

PARENT COMPANY FINANCIAL STATEMENTS, FAS

PARENT COMPANY INCOME STATEMENT

EUR million	Note	2007	2006
Net sales	2	27.3	27.4
Other operating income	3	0.1	0.1
Change in inventory of finished products and work in progress		1.0	-0.4
Production for own use		0.1	0.1
Materials and services	5	-13.5	-13.9
Employee benefit expenses	6	-9.1	-7.2
Other operating expenses	4	-4.1	-4.2
Operating profit before depreciation and impairments		1.7	2.0
Depreciation and impairments	7	-1.1	-1.0
Operating profit		0.7	1.0
Financial income and expenses	8	6.7	0.3
Profit before extraordinary items		7.4	1.3
Extraordinary items	9	1.2	1.5
Profit before appropriations and taxes		8.6	2.8
Appropriations	10	0.1	0.1
Income taxes	11	-2.2	-0.8
Net profit for the period		6.5	2.1

PARENT COMPANY BALANCE SHEET

EUR million	Note	2007	2006
ASSETS			
Non-current assets			
Intangible assets	12	1.4	1.7
Tangible assets	13	5.0	4.7
Investments	14	98.6	98.8
Interest-bearing receivables	16	25.7	44.0
Non interest-bearing receivables	16	1.0	
Total non-current assets		131.6	149.2
Current assets			
Inventories	15	5.4	4.1
Current financial assets			
Interest-bearing	16	19.8	6.2
Non-interest-bearing	16	13.6	20.6
Cash and cash equivalents		6.9	7.2
Total current assets		45.8	38.2
Total assets		177.4	187.4
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		3.6	3.5
Share premium fund		16.7	16.7
Fair value reserve		0.0	
Fund for invested non-restricted equity		4.9	
Retained earnings		47.7	50.2
Net income for the period		6.5	2.1
Total shareholders' equity		79.3	72.5
Appropriations		0.1	0.2
Non-current liabilities			
Interest-bearing		46.5	58.7
Non-interest-bearing			0.9
Total non-current liabilities	17	46.5	59.6
Current liabilities			
Interest-bearing		33.3	44.9
Non-interest-bearing		18.2	10.2
Total current liabilities	17	51.5	55.1
Total shareholder's equity and liabilities		177.4	187.4

PARENT COMPANY CASH FLOW STATEMENT

EUR million	Note	2007	2006
Net profit for the period		6.5	2.1
Adjustments			
Income taxes	11	2.2	0.8
Financial income and expenses	8	-6.7	-0.3
Reversal of non-cash items			
Depreciation and impairments	7	1.1	1.0
Other items		1.2	0.9
Interest paid		-4.9	-4.2
Interest received		3.4	2.7
Income taxes paid		-1.0	-1.8
Dividends received		7.4	3.9
Other financial items, net		-0.8	-1.2
Total adjustments		8.4	3.9
Change in working capital			
Change in receivables		9.8	-28.5
Change in inventories		-1.3	0.4
Change in liabilities		8.6	6.3
Total change in working capital		17.1	-21.8
Net cash generated from operating activities		25.5	-17.9
Net cash used in investing activities			
Purchases of intangible assets	12	-0.1	
Proceeds from disposal of tangible assets	13	0.4	
Purchases of tangible assets	13	-1.3	-1.2
Purchases of available-for-sale investments	14		
Acquisition of subsidiaries	14	-1.2	-1.7
Total net cash used in investing activities		-2.2	-2.9
Net cash generated from financing activities			
Dividends paid		-4.7	-4.2
Loan withdrawals			101.8
Loan repayments		-23.9	-74.6
Proceeds from issue of shares		5.0	0.4
Total net cash generated from financing activities		-23.6	23.4
Change in cash and cash equivalents		-0.3	2.6
Cash and cash equivalents at the beginning of the period		7.2	4.6
Cash and cash equivalents at the end of the period		6.9	7.2

