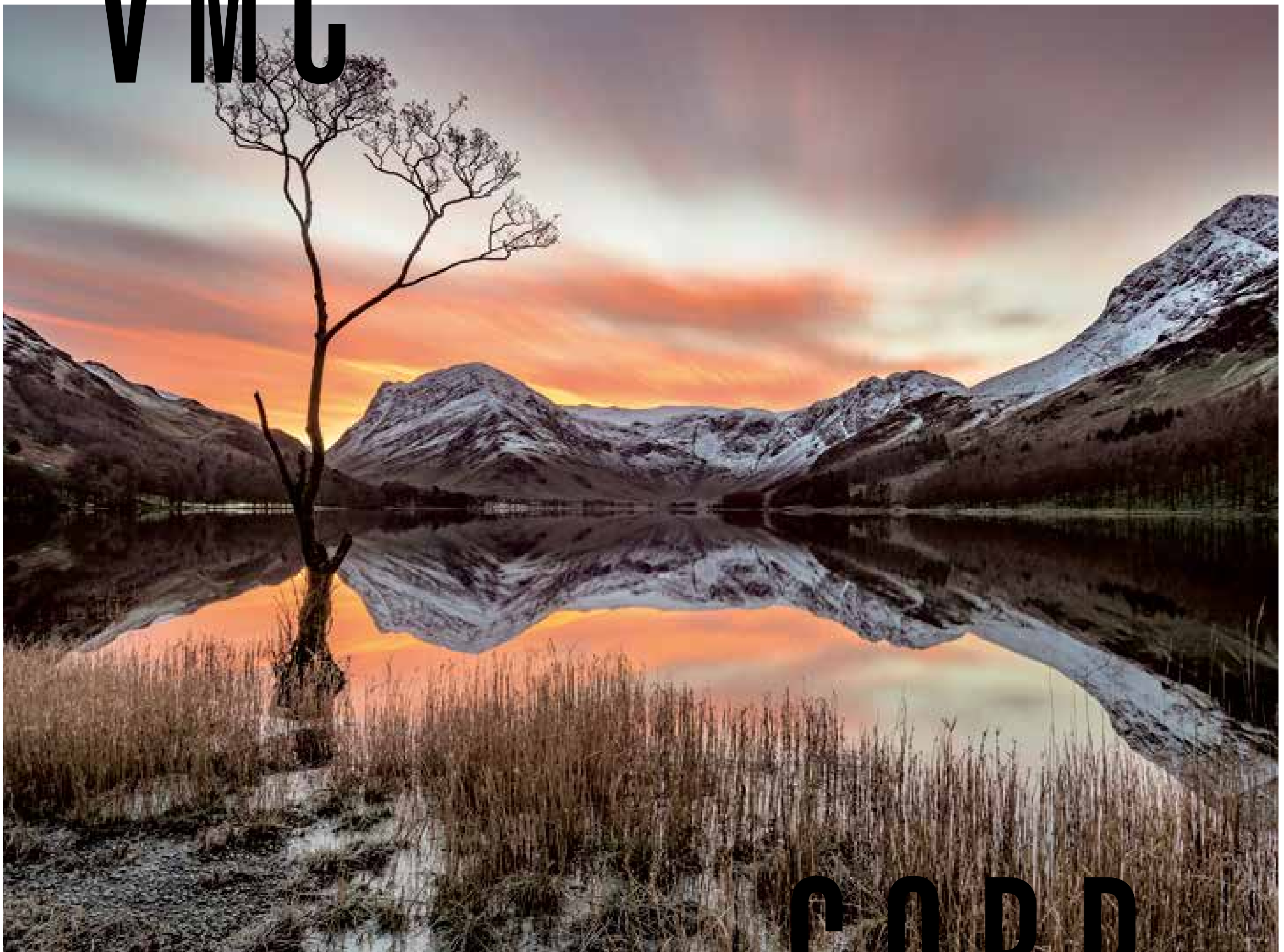
RAPALA VMC



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FINANCIAL STATEMENS 2018

RAPALA VMC CORPORATION FINANCIAL STATEMENTS 2018

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REPORT OF THE BOARD OF DIRECTORS

MARKET ENVIRONMENT

In 2018, the Group recorded growing sales numbers in all reported geographical areas. The highest growth was seen in the North American market where the Group has successfully adapted to the changing retail market and consumer demand was strong. In Europe, the Group grew both in the Nordics and Rest of Europe markets despite the very competitive market environment.

KEY FIGURES

EUR MILLION	2018	2017	2016
Net sales	**262.4**	253.3	260.6
Operating profit before depreciation and impairments EBITDA	**22.4**	15.7	14.1
Operating profit	**14.8**	8.9	7.2
as a percentage of net sales, %	**5.6**	3.5	2.8
Comparable operating profit	**16.7**	11.4	18.8
as a percentage of net sales, %	**6.4**	4.5	7.2
Profit before taxes	**12.7**	5.6	2.2
Net profit (loss) for the period	**6.5**	2.3	-2.0
Earnings per share	**0.13**	0.05	-0.08
Employee benefit expenses	**68.8**	67.6	67.6
Average number of personnel, persons	**2 772**	2 736	2 829
Research and development expenses	**1.6**	1.9	2.5
as a percentage of net sales, %	**0.6**	0.7	0.9
Net cash generated from operating activities	**6.7**	19.1	26.7
Total net cash used in investing activities	**4.7**	6.4	6.0
Net interest-bearing debt at the end of the period	**70.3**	67.8	96.1
Equity-to-assets ratio at the end of the period, %	**53.2**	53.9	43.1
Debt-to-equity ratio (gearing) at the end of the period, %	**47.8**	47.5	70.6
Return on equity, %	**4.5**	1.7	-1.5

BUSINESS REVIEW

The Group's net sales for the year were 3.6% above last year. Changes in translation exchange rates had a negative impact on the sales and with comparable translation exchange rates, net sales were organically up by 6.9% from the previous year.

North America

2018 was a very positive year for the North American market. Even though the US and Canadian dollars depreciated in value compared to 2017, the sales increased by 6.6% from the previous year. With comparable translation exchange rates, the sales were up by 11.4%.

The challenges in the retail landscape the Group faced in North America in 2017, were overcome and the consumer demand for the Group's products was strong. Canadian operations have also witnessed a successful turnaround, which is reflected in good sales growth. Overall, the market saw growing sales figures in most of the product categories, Rapala lures and ice fishing products being the biggest drivers for growth.

Nordic

The sales in the Nordic market grew slightly from last year. The weakening of Swedish and Norwegian kronen hindered the growth to some extent and with comparable translation exchange rates, the sales were up by 3.4%.

The sales growth was driven by excellent winter sports products sales in Finland in both winter seasons. In Sweden, the sales of Rapala lures developed positively, supported by the new product launches for predator fishing. On the other hand, Marttiini was below the record-high knives sales of the previous year boosted by the Finland 100 year anniversary knives.

Rest of Europe

With comparable translation exchange rates, the sales in Rest of Europe were 3.3% above the comparison period. The weakened Russian ruble, however, had a negative impact on the reported sales which were only 1.0% above last year.

The area showed positive signs in many countries, particularly in Romania and Poland, which both recorded strong sales growth. The contribution of Croatian distribution unit, for which 2018 was the first full year of operations, was also notable. On the other hand, challenging market conditions in Russia continued and offset most of the sales growth witnessed in other parts of the area.

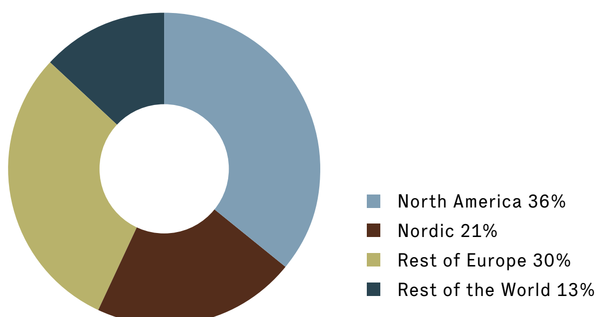
Rest of the World

With comparable translation exchange rates, the sales in Rest of the World grew 9.6% from last year. However, as most of the market's currencies depreciated against euro, euro-denominated sales growth was somewhat lower with a 5.2% increase from 2017.

The sales growth was driven by South-East Asia and South-Africa, where especially the hunting business grew strongly. In addition, the sales in Latin America developed positively.

EXTERNAL NET SALES BY AREA

EUR MILLION	2018	2017	CHANGE %	COMPARABLE CHANGE %
North America	**95.4**	89.4	7%	+11%
Nordic	**55.1**	54.3	1%	+3%
Rest of Europe	**78.4**	77.6	1%	+3%
Rest of the World	**33.6**	31.9	5%	+10%
TOTAL	**262.4**	**253.3**	**4 %**	**+7 %**



FINANCIAL RESULTS AND PROFITABILITY

Comparable (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) operating profit increased by 5.2 MEUR (46%) from last year to 16.7 MEUR. The effect of translation exchange rates was negative and with comparable translation exchange rates, comparable operating profit increased by 5.6 MEUR from 2017. Reported operating profit increased by 5.9 MEUR (66%) from last year to 14.8 MEUR. The items affecting comparability had a negative impact of 1.9 MEUR (-2.6) on reported operating profit.

Comparable operating profit margin was 6.4% (4.5) for the year. Strong sales growth in North America contributed positively to the profitability increase of the Group. Additionally, performance improvement initiatives in European lure manufacturing and the Canadian unit had a positive impact on profitability, while Indonesian lure factory is still having a notable negative impact on the Group's profitability.

Reported operating profit margin was 5.6% (3.5) for the year. Reported operating profit included mark-to-market valuation of operative currency derivatives of 0.7 MEUR (-0.3). Net expenses of other items affecting comparability included in the reported operating profit were 2.6 MEUR (2.3). The other items affecting comparability consisted mainly of restructuring expenses of the Batam plant in Indonesia, other restructuring expenses and a gain of a sale of a real estate.

Total financial (net) expenses were 2.1 MEUR (3.2) for the year. Net interest and other financing expenses were 1.4 MEUR (2.1) and (net) foreign exchange expenses were 0.7 MEUR (1.2).

Net profit for the year increased by 183% and was 6.5 MEUR (2.3) and earnings per share was 0.13 EUR (0.05). The share of non-controlling interest in net profit increased by 0.5 MEUR from last year and totaled 0.4 MEUR (0.0).

BRIDGE CALCULATION OF COMPARABLE OPERATING PROFIT

EUR MILLION	2018	2017	CHANGE %
Operating profit	**14.8**	8.9	66%
Items affecting comparability			
Mark-to-market valuations of operative currency derivatives	**-0.7**	0.3	
Other items affecting comparability			
Restructurings			
Management restructuring	**0.2**	1.1	
Indonesia manufacturing restructuring	**1.9**	0.8	
France restructuring	**0.1**	0.3	
Southeast Asian distribution restructuring			
Finland restructuring	**0.0**	0.1	
Other restructurings	**0.5**	0.1	
Insurance compensations		-0.2	
Redefined provision on inventory value			
Other items	**-0.2**	0.2	
COMPARABLE OPERATING PROFIT	**16.7**	**11.4**	**46%**

SEGMENT REVIEW

Group Products

Sales of Group Products grew from the comparison period by 6.8% with comparable translation exchange rates. The increase from last year was mostly driven by increased sales of lures, hooks, fishing lines and ice fishing products. Furthermore, sales of winter sports products in the Nordic market increased from the previous year. Sales of hunting knives was below the comparison period as 2017 sales were significantly boosted by the Finland 100 year anniversary knives.

Driven by the increased sales, the comparable operating profit for Group Products grew from the comparison period. Operational challenges in Indonesian lure manufacturing continued to burden the comparable operating profit of the segment.

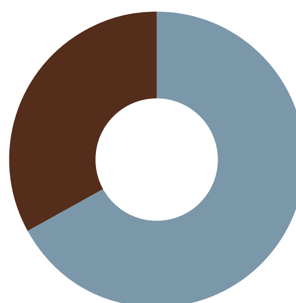
Third Party Products

With comparable translation exchange rates, the sales of Third Party products grew by 7.2% from the comparison period. Increased sales were driven by growth in third party rod and reel business in many European markets, the expansion of hunting business as well as third party winter sports business in the Nordics.

Following the increased sales, comparable operating profit for Third Party Products improved from the comparison period.

NET SALES BY OPERATING SEGMENT

EUR MILLION	2018	2017	CHANGE %	COMPARABLE CHANGE %
Group Products	**174.6**	168.8	3%	+7%
Third Party Products	**87.8**	84.5	4%	+7%
TOTAL	**262.4**	**253.3**	**4%**	**+7%**



Group Products 67%
Third Party Products 33%

COMPARABLE OPERATING PROFIT BY OPERATING SEGMENT

EUR MILLION	2018	2017	CHANGE %
Group Products	**17.2**	13.0	31%
Third Party Products	**-0.5**	-1.6	70%
TOTAL COMPARABLE OPERATING PROFIT	**16.7**	**11.4**	**46%**
Items affecting comparability	**-1.9**	**-2.6**	**-27%**
TOTAL OPERATING PROFIT	**14.8**	**8.9**	**66%**

FINANCIAL POSITION

Despite the improved profitability, cash flow from operations decreased by 12.5 MEUR from the comparison period being 6.7 MEUR (19.1). The impact of net change of working capital to cash flow from operations was -11.1 MEUR (11.6) as, contrary to previous year, cash was tied to inventories. Accounts receivables also tied more cash following the sales growth.

December 2018 inventory value was 99.1 MEUR (92.5). In addition to sales growth, the ramp-up of a centralized lure buffer inventories in Estonia serving the European market also increased inventories. Even though the year-end inventory value was higher than last year, 12-month average inventory decreased from the previous year and the average inventory to sales -ratio improved from last year.

Net cash used in investing activities decreased by 1.7 MEUR from the comparison period amounting to 4.7 MEUR (6.4). Capital expenditure, consisting mostly of normal operative capital expenditure, was 6.4 MEUR (6.0). Net acquisitions were 1.5 MEUR lower than last year as there were no acquisitions in 2018. Disposals, related to a sale of a real estate and sales of certain manufacturing equipment were 0.7 MEUR higher than in 2017 amounting to 1.7 MEUR (1.1).

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 increased and equity-to-assets ratio weakened slightly from last year. Leverage level (ratio between net interest-bearing debt and reported EBITDA) was below covenant limits and the Group is compliant with all financial covenants.

Group equity includes a hybrid loan of 25.0 MEUR issued in May 2017. The accrued non-recognised interest on hybrid bond at December 31, 2018 was EUR 1.3 million (0.8). The accrued interest of EUR 1.3 million, resulting from the decision to pay dividends, was paid out in May 2018 and was recognized as a deduction from Group's equity.

KEY FIGURES

EUR MILLION	2018	2017	CHANGE %
Net cash generated from operating activities	**6.7**	19.1	-65%
Net interest-bearing debt at the end of the period	**70.3**	67.8	4%
Debt-to-equity ratio (gearing) at the end of the period, %	**47.8**	47.5	
Equity-to-assets ratio at the end of the period, %	**53.2**	53.9	

STRATEGY IMPLEMENTATION

The Group updated its strategy in 2017. Following the conclusions of the strategy update, in order to build a solid financial and operational platform for long term growth, the Group's primary focus in the coming years will be on capturing organic growth opportunities in the fishing tackle business. The Group will also take determined actions to improve its profitability, lighten balance sheet and improve operational performance. In longer term, the target is to return to a more aggressive growth track and actively seek synergistic growth opportunities also outside the fishing tackle business.

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 updated strategy is progressing on all levels in the Group. Several organic growth projects are ongoing in all businesses utilizing deep market and customer understanding. Special focus has been set to leverage Group's global innovation power to address growing product categories and niches within fishing. Synergistic hunting products have been added to the distribution portfolio in certain countries to leverage the existing distribution network.

Several key strategic projects in the Group relate to changes in the distribution agreements with Shimano announced on January 18, 2019. The Group will cease to distribute Shimano-products, mainly rods and reels, during 2020 in the Group's fully owned subsidiaries and Shimano will cease to distribute Rapala-products in April 2019. Accordingly, the Group will gain direct full scale access to the large European fishing markets in Germany, United Kingdom, Italy and Benelux countries, previously served by Shimano. Additionally, these changes will enable the Group to consider approaching the rod and reel category strategically on a global basis. The Group is already selling Rapala Group branded rods and reels in some countries and the Group will intensify and accelerate the development of this category in the future. The Group's sales of Shimano products in the countries where the Group's distribution of Shimano products will terminate in 2020 was some 27 MEUR in 2018, representing ca 10% of the Group's total sales.

Significant focus and resources are allocated to streamline internal supply chains and to develop sales and operations planning to achieve lower group-wide inventories and improved service levels. Centralized fishing lure buffer inventory for European market was established in Estonia during 2018. The build-up of the buffer stock increased inventory levels temporarily at the year-end. Some warehouses in East Europe were also closed during 2018 to centralize delivery operations to bigger units.

In order to develop global manufacturing operations, lean projects are ongoing in several factories. One of the key projects for the Group is to execute a sustainable profitability turnaround for the Indonesian lure manufacturing operations. Certain low performing product categories are now being fully outsourced from the factory. Additionally the unit's management resources have been strengthened, manufacturing operations are to be simplified and non-core production processes to be outsourced.

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. Common ERP system was implemented to Scandinavian countries in 2018. 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. Leveraging the experiences from Group's US e-commerce platform, a content driven Rapala e-commerce website was successfully launched in European Union in May 2018 to promote the Rapala brand and offer improved consumer experience.

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. The Group has reorganized and boosted its lure product development procedure by centralizing the research and development know-how and key resources to one location in Finland that serves both the European and Asian lure manufacturing units.

Product development cycles are getting shorter which allows faster reaction to market needs and developing trends. Product launch schedules are more flexible and can be better adjusted to target specific markets' seasons.

One of the most important product launches of the year were a European-wide coordinated launch of a series of new pike lures, which started in January in France and reached its full year sales targets already in the first six months. Sufix 131 G-Core braided line was launched at the European Fishing Tackle Trade Exhibition in June, where it was voted the Best New Braided Line. The new Rapala Super Shadow Rap lure – part of the new pike series – received the Best New Hard Bait award.

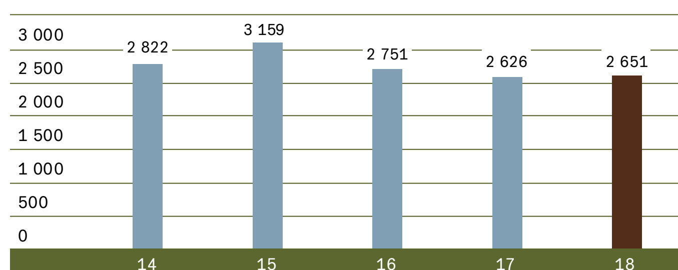
On the second half of the year at the ICAST exhibition, held in Orlando, Florida in July, VMC Tokyo Rig and VMC Neko Skirt were introduced to the bass fishing market, and VMC Neko Skirt was voted Best New Terminal Tackle of the show. Storm 360GT Searchbait Swimmer was another successful ICAST launch, extending the popular soft bait range. Additional extensions of the Rapala hero lure families like the Rapala RipStop Series were also introduced to the market.

Preparations for global and local new product launches for the year 2019 were well under way.

ORGANIZATION AND PERSONNEL

Average number of personnel was 2 772 (2 736) for the full year and 2 651 (2 626) at the end of December.

PERSONNEL AT THE END OF THE PERIOD



ENVIRONMENTAL AND CORPORATE RESPONSIBILITY

The Group's operations are continuously developed into an even more sustainable direction to promote clean environment. Products, manufacturing processes and operating methods are developed to reduce the environmental impact throughout the products' lifecycle. The Group seeks to replace current raw materials with more environmentally friendly substances – yet maintaining the products' desirability. The Group develops the reporting and follow-up on environmental matters.

Environmental, economical and social responsibility issues are described in more detail in the Corporate Responsibility section of the corporate website (www.rapalavmc.com).

RISK MANAGEMENT

The objective of the Group's risk management is to support the implementation of the Group's strategy and execution of business targets. 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 the Group management.

GOVERNANCE AND SHARE INFORMATION

The Board updated and approved the Corporate Governance Statement that is available on corporate website.

For information on shares, shareholders, share-based payment programs and Board's authorizations, see the section Shares and Shareholders. Related party transactions and top management remuneration are disclosed in the note 28.

SHORT-TERM OUTLOOK

Market outlook for North America is positive and the Group has a strong order book for 2019. The Group sees continued healthy consumer demand for its products via old and new channels. Furthermore, the Group's position with major customers in North America is strong. In Europe, the price competition in certain product categories has increased and the markets continue to be very competitive. Overall, the Group expects to grow sales in Group Products.

The Group has launched various strategic initiatives to boost organic growth and improve cost and capital efficiency as well as operational performance in the future. These initiatives, together with projects relating to changes in Group's partnership with Shimano, will continue to trigger some additional expenses and investments in 2019.

The Group expects 2019 full year net sales with comparable FX rates to be around the same level as in 2018 and comparable operating profit (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) to increase from 2018. However, there is slightly lower visibility to sales of Shimano products in 2019 in those countries which are affected by the changes in the distribution agreements. Furthermore, the potential slowdown in global economic growth might have some impact on retail and consumer demand. In addition, weather changes may affect the sales of the Group.

