

**RAPALA
VMC**



CORP.

FINANCIAL STATEMENTS 2019

RAPALA VMC CORPORATION

FINANCIAL STATEMENTS 2019

Report of the Board of Directors	2
Key Financial Figures	6
Scope of Activity and Profitability	6
Share Related Key Figures	7
Consolidated Financial Statements, IFRS	8
Consolidated Income Statement	8
Consolidated Statement of Comprehensive Income	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Cash Flows	10
Consolidated Statement of Changes in Equity	11
Notes to the Consolidated Financial Statements	12
Definitions of Key Figures	44
Parent Company Financial Statements, FAS	45
Parent Company Income Statement	45
Parent Company Balance Sheet	46
Parent Company Statement of Cash Flows	47
Notes to the Parent Company Financial Statements	48
Risk Management	55
Shares and Shareholders	57
Board of Directors and Management	59
Signatures for the Report of the Board of Directors and Financial Statements	60
Auditor's Report	61

REPORT OF THE BOARD OF DIRECTORS

MARKET ENVIRONMENT

Trading conditions in most of the Group's markets were mainly as expected. North American market continued the positive growth trend that began in 2018. In Europe, the changes in Shimano and certain other Third Party distribution agreements caused slight uncertainties but the Nordics and Rest of Europe markets still grew from the previous year. The growth in Europe was supported by the ramp up of Group's own distribution operations in some of the key Central European markets.

KEY FIGURES

EUR MILLION	2019	2018	2017
Net sales	275.4	262.4	253.3
Operating profit before depreciation and impairments (EBITDA)	26.0	22.4	15.7
Operating profit	13.4	14.8	8.9
as a percentage of net sales, %	4.9	5.6	3.5
Comparable operating profit	17.8	16.7	11.4
as a percentage of net sales, %	6.5	6.4	4.5
Profit before taxes	9.8	12.7	5.6
Net profit (loss) for the period	4.1	6.5	2.3
Earnings per share	0.10	0.13	0.05
Employee benefit expenses	71.6	68.8	67.6
Average number of personnel, persons	2 604	2 772	2 736
Research and development expenses	1.7	1.6	1.9
as a percentage of net sales, %	0.6	0.6	0.7
Net cash generated from operating activities	25.9	6.7	19.1
Total net cash used in investing activities	14.6	4.7	6.4
Net interest-bearing debt at the end of the period	74.6	70.3	67.8
Equity-to-assets ratio at the end of the period, %	52.4	53.2	53.9
Debt-to-equity ratio (gearing) at the end of the period, %	49.2	47.8	47.5
Return on equity, %	2.7	4.5	1.7

BUSINESS REVIEW

The Group's net sales grew 4.9% from 2018. Changes in translation exchange rates had a positive impact on the sales and with comparable translation exchange rates, net sales were organically up by 3.3% from the previous year.

North America

Following the previous year, 2019 was again a positive year in the North American market. Sales increased by 9.3% from 2018. The growth was supported by favorable exchange rates and with comparable translation exchange rates sales were up by 4.1% from the previous year.

The Group's position in the North American market remains strong and the sales continued to grow both in the US and Canada.

Overall, most product categories grew in the market. Despite some delivery issues at the beginning of the year, ice fishing sales grew strongly for the full year. In addition, sales of Group Branded lures supported the growth. The group is very well positioned with all major customers and all retail channels in North America.

Nordic

The sales in the Nordic market increased by 2.8% from the comparison period. With comparable translation exchange rates sales were up by 3.9% from 2018.

The sales growth was driven by good winter sports sales in Finland. However, sales in Denmark and Norway decreased from the comparison period.

Rest of Europe

With reported translation exchange rates, the sales in Rest of Europe were 3.6% above the comparison period. With comparable translation exchange rates, the growth was on the same level, 3.5% up from 2018.

Sales growth was supported by the successful ramp up of Group's own sales operations in some of the key Central European markets following the termination of the distribution agreements with Shimano. Russian market remained at the same sales level as is 2018. Baltics and most of the Eastern European markets witnessed strong sales growth from 2018.