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

EUR million	2007	2006
Share capital Jan. 1	3.5	3.5
Private offering	0.1	
Shares subscribed with options	0.0	0.0
Share capital Dec. 31	3.6	3.5
Share premium fund Jan. 1	16.7	16.3
Private offering		
Shares subscribed with options	0.0	0.4
Share premium fund Dec. 31	16.7	16.7
Fair value reserve Jan. 1		
Gains and losses on cash flow hedges	0.0	
Fair value reserve Dec. 31	0.0	
Fund for invested non-restricted equity Jan. 1		
Private offering	4.9	
Fund for invested non- restricted equity Dec. 31	4.9	
Retained earnings Jan. 1	52.3	54.5
Dividends paid	-4.6	-4.2
Net income for the period	6.5	2.1
Retained earnings Dec. 31	54.2	52.3

DISTRIBUTABLE EQUITY

Other distributable funds

Retained earnings	52.3	54.4
Dividends paid	-4.6	-4.2
Net income for the period	6.5	2.1
Distributable earnings	54.2	52.3

Other distributable equity

Fund for invested non- restricted equity	4.9	
Total distributable equity	59.1	52.3

PARENT COMPANY SHARE CAPITAL

	2007		2006	
	Shares	EUR	Shares	EUR
Old shares	38 578 769	3 472 089	38 576 269	3 471 864
New restricted shares	889 680	80 071		
Total	39 468 449	3 552 160	38 576 269	3 471 864

Each share from both classes is entitled to one vote. New restricted shares (RAP1VN0107) grant its holders the same rights as the old shares (RAP1V), except that these new shares will not give right to dividend paid from financial year 2007 and there is a lock-up period of 12 months. The new class of shares shall be combined to the old class of shares as soon as the difference regarding the right to dividend between the classes no longer exists i.e. October 24, 2008.

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
Goodwill	14 – 20 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.

7. DEPRECIATION AND IMPAIRMENTS

EUR million	2007	2006
Depreciation of intangible assets		
Intangible assets	-0.4	-0.4
Depreciation of tangible assets		
Buildings	-0.1	-0.1
Machinery and equipment	-0.5	-0.5
Total	-1.1	-1.0

8. FINANCIAL INCOME AND EXPENSES

EUR million	2007	2006
Dividend income from subsidiaries	7.4	3.9
Dividend income from third parties	0.0	0.0
Foreign exchange gains	3.6	3.7
Foreign exchange losses	-2.3	-5.6
Interest and other financial income		
Interest income	2.8	2.8
Interest and other financial expenses		
Interest expense	-4.7	-4.2
Other financial expenses	0.0	-0.3
Total	6.7	0.3

FINANCIAL INCOME AND EXPENSES FROM AND TO SUBSIDIARIES

EUR million	2007	2006
Dividend income from subsidiaries	7.4	3.9
Interest and other financial income		
Interest income	2.5	2.7
Total	9.9	6.6

TRANSLATION DIFFERENCES RECOGNIZED IN THE INCOME STATEMENT

EUR million	2007	2006
Translation differences recognized in net sales	-0.6	-1.3
Translation differences included in purchases and other expenses	0.0	-0.6
Foreign exchange gains and losses in financial income and expenses	1.3	-1.9
Total	0.7	-3.8

9. EXTRAORDINARY ITEMS

EUR million	2007	2006
Group contributions received	1.2	1.5
Total	1.2	1.5

10. APPROPRIATIONS

EUR million	2007	2006
Change in accelerated depreciation		
Buildings	0.0	0.0
Machinery and equipment	0.1	0.1
Total	0.1	0.1

11. INCOME TAXES

INCOME TAXES IN THE INCOME STATEMENT

EUR million	2007	2006
Current income tax		
Income taxes for the current year	-1.0	
Taxes from previous financial years	-1.2	-0.8
Total	-2.2	-0.8

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

12. INTANGIBLE ASSETS

EUR million	2007	2006
Acquisition cost Jan. 1	7.2	7.2
Additions	0.0	
Acquisition cost Dec. 31	7.3	7.2
Accumulated depreciation Jan. 1	-5.5	-5.1
Depreciation during the period	-0.4	-0.4
Accumulated depreciation Dec. 31	-5.9	-5.5
Book value Jan. 1	1.7	2.1
Book value Dec. 31	1.4	1.7