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

OTHER SIGNIFICANT EVENTS

New Share-Based Long-Term Incentive Plan for Group's Key Employees

On February 16, 2018 the Group announced that the Board of Directors of Rapala VMC Corporation has approved a new Performance Share Plan for the Group key employees. The aim of the new plan is to align the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to retain the key employees at the Company, and to offer them a competitive reward plan that is based on earning and accumulating the Company's shares. The new plan is directed to approximately 40 people, including the CEO and other members of the Executive Committee of the Group.

The new Performance Share Plan includes one three-year performance period, calendar years 2018—2020. The potential reward from the performance period will be based on the Group's financial performance criteria which will be measured during the financial year 2020 and the Company's share price criterion which will be measured during a measurement period of forty (40) consecutive trading days in November-December 2020. The Board of Directors may also resolve on other 40 trading day measurement periods. The financial performance criteria for the performance period are the Group Product sales in 2020, the Group's Comparable Earnings before Interest and Taxes margin in 2020 (EBIT %) and the Group's Average Working Capital Ratio in 2020.

The rewards to be paid on the basis of the plan correspond to the value of an approximate maximum total of 900,000 Rapala VMC Corporation shares including also the proportion to be paid in cash. The potential rewards from the performance period 2018—2020 will be paid partly in the Company's shares and partly in cash in 2021. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participant. As a rule, no reward will be paid, if a participant's employment or service ends before the reward payment.

A significant proportion of the reward allocations of the CEO and other members of the Executive Committee of the Group will be dependent on their personal investments in the Company shares and share ownership of the shares acquired through such investments.

PROPOSAL FOR PROFIT DISTRIBUTION

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.06 EUR for 2018 (0.04 EUR) per share is distributed from the Group's distributable equity and remaining distributable funds are carried forward to retained earnings. It is proposed that the dividend is distributed in two equal installments. At December 31, 2018 the distributable equity in Group's parent company totaled 20.4 MEUR.

No material changes have taken place in the Group's financial position after the end of the financial year. The 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.

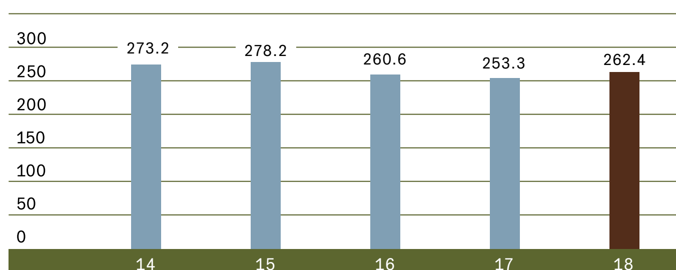
EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are disclosed in the note 31 of the consolidated financial statements.

KEY FINANCIAL FIGURES

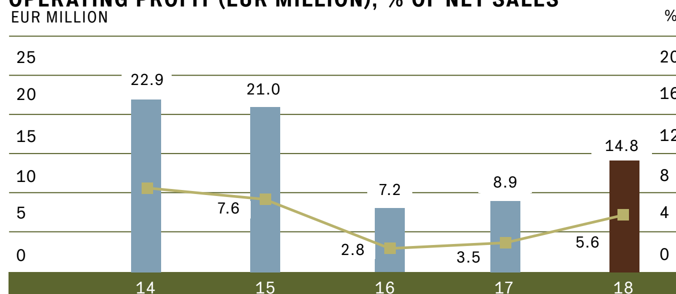
		2018	2017	2016	2015	2014
Scope of activity and profitability						
Net sales	EUR million	**262.4**	253.3	260.6	278.2	273.2
Operating profit before depreciation and impairments	EUR million	**22.4**	15.7	14.1	28.1	30.0
as a percentage of net sales	%	**8.5**	6.2	5.4	10.1	11.0
Operating profit	EUR million	**14.8**	8.9	7.2	21.0	22.9
as a percentage of net sales	%	**5.6**	3.5	2.8	7.6	8.4
Profit before taxes	EUR million	**12.7**	5.6	2.2	14.2	15.7
as a percentage of net sales	%	**4.8**	2.2	0.8	5.1	5.8
Net profit for the period	EUR million	**6.5**	2.3	-2.0	8.1	10.2
as a percentage of net sales	%	**2.5**	0.9	-0.8	2.9	3.7
Attributable to						
Equity holders of the Company	EUR million	**6.1**	2.4	-3.0	6.7	9.2
Non-controlling interest	EUR million	**0.4**	0.0	1.0	1.4	1.0
Capital expenditure	EUR million	**6.4**	6.0	8.4	9.1	8.7
as a percentage of net sales	%	**2.4**	2.4	3.2	3.3	3.2
Research and development expenses	EUR million	**1.6**	1.9	2.5	2.1	2.0
as a percentage of net sales	%	**0.6**	0.7	0.9	0.8	0.7
Net interest-bearing debt at the end of the period	EUR million	**70.3**	67.8	96.1	108.2	99.9
Capital employed at the end of the period	EUR million	**217.4**	210.5	232.2	248.1	236.5
Return on capital employed (ROCE)	%	**6.9**	4.0	3.0	8.7	9.8
Return on equity (ROE)	%	**4.5**	1.7	-1.5	5.9	7.5
Equity-to-assets ratio at the end of the period	%	**53.2**	53.9	43.1	44.7	44.1
Debt-to-equity ratio (gearing) at the end of the period	%	**47.8**	47.5	70.6	77.3	73.2
Average personnel for the period	Persons	**2 772**	2 736	2 829	3 078	2 716
Personnel at the end of the period	Persons	**2 651**	2 626	2 751	3 159	2 822

NET SALES, EUR MILLION

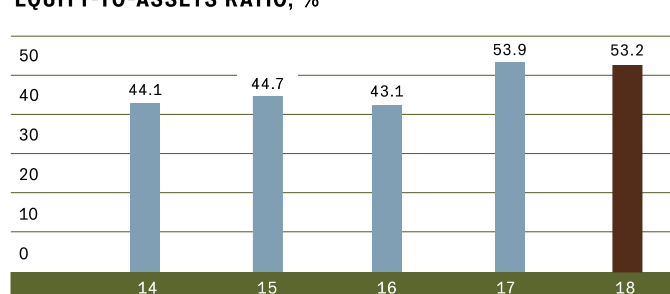


NET PROFIT (LOSS) FOR THE PERIOD, EUR MILLION

OPERATING PROFIT (EUR MILLION), % OF NET SALES



EQUITY-TO-ASSETS RATIO, %

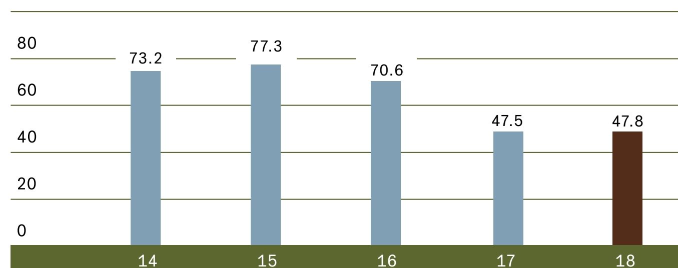


		2018	2017	2016	2015	2014
Share related key figures						
Earnings per share	EUR	**0.13**	0.05	-0.08	0.17	0.24
Fully diluted earnings per share	EUR	**0.13**	0.05	-0.08	0.17	0.24
Equity per share	EUR	**3.05**	2.89	3.33	3.43	3.34
Dividend per share [1]	EUR	**0.06**	0.04	0.10	0.15	0.20
Dividend/earnings ratio [1]	%	**45.8**	64.2	-128.9	86.3	83.3
Effective dividend yield [1]	%	**1.97**	1.20	2.42	3.16	4.25
Price/earnings ratio		**23.3**	53.5	-53.2	27.3	19.6
Share price at the end of the period	EUR	**3.05**	3.33	4.13	4.74	4.71
Lowest share price	EUR	**2.89**	3.29	3.90	4.57	4.69
Highest share price	EUR	**4.07**	4.68	4.90	5.85	6.00
Average share price	EUR	**3.43**	3.72	4.30	5.11	5.17
Number of shares traded	Shares	**1 511 411**	4 096 349	2 782 154	2 074 690	1 065 880
Number of shares traded of average number of shares	%	**3.94**	10.69	7.26	5.41	2.77
Share capital	EUR million	**3.6**	3.6	3.6	3.6	3.6
Dividend for the period [1]	EUR million	**2.3**	1.5	3.8	5.7	7.7
Year end market capitalization [2]	EUR million	**116.9**	127.6	158.3	181.8	180.8
Number of shares at the end of the period excluding own shares[2]	1 000 shares	**38 323**	38 323	38 323	38 360	38 393
Number of own shares at the end of period	1 000 shares	**677**	677	677	640	607
Weighted average number of shares [2]	1 000 shares	**38 323**	38 323	38 329	38 366	38 506
Fully diluted number of shares at the end of the period [2]	1 000 shares	**38 323**	38 323	38 323	38 360	38 393
Fully diluted weighted average number of shares [2]	1 000 shares	**38 323**	38 323	38 329	38 366	38 506

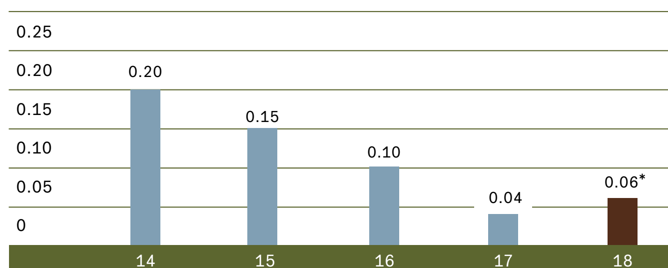
[1] Year 2018 board proposal.

[2] Excluding own shares.

DEBT-TO-EQUITY RATIO (GEARING) %

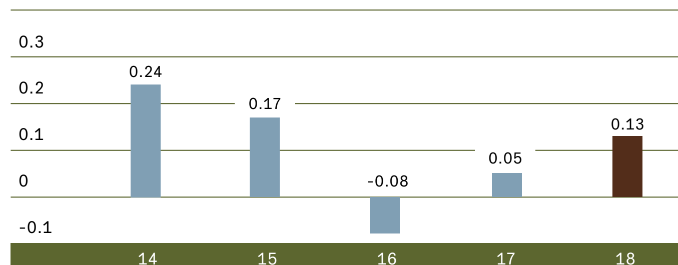


DIVIDEND PER SHARE, EUR

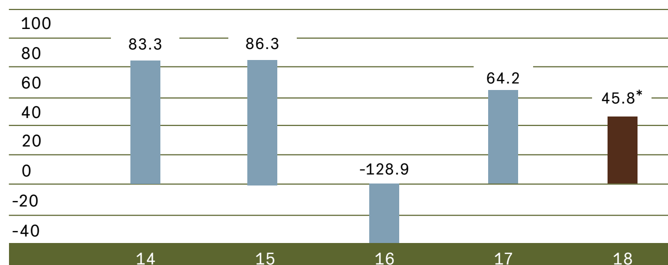


*Board proposal

EARNINGS PER SHARE. EUR



DIVIDEND/EARNINGS RATIO. %



*Board proposal

CONSOLIDATED FINANCIAL STATEMENTS, IFRS

CONSOLIDATED INCOME STATEMENT

EUR MILLION	NOTE	2018	2017
Net sales	2	**262.4**	253.3
Other operating income	4	**0.9**	1.1
Change in inventory of finished products and work in progress		**7.1**	-4.4
Production for own use		**0.2**	0.2
Materials and services	6	**-129.0**	-112.7
Employee benefit expenses	7	**-68.8**	-67.6
Other operating expenses	5	**-50.4**	-54.1
Share of results in associates and joint ventures	13	**0.0**	0.0
Operating profit before depreciation, amortization and impairments		**22.4**	**15.7**
Depreciation, amortization and impairments	11, 12	**-7.6**	-6.9
Operating profit		**14.8**	**8.9**
Financial income and expenses	9	**-2.1**	-3.2
Profit before taxes		**12.7**	**5.6**
Income taxes	10	**-6.2**	-3.3
NET PROFIT (LOSS) FOR THE PERIOD		**6.5**	**2.3**
Attributable to			
Equity holders of the parent company		**6.1**	2.4
Non-controlling interests	14	**0.4**	0.0
Earnings per share for profit attributable to the equity holders of the parent company	30		
Earnings per share, EUR		**0.13**	0.05
Diluted earnings per share, EUR		**0.13**	0.05
Weighted average number of shares, 1 000 shares		**38 323**	38 323
Diluted weighted average number of shares, 1 000 shares		**38 323**	38 323

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION	2018	2017
Net profit (loss) for the period	**6.5**	2.3
Other comprehensive income, net of tax [1]		
Items that will not be reclassified to income statement		
Remeasurements of defined benefit liabilities	**0.1**	0.0
Total items that will not be reclassified to income statement	**0.1**	**0.0**
Items that may be reclassified subsequently to income statement		
Change in translation differences	**3.2**	-13.6
Cashflow hedges [2]	**0.0**	0.2
Net investment hedges	**-1.0**	-1.9
Total items that may be reclassified susequently to income statement	**2.1**	**-15.3**
Other comprehensive income for the period, net of tax	**2.2**	**-15.3**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**8.8**	**-12.9**
Attributable to		
Equity holders of the parent company	**8.6**	-12.7
Non-controlling interests	**0.2**	-0.3

[1] The income tax relating to each of the component of the other comprehensive income is disclosed in the note 10.

[2] Specification on cash flow hedges, see note 19.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR MILLION	NOTE	2018	2017
ASSETS			
Non-current assets			
Goodwill	11	**48.5**	47.7
Other intangible assets	11	**26.0**	25.6
Tangible assets	12	**29.5**	32.7
Investments in associates and joint ventures	13	**0.0**	0.0
Other shares	15	**0.3**	0.3
Interest-bearing receivables	16	**0.0**	0.0
Non-interest-bearing receivables	16	**0.2**	0.3
Deferred tax assets	10	**5.3**	6.5
Total non-current assets		**109.8**	**113.2**
Current assets			
Inventories	17	**99.1**	92.5
Trade and other non-interest-bearing receivables	16	**53.0**	47.6
Income tax receivables		**1.7**	2.1
Interest-bearing receivables	16		
Cash and cash equivalents	18	**13.4**	10.3
Total current assets		**167.3**	**152.4**
TOTAL ASSETS		**277.1**	**265.6**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity			
Share capital		**3.6**	3.6
Share premium fund		**16.7**	16.7
Hedging fund		**0.0**	0.0
Fund for invested non-restricted equity		**4.9**	4.9
Own shares		**-5.6**	-5.6
Translation differences		**-11.2**	-13.6
Retained earnings		**108.6**	104.7
Equity attributable to equity holders of the parent company	19	**117.0**	**110.7**
Non-controlling interests	14	**5.1**	6.9
Hybrid bond	19	**25.0**	25.0
Total equity		**147.1**	**142.7**
Non-current liabilities			
Interest-bearing liabilities	24	**10.1**	34.6
Non-interest-bearing liabilities	25	**0.1**	0.7
Employee benefit obligations	20	**2.6**	2.5
Deferred tax liabilities	10	**5.4**	6.0
Provisions	21	**0.1**	0.0
Total non-current liabilities		**18.2**	**43.9**
Current liabilities			
Interest-bearing liabilities	24	**73.7**	43.5
Trade and other non-interest-bearing payables	25	**36.7**	34.6
Income tax payable		**1.3**	0.9
Provisions	21	**0.1**	0.1
Total current liabilities		**111.8**	**79.0**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**277.1**	**265.6**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR MILLION	NOTE	2018	2017
Net profit for the period		**6.5**	2.3
Adjustments			
Income taxes	10	**6.2**	3.3
Financial income and expenses	9	**2.1**	3.2
Reversal of non-cash items			
Depreciation and impairments	11, 12	**7.6**	6.9
Share based payments	7, 29	**0.4**	
Exchange rate differences	9	**-0.6**	0.5
Share of results in associated companies and joint ventures	13	**0.0**	0.0
Gains/losses on disposals of intangible, tangible assets and subsidiaries		**0.2**	0.4
Other items		**1.3**	-2.7
Total adjustments		**17.2**	**11.6**
Financial items			
Interest paid		**-1.9**	-3.0
Interest received		**0.7**	0.7
Income taxes paid		**-4.6**	-3.8
Other financial items, net		**-0.1**	-0.3
Total Financial items		**-5.9**	**-6.4**
Change in working capital			
Change in receivables		**-4.0**	1.0
Change in inventories		**-9.0**	8.4
Change in liabilities		**1.9**	2.3
Total change in working capital		**-11.1**	**11.6**
Net cash generated from operating activities		**6.7**	**19.1**
Net cash used in investing activities			
Acquisition of intangible assets	11	**-0.8**	-0.9
Proceeds from sale of tangible assets	12	**1.7**	0.2
Acquisition of tangible assets	12	**-5.6**	-5.1
Proceeds from disposal of Willtech Gift, net of cash	3		0.8
Change in interest-bearing receivables		**0.0**	0.0
Total net cash used in investing activities		**-4.7**	**-4.9**
Net cash generated from financing activities			
Dividends paid to parent company shareholders		**-1.5**	-3.8
Dividends paid to non-controlling interest		**-2.0**	-1.5
Acquisition of non-controlling interest in South African subsidiary	3		-1.5
Non-current loan withdrawals		**1.3**	10.0
Current loan withdrawals		**86.8**	67.2
Non-current loan repayments		**-5.1**	-15.0
Current loan repayments		**-77.4**	-113.4
Payment of finance lease liabilities		**0.0**	0.0
Hybrid bond		**-1.3**	24.7
Total net cash generated from financing activities		**0.8**	**-33.3**
Change in cash and cash equivalents		**2.7**	-19.1
Cash and cash equivalents at the beginning of the period		**10.3**	33.8
Foreign exchange rate effect		**0.4**	-4.4
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	18	**13.4**	**10.3**

CHANGES IN LIABILITIES INCLUDED CASH FLOW FROM FINANCING ACTIVITIES

Liabilities Jan 1, 2018	78.1
Drawdowns	88.2
Repayments	-83.0
Unrealized foreign exchange differences*	0.4
Liabilities Dec 31, 2018	**83.7**
Drawdowns and repayments of loans in statement of cash flows	
Drawdowns and repayments of loans	5.2
Derivatives and other realized foreign exchange on financial activities	0.5
Drawdowns and repayments of loans, net	**5.7**

*Unrealized foreign exchange differences from loans are not included in statement of cash flows.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY									
EUR MILLION	SHARE CAPITAL	SHARE PREMIUM FUND	HEDGING FUND	FUND FOR INVESTED NON-RESTRICTED EQUITY	OWN SHARES	TRANSLATION DIFFERENCES	RETAINED EARNINGS	NON-CONTROLLING INTEREST	HYBRID BOND	TOTAL EQUITY
Equity on Jan. 1, 2017	**3.6**	**16.7**	**-0.2**	**4.9**	**-5.6**	**1.7**	**106.4**	**8.6**		**136.1**
Net profit for the period							2.4	0.0		**2.3**
Other comprehensive income *)										
Translation differences						-13.4		-0.2		**-13.6**
Defined benefit plans							0.0			**0.0**
Cash flow hedging			0.2							**0.2**
Net investment hedges						-1.9				**-1.9**
Total comprehensive income			**0.2**			**-15.3**	**2.4**	**-0.3**		**-12.9**
Dividends paid							**-3.8**			**-3.8**
Transactions with non-controlling interests							**-0.1**	**-1.4**		**-1.5**
Hybrid bond									**25.0**	**25.0**
Hybrid bond expenses							**-0.2**			**-0.2**
EQUITY ON DEC. 31, 2017	**3.6**	**16.7**	**0.0**	**4.9**	**-5.6**	**-13.6**	**104.7**	**6.9**	**25.0**	**142.7**
Adoption of IFRS 9							-0.2	0.0		**-0.2**
EQUITY ON JAN. 1, 2018	**3.6**	**16.7**	**0.0**	**4.9**	**-5.6**	**-13.6**	**104.5**	**6.9**	**25.0**	**142.5**
Net profit for the period							**6.1**	**0.4**		**6.5**
Other comprehensive income *)										
Translation differences						**3.4**		**-0.3**		**3.2**
Defined benefit plans							**0.1**			**0.1**
Cash flow hedging			**0.0**							**0.0**
Net investment hedges						**-1.0**				**-1.0**
Total comprehensive income			**0.0**			**2.4**	**6.2**	**0.2**		**8.8**
Dividends paid							**-1.5**	**-2.0**		**-3.5**
Hybrid bond expenses							**-1.1**			**-1.1**
Share based payments							**0.4**	**0.0**		**0.4**
Other changes							**0.0**			**0.0**
EQUITY ON DEC. 31, 2018	**3.6**	**16.7**	**0.0**	**4.9**	**-5.6**	**-11.2**	**108.6**	**5.1**	**25.0**	**147.1**

*) Net of tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED ACCOUNTS

COMPANY'S BACKGROUND

Rapala VMC Corporation ("company") is a Finnish public limited liability company organized under the laws of Finland, domiciled in Asikkala and listed on the Nasdaq Helsinki stock exchange since 1998. The parent company Rapala VMC Corporation and its subsidiaries ("the Group") operate in some 40 countries and the company is one of the leading fishing tackle companies in the world.