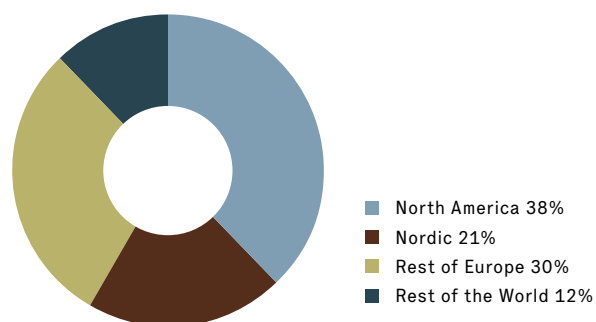
Rest of the World

The sales in Rest of the World decreased 0.9% from the previous year. With comparable translation exchange rates, sales were down by 0.6% from 2018.

South-Africa as well as the Latin American markets contributed positively to the Rest of the World market growth, while sales in some of the other markets declined from the previous year.

EXTERNAL NET SALES BY AREA

EUR MILLION	2019	2018	CHANGE %	COMPARABLE CHANGE %
North America	104.2	95.4	9%	+4%
Nordic	56.6	55.1	3%	+4%
Rest of Europe	81.3	78.4	4%	+3%
Rest of the World	33.3	33.6	-1%	-1%
TOTAL	275.4	262.4	5%	+3%



FINANCIAL RESULTS AND PROFITABILITY

Comparable (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) operating profit increased by 1.2 MEUR (7%) from last year to 17.8 MEUR. The effect of translation exchange rates was positive and with comparable translation exchange rates, comparable operating profit increased by 0.8 MEUR (-9%) from 2018. Reported operating profit decreased by 1.4 MEUR (-9%) from last year to 13.4 MEUR. The items affecting comparability had a negative impact of 4.4 MEUR (1.9) on reported operating profit. Application of the IFRS 16 accounting standard had a 0.3 MEUR positive impact on operating profit and comparable operating profit.

Comparable operating profit margin was 6.5% (6.4) for the year. The turnaround project of the Indonesian lure manufacturing operations had a positive impact on profitability improvement. However, the decline of sales margins in the Third Party distribution had a negative impact on comparable operating profit margin.

Reported operating profit margin was 4.9% (5.6) for the year. Reported operating profit included mark-to-market valuation of operative currency derivatives of -0.4 MEUR (0.7). Net expenses of other items affecting comparability included in the reported operating profit were 4.0 MEUR (2.6). The other items affecting comparability consisted mainly of restructuring expenses and a gain of a sale of a real estate.

Total financial (net) expenses were 3.6 MEUR (2.1) for the year. Net interest and other financing expenses were 2.1 MEUR (1.4) and (net) foreign exchange expenses were 1.1 MEUR (0.7). Following the application of IFRS 16, financial expenses increased by 0.5 MEUR due to lease liability interests.

Net profit for the year decreased by 38% and was 4.1 MEUR (6.5) and earnings per share was 0.10 EUR (0.13). The share of non-controlling interest in net profit decreased by 0.8 MEUR from last year and totalled -0.4 MEUR (0.4).

BRIDGE CALCULATION OF COMPARABLE OPERATING PROFIT

EUR MILLION	2019	2018	CHANGE %
Operating profit	13.4	14.8	-9%
Items affecting comparability			
Mark-to-market valuations of operative currency derivatives	0.4	-0.7	
Other items affecting comparability			
Restructurings			
Management restructuring	1.1	0.2	
Indonesia manufacturing restructuring	1.1	1.9	
Other restructurings	2.1	0.6	
Acquisition costs of DQC International	0.8		
Other items	-1.0	-0.2	
COMPARABLE OPERATING PROFIT	17.8	16.7	+7%

SEGMENT REVIEW

Group Products

Sales of Group Products grew by 10.5 MEUR from the comparison period to 185.2 MEUR. The increase from previous year was mostly driven by the North American market, where especially the ice fishing sales witnessed strong growth, and to some extent by the Rest of Europe market.

Driven by the increased sales, the comparable operating profit for Group Products improved from the comparison period.