13. TANGIBLE ASSETS

2007		Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
EUR Million							
Acquisition cost Jan. 1		0.1	4.2	11.5	0.0	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	0.0	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	0.0	0.6	4.7
Book value Dec. 31		0.1	1.1	3.1	0.0	0.7	5.0
2006							
EUR Million							
Acquisition cost Jan. 1		0.1	4.1	10.7	0.0	0.3	15.3
Additions			0.1	0.9		1.5	2.4
Disposals				0.0		-1.2	-1.2
Acquisition cost Dec. 31		0.1	4.2	11.5	0.0	0.6	16.5
Accumulated depreciation Jan. 1			-2.9	-8.2			-11.1
Depreciation during the period			-0.1	-0.5			-0.6
Accumulated depreciation Dec. 31			-3.1	-8.7			-11.8
Book value Jan. 1		0.1	1.2	2.5	0.0	0.3	4.1
Book value Dec. 31		0.1	1.2	2.8	0.0	0.6	4.7

14. INVESTMENTS

EUR million	2007	2006
Shareholdings in subsidiaries		
Book value Jan. 1	98.6	65.1
Additions	0.7	
Acquisitions of subsidiaries		33.5
Disposals	-1.0	
Book value Dec. 31	98.3	98.6
Available-for-sale investments		
Book value Jan. 1	0.2	0.2
Book value Dec. 31	0.2	0.2

15. INVENTORIES

EUR million	2007	2006
Raw material	1.5	1.2
Work in progress	2.7	2.2
Finished products	1.2	0.7
Total	5.4	4.1

16. RECEIVABLES

EUR million	2007	2006
Non-current receivables		
Interest-bearing		
Loan receivables	25.7	44.0
Non-interest-bearing		
Other receivables	1.0	
Current receivables		
Interest-bearing		
Loan receivables	19.7	6.2
Derivatives	0.0	
Non-interest-bearing		
Trade receivables	3.6	11.3
Prepaid expenses and accrued income	10.0	9.3
Total	60.1	70.8

RECEIVABLES FROM SUBSIDIARIES

EUR million	2007	2006
Non-current receivables		
Interest-bearing		
Loan receivables	25.7	44.0
Non-interest-bearing		
Other receivables	1.0	
Current receivables		
Interest-bearing		
Loan receivables	19.7	6.2
Derivatives	0.0	
Non-interest-bearing		
Trade receivables	3.2	10.9
Prepaid expenses and accrued income	9.7	7.3
Total	59.3	68.4

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.

17. LIABILITIES

EUR million	2007	2006
Non-current liabilities		
Interest-bearing		
Loans from financial institutions	46.4	58.7
Derivatives	0.0	
Other non-current liabilities	0.1	
Non-interest-bearing		
Other liabilities		0.9
Current liabilities		
Interest-bearing		
Loans from financial institutions	15.6	44.9
Commercial paper program	15.0	
Derivatives	0.1	
Other current liabilities	2.5	
Non-interest-bearing		
Advances received	0.1	
Trade payables	14.8	6.8
Accrued liabilities and deferred income	3.2	3.3
Other current liabilities	0.1	
Total	98.0	114.7

CURRENT LIABILITIES TO SUBSIDIARIES

EUR million	2007	2006
Interest-bearing		
Derivatives	0.1	
Other non-current liabilities	2.5	
Non-interest-bearing		
Advances received		
Trade payables	8.4	4.7
Accrued liabilities and deferred income		
Total	11.0	4.7

EUR 9.3 million (2006: EUR 19.6 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	2007	2006
Within one year	0.2	0.2
1-3 years	0.2	0.3
3-5 years		
Total	0.4	0.6

PARENT COMPANY AS A LESSOR

RENTAL RECEIVABLE SCHEDULE OF NON-CANCELLABLE OPERATING LEASES

EUR Million	2007	2006
Within one year	0.0	0.0
1-3 years	0.1	0.1
Total	0.1	0.1

19. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

EUR million	2007	2006
On own behalf and on behalf of subsidiaries		
Business mortgage	16.1	16.1
Guarantees	2.8	0.8
Total	18.9	16.9

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

Since Normark Sport 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.

20. DERIVATIVES

EUR million	2007	2006
Currency derivatives		
Fair value	-0.1	
Nominal value	7.9	
Interest rate derivatives		
Fair value	0.0	
Nominal value	12.9	

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