The consolidated financial statements have been prepared for the accounting period of 12 months from January 1 to December 31, 2018. The Board of Directors of the company has approved these financial statements for publication at its meeting on February 14, 2019. 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.rapalavmc.com or from Mäkelänkatu 91, 00610 Helsinki, Finland.

BASIS FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), including IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on December 31, 2018. The term 'IFRS standards' refers to standards and interpretations which are approved and adopted by the European Union (regulation EY 1606/2002) and thus are in force in the Finnish legislation. The Group has not early adopted any new, revised or amended standards or interpretations.

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated.

APPLIED NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group has adopted, as from January 1, 2018 IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments, and amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue arising from contracts with customers. IFRS 15 has superseded the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when they become effective. Revenue is recognized when, the customer obtains control of the goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In addition, IFRS 15 requires quantitative and qualitative disclosures about the entity's contracts with customers, performance obligations in the contracts and significant judgements made.

The standard requires entities to exercise judgement, taking into consideration all relevant facts and circumstances when applying each step of the model to contracts with their customers. The Group did adopt IFRS 15 standard using the full retrospective method. There are no changes impacting the comparative information and therefore no restatements have been made in the Group's financial statements. The standard did not have material effect on Group's financial statements or accounting principles.

The Group is in the business of manufacturing, sourcing and distributing of mainly fishing tackle equipment as well as hunting, outdoor and winter sports equipment. Contract terms for sale of fishing tackle and other equipment cover only one distinct performance obligation per contract, which are normally not linked to any other goods or services, and are thus accounted for separately. The Group recognizes revenue at a point in time when it satisfies its performance obligations by transferring goods to customers, which is when the customer obtains control of the goods. Some contracts with customers include cash discounts, volume rebates and marketing support fees. Such provisions give rise to variable consideration under IFRS 15 and will be required to be estimated at contract inception. The accounting treatment does not materially differ from the Group's current practice.

IFRS 9 Financial Instruments

IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting and replaces current IAS 39. The impairment model in IFRS 9 is based on the premise of providing for expected losses.

The Group has observed that there will be modest, non-material, impacts on the bad debt provisions of trade receivables due to the new ECL (Expected Credit Loss) model introduced by the standard. The Group designed an ECL model where Group entities were divided by market areas and their trade receivables data were analyzed by aging, actual bad debts and allowance booked. The allowances were analyzed to be higher than the actual bad debts booked. For aging receivables, the percentages are rising based on best estimates regarding the increased risk of expected credit loss and for the receivables over 18 months old, 100% are written off. No restatement of prior periods has been made. The new ECL model has increased the bad debt provisions opening balance for 2018 by 0.2 MEUR, which has been recognized in retained earnings.

As of January 1, 2018 non-listed As Oy Tahko Eagle shares are classified as fair value through other comprehensive income in the fair value reserve. Under IAS 39 As Oy Tahko Eagle shares were classified in available-for-sale financial assets.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 are intended to eliminate diversity in three main areas: the effects of vesting conditions on the measurement of a cash-settled share based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The Group has resolved key employee long-term incentive plan during 2018 and follows the amendment of IFRS 2 from the beginning and therefore no restatement of prior periods was necessary to made.

IFRS 9 CLASSIFICATIONS

MEUR	IAS 39	IFRS 9	IAS 39	IFRS 9	ADJUSTMENT
FINANCIAL ASSETS	**Classification**				**Book value 1.1.2018**
Financial assets at fair value through profit and loss not qualifying for hedge accounting	Financial assets at fair value through profit or loss	Fair value through profit and loss	0.3	0.3	-
Derivatives qualifying for hedge accounting	Financial assets at fair value through other comprehensive income	Fair value through other comprehensive income	0.0	0.0	-
Other non-current assets	Loans and receivables	Amortized cost	0.3	0.3	-
Trade receivables	Loans and receivables	Amortized cost	47.6	47.4	0.2
Cash and cash equivalents	Loans and receivables	Amortized cost	10.3	10.3	-
Other shares	Available-for-sale financial assets	Fair value through other comprehensive income	0.3	0.3	-
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit and loss not qualifying for hedge accounting	Financial assets at fair value through profit or loss	Fair value through profit and loss	1.3	1.3	-
Derivatives qualifying for hedge accounting	Financial assets at fair value through profit or loss	Fair value through other comprehensive income	0.0	0.0	-
Non-interest-bearing liabilities	Other financial liabilities	Amortized cost	19.2	19.2	-
Interest-bearing liabilities	Other financial liabilities	Amortized cost	78.1	78.1	-
Trade payables	Other financial liabilities	Amortized cost	15.4	15.4	-

ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN 2019

In 2019 the Group will adopt the following new, revised and amended standards and interpretations, which are relevant to its operations as they become effective.

IFRS 16 Leases

The IFRS 16 Leases, issued in January 2016, sets out the requirements how to recognize, measure, present and disclose leases. The IFRS 16 will change significantly lessee's accounting as it introduces a single lessee accounting model for lessees to recognise right-of-use assets and lease liabilities in the consolidated statement of financial position for most leases. There are optional exemptions for short-term leases and low value leases. According to the current Leases standard, IAS17, a lessee has to separate leases into finance lease agreements booked on the balance sheet and operating lease agreements classified as off-balance sheet items. Lessor accounting remains similar to the IAS 17 standard, where leases are classified either as finance or operating leases. When effective January 1, 2019 IFRS 16 will replace IAS 17 Leases standard and related interpretations.

The Group's IFRS 16 project team has revised the leasing arrangements within the Group and has selected and implemented a new lease accounting system for lease contracts provided by ZenTreasury Oy. The execution of the lease accounting system trainings within the Group will continue in 2019.

Rapala VMC will adopt IFRS 16 on the effective date January 1, 2019 using the modified retrospective approach as transition method. In accordance with IFRS 16 transition guidance, comparative information will not be restated. According to the estimate at December 31, 2018 the standard will increase assets and liabilities approximately 15-16.5 MEUR, of which the majority relates to the real estate operating lease commitments. Rapala VMC expects that the IFRS 16 adoption will increase the interest-bearing net-debt and gearing ratio. The former lease expenses will be moved to Depreciation and Interest expenses; therefore, it is expected that operating profit will increase. Operating cash flow from operating activities will increase as the principal part of the lease payments will be recorded within cash flows from financing activities, therefore financing cash flows will decrease. The IFRS 16 adoption is not expected to have a significant impact on net profit or equity.

Rapala VMC used the following practical expedient in transition:

- IFRS 16 was applied to contracts which were identified previously as leases applying IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.
- Rapala VMC applied hindsight to estimate the lease term for lease contracts existing on the effective date.
- Initial direct costs related to the execution of lease contracts are excluded from the measurement of the right-to-use assets at the date of initial application.

Rapala VMC will adopt the following practical expedients on ongoing basis:

- The non-lease components will not be separated from lease components and each lease component and associated non-lease component will account as one lease component.
- After the transition Rapala VMC will not recognize any short-term leases on the consolidated statement of financial position where the lease term is 12 months or less at the lease commencement date. Instead, will recognize the lease payments associated with short-term leases as an expense.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition. The party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment, meaning the prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9. The amendments have not yet been endorsed for use in the EU.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

IFRS 3 Business Combinations. The amendments to IFRS 3 clarifies that when an entity obtains control of a business that is a joint operation, the entity will apply the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements. The amendments to IFRS 11 clarify when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its previously held interest in the joint operation.

IAS 12 Income Taxes. The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted. The amendments have not yet been endorsed for use in the EU.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost or of the gain or loss on settlement is calculated by measuring the defined benefit liability or asset using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment or curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. IAS 19 is clear that the change in the effect of the asset ceiling that may result from the plan amendment or curtailment or settlement is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability or asset have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability or asset as remeasured with the discount rate used in the remeasurement also taking into account the effect of contributions and benefit payments on the net defined benefit liability or asset.

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The amendments have not yet been endorsed for use in the EU.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there are a sale or contribution of assets between an investor and its associate or joint venture. Specifically amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary, that has become an associate or a joint venture that is accounted for using the equity method, to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB, earlier application of the amendments is permitted.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements if such transactions are not performed.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If yes, the entity should determine its

accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the company and its subsidiaries in which it has control. The control is based either to governing power established through direct or indirect holding of over 50% of the voting rights and/or control established through other means. The financial statements of the subsidiaries are prepared for the same accounting period as the company, using consistent accounting policies.

Acquired subsidiaries are accounted for using the acquisition cost method, according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The excess of the consideration over the fair value of net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly through income statement. Goodwill on consolidation is not amortized but tested for impairment annually. Consideration includes the fair value of any contingent consideration arrangement. Also, cost directly related to acquisition were included in the cost of acquisition up to 1 January 2010. 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 are companies where the Group holds voting rights of 20–50% and/or in which the Group has significant influence, but not control. Joint ventures are companies, over which the Group has contractually agreed to share control with another venturer. Currently associated companies and joint ventures are included in the consolidated financial statements using the equity method. Under the equity method, the Group's share of the profit or loss of an associate or a joint venture is recognized in the consolidated income statement before operating profit.

The Group's interest in an associated company or a joint venture is carried in the balance sheet at an amount that reflects the Group's share of the net assets of the associate or joint venture together with goodwill on acquisition, as amortized, less any impairment. Unrealized gains, if any, between the Group and the associated companies or joint ventures are eliminated to the extent of the Group's ownership. Associated companies' and joint ventures' financial statements have been converted to correspond with the accounting principles in use in the Group. If the Group's share of losses exceeds the carrying amount of the 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 or joint venture.

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

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATIONS

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

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

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

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

REVENUE RECOGNITION

Net sales comprise of consideration received less indirect sales taxes, discounts and exchange rate differences arising from sales denominated in foreign currency. Revenue from the sale of goods is recognized when performance obligation is satisfied, i e when “control” of the good or service underlying the particular performance obligation is transferred to the customer, i e when a product has been delivered to the client in accordance with the terms of delivery There are no such long-term projects in the group for which the revenue would be recognized using the percentage-of-completion (POC) method. The costs of shipping and distributing products are included in other operating expenses. Revenues from services are recorded when the service has been performed.

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

INCOME TAXES

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

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

RESEARCH AND DEVELOPMENT COSTS

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

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

GOODWILL

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

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

INTANGIBLE ASSETS

Intangible assets include customer relations, trademarks, capitalized development expenses, patents, copyrights, licenses and software. An intangible asset is recognized in the balance sheet only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. Intangible assets are stated at cost, amortized on a straight-line basis over the expected useful lives which vary from 3 to 15 years and 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, amortization 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 and structures	10–25 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 other operating income and expenses.

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

BORROWING COSTS

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

GOVERNMENT GRANTS

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

IMPAIRMENTS OF TANGIBLE AND INTANGIBLE ASSETS

The carrying amounts of tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If indication exists, the recoverable amount is measured. Indications of potential need for impairment may be for example changes in market conditions and sales prices, decisions on significant restructurings or change in profitability.

Goodwill, intangible assets with indefinite useful lives and unfinished intangible assets are in all cases tested annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level for which there are separately identifiable, mainly independent, cash inflows and outflows.

An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is determined by reference to discounted future net cash flows expected to be generated by the asset. Discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment loss is immediately recognized in the income statement.

Impairment losses attributable to a cash-generating unit are used to deducting first the goodwill allocated to the cash-generating unit and, thereafter, the other assets of the unit on an equal basis. The useful life of the asset to be depreciated is reassessed in connection with the recognition of the impairment loss. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted value is higher than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill are not reversed.

ASSETS HELD-FOR-SALE

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

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

ACCOUNTING FOR LEASES

Group as a lessee

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

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

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

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

Group as a lessor

Those leases under which the Group is a lessor are classified as operating leases. Leased assets are presented in the 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, other shares or as derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate re-evaluates this designation at each financial year-end. Financial assets include current and non-current assets and they can be interest-bearing or non-interest-bearing.

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

Non-derivative 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. They are measured at amortized cost using the effective interest method.

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 preceding categories are classified as other shares. When available-for-sale financial assets are recognized initially, they are measured at fair value by using quoted 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 other shares, net of tax, are recognized as other comprehensive income. Changes in fair value are transferred from the statement of other comprehensive income to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognized for the instrument. Purchases and sales of other shares are recognized on the trade date.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Hedge accounting is practiced following the IFRS 9 principles. 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. The fair values of these instruments are received from the respective bank or calculated to match the current market price. Currently, the Group does not have embedded derivatives.

Derivatives may be designated as hedging instruments, in which case hedge accounting is applied. At the inception of a hedge relationship, the Group designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. In the case hedge accounting is applied, the accounting for hedging instruments is dependent on the particular nature of the hedging relationship.

In cash flow hedges, changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized as other comprehensive income and the ineffective portion is recognized immediately in the income statement. Accumulated fair value changes recognized in the statement of other comprehensive income are reclassified into income statement in the period when the hedged cash flow affects income. Changes in fair value of derivative instruments are recognized in the income statement based on their nature either in the operative costs if the hedged item is an operative foreign currency transaction or as financial income or expenses, if the hedged item is a monetary transaction.

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.

The changes in the fair values of derivatives that are designated as hedg¬ing instruments but are not accounted for according to the principles of hedge accounting are recognized in the income statement based on their nature either in the operative costs, if the hedged item is an operative transaction, or as financial income or expenses, if the hedged item is a monetary transaction.

In principal, the fair values of derivative instruments are presented in the statement of financial position under short-term or long-term non-interest bearing assets or liabilities based on their maturity. Derivative instruments that are designated and qualify as fair value hedges of monetary assets or liabilities, are presented in the same group of interest-bearing assets or liabilities as the hedged instrument.

Effective portion of changes in the fair values of foreign currency hedges used against the translation differences arising from the consolidation of net investments in foreign subsidiaries are recognized in translation differences in the statement of other comprehensive income. The ineffective portion is recognized in financial income and expenses. Accumulated fair value changes recognized in the items of other comprehensive income are reclassified into income statement if the hedged subsidiary is disposed of partially or in its entity.

FINANCIAL LIABILITIES

Financial liabilities are classified into the following categories: derivatives designated as hedging instruments in an effective hedge, financial liabilities at fair value through profit or loss (including other derivatives) and financial liabilities measured at amortized cost. Financial liabilities, except derivatives, are initially recognized at the fair value of the consideration received plus directly attributable transactions costs. After initial recognition, 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 other shares, are recognized at the settlement date. A financial asset or a financial liability is recognized on the balance sheet only when the Group becomes a party to the contractual provisions of the financial instrument.

A financial asset is derecognized 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 only when it is extinguished, that the obligation specified in the contract is discharged or cancelled or expires.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether a financial asset or group of financial asset is impaired. An impairment loss in respect of loans and receivables is measured as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an other shares 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 other shares recognized previously in the items of other comprehensive income is reclassified into income statement when the asset is sold or when the impairment is permanent.

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

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. Inventories are presented net of net realizable value allowance recognized for obsolete and slow-moving inventories.

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.

HYBRID BOND

A hybrid bond is an instrument which is presented under equity in the consolidated financial statements. A hybrid bond is subordinated to the company's other debt obligations, but has seniority over other equity items. The yield on a hybrid bond is paid if the Group distributes a dividend. If no dividend is distributed, the Group will make a separate decision on whether to pay the yield. Unpaid yields are accumulated. The holders of a hybrid bond do not possess the same rights as shareholders concerning control or voting at General Meetings of shareholders.

OWN SHARES

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

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

Employee benefit 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.

For defined benefit plans, costs are assessed using the projected unit credit actuarial valuation method, in which the cost of providing benefit 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 benefit 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 the fair value of plan assets. All actuarial gains and losses are recognized in other comprehensive income immediately as they occur. The past service cost is recognized as an expense in the income statement.

Share-based payments

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

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

When the share options are exercised, the proceeds received, net of any transaction costs, are credited in the fund for invested non-restricted equity.

DIVIDEND

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

EARNINGS PER SHARE

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

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

OPERATING PROFIT

The IAS 1 (Presentation of Financial Statements) standard does not define operating profit. The Group has defined it as follows: Operating profit is the net amount arising from adding other operating income and share of results in associates and joint ventures 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 operative 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 are presented on a separate row

before cash and cash equivalents at the end of period, separate from cash generated from (used in) operating, investing and financing activities.

COMPARABLE OPERATING PROFIT AND ITEMS AFFECTING COMPARABILITY

In order to reflect the underlying business performance and to enhance comparability between financial periods, the Group presents alternative performance measures. Comparable operating profit is operating profit excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability, which include material restructuring costs, impairments, gains and losses on business combinations and disposals, insurance compensations and other non-operational items. Alternative performance measures should not be considered in isolation as a substitute for measures of performance in accordance with IFRS.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Determining fair value of acquisitions

The fair values of acquired working capital and tangible assets were evaluated by the Group and when needed 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 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.

Defined benefit obligations

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 recognized in other comprehensive income immediately as they occur which could have a slight impact on the Group's statement of comprehensive income.

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.

Hyperinflation

The Group may have operations in hyperinflatory economies. The financial statements of a subsidiary whose functional currency is the currency of a hyperinflationary economy are restated in accordance of IAS 29 (Financial Reporting in Hyperinflatory Economies) in case the adjustments are material in relation to the Group's consolidated financial statements.

ROUNDING OF FIGURES

The consolidated financial statements are presented in millions of euros. All figures in these accounts have been rounded. Consequently, the sum of individual figures can deviate from the presented sum figure. Key figures have been calculated using exact figures.

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

2 SEGMENT INFORMATION

The Rapala Group is led as a whole, as an integrated chain of units engaged in manufacturing, sourcing and distributing of mainly fishing tackle equipment as well as hunting, outdoor and winter sports equipment. The base unit of the Group's management is a single subsidiary engaged in one or several activities within the integrated supply chain. Each subsidiary and business is represented by a member in the Executive committee. The Group does not have any structure of independently led divisions, but the Group is managed as a whole. The Group's CEO, together with the Board is the ultimate decision maker.

Despite the integrated nature of the Group's operations, the type and source of products being processed by the units creates difference in the Group's management approach. There is a distinction in the strategic and operative role of the products depending on whether the product sold is being manufactured by the Group itself; whether the product is sourced by the Group externally, but sold under one of the Group's own brands; whether the product is a third party product represented and distributed by the Group; or whether the product is part of Group's core fishing tackle business or some supporting product category outside of fishing. This distinction between the type and source of products is the basis for the Group's operating segments.

The Group's operating segments are Group Fishing Products, Other Group Products and Third Party Products. Group Fishing Products and Other Group Products have been combined to reportable segment Group Products. Group Fishing Products are fishing tackle products manufactured or sourced by the Group itself and sold under the Group's brands. Group Fishing Products include Lures and Baits, Fishing Hooks, Fishing Lines and Fishing Accessories. Other Group Products include Group manufactured and/or branded products for winter sports and some other non-fishing businesses. Third Party Products include non-Group branded fishing products and third party products for hunting, outdoor and winter sports, which are distributed by the Group utilizing the same supply channel as Group Fishing Products and Other Group Products.

The Group has changed the measurements of segment performance by excluding items affecting comparability from operating profit. The Group measures segment performance based on sales, comparable operating profit and assets. Comparable operating profit is adjusted by mark-to-market valuations of operative currency derivatives and other items affecting comparability including material restructuring costs, impairments, gains and losses on business combinations and disposals, insurance compensations and other non-operational items. Definitions of the alternative performance measures are presented in Definitions of Key Figures on page 46. All the other segment reporting is consistent with IFRS accounting principles. Reportable segments are consistent with those in the financial statements 2017.

Pricing of inter-segment transactions is based on market prices.