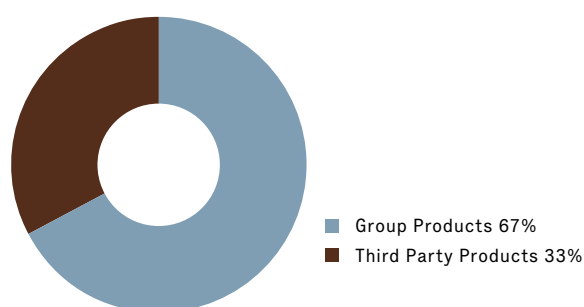
Third Party Products

Sales of Third Party Products grew by 2.4 MEUR from the comparison period to 90.2 MEUR. Increased sales were driven by strong sales in Nordic and Rest of Europe markets.

Regardless of the sales growth, comparable operating profit for Third Party Products decreased from the comparison period following the decline in sales margins.

NET SALES BY OPERATING SEGMENT

EUR MILLION	2019	2018	CHANGE %	COMPARABLE CHANGE %
Group Products	185.2	174.6	6%	+3%
Third Party Products	90.2	87.8	3%	+3%
TOTAL	275.4	262.4	5%	+3%



COMPARABLE OPERATING PROFIT BY OPERATING SEGMENT

EUR MILLION	2019	2018	CHANGE %
Group Products	19.5	17.2	13%
Third Party Products	-1.6	-0.5	-239%
TOTAL COMPARABLE OPERATING PROFIT	17.8	16.7	7%
Items affecting comparability	-4.4	-1.9	-137%
TOTAL OPERATING PROFIT	13.4	14.8	-9%

FINANCIAL POSITION

Cash flow from operations increased to a high level of 25.9 MEUR (6.7). The impact of net change of working capital to cash flow from operations was 11.4 MEUR (-11.1) as, contrary to previous year, cash was released from inventories and accounts receivables. The application of IFRS 16 accounting standard had a positive impact of 6.1 MEUR on cash flow from operations when comparing 2019 to 2018.

As a result of several supply chain initiatives, 2019 year-end inventory value decreased by 6.5 MEUR to 92.6 MEUR (99.1).

Net cash used in investing activities increased by 9.9 MEUR from the comparison period amounting to 14.6 MEUR (4.7). Capital expenditure, consisting mostly of normal operative capital expenditure, was 5.6 MEUR (6.4). Net acquisitions, related to the acquisition of 49% of DQC International Corporation, were 4.4 MEUR. Disposals, following a real estate and certain manufacturing equipment sales, were 3.2 MEUR (1.7). Change in interest-bearing receivables consisted mainly of additional funding of 7.8 MEUR (0.0) to DQC International Corporation.

Liquidity position of the Group was good. Undrawn committed long-term credit facilities amounted to 29.9 MEUR at the end of the period. Gearing ratio increased and equity-to-assets ratio weakened slightly from last year. The application of the IFRS 16 accounting standard increased interest-bearing debt by 13.5 MEUR. 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 November 2019. The accrued non-recognized interest on hybrid bond at December 31, 2019 was 0.7 MEUR (1.3).

KEY FIGURES

EUR MILLION	2019	2018	CHANGE %
Net cash generated from operating activities	25.9	6.7	289 %
Debt-to-equity ratio (gearing) at the end of the period %	49.2	47.8	
Equity-to-assets ratio at the end of the period %	52.4	53.2	
Net interest-bearing debt at the end of the period	74.6	70.3	6 %

STRATEGY IMPLEMENTATION

The strategic target of the Group is to build a solid financial and operational platform for growth. The Group will also take determined actions to improve its profitability and working capital efficiency as well as 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 group strategy is progressing on all levels in the organization. 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. After acquiring 49% ownership in DQC International Corporation, known as "13 Fishing", the Group has entered the rod and reel business with a worldwide approach. The Group will invest outside USA in marketing and product development of 13 Fishing products to serve fishermen and retailers in the best possible manner. After the changes made in 2019 in distribution agreements with Shimano, the Group will also focus on growth in the large European fishing tackle markets in Germany, United Kingdom, Italy and Benelux countries, previously served by Shimano.

The Group initiated in October 2019 a restructuring program, which aims at increasing efficiencies of operations, increase internal synergies and consequently decreasing operating expenses and reducing net working capital. In the last two months of 2019, several projects and new measures were started under the restructuring program in Europe and Asia, which will start to materialize financially from 2020 onwards.

