. 80% of total sales
Rapala VMC	330*	Lures, hooks, accessories	3rd party products 1/3 of sales
Zebco	100*	Rods & reels	USA
Gamakatsu	80**	Hooks, rods, reels, accessories	Japan
Eagle Claw	60**	Hooks, rods, reels, accessories	USA
Mustad	55**	Hooks & accessories	Norway
Pradco	40 *	Lures	USA
Okuma	40**	Rods & reels	Taiwan

* 2007 figures, partly estimated if published information not available

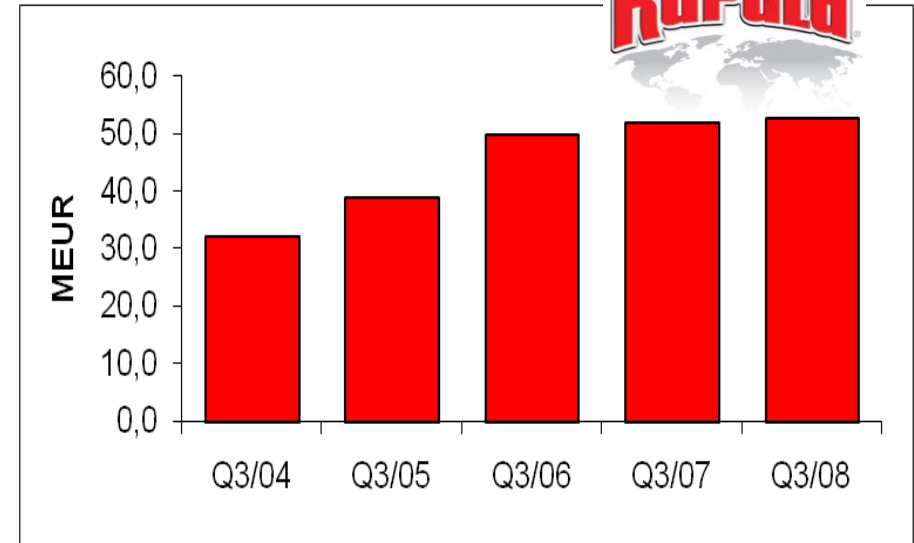
** 2006 figures, partly estimated if published information not available



Net Sales Analysis



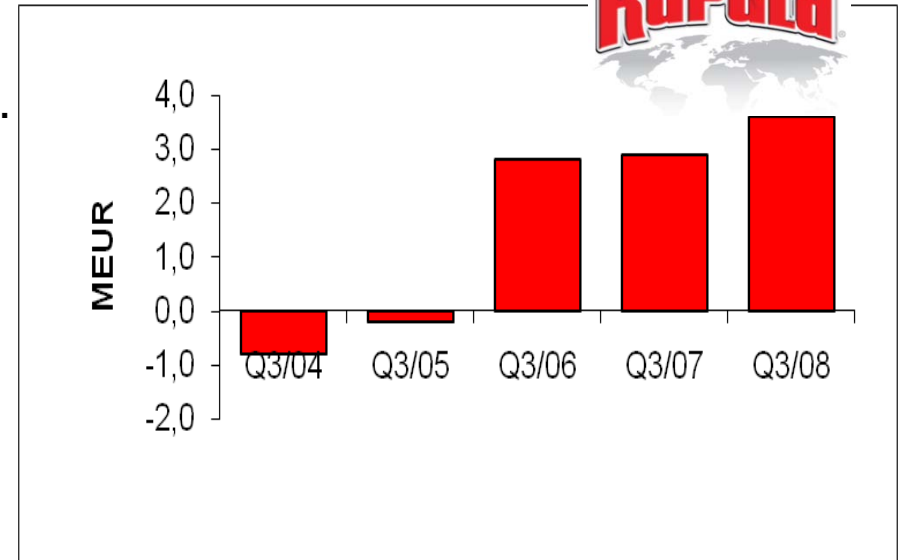
- **Consumer demand under pressure** as economic climate continued to weaken in some European countries, Asia and especially in the USA
- **Strong East Europe** boosted the sales in Rest of Europe to growth.
- **Nordic sales up** with a good fishing & hunting season.
- **Rest of the world suffered** from weak local currencies and weak economic environment.
- With comparable FX rates, 9-month net sales were down 11% in **North America**.
- Strategic distribution alliance with Shimano in East Europe resulted in strong sales.
- **Q3 net sales a new Q3 record** at 52.7 MEUR (52.0).
- Nine-month net sales increased to 192.1 MEUR (188.8 MEUR).
- **Weakening of USD & South African rand** (etc.), decreased the nine months net sales by 9.4 MEUR. Excluding FX effects, **comparable 9-month net sales were up 7%**.
- **Lure sales down** as a result of the decrease in the US sales.
- **Sales of Third party products up** mainly due to distribution alliance with Shimano.