REPORTABLE SEGMENTS

2018

EUR MILLION	GROUP PRODUCTS	THIRD PARTY PRODUCTS	TOTAL REPORTABLE SEGMENTS
Net Sales	**174.6**	**87.8**	**262.4**
Depreciation, amortization and impairment losses	**-6.4**	**-1.1**	**-7.6**
Share of results in associates and joint ventures (included in OP)	**0.0**	**0.0**	**0.0**
Comparable operating profit	**17.2**	**-0.5**	**16.7**
Segment assets			
Non-interest-bearing assets	**208.8**	**54.9**	**263.7**
Investments in associates and joint ventures	**0.0**		**0.0**
Total segment assets	**208.8**	**54.9**	**263.7**
Investments	**5.3**	**1.1**	**6.4**

2017

EUR MILLION	GROUP PRODUCTS	THIRD PARTY PRODUCTS	TOTAL REPORTABLE SEGMENTS
Net Sales	**168.8**	**84.5**	**253.3**
Depreciation, amortization and impairment losses	-5.9	-1.0	-6.9
Share of results in associates and joint ventures (included in OP)	0.0	0.0	0.0
Comparable operating profit	**13.0**	**-1.6**	**11.4**
Segment assets			
Non-interest-bearing assets	204.8	50.4	255.3
Investments in associates and joint ventures	0.0		0.0
Total segment assets	**204.8**	**50.4**	**255.3**
Investments	5.4	0.6	6.0

RECONCILIATIONS

EUR MILLION	2018	2017
Net sales		
Total sales for reportable segments	**262.4**	253.3
Group net sales	**262.4**	**253.3**
Comparable operating profit		
Total comparable operating profit for reportable segments	**16.7**	11.4
Mark-to-market valuations of operative currency derivatives	**0.7**	-0.3
Other items affecting comparability	**-2.6**	-2.3
Group total operating profit	**14.8**	**8.9**
Group financial income and expenses	**-2.1**	-3.2
Group profit before taxes	**12.7**	**5.6**
Other items affecting comparability		
Restructurings		
Management restructuring	**-0.2**	-1.1
Indonesia manufacturing restructuring	**-1.9**	-0.8
France restructuring	**-0.1**	-0.3
Finland restructuring	**0.0**	-0.1
Other restructurings	**-0.5**	-0.1
Insurance compensations		0.2
Other items	**0.2**	-0.2
Total other items affecting comparability	**-2.6**	**-2.3**
Assets		
Total assets for reportable segments	**263.7**	255.3
Unallocated interest-bearing assets	**13.4**	10.3
Group total assets	**277.1**	**265.6**

GEOGRAPHICAL AND GROUP-WIDE INFORMATION

The Group operates in four geographical areas which are North America, Nordic, Rest of Europe and Rest of the World. External net sales and non-current assets are presented separately in the countries which proportion is significant.

The non-current assets exclude non-current financial assets and deferred tax assets.

The Group's customer base consists of a large number of customers in several market areas and no single customer represent by itself a significant part of the Group's net sales.

External net sales by unit location

EUR MILLION	2018	2017
Finland	**26.0**	23.7
Other Nordic Countries	**29.1**	30.6
Nordic total	**55.1**	**54.3**
Russia	**11.8**	14.0
France	**34.6**	33.8
Other European Countries	**32.0**	29.9
Rest of Europe total	**78.4**	**77.6**
USA	**83.4**	77.8
Other North America	**12.0**	11.7
North America total	**95.4**	**89.4**
Rest of the World total	**33.6**	**31.9**
TOTAL	**262.4**	**253.3**

Non-current assets by unit location

EUR MILLION	2018	2017
Finland	**16.1**	17.3
Other Nordic Countries	**3.5**	3.4
Nordic total	**19.6**	**20.7**
Rest of Europe total	**17.3**	**17.3**
USA	**30.1**	29.3
Other North America	**3.7**	3.9
North America total	**33.8**	**33.2**
China (incl. Hong Kong)	**26.4**	25.7
Other countries	**7.0**	9.1
Rest of the World total	**33.4**	**34.8**
TOTAL	**104.0**	**106.0**

3 ACQUISITIONS AND DISPOSALS

ACQUISITIONS IN 2018

There were no acquisitions in 2018.

ACQUISITIONS IN 2017

The Group acquired a 30% minority share of its subsidiary Rapala VMC South-Africa Distributors Pty Ltd. in February 2017. Purchase price of the minority share was EUR 1.5 million and it was paid fully in cash. After minority share acquisition the Group owns all shares of Rapala VMC South-Africa Distributors Pty Ltd.

DISPOSALS IN 2018

There were no disposals in 2018.

DISPOSALS IN 2017

In December 2017 the Group received the last yearly installment of EUR 0.8 million relating to the disposal of the gift business in 2011.

4 OTHER OPERATING INCOME

EUR MILLION	2018	2017
Royalty income	**0.1**	0.1
Rental income	**0.4**	0.4
Scrap sales	**0.1**	0.1
Gains from sale of intangible and tangible assets	**0.1**	0.0
Insurance compensations	**0.0**	0.2
Other income	**0.2**	0.3
TOTAL	**0.9**	**1.1**

5 OTHER OPERATING EXPENSES

EUR MILLION	2018	2017
Selling and marketing expenses	**-11.0**	-11.2
Rents paid	**-7.4**	-7.8
Freight out	**-6.0**	-5.8
Maintenance and utility expenses	**-5.4**	-6.2
Traveling expenses	**-4.2**	-3.9
Sales commissions	**-3.8**	-3.5
Consulting expenses	**-1.7**	-1.9
IT and telecommunication	**-2.5**	-2.3
Auditors' fees and services	**-0.8**	-0.8
Currency derivatives	**0.4**	-0.2
Losses on sale of tangible and intangible assets	**-0.3**	-0.4
Other expenses	**-7.7**	-10.1
TOTAL	**-50.4**	**-54.1**

AUDITORS' FEES AND SERVICES

EUR MILLION	2018	2017
Audit fees	**-0.6**	**-0.7**
Fees for tax services	**-0.1**	**0.0**
Non-audit fees	**-0.1**	**-0.1**
TOTAL	**-0.8**	**-0.8**

6 MATERIALS AND SERVICES

EUR MILLION	2018	2017
Materials, goods and supplies		
Purchases during the period	**-127.4**	**-111.3**
Change in inventory	**0.2**	**-0.3**
External services	**-1.8**	**-1.2**
TOTAL	**-129.0**	**-112.7**

7 EMPLOYEE BENEFIT EXPENSES

EUR MILLION	2018	2017
Wages and salaries	**-54.8**	-54.0
Pension costs - defined contribution plans	**-4.2**	-4.4
Pension costs - defined benefit plans	**-0.2**	-0.4
Other long-term employee benefits	**-0.1**	-0.1
Option programs to be settled in shares	**-0.4**	
Other personnel expenses	**-9.1**	-8.8
TOTAL	**-68.7**	**-67.6**

The employee benefit expenses in 2018 included EUR 0.5 million employee related restructuring expenses (2017: EUR 1.4 million). For more details on employee benefits for top management and possible share-based incentive plans, see notes 28 and 29.

AVERAGE PERSONNEL

PERSONS	2018	2017
North America	**126**	121
Nordic	**336**	345
Rest of Europe	**881**	782
Rest of the World	**1 430**	1 488
TOTAL	**2 772**	**2 736**

8 RESEARCH AND DEVELOPMENT EXPENSES

Net profit for the period includes research and development expenses of EUR 1.6 million recognized as an expense in 2018 (2017: EUR 1.9 million). Group has not capitalized research and development costs.

9 FINANCIAL INCOME AND EXPENSES

EUR MILLION	2018	2017
Foreign exchange gains and losses		
From financial assets	**-0.3**	-6.6
From financial liabilities measured at amortized cost	**-1.9**	6.8
Interest and other financial income		
Interest income from loans and receivables	**0.9**	0.6
Change in fair value of interest rate derivatives - hedge accounted	**0.0**	0.0
Interest rate derivatives - non-hedge accounted	**0.1**	0.2
Currency derivatives - non-hedge accounted	**1.5**	-1.4
Other financial income	**0.0**	0.0
Interest and other financial expenses		
Interest expense on financial liabilities measured at amortized cost	**-1.9**	-2.2
Other financial expenses	**-0.5**	-0.7
TOTAL	**-2.1**	**-3.2**

RECOGNIZED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

EUR MILLION	2018	2017
Change in fair value of interest rate derivatives - hedge accounted, net of tax	**0.0**	0.2
Gains and losses on hedges of net investments, net of tax	**-1.0**	-1.9
TOTAL	**-1.0**	**-1.7**

EXCHANGE GAINS AND LOSSES IN OPERATING PROFIT

EUR MILLION	2018	2017
In net sales	**0.9**	-0.6
In purchases	**-0.9**	0.7
In other operating expenses		
Currency derivatives, non-hedge accounted	**0.4**	-0.2
TOTAL	**0.4**	**-0.1**

Gains and losses of derivatives designed as cash flow hedges are presented together with the hedged instrument , if hedge accounting is applied: EUR 0.0 million (2017: EUR -0.1 million) is recognized in interest expenses.

In 2018, hedge accounted interest rate derivatives designed as cash flow hedges, which do not fulfill effectiveness requirements had impact of EUR 0.0 million (2017: EUR 0.0 million) in the financial income and expenses of income statement.

10 INCOME TAXES

INCOME TAXES IN THE INCOME STATEMENT

EUR MILLION	2018	2017
Income taxes	**-7.2**	-4.3
Deferred taxes	**1.0**	1.0
TOTAL	**-6.2**	**-3.3**

INCOME TAX RECONCILIATION

EUR MILLION	2018	2017
Income taxes at Finnish corporate tax rate (20%)	**-2.5**	-0.4
Effect of different tax rates in foreign subsidiaries	**-1.4**	-2.1
Taxes for prior years	**-0.1**	-0.1
Foreign withholding taxes	**-0.2**	-0.3
Non-deductible expenses and tax exempt income	**-0.2**	0.1
Losses for which no deferred tax benefit is recognized	**-0.9**	-1.9
Changes in the carrying amounts of deferred tax assets and liabilities from prior years	**-0.2**	0.2
Impact of the changes in the tax rates on deferred tax balances	**-0.5**	1.4
Other items	**-0.2**	-0.1
INCOME TAXES IN THE INCOME STATEMENT	**-6.2**	**-3.3**

TAX EFFECTS RELATING TO EACH COMPONENT OF OTHER COMPREHENSIVE INCOME

2018

EUR MILLION	BEFORE TAX	TAX EXPENSE/ BENEFIT	NET OF TAX
Change in translation differences	**3.2**		**3.2**
Remeasurements of defined benefit liabilities	**0.1**	**0.0**	**0.1**
Cash flow hedges	**0.0**	**0.0**	**0.0**
Net investment hedges	**-0.9**	**-0.1**	**-1.0**
TOTAL	**2.4**	**-0.1**	**2.2**

2017

EUR MILLION	BEFORE TAX	TAX EXPENSE/ BENEFIT	NET OF TAX
Change in translation differences	-13.6		-13.6
Remeasurements of defined benefit liabilities	0.1	0.0	0.0
Cash flow hedges	0.3	-0.1	0.2
Net investment hedges	-2.2	0.4	-1.9
TOTAL	**-15.6**	**0.3**	**-15.3**

MOVEMENT OF DEFERRED TAXES

2018

EUR MILLION	JAN. 1	INCOME STATEMENT	EQUITY	TRANSLATION DIFFERENCES	DEC. 31
Tax losses and credits carried forward	**2.7**	**-0.7**		**0.0**	**2.0**
Provisions	**0.7**	**0.0**		**0.0**	**0.6**
Employee benefits	**0.7**	**-0.1**	**0.0**		**0.6**
Depreciation difference	**0.1**	**0.0**		**0.0**	**0.0**
Effect of consolidation and eliminations	**2.8**	**0.1**		**0.0**	**3.0**
Other temporary differences	**0.5**	**-0.2**	**0.0**	**0.3**	**0.7**
TOTAL DEFERRED TAX ASSETS	**7.5**	**-1.0**	**0.0**	**0.3**	**6.8**
Depreciation difference and other untaxed reserves	**1.0**	**0.0**		**0.0**	**1.1**
Inventory	**1.4**	**0.1**		**0.1**	**1.5**
Fair value allocations for acquired net assets	**2.4**	**0.0**		**0.0**	**2.3**
Other temporary differences	**2.2**	**-0.1**		**0.1**	**2.1**
TOTAL DEFERRED TAX LIABILITIES	**6.9**	**0.1**	**0.0**	**0.1**	**7.1**
NET DEFERRED TAX ASSET	**0.5**	**-1.1**	**0.0**	**0.2**	**-0.2**

2017

EUR MILLION	JAN. 1	INCOME STATEMENT	EQUITY	TRANSLATION DIFFERENCES	DEC. 31
Tax losses and credits carried forward	2.0	0.8		-0.1	2.7
Provisions	0.8	-0.1		0.0	0.7
Employee benefits	0.7	0.0	0.0		0.7
Depreciation difference	0.1	0.0		0.0	0.1
Effect of consolidation and eliminations	4.2	-1.1		-0.3	2.8
Other temporary differences	1.5	-0.7	0.0	-0.2	0.6
TOTAL DEFERRED TAX ASSETS	**9.2**	**-1.1**	**0.0**	**-0.6**	**7.5**
Depreciation difference and other untaxed reserves	1.4	-0.3		-0.1	1.0
Inventory	2.7	-1.1		-0.2	1.4
Fair value allocations for acquired net assets	2.6	-0.2		-0.1	2.3
Other temporary differences	3.1	-0.8		-0.3	2.2
TOTAL DEFERRED TAX LIABILITIES	**9.8**	**-2.4**		**-0.7**	**6.9**
NET DEFERRED TAX ASSET	**-0.6**	**1.2**	**0.0**	**0.1**	**0.6**

Deferred taxes have been reported as a net balance according to IAS 12. As of December 31, 2018, the Group had tax losses carried forward of EUR 23.3 million (2017: EUR 25.0 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 2.9 million of these tax losses will expire during the next five years (2017: EUR 3.0 million).

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

The consolidated balance sheet includes deferred tax assets of EUR 1.4 million (2017: EUR 1.5 million) in group companies, which have generated losses in financial year 2018 or 2017. The recognition of these assets is based on profit estimates, which indicate that the realization of these deferred tax assets is probable.

11 INTANGIBLE ASSETS

2018

EUR MILLION	GOODWILL	TRADEMARKS	CUSTOMER RELATIONS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost Jan. 1	**47.7**	**24.1**	**3.9**	**7.6**	**83.3**
Additions				**0.8**	**0.8**
Disposals				**-0.1**	**-0.1**
Reclassifications [1]				**0.0**	**0.0**
Translation differences	**0.8**	**0.5**	**0.0**	**0.0**	**1.2**
ACQUISITION COST DEC. 31	**48.5**	**24.6**	**3.9**	**8.3**	**85.3**
Accumulated amortization Jan. 1		**-0.9**	**-3.2**	**-5.9**	**-10.0**
Disposals				**0.0**	**0.0**
Reclassifications [1]				**0.1**	**0.1**
Amortization during the period			**-0.1**	**-0.6**	**-0.7**
Impairments				**-0.5**	**-0.5**
Translation differences		**0.0**	**0.0**	**0.0**	**0.0**
ACCUMULATED AMORTIZATION DEC. 31		**-0.9**	**-3.4**	**-6.6**	**-10.9**
CARRYING VALUE JAN. 1	**47.7**	**23.2**	**0.7**	**1.7**	**73.3**
CARRYING VALUE DEC. 31	**48.5**	**23.7**	**0.6**	**1.7**	**74.5**

2017

EUR MILLION	GOODWILL	TRADEMARKS	CUSTOMER RELATIONS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost Jan. 1	50.8	26.1	4.2	7.0	**88.0**
Additions				0.9	**0.9**
Disposals				-0.2	**-0.2**
Reclassifications [1]				0.0	**0.0**
Translation differences	-3.1	-1.9	-0.3	-0.1	**-5.4**
ACQUISITION COST DEC. 31	**47.7**	**24.1**	**3.9**	**7.6**	**83.3**
Accumulated amortization Jan. 1		-0.9	-3.3	-5.6	**-9.8**
Disposals				0.2	**0.2**
Reclassifications [1]				0.0	**0.0**
Amortization during the period			-0.2	-0.6	**-0.7**
Impairments					
Translation differences		0.0	0.2	0.1	**0.4**
ACCUMULATED AMORTIZATION DEC. 31		**-0.9**	**-3.2**	**-5.9**	**-10.0**
CARRYING VALUE JAN. 1	**50.8**	**25.1**	**0.9**	**1.4**	**78.2**
CARRYING VALUE DEC. 31	**47.7**	**23.2**	**0.7**	**1.7**	**73.3**

[1] Includes reclassifications between intangible and tangible assets.

GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES BY BUSINESS SEGMENTS

EUR MILLION	GROUP FISHING PRODUCTS	OTHER GROUP PRODUCTS	THIRD PARTY PRODUCTS	TOTAL
2018				
Goodwill	**46.6**	**0.1**	**1.8**	**48.5**
Trademarks with indefinite lives	**23.2**		**0.4**	**23.7**
Discount rate. %	**8.0**	**8.0**	**6.3**	
2017				
Goodwill	45.8	0.1	1.8	47.7
Trademarks with indefinite lives	22.8		0.5	23.2
Discount rate. %	8.0	8.0	7.7	

IMPAIRMENT TESTING OF GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES

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

The recoverable amount of the CGU is determined based on value-in-use calculations. Cash flow projections, which were used in these calculations, were based on most recent 5-year financial forecasts prepared by the management and approved by the Board. The estimated sales and production volumes are derived from the utilization of existing property, plant and equipment. The most important assumptions on which management has based its cash flow projections are the sales and profitability. Discount rate is the weighted average pre-tax cost of capital (WACC) which is defined for each cash-generating unit separately. The components of WACC are the risk-free yield rate, market risk premium, industry specific beta, cost of debt, and target capital structure. In the impairment tests prepared in 2018 and 2017, the growth rate used to extrapolate the cash flow beyond the five-year period is 0%. As a result of the performed impairment tests, no impairment losses have been recognized in 2018 or 2017.

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. 2019-2023 the average net sales growth % projected was 1.0%. The actual EBITDA % average 2010-2017 was 10.4%. The realised EBITDA % 2018 was 8.5%. EBITDA % assumption average for 2019-2023 used in the calculation is 11.5%.

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 specific risks related to assets.

Growth rate – Compared to historical sales growth development, management has been conservative in determining the growth rate for impairment purposes.

Sensitivity analysis

The key sensitivity factors for the impairment test are the estimated EBITDA margin and the discount rate. According to the Group's management in the main business segments Group Fishing Products and Third Party Products no probable change in any of the key sensitivity factors would lead to a situation where the carrying amount would exceed the recoverable amount. Even if the discount rate would be 3.9 percentage points higher in Group Fishing Products and 2.3 percentage points in Third Party Products or EBITDA 28.4 percentage lower than used in the management's estimates in Group Fishing Products and 28.0 percentage points in Third Party Products, it would not lead to an impairment loss in these main cash generating units.

12 TANGIBLE ASSETS

2018

EUR MILLION	LAND	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
Acquisition cost Jan. 1	**1.9**	**27.5**	**58.6**	**22.6**	**0.8**	**111.5**
Additions		**0.4**	**1.6**	**2.0**	**1.7**	**5.7**
Disposals		**-0.4**	**-1.7**	**-1.8**		**-3.9**
Reclassifications [1]			**1.2**	**0.2**	**-1.5**	**-0.1**
Translation differences	**0.0**	**-0.1**	**-0.2**	**0.1**	**0.0**	**-0.2**
ACQUISITION COST DEC. 31	**1.9**	**27.4**	**59.5**	**23.2**	**0.9**	**113.0**
Accumulated depreciation Jan. 1		**-17.9**	**-45.8**	**-15.1**		**-78.8**
Disposals		**0.3**	**0.9**	**0.7**		**1.8**
Reclassifications [1]			**0.0**			**0.0**
Depreciation during the period		**-0.8**	**-2.9**	**-2.1**		**-5.8**
Impairments			**-0.5**	**0.0**		**-0.6**
Translation differences		**0.0**	**0.1**	**-0.2**		**-0.1**
ACCUMULATED DEPRECIATION DEC. 31		**-18.4**	**-48.2**	**-16.8**		**-83.4**
CARRYING VALUE JAN. 1	**1.9**	**9.6**	**12.8**	**7.5**	**0.8**	**32.7**
CARRYING VALUE DEC. 31	**1.9**	**9.0**	**11.3**	**6.4**	**0.9**	**29.5**

2017

EUR MILLION	LAND	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
Acquisition cost Jan. 1	2.0	27.6	58.6	26.0	1.2	115.3
Additions		0.7	1.5	1.5	1.4	5.1
Disposals		-0.1	-1.4	-3.0		-4.5
Reclassifications [1]		0.0	1.2	0.3	-1.7	-0.1
Translation differences	-0.1	-0.7	-1.3	-2.1	0.0	-4.3
ACQUISITION COST DEC. 31	1.9	27.5	58.6	22.6	0.8	111.5
Accumulated depreciation Jan. 1		-17.7	-44.5	-17.0		-79.2
Disposals		0.1	1.1	2.7		3.9
Reclassifications [1]			0.0	0.0		0.0
Depreciation during the period		-0.8	-3.1	-2.2		-6.1
Impairment				0.0		0.0
Translation differences		0.4	0.8	1.3		2.5
ACCUMULATED DEPRECIATION DEC. 31		-17.9	-45.8	-15.1		-78.8
CARRYING VALUE JAN. 1	2.0	10.0	14.0	9.0	1.2	36.2
CARRYING VALUE DEC. 31	1.9	9.6	12.8	7.5	0.8	32.7

[1] Includes reclassifications between intangible and tangible assets.

13 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group has a 33.3% interest in associate Lanimo Oü, an unlisted company domiciled in Estonia. Its main activity is producing leather-haberdashery. The carrying amount does not include goodwill or impairments. Lanimo Oü's figures are based on the information for the period ending on September 30, due to differences in reporting time schedule. Information for the financial period ending on December 31, 2017 is the following: assets EUR 0.1 million, liabilities EUR 0.1 million, sales EUR 0.3 million and profit EUR 0.0 million.