Significant focus and resources are allocated to streamline internal supply chains and to develop sales and operations planning to achieve improved service levels and lower group-wide inventories. Consequently, improved service levels from own factories has increased product availability and fill rates to customers are on a high level. Furthermore, supply chain operations to new markets in Central Europe were centralized to an existing delivery center in France.

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. The operational transformation project to streamline and simplify the Indonesian factory is progressing as planned. Production of certain product categories and some non-core production processes have been outsourced to specialized companies.

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

PRODUCT DEVELOPMENT

Continuous product development and consistent innovation are core competences for the Group and major contributors to the value and commercial success of the brands. The Group has boosted its lure product development procedure by centralizing and expanding 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.

The most important product launches of the year were a European-wide coordinated launch of a series of saltwater lures, which started in January in France and covered both Rapala-branded hard baits and Storm branded soft plastics. Suffix Advance Fluorocarbon line was launched at the European Fishing Tackle Trade Exhibition in June, where it was voted the Best New Monofilament Line. VMC Hybrid Blade hook won the Best Terminal Tackle category, in which the Rapala RCD Lure Tuning Tool was nominated as Runner Up. Rapala LureCamo Tackle Bag Magnum was nominated Runner Up in the Tackle Bag category.

At the US trade show ICAST in July, new products designed for the North American market were launched, and VMC's Hybrid Blade continued to be victorious as it was named Best Terminal Tackle of the show.

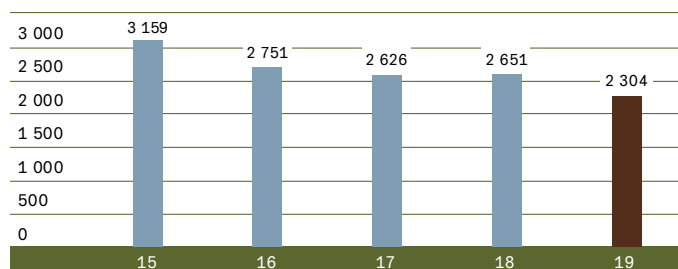
Preparations for the 2020 new item launches were well under way.

ORGANIZATION AND PERSONNEL

Average number of personnel was 2 604 (2 772) for the full year and 2 501 (2 742). At the end of December, the number of personnel was 2 304 (2 651), decrease coming from streamlining the lure manufacturing operations in Indonesia.

Louis d'Alañon was appointed as President and Chief Executive Officer on September 27, 2019. Furthermore, Jean-Philippe Nicolle was appointed as a member to the Executive Committee and Executive Vice President, Head of European Distribution as of January 1, 2020.

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 AND RISKS

Market outlook for Group Products in North America is positive and 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 execution of the restructuring program and changes in Third Party Products business affects market visibility for 2020. Furthermore, extraordinary winter weathers in Europe will affect negatively winter sports business.

The Group expects 2020 full year net sales with comparable FX rates and comparable operating profit (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) to decline from 2019. The decline in sales is coming from the decrease in Third Party Products business, which is expected to lead to decline in the Group's comparable EBIT. Several restructuring projects are taking place, but their financial impact will for the most part start to materialize in full year figures in 2021. 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.

PROPOSAL FOR PROFIT DISTRIBUTION

The Board of Directors proposes to the Annual General Meeting that no dividend will be paid for 2019 (0.06 EUR per share in the previous year).