Operating Profit Analysis (1)



- Q3 operating profit up to 3.6 MEUR (2.9).
- Q1-Q3 operating profit up to 28.1 MEUR (25.9).
- Q1-Q3 operating margin up to 14.6% (13.7%) and ROCE to 20.1% (19.1%).
- Q3 seasonally the weakest quarter.
- Performance improvement initiatives started to capitalize.
- Q1-Q3 result was negatively affected by
 - economic downturn especially in the USA,
 - weakening of USD & South-African randand some other currencies reduced the operating profit with 1.0 MEUR.
- Q3 result included a one-off gain of 0.2 MEUR and non-recurring costs of 0.2 MEUR.
- Q1-Q3 2008 included one-off gains of 1.4 MEUR & non-recurring costs of 0.7 MEUR.
- Q1-Q3 2007 included one-off gains of 0.8 MEUR (net).
- Result of currency hedges +0.9 MEUR is booked in financial items.



Operating Profit Analysis (2)



Management Analysis	I-III/2008	I-III/2007		I-III/2008	I-III/2007
Net sales as reported	192.1	188.8	Operating profit as reported	28.1	25.9
Foreign exchange effects	9.4	-	Non-recurring items (net)	-0.7	-0.8
Comparable net sales	201.5	188.8	Foreign exchange effects	1.0	-
			Comparable operating profit	28.4	25.1
Operating margin as rep.	14.6%	13.7%	Comparable operating marg.	14.1%	13.3%

- **Comparable nine-month operating profit**, excluding one-offs & FX effects, was **28.4 MEUR (25.1)** and **comparable operating margin 14.1% (13.3%)**.
- Nine-month operating profit of **Nordic countries** clearly better than 2007 as a result of good sales and performance improvement actions.
- **Rest of Europe's** clearly better than last year as a result of strong sales in East Europe and non-recurring gains (1.4 MEUR) from the real estates sold in France.
- **North America** down because of decrease in sales and increased euro-based purchase prices (2007 included Terminator negative goodwill 1.2 MEUR).
- **Rest of the world** behind last year level due to weak USD and South-African rand as well as decreased sales in few Asian countries.
- **Financial expenses** 0.3 MEUR below last year levels.
- **9-month net profit** up to 18.2 MEUR (15.5) and **EPS** 0.40 EUR (0.40).



Cash Flow and Working Capital



EUR million	III/2008	III/2007	I-III/2008	I-III/2007	I-IV/2007
Net profit for the period	2.0	1.1	18.2	15.5	17.5
Adjustments	1.5	3.6	10.2	14.1	14.8
Financial items and taxes paid/rec	-3.0	-3.7	-9.3	-8.0	-11.1
Change in working capital	13.5	11.2	-15.2	-3.2	-3.1
Net cash from operating activities	14.0	12.2	3.8	18.4	18.2
Net cash used in investing activities	-1.6	-1.5	-4.9	-6.5	-3.7
Cash flow before financing	12.4	10.7	-1.1	11.9	14.5