EUR MILLION	2018	2017
Acquisition cost Jan. 1	**0.0**	0.0
Share of profit/loss	**0.0**	0.0
ACQUISITION COST DEC. 31	**0.0**	**0.0**

Information on associates and joint ventures

LANIMO OÜ EUR MILLION	2018	2017
Net sales	**0.3**	0.2
Purchases and other expenses	**-0.2**	-0.1
Depreciation	**0.0**	0.0
Interest income and expenses	**0.0**	0.0
Net profit for the period	**0.0**	0.0
Non-current assets	**0.0**	0.0
Current assets	**0.1**	0.1
Of which cash and cash equivalents	**0.0**	0.0
Non-current liabilities	**0.0**	0.0
Of which financial liabilities	**0.0**	0.0
Current liabilities	**0.0**	0.0
Net assets of associate/ joint venture	**0.0**	0.0
Net assets belonging to Rapala Group	**0.0**	0.0

14 MATERIAL PARTLY OWNED SUBSIDIARIES

Rapala Group includes one company, where non-controlling interest is material based on Group's consolidated net profit for the period. Group owns 50% of AO Normark domiciled in Russia. The other 50% is owned by Shimano Inc. AO Normark distributes Rapala Group's and Shimano's products in Russia. Rapala Group has control over the company, based on operative leadership model and a shareholder contract, which gives majority of the voting power to Rapala in the board of a holding company directly owning AO Normark. The company is treated as a subsidiary and fully consolidated to the figures of Rapala Group.

Financial information below is based on AO Normark's reported figures before intra-Group eliminations.

	PROFIT (LOSS) ALLOCATED TO NON-CONTROLLING INTERESTS		EQUITY BELONGING TO NON-CONTROLLING INTERESTS	
EUR MILLION	2018	2017	2018	2017
AO Normark	**0.3**	0.4	**1.9**	1.8
Other partly-owned subsidiaries	**0.1**	-0.5	**3.2**	5.1
TOTAL	**0.4**	**0.0**	**5.1**	**6.9**

Summarized financial information

AO Normark

EUR MILLION	2018	2017
Net sales	**11.9**	14.5
Purchases and other expenses	**-11.2**	-13.4
Depreciation	**0.0**	-0.1
Interest income and expenses	**0.0**	-0.2
Net profit for the period	**0.7**	0.9
Non-current assets	**0.2**	0.2
Current assets	**4.5**	4.8
Non-current liabilities	**0.2**	0.2
Current liabilities	**0.6**	1.1
Equity	**3.9**	3.7
Cash flows from operating activities	**1.5**	4.0
Cash flows from investing activities	**0.0**	0.0
Cash flows from financing activities	**-0.4**	-5.5

15 OTHER SHARES

EUR MILLION	2018	2017
Carrying value Jan. 1	**0.3**	0.3
Translation differences	**0.0**	0.0
CARRYING VALUE DEC. 31	**0.3**	**0.3**

Other shares comprise of unlisted shares. The most significant is As Oy Tahkon Eagle.

16 RECEIVABLES

EUR MILLION	2018	2017
Non-current receivables		
Interest-bearing		
Loan receivables	0.0	0.0
Other interest-bearing receivables	0.0	0.0
Non-interest-bearing		
Trade receivables	0.1	0.1
Derivatives		0.1
Other receivables	0.2	0.1
Current receivables		
Interest-bearing		
Loan receivables		
Non-interest-bearing		
Trade receivables	46.0	41.1
Derivatives	0.8	0.2
VAT receivable	1.9	1.7
Other prepaid expenses and accrued income	2.8	2.7
Other receivables	1.5	1.8
TOTAL	**53.3**	**48.0**

Fair values of financial assets are presented in the note 23.

The average interest rate of non-current loan receivables was 5.85% (2017: 5.85%).

ALLOWANCES BOOKED FOR TRADE RECEIVABLES

EUR MILLION	2018	2017
Allowance for trade receivables Jan. 1	3.2	2.7
Additions	0.3	2.8
Deductions	-0.6	-1.8
Recovery	-0.4	-0.5
Adoption of IFRS 9	0.2	
Translation differences	0.0	-0.1
ALLOWANCE FOR TRADE RECEIVABLES DEC. 31	**2.5**	**3.2**

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

Trade receivables, loan receivables and other receivables are initially recognized at fair value and subsequently measured at amortized cost, taking impairment into account. These items are subject to a simplified impairment model in accordance with IFRS 9 standard, where the estimated amount of credit losses is based on the expected credit losses on life expectancy.

17 INVENTORIES

EUR MILLION	2018	2017
Raw material	13.1	11.9
Work in progress	9.8	9.8
Finished products	87.6	80.5
Net realizable value allowance	-11.4	-9.7
TOTAL	**99.1**	**92.5**

18 CASH AND CASH EQUIVALENTS

EUR MILLION	2018	2017
Cash at bank and in hand	13.4	10.3
TOTAL	**13.4**	**10.3**

19 SHARE CAPITAL AND EQUITY FUNDS

EUR MILLION	2018	2017
Share capital Jan. 1	3.6	3.6
SHARE CAPITAL DEC. 31	**3.6**	**3.6**
Share premium fund Jan. 1	16.7	16.7
SHARE PREMIUM FUND DEC. 31	**16.7**	**16.7**
Hedging fund Jan. 1	0.0	-0.2
Cash flow hedges, fair value gains and losses during the year	0.0	0.2
HEDGING FUND DEC. 31	**0.0**	**0.0**
Fund for invested non-restricted equity Jan. 1	4.9	4.9
FUND FOR INVESTED NON-RESTRICTED EQUITY DEC. 31	**4.9**	**4.9**

SHARES AND SHARE CAPITAL

SHARES	2018	2017
Number of shares Jan. 1	39 000 000	39 000 000
NUMBER OF SHARES DEC. 31	**39 000 000**	**39 000 000**
Own shares Jan. 1	677 208	677 208
OWN SHARES DEC. 31	**677 208**	**677 208**

On December 31, 2018, the share capital fully paid and reported in the Trade Register was EUR 3.6 million and the total number of shares was 39 000 000.

For more information on shares and share capital, see the section Shares and Shareholders.

EQUITY FUNDS

Share premium fund includes the premiums received on exercise of share options and other share issues under the old Finnish Companies Act. Fund for invested non-restricted equity includes subscription prices for shares to the extent that it is specifically not to be credited to share capital and other types of equity investments.

Translation differences contain exchange differences arising from the currency translation of foreign subsidiaries' financial statements and exchange differences arising from monetary items that form part of net investments in foreign companies. Hedging fund includes movements in the fair values of derivative instruments used for cash flow hedging.

HYBRID BOND

A hybrid bond of EUR 25 million was issued May 31, 2017. The amount recognized in equity is EUR 24.8 million after issuing expenses. The coupon rate of the bond is 5.375 per cent per annum until May 31, 2019. The Group can postpone interest payment if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it after two years. The hybrid bond is unsecured and subordinated to the company's other debt obligations. A holder of hybrid bond notes has no shareholder rights. The accrued non-recognised interest on the bond was 1.3 MEUR at 31 December 2018 (0.8 MEUR 2017). Accrued interest 1.3 MEUR was paid out in May 2018, resulting from the decision to pay dividends, and was recognized as a deduction from Group's equity.

DIVIDENDS

The dividend paid for 2017 was EUR 0.04 per share, totaling EUR 1.5 million and paid in two equal installments. A dividend of EUR 0.06 per share distributed in two equal installments, a total of EUR 2.3 million, is proposed for the Annual General Meeting of Shareholders to be held on March 28, 2019. This dividend payable is not reflected in the financial statements for 2018.

BOARD'S AUTHORIZATIONS

For information on the Board's authorizations and acquisition of own shares, see section Shares and Shareholders.

20 EMPLOYEE BENEFIT OBLIGATIONS

Most of the Group´s pension plans are defined contribution plans. The Group has defined benefit pension plans in France and in some Rest of the World countries. The plans in Rest of the World countries are immaterial as a whole. The retirement benefits are determined based on salary and period of employment. These obligations are unfunded. The Group has no other post-employment benefit obligations. The pension security of the personnel of the Group's Finnish companies is arranged under the Finnish statutory employee pension plan (TYEL) through an external pension insurance company. Employee benefit obligations also include a long-term profit-sharing payable to the employees in France and in some Rest of the World countries.

EXPENSES RECOGNIZED IN THE INCOME STATEMENT

EUR MILLION	2018	2017
Current service cost	**-0.3**	-0.3
Interest cost	**0.1**	0.0
TOTAL	**-0.4**	**-0.3**

AMOUNTS RECOGNIZED IN THE BALANCE SHEET

EUR MILLION	2018	2017
Rest of Europe	**2.1**	2.0
Rest of the World	**0.5**	0.5
PRESENT VALUE OF UNFUNDED OBLIGATIONS	**2.6**	**2.5**

BALANCE SHEET RECONCILIATION

EUR MILLION	2018	2017
Obligations Jan. 1	**2.5**	2.2
Current service cost	**0.3**	0.3
Interest cost	**0.0**	0.0
Actuarial gains and losses		
Changes in demographic assumptions	**0.0**	0.0
Changes in financial assumptions	**0.0**	0.0
Changes in experience assumptions	**0.0**	-0.1
Effect of any curtailments or settlements	**0.0**	0.2
Translation differences	**0.0**	0.0
OBLIGATIONS DEC. 31	**2.6**	**2.5**

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation.

EUR MILLION	2018	2017
Within one year	**0.1**	0.1
1–5 years	**0.2**	0.2
5–10 years	**0.6**	0.5
Later than 10 years	**1.8**	1.7
TOTAL	**2.6**	**2.5**

ASSUMPTIONS

Rest of Europe

%	2018	2017
Discount rate	**1.6**	1.5
Future salary increase	**2.6**	2.6
Annual inflation rate	**1.8**	1.8

Rest of the World

%	2018	2017
Discount rate	**3.0-8.0**	3.0-9.0
Future salary increase	**7.0**	7.0

The discount rate and the future salary increase are identified as significant actuarial assumptions. Changes in these assumptions do not cause material impact on the net defined benefit obligation.

The Group expects to pay EUR 0.1 million as contributions to its defined benefit pension plans in 2019.

21 PROVISIONS

EUR MILLION	2018	2017
Provisions		
Provisions Jan. 1	**0.1**	0.1
Additions	**0.1**	0.1
Utilized provisions	**-0.1**	-0.1
PROVISIONS DEC. 31	**0.2**	**0.1**
Non-current	**0.1**	0.0
Current	**0.1**	0.1
TOTAL PROVISIONS	**0.2**	**0.1**

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 Chief Financial Officer, for development and implementation of financial risk management procedures.

Group Risk Management review financial risks on regular basis to manage Group's financial risk position and decide on necessary actions to manage financial risks. Group Risk Management continued monitoring and management of foreign exchange, interest rate, liquidity and counterparties' solvency risks.

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

MARKET RISKS

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

1. Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities, when revenue or expense is denominated in a foreign currency, financing, when debt is denominated in a foreign currency, and the Group's net investments in foreign subsidiaries.

The Group's foreign exchange risk is managed by the business units and Group Risk Management in accordance with the Foreign Exchange Risk Management policy approved by the Board of Directors.

Foreign exchange transaction risk

Foreign exchange transaction exposure arises when an operating unit has commercial or financial transactions and payments in other than its own functional currency, and when related cash inflow and outflow amounts are not equal or noncurrent.

As a result of sales and purchases in foreign currencies as well as operations in several jurisdictions, the Group has foreign currency denominated receivables and payables that are exposed to movements in foreign exchange rates. Income and expenses within different currencies net each other out to some extent, creating thus an effective natural hedge. The remaining, estimated 12-15 month commercial net exposure is then systematically hedged by using derivative instruments. Depending on whether foreign currency monetary receivables and payables relate to sales and purchases or financial items, the foreign exchange gains and losses are recognized in the income statement either above or below operating profit.

The Group has also intra-group loans denominated in currencies that exposes the Group to currency risk that is not fully eliminated on consolidation. In order to hedge currency risk arising from intra-group loans, part of the Group's external financing is denominated in foreign currencies. Depending on whether these loans are classified as net investments on foreign operations or loan receivables, the foreign exchange gains and losses are recognized in the other comprehensive income or income statement. The connections possibly prevailing between different currencies are not taken into account, e.g. US dollar and Honk Kong dollar are considered as separate currencies in this analysis.

Business units are responsible for forecasting net foreign cash flows and do most of their currency hedging transactions with the Group's parent company. Group Risk Management is responsible for monitoring the Group's consolidated currency risk exposure and when needed, enters into derivative transactions with group external counterparties.

Derivative instruments that are used for hedging purposes are mainly short term and can include forward contracts, option contracts and structured instruments. Because the Group does not apply hedge accounting on currency derivatives, the income statement effect arising from fair value changes of derivative instruments is recognized partly or entirely in different financial periods than exchange rate gains and losses arising from the hedged cash flows.

In 2018 currency derivatives that are used for operative hedging purposes had an income statement effect of EUR 0.4 million (2017: EUR -0.2 million). Fair values and nominal values of currency derivatives are summarized under section 4. Derivatives.

At the end of 2018 and 2017 the following currencies represent a significant portion of the currency mix in the outstanding financial instruments:

Transaction risk position

2018

EUR MILLION	USD	IDR	CAD	SEK	RUB
Transaction risk and hedging					
Transaction exposure	**-37.3**	**-10.1**	**8.0**	**7.7**	**7.4**
Hedges [1)]	**20.9**	**3.6**	**-2.8**	**-1.7**	**-1.9**

2017

EUR MILLION	USD	IDR	CAD	SEK	RUB
Transaction risk and hedging					
Transaction exposure	-30.1	-11.3	8.4	7.9	12.0
Hedges [1)]	20.1	3.9	-4.4	-1.1	-3.8

[1)] Currency derivatives are used to hedge both transaction risks and translation risks. Hence the derivatives and transaction risks cannot be netted to a net position.

Foreign exchange translation risk

The group is exposed to currency translation risk through its investments in foreign subsidiaries, joint ventures and associated companies with equities' denominated in foreign currencies. The most significant translation exposures are in USD, HKD, IDR, SEK and RUB, which comprise approximately 83.8% of the total translation exposure. In the Group consolidation equity changes resulting from movements in foreign exchange rates are presented as translation differences within the equity.

The Group Risk Management monitors regularly the amounts of net investments denominated in foreign currencies and when needed, enters into hedging transactions in order to reduce the volatility in equity in the consolidated balance sheet. During 2018 the Group did not hedge any equity exposure.

The total non-euro denominated equity excluding net income of the Group's subsidiaries and associated companies was EUR 174.5 million as of December 31, 2018 (2017: EUR 169.9 million). The exposures are summarized in the following table.

Group translation exposure	2018	2017
EUR MILLION	**NET INVESTMENTS**	NET INVESTMENTS
USD	**101.9**	92.0
HKD	**19.9**	24.5
IDR	**14.2**	14.3
SEK	**5.9**	6.0
RUB	**4.3**	3.9
TOTAL	**146.2**	**140.7**

Sensitivity analysis

Sensitivity analysis is based on the following assumptions and factors:

- The sensitivity analysis is based on change of value in a single analyzed currency and assumes other variables (including values of other currencies) to remain unchanged. The connections possibly prevailing between some currencies are not taken into account.
- The sensitivity is analyzed against balance sheet conversion rates prevailing at December 31, 2018.
- The analysis includes the effect of income statement transactions made in the analyzed currency between January 1 and December 31 in Group companies, whose functional currency is other than the analyzed currency (so called transaction impact) as well as in Group companies, whose functional currency equals to the analyzed currency (so called translation impact). The analysis takes into account the currency forward contracts in place at December 31. The sensitivity analysis of income statement transactions excludes Group's internal items as these net out.
- The sensitivity analysis includes the effect of the translation of subsidiaries' equity as per December 31 in subsidiaries, whose reporting currency equals to the analyzed currency.

Group transaction risk sensitivity analysis

The effect of a 10% weakening of most significant foreign currencies (against euro) in euros:

2018

EUR MILLION	**USD**	**IDR**	**SEK**	**CAD**	**RUB**
Operating profit	**1.4**	**1.3**	**-0.9**	**-0.5**	**-0.5**
Equity [2)]	**-10.2**	**-1.4**	**-0.6**	**-0.4**	**-0.4**

2017

EUR MILLION	USD	IDR	SEK	CAD	RUB
Operating profit	0.5	1.2	-1.0	-0.5	-0.5
Equity [2)]	-9.2	-1.4	-0.6	-0.4	-0.4

[2)] Without the effect of net income.

2. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group's interest-bearing liabilities have mainly an interest period length shorter than one year.

The Group's funding, and consequently also interest rate risk, is managed centrally by the Group's parent company. Interest rate risk, covering cash flow and fair value risk, is analyzed regurarly by the Group Risk Management who is also responsible of taking the actions needed to change the Group's risk position. These actions include changing the currency split of the external loan portfolio, selection between different sources of financing, changing the interest rate duration as well as entering into transactions in derivative financial instruments.

Derivative instruments that are used for hedging purposes consist of interest rate swaps, where the Group pays fixed rate interest and receives a variable rate interest. As at December 31, 2018 the Group had interest rate swaps designated as cash flow hedges in accordance with IFRS 9. Fair values and nominal values of interest rate swaps are presented under section 4. Derivatives.

Interest rate sensitivity analysis

Below is presented the effect of liabilities with variable interest rate and interest rate swaps on net income and equity if there was a 1 percentage point 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 December 31.
- The sensitivity analysis includes the liabilities and interest rate swaps with variable interest rate in force on December 31.

	2018		2017	
EUR MILLION	**NET INCOME (NET OF TAX)**	**EQUITY (NET OF TAX)** [3]	NET INCOME (NET OF TAX)	EQUITY (NET OF TAX) [3]
Loans with variable interest rate	**-0.3**	**0.0**	-0.3	0.1

[3] Without the effect of net income.

3. Other market price risks

The Group purchases certain raw-materials, which are priced on global financial markets. These include commodity metals such as copper, zinc and lead, and certain plastics. The value of these purchases is relatively low and actions regarding the management of price risk are decided on an performed locally in each manufacturing unit. Group Risk Management also monitors the development of these raw-material prices. The Group does not currently hedge commodity price risk.

The amount of the Group's investments in other shares is insignificant and consists of investments in real estate and other unquoted shares for which reliable market values are not obtainable.

4. Derivatives

The Group uses derivative instruments, such as forward contracts, option contracts, swaps and structured instruments, to manage foreign exchange risk and interest rate risk in accordance with the guidelines set by the The Group's Risk Management policy.

Foreign currency derivatives, consisting of forward contracts, option contracts and structured instruments, are used to reduce the uncertainty in the fair value of future cash flows that is created by changes in foreign exchange rates. The fair values of the foreign currency derivatives that do not qualify as hedging instruments in accordance with IFRS 9, are recognized based on their nature either in operative costs, if the hedge item is an operative transaction, or in financial income and expenses, if the hedged item is a monetary transaction. Because hedge accounting is not applied, the P&L effect arising from foreign currency derivatives is recognized partly or entirely in different financial period than exchange rate gains and losses arising from the hedged cash flows.

Interest rate derivatives, consisting of interest rate swaps, are used to reduce the volatility of interest expenses in the income statement and to adjust the duration of the debt portfolio. Part of the interest rate derivative contracts have been designated as hedging instruments in cash flow and fair value hedging and are accounted for accordingly, if hedge accounting is applied.

Cash flow hedges

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as and qualify for cash flow hedges are recognized in other comprehensive income. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement in financial income or expenses. Amounts accumulated in other comprehensive income are recycled in the income statement in the periods when the hedged item affects the Income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within financial income or expenses.

In 2018, the amount of the ineffective portion that was recognized in the financial income and expenses of income statement was EUR 0.0 million (2017: EUR 0.0 million). Testing for effectiveness of the hedging relationship is conducted on a monthly basis.

Following tables summarizes the nominal values and fair values of the Group's derivative instruments as at December 31, 2018.

	2018		2017	
EUR MILLION	**NOMINAL VALUE**	**FAIR VALUE**	NOMINAL VALUE	FAIR VALUE
Derivative financial instruments designed as cash flow hedges				
Interest rate swaps, less than 12 months	**5.3**	**0.0**		
Interest rate swaps, 1 to 5 years			10.4	0.0
TOTAL	**5.3**	**0.0**	**10.4**	**0.0**
Non-hedge accounting derivative financial instruments				
Interest rate swaps, 1 to 5 years	**16.0**	**0.0**	16.0	0.1
Currency forwards, less than 12 months	**40.6**	**0.6**	41.8	-0.5
Cross currency swaps, 12 months	**10.1**	**-0.2**		
Cross currency swaps, 1 to 5 years			10.1	-0.7
TOTAL	**66.6**	**0.4**	**67.9**	**-1.0**

LIQUIDITY RISK

Liquidity risk is defined as financial distress or extraordinarily high financing cost arising due to a shortage of liquid funds in a situation where outstanding debt needs to be refinanced or where business conditions unexpectedly deteriorate and require financing. Transactional liquidity risk is defined as the risk of executing a financial transaction below fair market value, or not being able to execute the transaction at all, within a specific period of time.

The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available fast enough without endangering its value, in order to avoid uncertainty related to financial distress at all times.

Generally, the seasonality of the Group's cash flow is fairly predictable and Group Treasury monitors Group's liquidity position using the cash pooling system as well as regular cash flow and liquidity reporting.