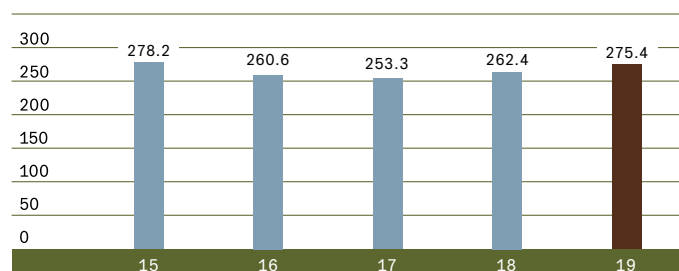
EVENTS AFTER THE BALANCE SHEET DATE

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

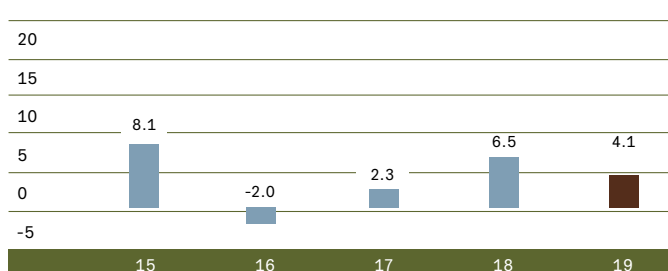
KEY FINANCIAL FIGURES

		2019	2018	2017	2016	2015
Scope of activity and profitability						
Net sales	EUR million	275.4	262.4	253.3	260.6	278.2
Operating profit before depreciation and impairments	EUR million	26.0	22.4	15.7	14.1	28.1
as a percentage of net sales	%	9.4	8.5	6.2	5.4	10.1
Operating profit	EUR million	13.4	14.8	8.9	7.2	21.0
as a percentage of net sales	%	4.9	5.6	3.5	2.8	7.6
Profit before taxes	EUR million	9.8	12.7	5.6	2.2	14.2
as a percentage of net sales	%	3.6	4.8	2.2	0.8	5.1
Net profit for the period	EUR million	4.1	6.5	2.3	-2.0	8.1
as a percentage of net sales	%	1.5	2.5	0.9	-0.8	2.9
Attributable to						
Equity holders of the Company	EUR million	4.4	6.1	2.4	-3.0	6.7
Non-controlling interest	EUR million	-0.4	0.4	0.0	1.0	1.4
Capital expenditure	EUR million	5.6	6.4	6.0	8.4	9.1
as a percentage of net sales	%	2.0	2.4	2.4	3.2	3.3
Research and development expenses	EUR million	1.7	1.6	1.9	2.5	2.1
as a percentage of net sales	%	0.6	0.6	0.7	0.9	0.8
Net interest-bearing debt at the end of the period	EUR million	74.6	70.3	67.8	96.1	108.2
Capital employed at the end of the period	EUR million	226.2	217.4	210.5	232.2	248.1
Return on capital employed (ROCE)	%	6.0	6.9	4.0	3.0	8.7
Return on equity (ROE)	%	2.7	4.5	1.7	-1.5	5.9
Equity-to-assets ratio at the end of the period	%	52.4	53.2	53.9	43.1	44.7
Debt-to-equity ratio (gearing) at the end of the period	%	49.2	47.8	47.5	70.6	77.3
Average personnel for the period	Persons	2 604	2 772	2 736	2 829	3 078
Personnel at the end of the period	Persons	2 304	2 651	2 626	2 751	3 159

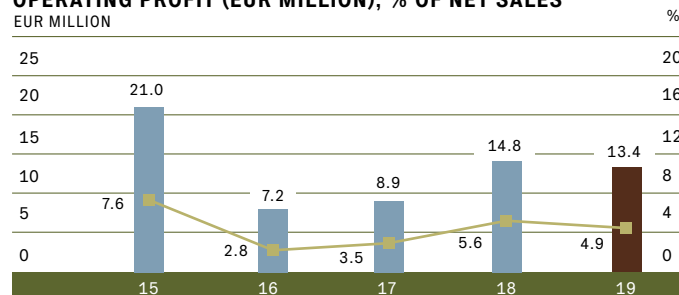
NET SALES, EUR MILLION



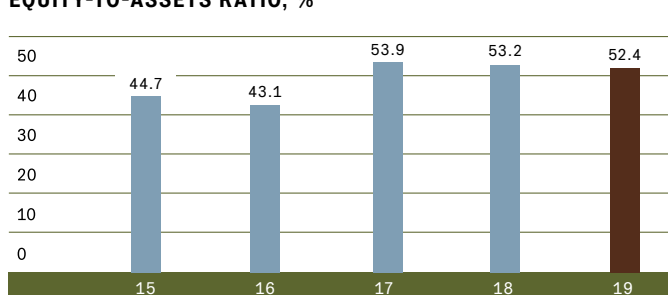
NET PROFIT (LOSS) FOR THE PERIOD, EUR MILLION