- **Cash flow from operating activities** below last year level due to increased working capital
- **Working capital** up from Dec. & September 07 due to increasing inventories: new inventories were built for Shimano & Sufix products, and declining sales mainly in the US. Customer payment behavior good and A/R on last year levels.
- **Net cash** used in investing activities, incl. acquisitions & disposals, was 4.9 MEUR (6.5).
- **Net interest-bearing debt** 89.0 MEUR (Dec 2007: 80.2, September 2007: 89.5).
- **Equity-to-asset ratio** 39.4% (Dec 2007: 38.2%) and **gearing** 83.7% (Dec 2007: 82.8%), both ratios improved also from September 2007.



Strategy Implementation - Growth



- In Q3, Rapala continued to develop its product portfolio and market coverage to implement its strategy for profitable growth.
- Discussions and negotiations regarding acquisitions and business combinations continued.
- **Integration of Sufix fishing line** business to Group's distribution network continued.
- New sales office established in **Khabarovsk, Russia**.
- In Thailand, the Group increased its shareholding from 80% to 100%.
- Rapala-Shimano distribution joint ventures in East Europe have proven to be successes. As the latest addition to this alliance, Rapala started to distribute Shimano fishing tackle through its JV distribution company in **Czech Republic** and its sales office in **Slovak Republic**. In turn, Shimano started to distribute Rapala's products in the UK.
- With the **combined high quality product offering of Rapala and Shimano covering all key price points**, the customers are able to fulfill majority of their fishing tackle needs. After the expansion of distribution alliance with Shimano, Rapala distributes Shimano fishing tackle, mainly rods and reels, in South Africa and in 23 countries in Europe. In Russia, the joint venture also distributes bicycle parts.
- New lure **assembly factory ramp-up in Russia** completed and Irish factory closed.



Strategy Implementation – Suffix Acquisition



- In July, Rapala **acquired** from Yao I the Suffix fishing line **brand and concluded an exclusive supply agreement** including also OEM business.
- Suffix brand is a well know brand around the world for more than 20 years.
- Yao I, established in 1973, is a family owned company manufacturing fishing line and strings for rackets, garden trimmer lines and other industrial monofilament. Its 2007 net sales were some MUSD 34 (pro forma) and it employs ca 600 people mainly in Taiwan and China.
- **Consideration for the brand was 10.0 MUSD**, paid over a period of seven years.
- In addition, Rapala bought existing Suffix fishing line inventory for 1.7 MUSD in the US.
- Transfer of Suffix business to Rapala is proceeding on plan, and shipmens of 2009 products are about to start globally, **sales in the USA started already**.
- Rapala aims to **expand its fishing line sales from 7 MEUR in 2007 to 25-40 MEUR**, and gain a significant market share of the global fishing line business in the next few years.
- Suffix deal will have an immaterial effect on the Group's 2008 net sales and profitability but it is expected to increase **Rapala's fishing line sales close to 10 MEUR in 2009 compared to 2007**.



Strategy Implementation - Profitability



- **Emphasis on performance improvement initiatives** continued in Q3 with a target to further improve the Group's profitability in 2008.
- Consolidation of the French operation proceeded on plan. **Sales of the real estates** are completed with a non-recurring gain of 1.4 MEUR. **Move of Waterqueen** distribution unit **and Tortue** line supplier was completed in Q3. **VMC Europe** will move to joint premises latest in summer 2009. After all relocations have been made and the new organisation is up and running, the **annual savings are expected to reach 1-2 MEUR**.
- **European lure manufacturing** restructuring project is completed.
- Operational changes and **improvements in the Chinese factory progressed** on plan. The physical split of the fishing tackle and gift businesses to develop both businesses more on a standalone basis has been completed. As a result of streamlining the operations, using more subcontracted parts and adjusting the capacity, **the Group has reduced the headcount at factory by some 1000 persons**. The new production planning system and respective processes are expected to be implemented by the end of the year. The **full benefit of these changes are expected to materialize from 2009 onwards** when all changes are done.
- Impact of **other cost cutting initiatives** have started to gradually materialize.