The Group's interest bearing funding is mainly managed centrally by the Group Treasury. 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. The Group has a EUR 80 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 Group Treasury, 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. During 2018 the commercial paper program was used actively as part of Group funding and competitively priced debt was acquired through this market.

Group's loan facilities include ordinary gearing ratios and net debt to EBITDA ratio covenants. The Board and Group management are monitoring the fulfillment of the bank covenants on a monthly basis. The Group expects to fulfill the requirements of the financiers in 2019.

Below are presented the Group's unutilized credit limits as of December 31, 2018. Group's domestic commercial paper program not sold at December 31, 2018 was EUR 37.0 million (2017 EUR 48.0 million).

Committed unutilized credit facilities

EUR MILLION	2018	2017
Overdraft facilities, expiring within one year	**19.3**	17.4
Revolving credit facility, expiring beyond one year	**49.9**	59.9
TOTAL	**69.1**	**77.3**

Maturity of the group's financial liabilities

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

2018

EUR MILLION	CARRYING VALUE	FINANCIAL LIABILITIES [4]	CONTRACTUAL CASH FLOWS	2019	2020	2021	2022 ONWARDS	TOTAL
Interest-bearing liabilities								
Loans from financial institutions	40.7	40.7	41.1	30.9	5.1	5.1		41.1
Commercial paper program	43.0	43.0	43.0	43.0				43.0
Finance lease	0.1	0.1	0.0	0.0	0.0			0.0
Non-interest-bearing liabilities								
Trade and other non-interest-bearing payables	36.3	16.0	16.0	16.0				16.0
Derivative liabilities and receivables								
Interest rate and currency derivatives, non-hedge accounted	0.0	0.0	0.0	0.0				0.0
Interest rate derivatives, hedge accounted	0.2	0.2	0.1	0.1				0.1
Interest rate derivatives, non-hedge accounted	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Currency derivatives, non-hedge accounted	-0.6	-0.6	-0.6	-0.6				-0.6
TOTAL	**119.7**	**99.3**	**99.7**	**89.4**	**5.2**	**5.1**		**99.7**

2017

EUR MILLION	CARRYING VALUE	FINANCIAL LIABILITIES [4]	CONTRACTUAL CASH FLOWS	2017	2018	2019	2020	2021 ONWARDS	TOTAL
Interest-bearing liabilities									
Loans from financial institutions	46.1	46.1	47.9	12.6	25.2	5.1	5.0		**47.9**
Commercial paper program	32.0	32.0	32.0	32.0					**32.0**
Finance lease	0.0	0.0	0.0	0.0	0.0				**0.0**
Non-interest-bearing liabilities									
Trade and other non-interest-bearing payables	33.9	15.4	15.4	15.4					**15.4**
Derivative liabilities and receivables									
Interest rate derivatives, hedge accounted	0.0	0.0	0.0	0.0	0.0				**0.0**
Interest rate and currency derivatives, hedge accounted	0.6	0.6	0.6	-0.2	0.8				**0.6**
Interest rate derivatives, non-hedge accounted	-0.1	-0.1	-0.1	0.0	0.0	0.0	-0.1		**-0.1**
Currency derivatives, non-hedge accounted	0.5	0.5	0.5	0.5					**0.5**
TOTAL	**113.1**	**94.6**	**96.4**	**60.4**	**26.0**	**5.1**	**5.0**		**96.4**

[4] The proportion of the carrying values which are classified as financial liabilities according to IFRS 9.

CREDIT AND DEFAULT RISK

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The maximum exposure to credit risk is limited to the carrying value of the financial assets as included in the consolidated statement of financial position. The carrying value of financial assets is disclosed in note 23.

The Group follows actively credit and default risks associated with customers and other counterparties. The Group's credit and default risk portfolio did not significantly change during the course of the financial period. The proportional amount of Group's trade receivables which are past due, decreased moderately from 2017. Net allowance for credit losses related to trade receivables increased EUR 0.4 million from 2017.

Business related credit risk

The Group's accounts receivables are generated by a large number of customers worldwide and do not include any significant concentrations of credit risk by customer or by geographical area.

The management of credit risk 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. Each business unit is responsible for setting credit limits and monitoring it's credit customers' financial situation. Customers' payment behavior is monitored regularly and delays in payments can 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 Group's finance management before taking final decisions. In exceptional cases, payment terms may be renegotiated.

The group recognizes an impairment loss on trade receivables when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that a trade receivable is impaired. No allowance is recognized on trade receivables that are past due, when solvency of the customer is considered solid. The assessment and decision of recognition of an impairment loss is taken locally in each business unit on case-by-case basis.

More information on allowance for trade receivables is presented in note 16.

In the table below is presented analysis of trade receivables that were past due but not impaired.

Analysis of trade receivables that were past due, but not impaired

EUR MILLION	2018	2017
Neither past due or impaired	**36.8**	31.4
Past due but not impaired		
Less than 1 month	**4.5**	4.4
1-3 months	**3.0**	2.7
3-6 months	**1.2**	1.6
Over 6 months	**0.6**	1.2
TOTAL	**46.1**	**41.3**

Applying IFRS 9 the allowances booked from trade receivables by aging and also allowances were booked from not past due receivables. The allowances for not past due receivables totalled 0.1 eur million.

Financial credit risk

Financial instruments contain an element of risk resulting from changes in market price of such instruments due to counterparties becoming less creditworthy or risk of loss due to counterparties being unable to meet their obligations. This risk is measured and monitored centrally by the Group Risk Management.

Financial credit risk is managed actively by limiting counterparties to a sufficient number of major banks and financial institutions and monitoring the credit worthiness and exposure size continuously as well as through entering into collateral agreements with certain counterparties. The Group reduces credit risk by executing treasury transactions only with approved counterparties. All significant counterparties are rated with the minimum counterparty credit rating requirement being BBB (S&P). Foreign subsidiaries may have bank accounts in unrated financial institutions. In order to decrease credit risk associated with local banks used by subsidiaries in foreign countries, the subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis.

Group's all investments related to liquidity management are made in liquid instruments with low credit risk. For instance, the Group does not have investments in commercial papers.

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.

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.

Group's objective for capital management is to keep:
1. Gearing ratio below 150% and
2. Net interest-bearing debt to EBITDA (rolling 12 months) below 3.8.

The Group capital structure is reviewed by the Board regularly. The Group is not subject to externally imposed capital requirements other than the financial covenants set by the banks, which are derived from the above mentioned key figures. For more information on financial covenants set by the banks, see section on liquidity risks. The Group has temporarily higher net interest-bearing debt to EBITDA , but the Group's objective is to reach the above target during 2018.

The achievement of the objectives for capital management are presented in the table below.

For definitions of key figures, see page 46.

	TARGET	2018	2017
Gearing %	below 150 %	**47.8**	47.5
Net interest-bearing debt to EBITDA	below 3,8	**3.1**	4.3

Definitions of the alternative performance measures are presented on page 46.

23 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES AND FAIR VALUES

				2018			2017
EUR MILLION	NOTE	**CARRYING VALUE**	**FINANCIAL ASSETS AND LIABILITIES [1]**	**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES [1]**	CARRYING VALUE	FINANCIAL ASSETS AND LIABILITIES [1]	FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES [1]
FINANCIAL ASSETS							
Loans and receivables [2]							
Non-current financial assets							
Loan receivables	16	0.0	0.0	0.0	0.0	0.0	0.0
Other interest-bearing receivables	16	0.0	0.0	0.0	0.0	0.0	0.0
Non-interest-bearing receivables	16	0.2	0.1	0.1	0.2	0.1	0.1
Current financial assets							
Cash and cash equivalents	18	13.4	13.4	13.4	10.3	10.3	10.3
Loan receivables	16						
Trade and other non-interest-bearing receivables	16	52.2	46.0	46.0	47.4	41.1	41.1
Other shares							
Other shares	15	0.3	0.3	0.3	0.3	0.3	0.3
Financial assets at fair value through income statement - held-for-trading							
Currency derivatives - non-hedge accounted	16. 22	0.8	0.8	0.8	0.3	0.3	0.3
FINANCIAL LIABILITIES							
Financial liabilities at fair value through income statement - held-for-trading							
Interest rate and currency derivatives - non-hedge accounted	22. 25	**0.4**	**0.4**	**0.4**	1.3	1.3	1.3
Hedge accounted derivatives							
Interest rate derivatives - cash flow hedges	22. 25	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Financial liabilities measured at amortized cost [2]							
Non-current financial liabilities							
Loans from financial institutions	24	**10.0**	**10.0**	**10.0**	34.6	34.6	34.6
Finance lease	24	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Other non-interest-bearing liabilities	25	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Current financial liabilities							
Loans from financial institutions	24	**30.6**	**30.6**	**30.6**	11.5	11.5	11.5
Commercial paper program	24	**43.0**	**43.0**	**43.0**	32.0	32.0	32.0
Finance lease	24	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0
Trade and other non-interest-bearing payables	25	**36.3**	**16.0**	**16.0**	33.9	15.4	15.4

[1] The proportion of the carrying value which is classified as financial assets and liabilities according to IFRS 9.

[2] Fair value hierarchy level 2.

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

				2018				2017
EUR MILLION	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS AT FAIR VALUE								
Other shares								
Other shares	**0.3**			**0.3**	0.3			0.3
Financial assets at fair value through income statement - held-for-trading								
Currency and interest derivatives - non-hedge accounted	**0.8**		**0.8**		0.3		0.3	
TOTAL	**1.1**		**0.8**	**0.3**	**0.6**		**0.3**	**0.3**
FINANCIAL LIABILITIES AT FAIR VALUE								
Financial liabilities at fair value through income statement - held-for-trading								
Currency and interest derivatives - non-hedge accounted	**0.4**		**0.4**		1.3		1.3	
Hedge accounted derivatives								
Interest rate derivatives - cash flow hedges	**0.0**		**0.0**		0.0		0.0	
Currency derivatives - fair value hedges								
TOTAL	**0.5**		**0.5**		**1.4**		**1.4**	

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy levels

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

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

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

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

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

Other shares

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

Derivatives

All derivatives are initially recognized at fair value on the date derivative contract is entered into, and are subsequently remeasured at fair value on each balance sheet date.

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

Finance leases

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

Current financial assets and liabilities

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

Non-current financial assets

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

Non-current interest-bearing liabilities

On December 31, 2018, 0.0% (2017: 0.0%) of non-current loans based on floating rates was connected to one-month euribor, libor or similar and the rest to maximum six-month euribor, libor or similar. Therefore, the fair value of non-current loans based on floating rates is regarded as equaling their book value. A part of non-current loans on floating rates is hedged with separate interest rate derivatives which are described in note 22. The fair value of non-current loans on fixed rates is based on discounted future cash flows. The discount rate used corresponds to the market rate on the balance sheet date.

Non-current non-interest-bearing liabilities

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

24 INTEREST-BEARING LIABILITIES

EUR MILLION	AVERAGE INTEREST RATE 2018, % [1]	2018	2017
Non-current interest-bearing liabilities			
Loans from financial institutions	**1.11**	**10.0**	34.6
Finance lease	**3.06**	**0.0**	0.0
Current interest-bearing liabilities			
Loans from financial institutions	**3.16**	**4.1**	6.3
Current portion of non-current loans from financial institututions	**3.27**	**26.5**	5.2
Commercial paper program	**0.62**	**43.0**	32.0
Finance lease	**2.49**	**0.0**	0.0
TOTAL		**83.7**	**78.1**

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

Fair values of financial liabilities are presented in the note 23.

INTEREST-BEARING LIABILITIES BY CURRENCY

EUR MILLION	2018 NON-CURRENT	2018 CURRENT	2017 NON-CURRENT	2017 CURRENT
Loans from financial institutions				
EUR	**10.0**	**13.6**	22.5	7.3
USD		**16.3**	12.1	3.6
AUD	**0.0**	**0.0**		0.1
ZAR		**0.7**		0.5
Commercial paper program				
EUR		**43.0**		32.0
Finance lease				
Other	**0.0**	**0.0**	0.0	0.0
TOTAL	**10.1**	**73.7**	**34.6**	**43.5**

25 NON-INTEREST-BEARING LIABILITIES

EUR MILLION	2018	2017
Non-current non-interest-bearing liabilities		
Derivatives	**0.0**	0.7
Other non-current liabilities	**0.0**	0.0
Current non-interest-bearing liabilities		
Trade payables	**16.0**	15.4
Accrued employee-related expenses	**10.4**	10.1
Other accrued expenses and deferred income	**5.8**	4.7
Derivatives	**0.4**	0.7
Advances received	**0.4**	0.7
VAT payable	**1.4**	1.6
Other current liabilities	**2.4**	1.5
TOTAL	**36.8**	**35.3**

Other non-current non-interest-bearing liabilities include contingent considerations of business combinations and other acquisitions on the date of acquisition.

Fair values of financial liabilities are presented in the note 23.

26 COMMITMENTS AND CONTINGENCIES

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

Group's lease commitments are presented in note 27.

DISPUTES AND LITIGATIONS

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

27 LEASE CONTRACTS

THE GROUP AS A LESSEE

Future minimum rental payable under non-cancellable operating lease commitments

EUR MILLION	2018	2017
Within one year	**4.6**	4.9
1–3 years	**4.1**	4.3
3–5 years	**1.3**	1.2
Later than 5 years	**0.5**	0.2
TOTAL	**10.5**	**10.6**

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

THE GROUP AS A LESSOR

Future minimum rental receivable under non-cancellable operating leases

EUR MILLION	2018	2017
Within one year	**0.2**	0.1
TOTAL	**0.2**	**0.1**

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

28 RELATED PARTY TRANSACTIONS

The Group's related parties include subsidiaries, associates, management and entities with significant influence. Subsidiaries owned directly or indirectly by the parent company as well as associates and foreign branches are listed in note 32. Related party transactions between Group companies have been eliminated. Entities with significant influence are specified in section 'Shares and Shareholders'.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

EUR MILLION	SALES AND OTHER INCOME	PURCHASES	PAID RENTS	OTHER EXPENSES	RECEIVABLES	PAYABLES
2018						
Associated company Lanimo Oü	**0.0**	**-0.1**			**0.0**	
Entity with significant influence over the Group [1]			**-0.2**	**-0.1**	**0.0**	
Management			**-0.4**	**0.0**		**0.0**
2017						
Associated company Lanimo Oü	0.0	-0.1			0.0	
Entity with significant influence over the Group [1]			-0.2	-0.1	0.0	
Management	0.0		-0.3	0.0		0.0

[1] Lease agreement for the real estate for the consolidated operations in France and a service fee. Entity with significant influence is Viellard Migeon & Cie, who's shareholding alone and together with its subsidiary is presented in section 'Shares and Shareholders'.

EMPLOYEE BENEFITS FOR TOP MANAGEMENT

EUR MILLION	2018	2017
Salaries and other employee benefits	**-4.3**	-3.8
TOTAL	**-4.3**	**-3.8**

Top management consists of members of the Board of Directors, CEO and other members of the Executive Committee.

On December 31, 2018, the members of the Board and the Executive Committee held (shares and share-based rights of each member and corporations over which he/she exercises control in the company and its group companies) a total of 126 178 Rapala VMC Corporation shares (on December 31, 2017: 19 113). Top management owned 0.3% (0.0%) of the issued share capital and voting rights of the company on December 31, 2018. Details of top management shareholdings are given in the section 'Board and Management'.

In 2018 share-based long-term incentive plans were granted to the CEO and other members of the executive committee. Salaries and other employee benefits include a provision for share-based incentives in total of EUR 343 516 for 2018. Details of the long-term incentive plan are given in the section 'Shared-based payments'.

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

EMPLOYEE BENEFITS FOR CHIEF EXECUTIVE OFFICER

EUR MILLION	2018	2017
Salaries and other employee benefits	**-0.6**	-0.4
TOTAL	**-0.6**	**-0.4**

In 2018, CEO's annual base salary and benefits amounted to EUR 282 557. CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus paid in 2018 totaled EUR 61 155 accruing from year 2017. Bonus accrued for 2018 amounted to EUR 133 925. The CEO's pension security is arranged under the statutory Finnish contribution based employee pension plan. There is no additional pension scheme. In 2018, salaries and other employee benefits include a provision for share-based incentives in total of EUR 49 613.

A mutual notice time of six months shall be applied when terminating the CEO contract. If the CEO is dismissed by the corporation without a reason stipulated in the agreement the CEO is entitled to severance compensation corresponding to 12 months' salary (excluding profit bonuses).

EMPLOYEE BENEFITS FOR OTHER MEMBERS OF THE EXECUTIVE COMMITTEE

EUR MILLION	2018	2017
Salaries and other employee benefits	**-3.3**	-2.8
TOTAL	**-3.3**	**-2.8**

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 financial and strategic 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, to encourage retention of senior management. Principally the bonus can be no more than 100 percent of the annual salary. In 2018, salaries and other employee benefits included a provision for share-based incentives in total of EUR 293 903.

EMPLOYEE BENEFITS FOR BOARD OF DIRECTORS

EUR MILLION	2018	2017
Salaries and other employee benefits		
Louis Audemard D'Alançon, Chairman of the Board starting from Sep 6, 2018	**0.0**	0.0
Jorma Kasslin, Chairman of the Board until Sep 5, 2018	**-0.2**	-0.4
Other Board members	**-0.2**	-0.2
TOTAL	**-0.4**	**-0.6**

In 2018, the annual fee to the Chairman of the Board was EUR 80 000 and the fee to other Board members was EUR 30 000. In addition a reward of EUR 1 000 was payed of a Board or its Committee meeting. Members of the Board are reimbursed for travel expenses corresponding to the corporation's traveling compensation principles. Jorma Kasslin as a full-time Chairman of the Board had until July 31st 2018 with the Group a service agreement, which designated as his duties to be responsible of the strategy process and matters affecting the Group more widely together with the CEO. Jorma Kasslin was paid a reward based on the service agreement of EUR 178 216, of which EUR 164 000 as a personal supplementary pension insurance policy and EUR 14 216 as cash and related social costs. In addition to the service agreement, Jorma Kasslin received for his duties as a regular member of the Board a fee of EUR 28 333. Jorma Kasslin's total compensation equaled EUR 206 549 in 2018.

29 SHARE-BASED PAYMENTS

The Board of Directors of Rapala VMC Corporation approved on February 16th 2018 a new Performance Share Plan for the Group key employees. The aim of the new plan is to align the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to retain the key employees at the Company, and to offer them a competitive reward plan that is based on earning and accumulating the Company's shares.

Performance Share Plan 2018-2020 includes one three-year performance period, calendar years 2018-2020. The potential reward from the performance period will be based on the Group's financial performance criteria which will be measured during the financial year 2020 and the Company's share price criterion which will be measured during a measurement period of forty (40) consecutive trading days in November-December 2020. The Board of Directors may also resolve on other 40 trading day measurement periods. The financial performance criteria for the performance period are the Group Product Sales in 2020, the Group's Comparable Earnings before Interest and Taxes margin in 2020 (EBIT %) and the Group's Average Working Capital Ratio in 2020.

A significant proportion of the reward allocations of the CEO and other members of the Executive Committee of the Group will be dependent on their personal investments in the Company shares and share ownership of the shares acquired through such investments.

SHARE BASED INCENTIVES

Plan	**Long-Term Incentive Plan**
Type	SHARE
Instrument	**PSP Earning Period 2018–2020**
Issuing date	16.2.2018
Initial amount, pcs	900 000
Dividend adjustment	No
Grant date	9.3.2018
Beginning of earning period	1.1.2018
End of earning period	31.12.2020
End of restriction period	30.4.2021
Total share return, Group product sales, EBIT margin in 2020, Group's average working capital ratio in 2020	
Performance criteria	
Maximum contractual life, yrs	3.1
Remaining contractual life, yrs	2.3
Number of persons at the end of the reporting year	39
Payment method	Cash & Equity

Changes during the period 2018	**PSP Earning Period 2018–2020**
Outstanding at the beginning of the reporting period, pcs 1.1.2018	**0**
Changes during the period	
Granted	732 500
Forfeited	0
Excercised	0
Expired	0
Outstanding at the end of the period 31.12.2018	**732 500**

FAIR VALUE DETERMINATION

The fair value of share based incentives have been determined at grant date and the fair value is expensed until vesting. The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

Valuation parameters for instruments granted during period	
Share price at grant, €	3.46
Share price at reporting period end €	3.05
Expected volatility *	14.1%
Maturity, years	3.1
Expected dividends, €	0.57
Valuation model	Monte Carlo
Fair value 31 Dec 2018, €	1 756 386

* Expected volatility was determined by calculating the historical volatility of the Group`s share using monthly observations over corresponding maturity

Effect of Share-based Incentives on the result and financial position during the period

Expenses for the financial year, share-based payments	436 053
Expenses for the financial year, share-based payments, equity-settled	380 671
Liabilities arising from share-based payments 31 December 2018	55 382
Future cash payment to be paid to the tax authorities from share-based payments, estimated at the end of the period	817 690

30 EARNINGS PER SHARE

	2018	2017
Net profit for the period attributable to the equity holders of the parent company, EUR million	**6.1**	2.4
Accrued interest on the hybrid bond	**-1.3**	-0.8
Tax effect	**0.3**	0.2
Net effect	**-1.1**	-0.6
	5.0	1.8
Weighted average number of shares, 1000 shares	**38 323**	38 323
Diluted weighted average number of shares, 1000 shares	**38 323**	38 323
Earnings per share, EUR	**0.13**	**0.05**
Diluted earnings per share, EUR	**0.13**	**0.05**

Earnings per share are calculated by dividing the profit for the period attributable to the parent company's shareholders less the tax-adjusted interest on hybrid bond by the weighted average number of shares outstanding during the financial period. The outstanding shares do not include treasury shares held by the Group. For more details on the calculation of earnings per share, see accounting principles for the consolidated accounts.

31 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 2018.

The Group agreed with Shimano Europe B.V. in January 2019 to terminate various distribution agreements between the Parties in some European countries and South-Africa.

The Parties have agreed to terminate the distribution of Shimano-, G-Loomis- and PowerPro-branded fishing tackle products in France, Switzerland, Spain and Portugal effective July 1, 2020. Until this date, the respective Rapala distribution companies, fully owned and controlled by Rapala, will continue to distribute Shimano Products on an exclusive basis in these four markets. This means that the business will continue as usual until the date referred above and local Rapala distribution companies will be responsible for business on exclusive basis.

At the same time The Parties have agreed to terminate the distribution of Shimano Products in Finland, Norway, Denmark, Sweden, Greenland, Iceland, Lithuania, Latvia, Estonia and South Africa effective October 1, 2020. Until this date, the respective Rapala distribution companies, fully owned and controlled by Rapala, will continue to distribute Shimano Products on an exclusive basis in all of these markets. This means that the business will continue as usual until the date referred above and local Rapala distribution companies will be responsible for the business on exclusive basis.

At the same time The Parties have agreed to terminate the distribution of Rapala-, Storm- and Dynamite-branded fishing tackle products in Germany, The Netherlands, Belgium, Luxembourg and Italy effective April 1, 2019. At the same time distribution of Rapala- and Storm-branded products in the United Kingdom and Dynamite-branded products in Turkey by Shimano will end. Until this date, the respective Shimano distribution companies, fully owned and controlled by Shimano, will continue to distribute these Rapala Group -branded fishing tackle products on an exclusive basis in all of these markets.

32 GROUP COMPANIES

SUBSIDIARIES BY GEOGRAPHICAL AREA		COUNTRY	GROUP HOLDING (%)	NATURE OF ACTIVITY
Nordic				
Normark Denmark A/S	*	Denmark	100	Distribution
KL-Teho Oy	*	Finland	100	Manufacturing
Marttiini Oy	*	Finland	100	Manufacturing
Normark Logistics Europe Oy	*	Finland	100	Sourcing
Normark Suomi Oy		Finland	100	Distribution
Peltonen Ski Oy		Finland	100	Manufacturing
Rapala Shimano East Europe Oy	1)	Finland	50	Administration
Rapala VMC Iceland ehf	*	Iceland	100	Distribution
Normark Norway AS	*	Norway	100	Distribution
Remen Slukfabrikk AS		Norway	100	Administration
Vangen AS		Norway	100	Administration
Normark Scandinavia AB	*	Sweden	100	Distribution
Rest of Europe				
FLLC Normark	1)	Belarus	50	Distribution
Ltd. Normark-Bel	2)	Belarus	100	Distribution
Rapala Europe Finance N.V.	*	Belgium	100	Administration
Rapala Finance N.V.	*	Belgium	100	Administration
Normark Adriatik D.o.o.		Croatia	66,6	Distribution
Normark S.r.o.	1)	Czech Republic	50	Distribution
Marttiini Oü		Estonia	100	Manufacturing
Normark Eesti Oü		Estonia	100	Distribution
Rapala Eesti AS	*	Estonia	100	Manufacturing
Mystic s.a.r.l.		France	100	Manufacturing
Normark France SAS	*	France	100	Distribution
VMC Péche SA	*	France	100	Manufacturing
Normark Hungary Ltd	*	Hungary	66.6	Distribution
Normark Italia S.R.L.		Italy	100	Distribution
Normark Kazakhstan LLP	1)	Kazakhstan	50	Distribution
SIA Normark Latvia		Latvia	100	Distribution
Normark UAB		Lithuania	100	Distribution
Rapala B.V.	*	Netherlands	100	Administration
Normark Polska Sp.z.o.o.	*	Poland	100	Distribution
Normark Portugal SA		Portugal	100	Distribution
SC Normark Sport Romania S.r.l.		Romania	66.6	Distribution
AO Normark	1)	Russia	50	Distribution
Normark LLC		Russia	100	Distribution
OOO Raptech	*	Russia	100	Manufacturing
Normark Spain SA	*	Spain	100	Distribution
Rapala-Fishco AG	*	Switzerland	100	Distribution
Normark UK Sport Ltd.		UK	100	Distribution
Dynamite Baits Ltd.	*	UK	100	Manufacturing
Normark Fishing Ltd.		UK	100	Administration
VMC-Water Queen Ukraine	1)	Ukraine	50	Distribution
North America				
Normark Inc.		Canada	100	Distribution
NC Holdings Inc.	*	USA	100	Administration
Normark Corporation		USA	100	Distribution
Normark Innovations, Inc.		USA	100	Sourcing
VMC Inc.		USA	100	Distribution

SUBSIDIARIES BY GEOGRAPHICAL AREA		COUNTRY	GROUP HOLDING (%)	NATURE OF ACTIVITY
Rest of the World				
Rapala VMC Australia Pty Ltd	*	Australia	100	Distribution
Rapala V.M.C. Do Brazil	*	Brazil	100	Distribution
Normark Chile Ltd		Chile	100	Distribution
Rapala VMC China Co.	*	China	100	Distribution
Rapala VMC (ShenZhen) Ltd		China	100	Sourcing
Willtech (PRC) Ltd.		Hong Kong	100	Sourcing
PT Rapala Indonesia	*	Indonesia	100	Distribution
PT Rapala VMC Batam		Indonesia	100	Manufacturing
PT VMC Fishing Tackle Indonesia		Indonesia	100	Manufacturing
Rapala Japan K.K.	*	Japan	100	Distribution
Rapala VMC (Asia Pacific) Sdn Bhd.	*	Malaysia	100	Distribution
Rapala VMC Mexico S. de R.L. de C.V		Mexico	100	Distribution
Rapala VMC South-Africa Distributors Pty Ltd.	*	South Africa	100	Distribution
Rapala VMC Korea Co., Ltd	*	South Korea	100	Distribution
Rapala VMC Singapore Pte. Ltd.		Singapore	100	Administration
Rapala VMC (Thailand) Co., Ltd.	*	Thailand	100	Distribution
Rapala MENA FZE		United Arab Emirates	100	Distribution

ASSOCIATED COMPANIES AND JOINT VENTURES	COUNTRY	GROUP HOLDING (%)	NATURE OF ACTIVITY
Lanimo Oü	Estonia	33.3	Manufacturing

FOREIGN BRANCHES

Rapala VMC (Hong Kong) Ltd, branch office in Taiwan

Normark S.r.o., branch office in Slovak Republic

[1)] Controlled by the Rapala Group.

[2)] Established in 2018.

* Shares owned by the parent company.

DEFINITIONS OF KEY FIGURES

Key figure		Definition
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
Net interest-bearing debt to EBITDA	=	Net interest-bearing debt / Operating profit before depreciation and impairments
Return on capital employed (ROCE), %	=	Operating profit x 100 / Capital employed (average for the period)
Return on equity (ROE), %	=	Net profit (loss) for the period x 100 / Total equity (average for the period)
Debt-to-equity ratio (Gearing), %	=	Net interest-bearing liabilities x 100 / Total equity
Equity-to-assets ratio, %	=	Total equity x 100 / Total shareholders' equity and liabilities - advances received
Earnings per share, EUR	=	Net profit for the period attributable to the equity holders of the parent Company - hybrid capital accrued unrecognised interests after tax / Adjusted weighted average number of shares
Dividend per share, EUR	=	Dividend for the period / Adjusted number of shares at the end of the period
Dividend/earnings ratio, %	=	Dividend for the period x 100 / Net profit for the period attributable to the equity holders of the parent Company
Equity per share, EUR	=	Equity attributable to equity holders of the parent Company / Adjusted number of shares at the end of the period
Effective dividend yield, %	=	Dividend per share x 100 / Adjusted share price at the end of the period
Price/earnings ratio	=	Adjusted share price at the end of the period / Earnings per share
Average share price, EUR	=	EUR amount traded during the period / Adjusted number of shares traded during the period
Year-end market capitalization, EUR	=	Number of shares at the end of the period, exluding own shares x share price at the end of the period
Average number of personnel	=	Calculated as average of monthly end personnel amounts

PARENT COMPANY FINANCIAL STATEMENTS, FAS

PARENT COMPANY INCOME STATEMENT

EUR	NOTE	2018	2017
Net sales	2	**29 640 931**	27 736 957
Other operating income	3	**164 039**	139 823
Change in inventory of finished products and work in progress		**1 720 905**	-1 432 882
Production for own use		**116 507**	160 643
Materials and services	5	**-15 452 984**	-10 019 967
Employee benefit expenses	6	**-7 964 723**	-8 462 844
Other operating expenses	4	**-5 925 567**	-6 454 350
Operating profit before depreciation and impairments		**2 299 108**	**1 667 380**
Depreciation and impairments	7	**-1 212 606**	-1 301 000
Operating profit		**1 086 502**	**366 380**
Financial income and expenses	8	**-1 610 807**	-2 899 755
Profit before appropriations and taxes		**-524 305**	**-2 533 375**
Appropriations	9	**2 350 426**	1 144 715
Income taxes	10	**-26 206**	-1 978
NET PROFIT FOR THE PERIOD		**1 799 916**	**-1 390 637**

PARENT COMPANY BALANCE SHEET

ASSETS

EUR	NOTE	2018	2017
Non-current assets			
Intangible assets	11	**283 820**	950 092
Tangible assets	12	**4 808 470**	5 251 057
Investments	13	**174 821 768**	174 819 131
Interest-bearing receivables	15	**16 049 903**	14 993 847
Non-interest-bearing receivables	15	**168 235**	285 909
Total non-current assets		**196 132 196**	**196 300 036**
Current assets			
Inventories	14	**6 036 304**	4 170 920
Current financial assets			
Interest-bearing	15	**18 565 982**	21 967 966
Non-interest-bearing	15	**8 010 771**	6 096 790
Cash and cash equivalents		**1 578 701**	1 098 889
Total current assets		**34 191 759**	**33 334 565**
TOTAL ASSETS		**230 323 955**	**229 634 600**

SHAREHOLDERS’ EQUITY AND LIABILITIES

EUR	NOTE	2018	2017
Shareholders' equity			
Share capital		**3 552 160**	3 552 160
Share premium fund		**16 680 961**	16 680 961
Fair value reserve		**16 155**	5 080
Fund for invested non-restricted equity		**4 914 371**	4 914 371
Own shares		**-5 553 393**	-5 553 393
Retained earnings		**19 196 678**	22 120 227
Net income for the period		**1 799 916**	-1 390 637
Total shareholders' equity	16	**40 606 848**	**40 328 769**
Appropriations		**1 333 493**	1 578 920
Provisions		**249 596**	
Non-current liabilities			
Interest-bearing		**17 800 000**	67 412 619
Non-interest-bearing		**45 492**	709 486
Total non-current liabilities	17	**17 845 492**	**68 122 105**
Current liabilities			
Interest-bearing		**163 765 615**	113 786 728
Non-interest-bearing		**6 522 910**	5 818 079
Total current liabilities	17	**170 288 525**	**119 604 807**
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES		**230 323 955**	**229 634 600**

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR THOUSAND	NOTE	2018	2017
Net profit for the period		**1 800**	-1 391
Adjustments			
Income taxes	10	**26**	2
Financial income and expenses	8	**1 611**	2 900
Reversal of non-cash items			
Depreciation and impairments	7	**1 213**	1 301
Other items		**-2 941**	-766
Total adjustments		**-93**	**3 438**
Financial items			
Interest paid		**-2 938**	-3 345
Interest received		**1 440**	1 604
Income taxes paid/received		**48**	154
Other financial items, net		**236**	85
Total financial items		**-1 214**	**-1 502**
Change in working capital			
Change in receivables		**1 118**	-1 556
Change in inventories		**-1 877**	1 411
Change in liabilities		**939**	-623
Total change in working capital		**179**	**-768**
Net cash generated from operating activities		**672**	**-222**
Net cash used in investing activities			
Proceeds from disposal of intangible assets	11	**743**	13
Purchases of intangible assets	11	**-293**	-470
Proceeds from sale of tangible assets	12	**199**	570
Purchases of tangible assets	12	**-650**	-529
Investments to subsidiaries and acquisition of subsidiaries	13	**-3**	-1 454
Change in interest-bearing receivables		**1 575**	835
Dividends received	8		524
Total net cash used in investing activities		**1 571**	**-511**
Net cash generated from financing activities			
Dividends paid		**-1 533**	-3 832
Hybrid bond		**-1 344**	24 737
Loan withdrawals		**85 336**	93 138
Loan repayments		**-85 674**	-129 541
Group contributions received		**978**	700
Total net cash generated from financing activities		**-2 237**	**-14 798**
Change in cash and cash equivalents		**7**	-15 531
Cash and cash equivalents at the beginning of the period		**1 099**	20 533
Foreign exchange rate effect		**473**	-3 903
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1 579**	**1 099**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

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	3–15 years
Buildings	10–20 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 expensed as incurred.

Valuation of financial derivatives

All derivatives are initially recognized at fair value on the date derivative contract is entered into, and are subsequently remeasured at fair value on each balance sheet date. 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. Determination of fair values of other derivative instruments are based on quoted market prices and rates, discounting of cash flows and option valuation models. The fair values of these instruments are received from the respective bank or calculated to match the currenct market price.

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 as well as the change in fair value of the contracts that are not designated to hedge accounting.

Own shares

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

Cash flow statement

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

2 NET SALES

EUR THOUSAND	2018	2017
By destination		
North America	**17 219**	16 120
Nordic	**1 929**	1 542
Rest of Europe	**7 603**	5 422
Rest of the World	**2 890**	4 653
TOTAL	**29 641**	**27 737**

The parent company's net sales consist of Lure Business which is included in Group Products in the consolidated operating segment reporting.

3 OTHER OPERATING INCOME

EUR THOUSAND	2018	2017
Rental income	**21**	21
Gains from sale of intangible and tangible assets	**126**	118
Other income	**17**	1
TOTAL	**164**	**140**

4 OTHER OPERATING EXPENSES

EUR THOUSAND	2018	2017
Maintenance	**-943**	-1 012
Selling and marketing expenses	**-692**	-705
Traveling expenses	**-614**	-561
IT and telecommunication	**-554**	-440
Rents paid	**-511**	-487
Auditors fees and services	**-174**	-167
Freight	**-78**	-56
Sales commissions	**-93**	-121
Losses on disposals of intangible and tangible assets		-16
Currency derivatives	**283**	-243
Other expenses	**-2 549**	-2 646
TOTAL	**-5 926**	**-6 454**

AUDITORS' FEES AND SERVICES

EUR THOUSAND	2018	2017
Audit fees	**-174**	-167
TOTAL	**-174**	**-167**

5 MATERIALS AND SERVICES

EUR THOUSAND	2018	2017
Materials, goods and supplies		
Purchases during the financial year	**-15 562**	-9 947
Change in inventory	**144**	-45
External services	**-36**	-28
TOTAL	**-15 453**	**-10 020**

6 EMPLOYEE BENEFIT EXPENSES

EUR THOUSAND	2018	2017
Wages and salaries	**-6 764**	-7 065
Pension costs	**-1 033**	-1 083
Other personnel expenses	**-167**	-315
TOTAL	**-7 965**	**-8 463**
Average personnel for the period	**108**	**130**

The remuneration of the Board of Directors amounted to EUR 231 thousand (2017: EUR 200 thousand).

7 DEPRECIATION AND IMPAIRMENTS

EUR THOUSAND	2018	2017
Depreciation of intangible assets		
Trademarks	**-93**	-93
Other intangible assets	**-123**	-139
Depreciation of tangible assets		
Buildings	**-58**	-60
Machinery and equipment	**-817**	-891
Other tangible assets	**-122**	-119
TOTAL	**-1 213**	**-1 301**

8 FINANCIAL INCOME AND EXPENSES

EUR THOUSAND	2018	2017
Dividend income		524
Foreign exchange gains	**5 093**	8 370
Foreign exchange losses	**-5 805**	-8 192
Interest and other financial income		
Interest income	**1 752**	1 437
Other financial income	**1 821**	687
Interest and other financial expenses		
Interest expenses	**-3 979**	-3 440
Other financial expenses	**-492**	-2 286
TOTAL	**-1 611**	**-2 900**

FINANCIAL INCOME AND EXPENSES FROM AND TO SUBSIDIARIES

EUR THOUSAND	2018	2017
Dividend income from subsidiaries		524
Interest and other financial income		
Interest income	**983**	1 022
Other financial income	**304**	352
Interest and other financial expenses		
Interest expenses	**-1 047**	-421
TOTAL	**240**	**1 477**

TRANSLATION DIFFERENCES RECOGNIZED IN THE INCOME STATEMENT

EUR THOUSAND	2018	2017
Translation differences recognized in net sales	**555**	-104
Translation differences included in purchases and other expenses	**-5**	-14
Foreign exchange gains and losses in financial income and expenses	**-712**	178
TOTAL	**-162**	**60**

9 EXTRAORDINARY ITEMS

EUR THOUSAND	2018	2017
Change in depreciation difference	**245**	167
Group contribution	**2 105**	978
TOTAL	**2 350**	**1 145**

CHANGE IN DEPRECIATION DIFFERENCE

EUR THOUSAND	2018	2017
Intangible assets		16
Buildings	**-11**	-15
Machinery and equipment	**256**	166
TOTAL	**245**	**167**

10 INCOME TAXES

INCOME TAXES IN THE INCOME STATEMENT

EUR THOUSAND	2018	2017
Income taxes		
Taxes from previous financial years	**-26**	-2
TOTAL	**-26**	**-2**

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

11 INTANGIBLE ASSETS

2018

EUR THOUSAND	TRADE-MARKS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
Acquisition cost Jan. 1	**930**	**2 380**	**450**	**3 760**
Additions			**293**	**293**
Disposals			**-743**	**-743**
ACQUISITION COST DEC. 31	**930**	**2 380**		**3 310**
Accumulated amortization Jan. 1	**-749**	**-2 062**		**-2 810**
Amortization during the period	**-93**	**-123**		**-216**
ACCUMULATED AMORTIZATION DEC. 31	**-842**	**-2 185**		**-3 026**
Book value Jan. 1	**181**	**318**	**450**	**950**
Book value Dec. 31	**88**	**195**		**283**

2017

EUR THOUSAND	TRADE-MARKS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
Acquisition cost Jan. 1	930	2 307		**3 238**
Additions			470	**470**
Disposals			-13	**-13**
Reclassifications		72	-7	**65**
ACQUISITION COST DEC. 31	**930**	**2 380**	**450**	**3 760**
Accumulated amortization Jan. 1	-656	-1 923		**-2 579**
Amortization during the period	-93	-139		**-232**
ACCUMULATED AMORTIZATION DEC. 31	**-749**	**-2 062**		**-2 810**
Book value Jan. 1	274	384		**659**
Book value Dec. 31	181	318	450	**950**

12 TANGIBLE ASSETS

2018

EUR THOUSAND	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
Acquisition cost Jan. 1	106	4 691	19 260	1 531	151	25 740
Additions			133	82	537	752
Disposals			-193		-6	-199
Reclassifications			323		-323	
ACQUISITION COST DEC. 31	**106**	**4 691**	**19 523**	**1 613**	**359**	**26 293**
Accumulated depreciation Jan. 1		-4 068	-15 281	-1 139		-20 488
Depreciation during the period		-58	-817	-122		-997
ACCUMULATED DEPRECIATION DEC. 31		**-4 125**	**-16 098**	**-1 261**		**-21 485**
Book value Jan. 1	106	624	3 979	392	151	5 251
Book value Dec. 31	106	566	3 425	352	359	4 808

2017

EUR THOUSAND	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
Acquisition cost Jan. 1	106	4 691	19 077	1 517	502	**25 894**
Additions			43	13	473	**529**
Disposals			-481	-39	-98	**-618**
Reclassifications			621	40	-726	**-65**
ACQUISITION COST DEC. 31	**106**	**4 691**	**19 260**	**1 531**	**151**	**25 740**
Accumulated depreciation Jan. 1		-4 008	-14 563	-1 021		**-19 592**
Disposals			173			**173**
Depreciation during the period		-60	-891	-119		**-1 069**
ACCUMULATED DEPRECIATION DEC. 31		**-4 068**	**-15 281**	**-1 139**		**-20 488**
Book value Jan. 1	106	684	4 514	496	502	**6 302**
Book value Dec. 31	106	624	3 979	392	151	**5 251**

13 INVESTMENTS

2018

EUR THOUSAND	SHAREHOLDINGS IN SUBSIDIARIES	OTHER SHARES	TOTAL
Book value Jan. 1	**174 590**	**228**	**174 819**
Additions	**3**		**3**
BOOK VALUE DEC. 31	**174 593**	**228**	**174 822**