Outlook for 2008



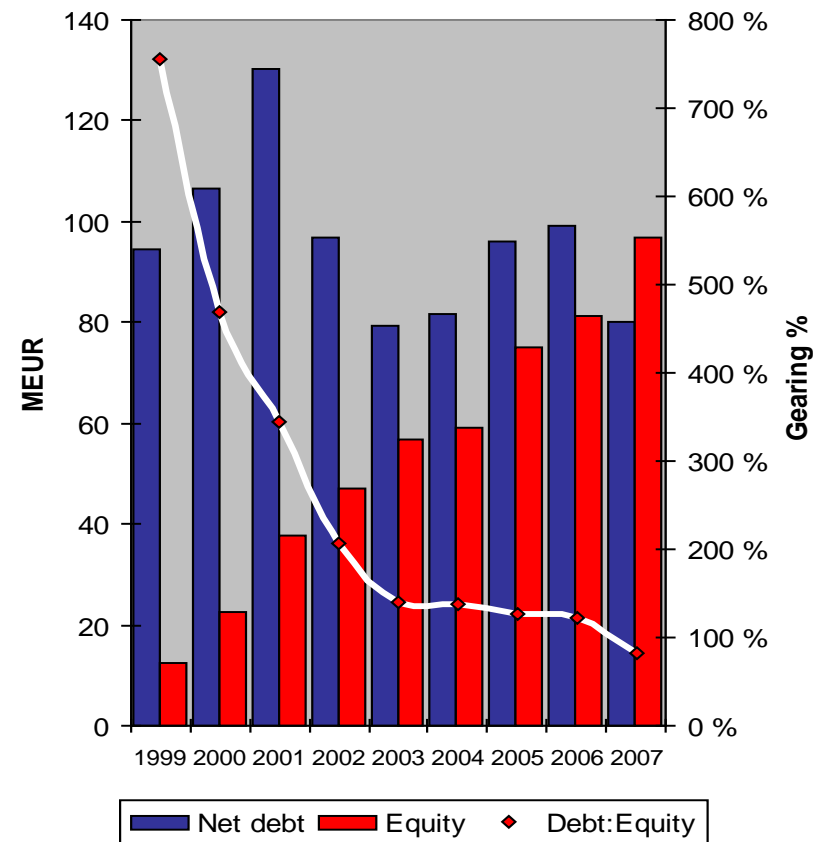
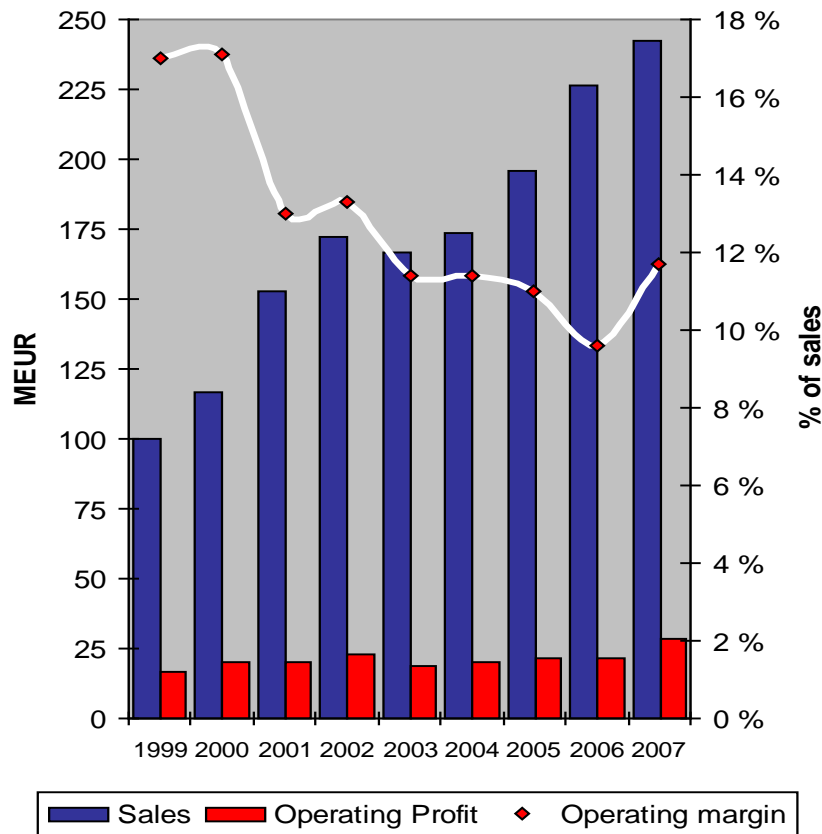
- Market outlook for 2008 continues to look challenging.
- Slowdown in the US economy is expected to affect the sales in North America in the coming months too.
- Europe moving towards a more active period towards the end of Q4. Manufacturing and shipments of 2009 products in full speed. Early winter would support winter fishing and winter sports sales in Finland and Norway.
- Australia and South Africa peak season during Q4.
- Despite the challenging market conditions, profitability of the Group's ongoing operations continues to be good.
- Special initiatives are being implemented to further improve the profitability. In addition, prices have been increased.
- It is expected that the Group's net sales for the financial year 2008 will increase 5-10% from 2007 assuming comparable exchange rates.
- Assuming comparable exchange rates and excluding non-recurring items, operating margin is expected to improve from 2007.
- If the US dollar stays at current levels or strengthens, it will affect positively the reported net sales and operating profit for the fourth quarter.
- Negotiations regarding further acquisitions and business combinations to implement the Group's strategy continue. Also the project to manage working capital continues.
- More detailed schedule for financial reporting in 2009 will be published in November.