2017

EUR THOUSAND	SHAREHOLDINGS IN SUBSIDIARIES	OTHER SHARES	TOTAL
Book value Jan. 1	173 136	228	**173 364**
Additions	1 454		**1 454**
BOOK VALUE DEC. 31	**174 590**	**228**	**174 819**

14 INVENTORIES

EUR THOUSAND	2018	2017
Raw material	**1 507**	1 363
Work in progress	**2 035**	1 917
Finished products	**2 494**	891
TOTAL	**6 036**	**4 171**

15 RECEIVABLES

EUR THOUSAND	2018	2017
Non-current receivables		
Interest-bearing		
Loan receivables	**16 050**	14 994
Non-interest-bearing		
Derivatives		112
Other receivables	**168**	174
Current receivables		
Interest-bearing		
Loan receivables	**18 566**	21 968
Non-interest-bearing		
Trade receivables	**2 545**	3 642
Prepaid expenses and accrued income	**2 910**	676
Other receivables	**1 723**	1 563
Derivatives	**833**	216
TOTAL	**42 795**	**43 345**

RECEIVABLES FROM SUBSIDIARIES

EUR THOUSAND	2018	2017
Non-current receivables		
Interest-bearing		
Loan receivables	**16 050**	14 994
Current receivables		
Interest-bearing		
Loan receivables	**18 566**	21 968
Non-interest-bearing		
Trade receivables	**2 542**	3 603
Other receivables	**2 113**	74
Derivatives	**1 723**	1 563
TOTAL	**40 994**	**42 201**

16 SHAREHOLDERS' EQUITY

EUR THOUSAND	2018	2017
Share capital Jan. 1	**3 552**	3 552
SHARE CAPITAL DEC. 31	**3 552**	**3 552**
Share premium fund Jan. 1	**16 681**	16 681
SHARE PREMIUM FUND DEC. 31	**16 681**	**16 681**
Fair value reserve Jan. 1	**5**	-245
Gains and losses on cash flow hedges	**11**	250
FAIR VALUE RESERVE DEC. 31	**16**	**5**
Fund for invested non-restricted equity Jan. 1	**4 914**	4 914
FUND FOR INVESTED NON- RESTRICTED EQUITY DEC. 31	**4 914**	**4 914**
Own shares Jan. 1	**-5 553**	-5 553
Purchase of own shares		
OWN SHARES DEC. 31	**-5 553**	**-5 553**
Retained earnings Jan. 1	**20 730**	25 953
Dividends paid	**-1 533**	-3 832
RETAINED EARNINGS DEC. 31	**19 197**	**22 120**
Net income for the period	**1 800**	-1 391
TOTAL SHAREHOLDERS' EQUITY	**40 607**	**40 329**

DISTRIBUTABLE FUNDS

EUR	2018	2017
Fund for invested non-restricted equity	**4 914 371**	4 914 371
Retained earnings	**19 196 678**	22 120 227
Own shares	**-5 553 393**	-5 553 393
Fair value reserve	**16 155**	5 080
Net income for the period	**1 799 916**	-1 390 637
TOTAL DISTRIBUTABLE FUNDS	**20 373 728**	**20 095 648**

PARENT COMPANY SHARE CAPITAL

	2018	2017
Shares	**39 000 000**	39 000 000
EUR	**3 510 000**	3 510 000

Each share is entitled to one vote. Information on Board's authorizations and own shares is available in the section Shares and shareholders.

17 LIABILITIES

EUR THOUSAND	2018	2017
Non-current liabilities		
Interest-bearing		
Loans from financial institutions	**10 000**	34 613
Hybrid bond		25 000
Other non-current liabilities	**7 800**	7 800
Non-interest-bearing		
Derivatives	**45**	709
Current liabilities		
Interest-bearing		
Loans from financial institutions	**29 274**	9 835
Hybrid bond	**25 000**	
Commercial paper program	**43 000**	32 000
Other current liabilities	**66 492**	71 952
Non-interest-bearing		
Derivatives	**414**	669
Prepayments	**1**	
Trade payables	**3 218**	2 244
Accrued liabilities and deferred income	**2 890**	2 905
TOTAL	**188 134**	**187 727**

LIABILITIES TO SUBSIDIARIES

EUR THOUSAND	2018	2017
Non-current liabilities		
Interest-bearing		
Other non-current liabilities	**7 800**	7 800
Current liabilities		
Interest-bearing		
Other non-current liabilities	**66 492**	71 952
Non-interest-bearing		
Derivatives		1
Trade payables	**2 496**	1 440
TOTAL	**76 788**	**81 194**

All loans included in non-current liabilities mature in less than 5 years.

18 LEASE CONTRACTS

PARENT COMPANY AS A LESSEE

Repayment schedule of non-cancellable operating lease commitments

EUR THOUSAND	2018	2017
Within one year	**373**	412
1-3 years	**160**	375
TOTAL	**533**	**787**

19 COMMITMENTS AND CONTINGENCIES

COMMITMENTS

EUR THOUSAND	2018	2017
On own behalf and on behalf of subsidiaries		
Guarantees	**5 100**	4 690
TOTAL	**5 100**	**4 690**

Guarantees consist of subsidiaries' lease agreements and of other guarantees given on behalf of subsidiaries. The company's loan facilities are unsecured and include normal financial covenants.

Since Normark Logistics Europe Oy, a 100% owned subsidiary of Rapala VMC Corporation, is the legal shareholder of the 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 THOUSAND	2018	2017
Currency derivatives with bank		
Fair value	**602**	-451
Nominal value	**40 554**	41 803
Currency derivatives with subsidiaries		
Fair value		-1
Nominal value		417
Interest rate derivatives		
Fair value	**-34**	76
Nominal value	**21 315**	26 376
Cross currency swaps		
Fair value	**-194**	-673
Nominal value	**10 070**	10 070

In 2018, changes in fair value of currency derivatives had an income statement effect of EUR 1 053 thousand (2017: EUR -556 thousand), in interest rate derivatives EUR -105 thousand (2017: EUR 287 thousand) and in cross currency swaps EUR 479 thousand (2017: EUR -673 thousand). Hedge accounting is applied for some of the interest rate derivatives, and the change in fair value of interest rate derivatives under hedge accounting has been directly booked to fair value reserve in equity.

RISK MANAGEMENT

The objective of Rapala VMC Corporation'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.

APPROACH TO RISK MANAGEMENT

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

Risk management continued to receive management attention in 2018. The focus of Group level risk management in 2018 was on foreign exchange risk management as well as risk management activities on liquidity, interest rate and hazard risks. Other emphasized areas were account receivables, Group wide insurance programs and strategic supply chain management.

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

STRATEGIC RISKS

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

Brand portfolio and corporate reputation are among the most valuable intangible assets of the Group. The Rapala Group is actively managing its brands and their identity and securing that the value of the brands or corporate reputation are 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 they don't 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. Pollution and potential environmental catastrophes are concerns for the Group. The Rapala Group is actively promoting initiatives to enhance environmental protection and increasing preparedness to comply with continuously tightening environmental regulations by taking steps to reduce environmental impacts of its operations and products. The Group is also acting in the forefront to develop products, e.g. catch-and-release equipment, to comply with fish protection initiatives. For more details on environmental actions, see the "Corporate Responsibility and Sustainable Development" report available on corporate website (www.rapalavmc.com).

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

The Rapala Group has a limited amount of global competitors. The biggest competitors have significant power in their home markets, but globally the geographical scope of their operations is smaller. The Group's global distribution network is unique in the industry and difficult to imitate. Within each market, the Group's competitors are often local fishing tackle producers and distributors operating with a limited range of products and narrow geographical scope.

In some countries, competition is created by fishing tackle retailers selling private label products. Cross-border internet sales is an increasing trend and could cause some price erosion. Established fishing tackle brands' expansion into new product categories is also creating competition in some product segments. The strength of the Group's product development and brand portfolio, as well as flexibility to serve different markets with market-specific products ranges, is essential in succeeding in market competition.

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

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

Distribution of third party fishing and outdoor products creates a material part of the Group's sales. Making new distribution agreements or terminating old agreements or changes in product offering made by the principal may affect sales and profitability of Third Party Products. The Group has several factories and various raw material and finished good suppliers. Different factories produce for the most part separate product categories and the Group is not critically dependent on any single product or raw material supplier.

The Group's customer base is geographically and quantitatively well diversified. Customers are mostly country-specific and not operating globally. The Group is not critically dependent on any single customer: even the biggest single customer represents around 5 % of the Group's net sales. The Group 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.

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

OPERATIONAL AND HAZARD RISKS

The fishing tackle business has traditionally been relatively resilient to increased uncertainties and downturns in the general economic climate. The truly global nature of the Group's sales and operations spreads the market risks caused by uncertainties in the global economy.

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

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

There is a high level of dependency between the Group's manufacturing and distribution units and interruption at earlier stage of the supply chain could have knock-on effects throughout the rest of the Group. The importance of proper order forecasting and production planning has increased. The related risks are managed with high level of co-operation between manufacturing and distribution units, safety stocks and extensive insurance coverage. The Group-wide supply chain and logistics initiatives continued in 2018 and mitigated these risks relating to operational efficiencies.

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

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 labor relations.

There are significant dependencies between the Group's manufacturing units, which could cause supply challenges 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, the Group emphasizes hazard risk management. The Group has together with its property and business interruption insurer continued to conduct annually hazard prevention reviews to Group's key factories and distribution warehouses. Group management has also continued to maintain risk awareness throughout the organization.

The Group constantly develops its 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 liability. The Group has increased its focus also on mitigating fraud risk.

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

FINANCIAL RISKS

The Group's financial risks consist of market risks, credit and default risks and liquidity risks. The Board evaluates financial risks 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 of the consolidated financial statements.

SHARES AND SHAREHOLDERS

Rapala VMC Corporation's shares have been traded on the Nasdaq Helsinki since 1998. In 2018, the shares traded between EUR 4.07 and 2.89 with an average price of EUR 3.43.

Shares and Voting Rights

On December 31, 2018, the share capital fully paid and reported in the Trade Register was EUR 3 552 160.41 and the total number of shares was 39 000 000. The average number of shares during the financial year was 39 000 000. Each share is entitled to one vote.

There were no changes in the share capital in 2018.

Board's Authorizations

The AGM authorized the Board to resolve to repurchase a maximum of 2 000 000 own shares by using funds in the unrestricted equity. The proposed maximum amount of shares corresponds to less than 10 per cent of all shares in the company. The shares may be repurchased to develop the company's capital structure. In addition, the shares may be repurchased to finance or carry out business acquisitions or other arrangements, to settle the company's equity-based incentive plans, to be transferred for other purposes, or to be cancelled. The shares may be repurchased in deviation from the proportion of the shares held by the shareholders. The shares will be repurchased through public trading arranged by Nasdaq Helsinki Oy at the market price of the acquisition date. The shares will be acquired and paid in pursuance of the rules of Nasdaq Helsinki Oy and applicable rules regarding the payment period and other terms of the payment. The authorization is in force until the end of the next Annual General Meeting, however, no longer than until June 30, 2019.

Own Shares

In 2018, no own shares were repurchased. At the end of December 2018, the company held 677 208 own shares, representing 1.7% of the total number and the total voting rights of shares. The average share price of all repurchased own shares held by the company was EUR 5.08.

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.

Share-Based Incentive Plans

A significant proportion of the reward allocations of the CEO and other members of the Executive Committee of the Group will be dependent on their personal investments in the Company shares and share ownership of the shares acquired through such investments. Details of Share-Based Incentive plans are given on note 29.

Management Shareholding

On December 31, 2018, the members of the Board and the Executive Committee held directly a total of 126 178 company shares and corresponding to 0.3% of all shares and voting rights. Details of management shareholdings are given on page 61.

Trading and Performance of the Company's Shares

The company share (RAP1V) is quoted on the Nasdaq Helsinki. The 2018 closing price on December 31 was EUR 3.05. The highest price in 2018 was EUR 4.07, the lowest price EUR 2.89 and the average price EUR 3.43. A total 1 511 411 company's shares were traded in 2018. This represents 3.9% of all shares on December 31, 2018.

At the end of 2018, the market capitalization of all outstanding shares, excluding own shares, was EUR 116.9 million. Earnings per share (basic) were EUR 0.13 (EUR 0.05 in 2017). For more share related key figures see page 7.

Dividend

The Board proposes to the AGM that a dividend of EUR 0.06 per share will be paid for the financial year 2018 and will be distributed in two equal installments.

PRINCIPAL SHAREHOLDERS ON DECEMBER 31, 2018

SHAREHOLDERS	NUMBER OF SHARES	%
Viellard Migeon & Cie *	14 972 892	38.4
Sofina S.A.	7 500 000	19.2
Nordea Funds	4 874 633	12.5
The State Pension Fund	1 290 000	3.3
Odin Funds	1 096 294	2.8
Shimano Singapore Private Limited	889 680	2.3
Taaleritehdas Funds	570 000	1.5
Ilmarinen Mutual Pension Insurance	351 108	0.9
Elo Mutual Pension Insurance	155 000	0.4
Capman Oyj	124 690	0.3
Rapala VMC Oyj (own shares)	677 208	1.7
Other shareholders total	6 498 495	16.7
TOTAL NUMBER OF SHARES	**39 000 000**	**100.0**

* Viellard Migeon & Cie's holds together with its subsidiary De Pruines Industries 15 078 202 shares, representing 38.7% of total number and the total voting rights of shares.

SHAREHOLDERS BY CATEGORY ON DECEMBER 31, 2018

SHAREHOLDER CATEGORY	NUMBER OF SHARES	%
Private and public corporations	1 197 797	3.1
Financial and insurance companies	20 762 993	53.2
Public institutions	1 796 408	4.6
Non-profit organizations	46 161	0.1
Individuals	2 247 069	5.8
International shareholders	9 564 574	24.5
Administrative registrations	3 384 998	8.7
TOTAL	**39 000 000**	**100.0**

DISTRIBUTION OF SHAREHOLDING ON DECEMBER 31, 2018

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	%	TOTAL SHARES	%
1 - 100	1 229	35.0	69 471	0.2
101 - 500	1 357	38.7	374 020	1.0
501 - 1 000	459	13.1	369 967	0.9
1 001 - 10 000	390	11.1	1 147 868	2.9
10 001 - 1 000 000	68	1.9	4 157 814	10.7
1 000 001 -	7	0.2	32 880 860	84.3
TOTAL	**3 510**	**100**	**39 000 000**	**100**

Number of shares includes 677 208 own shares held by the parent company.

SHARE PRICE IN 2018, %

SHARE PRICE DEVELOPMENT IN 2014–2018, EUR

BOARD OF DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

LOUIS AUDEMARD D'ALANÇON
Chairman of the Board since September 6, 2018
Board member since 2017
M.Sc. Civil Engineering, Major in Economy and Finance
Year of birth 1959
Shareholding*: 2 200

JORMA KASSLIN
Board member since 1998
Chairman of the Board 2016–2018
M.Sc. (Eng.)
Year of birth: 1953
Shareholding and options *: 26 878

EMMANUEL VIELLARD
Board member since 2000
Chairman of the Board 2005–2016
Chairman and CEO of Viellard Migeon & Cie
President and Chief Executive Officer of Lisi Industries
MBA, CPA
Year of birth: 1963
Shareholding and options *: 2 000

EERO MAKKONEN
Board member since 1998
Chairman of the Board 1999–2005
B.Sc. (Eng.)
Year of birth: 1946
Shareholding and options *: 5 000

MARC SPEECKAERT
Board member since 2005
MBA
Year of birth: 1951
Shareholding and options *: 3 000

JULIA AUBERTIN
Board Member since 2014
Deputy Managing Director, Good Goût Babyfood
M.Sc. (EDHEC)
Year of birth: 1979
Shareholding and options *: -

EXECUTIVE COMMITTEE

JUSSI RISTIMÄKI
President and Chief Executive Officer, Chairman of the Executive Committee
Executive Committee member since 2010
Master of Science (Economics)
Year of birth: 1974
Shareholding and options *: 15 500

OLLI AHO
Executive Vice President, Company Counsel, Investor Relations, Secretary of the Board
Executive Committee member since 1998
Master of Laws
Year of birth: 1959
Shareholding and options *: 10 100

STANISLAS DE CASTELNAU
Executive Vice President, Manufacturing Operations and Global Supply Chain Development, Head of Hook and Carp business unit
Executive Committee member since 2002
Engineer
Year of birth: 1963
Shareholding and options *: 8 000

TOM MACKIN
Executive Vice President, Distribution and Brands in North America
Executive Committee member since 2007
Bachelor of Fine Arts
Year of birth: 1961
Shareholding*: 3 000

LARS OLLBERG
Chief Operating Officer, Group's businesses and distribution, except North America, Russia, Japan and the Hooks
Executive Committee member since 2008
Vocational Qualification in Business and Administration
Year of birth: 1956
Shareholding and options *: 10 100

VICTOR SKVORTSOV
Executive Vice President Distribution in Russia, Belarus, Kazakhstan
Executive Committee member since 2013
Engineer
Year of birth: 1962
Shareholding and options *: 10 100

CYRILLE VIELLARD
Executive Vice President, Market Intelligence and Business Development
Executive Committee member since 2015
MBA, ESSEC
Year of birth: 1977
Shareholding and options *: 10 100

ARTO NYGREN
Executive Vice President, Lure Manufacturing
Executive Committee member since 2017
Bachelor's degree in mechanical engineering
Year of birth: 1965
Shareholding and options *: 10 100

JAN-ELOF CAVANDER
Chief Financial Officer
Executive Committee member since 2017
Master of Science (Technology)
Year of birth: 1985
Shareholding*: 10 100

* Shares and share-based rights of each member and corporations over which he/she exercises control in the company and its group companies.

SIGNATURES FOR THE REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

Helsinki, February 14, 2019

Louis Audemard D'Alançon,
Chairman of the Board

Emmanuel Viellard

Jorma Kasslin

Marc Speeckaert

Eero Makkonen

Julia Aubertin

Jussi Ristimäki
President and CEO

THE AUDITOR'S NOTE

A report on the audit performed has been issued today.
Helsinki, March 4, 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant

AUDITOR'S REPORT

TRANSLATION OF THE FINNISH ORIGINAL

TO THE ANNUAL GENERAL MEETING OF RAPALA VMC OYJ

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Rapala VMC Oyj (business identity code 1016238-8) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion
- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 5 to the consolidated financial statements.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Revenue Recognition

Refer to accounting principles for the consolidated accounts and note 2 (Segment information).

The Group focuses on revenue as a key performance measure which could create the incentive for revenue to be recognized before the customer obtains control of the goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Due to local entities being relatively independent management may also have an opportunity to overstate revenues.

Proper revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2).

Our audit procedures to address the risk of material misstatement relating to revenue recognition, which was considered to be a significant risk, included, among others:
- Assessing the Group's accounting policies over revenue recognition and assessing compliance with applicable accounting standards.
- Testing of the Group's controls over correct timing of revenue recognition. These controls comprised of a combination of transaction level prevent controls and detect controls.
- We tested the cutoff of revenue with analytical procedures supplemented with tests on a transaction level either side of the balance sheet date as well as credit notes prepared after the balance sheet date.
- Considering the Group's disclosures in respect of revenues

Goodwill and intangible assets

Refer to accounting principles for the consolidated accounts and note 11 (Intangible assets).

At the balance sheet date, the value of goodwill and intangibles amounted to 74.5 M€ (73.3 M€) representing 26.9 % (27.6 %) of the total assets.

Procedures regarding management's annual impairment test were significant to our audit because the test imposes estimates. The Group management use assumptions in respect of future market and economic conditions such as revenue and margin developments.

Our audit procedures to address the risk of material misstatement relating to goodwill and intangible assets, included, among others:

- Evaluating the assumptions and methodologies used by the Group relating to the forecasted revenue growth, profitability and weighted average cost of capital.
- We focused on how much recoverable amounts exceed the carrying amounts of cash-generating units and whether any reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount.
- Assessing the historical accuracy of management's estimates.
- We also assessed the adequacy of the Group's disclosures in note 11 (Intangible assets) in the financial statements about the assumptions to which the outcome of the impairment tests were more sensitive.

Inventory allowances

Refer to accounting principles for the consolidated accounts and note 17 (Inventories).

The total net value of inventories and related net realizable value allowance as of December 31, 2018 amounted to 99.1 M€ (92.5 M€) and 11.4 M€ (9.7 M€), respectively. The inventories are material to the financial statement representing 35.8 % (34.8%) of the total assets. The calculation of net realizable value allowance involves management judgment and is thus subject to uncertainty Our audit procedures to address the risk of material misstatement relating to net realizable value allowance, which was considered to be a significant risk, included, among others:

- Assessing the Group's accounting policies regarding inventory allowances and assessing compliance with applicable accounting standards.
- Evaluating, amongst others, the analyses and assessments made by management with respect to obsolete and slow-moving inventories, the expected demand and market value related to the items.
- Assessing the adequacy of the Group's disclosures in notes 17 (Inventories) in the financial statements.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 5.4.1995, and our appointment represents a total period of uninterrupted engagement of 24 years. Rapala VMC Oyj has been a public interest entity since 4.12.1998.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, March 4, 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant

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