Turnaround in Margin Development Achieved



- Rapid growth in last few years from €100m to above €240m.
- Promised **turnaround in operating margin** delivered in 2007.
- Positive development in operating margin expected for 2008 vs. 2007



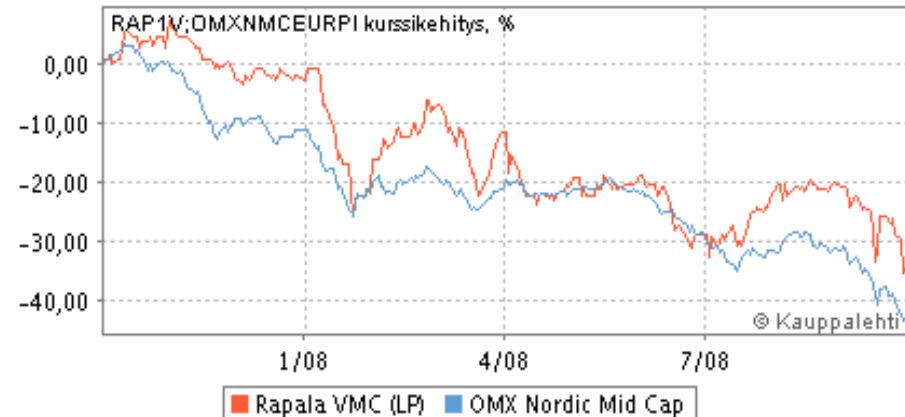
Share Price Performance & Shareholders



Share Related Data (9/2008)

- Market Cap 145 MEUR
- 12-month high 6.06 EUR
- 12-month low 3.66 EUR
- All-time high 8.40 (2/99)
- All-time low 2.50 (11/01)

Share price for the last 12 months



Major Shareholders

- VMC 27 %
- Sofina 19 %
- Odin Funds 9 %
- Utavia 4 %
- State Pension Fund 3%
- William Ng 2 %
- Shimano 2 %

Share price performance 9/2003-9/2008 (5 years)