OPERATING PROFIT (EUR MILLION), % OF NET SALES



EQUITY-TO-ASSETS RATIO, %



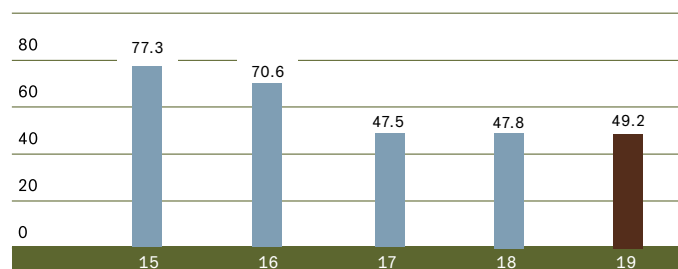
■ Operating profit
■ Operating profit as a percentage of net sales

		2019	2018	2017	2016	2015
Share related key figures						
Earnings per share	EUR	0.10	0.13	0.05	-0.08	0.17
Fully diluted earnings per share	EUR	0.10	0.13	0.05	-0.08	0.17
Equity per share	EUR	3.16	3.05	2.89	3.33	3.43
Dividend per share ¹⁾	EUR	0.0	0.06	0.04	0.10	0.15
Dividend/earnings ratio ¹⁾	%	0.0	45.8	64.2	-128.9	86.3
Effective dividend yield ¹⁾	%	0.0	1.97	1.20	2.42	3.16
Price/earnings ratio		27.8	23.3	53.5	-53.2	27.3
Share price at the end of the period	EUR	2.77	3.05	3.33	4.13	4.74
Lowest share price	EUR	2.56	2.89	3.29	3.90	4.57
Highest share price	EUR	3.43	4.07	4.68	4.90	5.85
Average share price	EUR	2.88	3.43	3.72	4.30	5.11
Number of shares traded	Shares	4 804 467	1 511 411	4 096 349	2 782 154	2 074 690
Number of shares traded of average number of shares	%	12.52	3.94	10.69	7.26	5.41
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
Year end market capitalization ²⁾	EUR million	106.8	116.9	127.6	158.3	181.8
Number of shares at the end of the period excluding own shares ²⁾	1 000 shares	38 548	38 323	38 323	38 323	38 360
Number of own shares at the end of period	1 000 shares	452	677	677	677	640
Weighted average number of shares ²⁾	1 000 shares	38 387	38 323	38 323	38 329	38 366
Fully diluted number of shares at the end of the period ²⁾	1 000 shares	38 548	38 323	38 323	38 323	38 360
Fully diluted weighted average number of shares ²⁾	1 000 shares	38 387	38 323	38 323	38 329	38 366

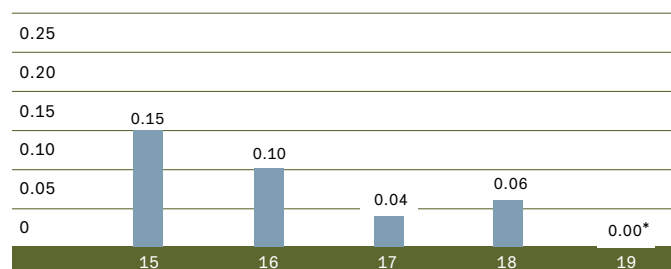
¹⁾ Year 2019 board proposal.

²⁾ Excluding own shares.

DEBT-TO-EQUITY RATIO (GEARING) %

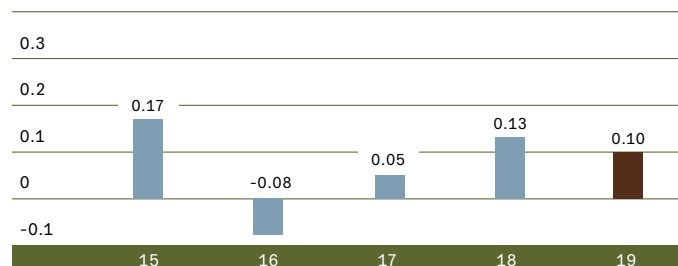


DIVIDEND PER SHARE, EUR

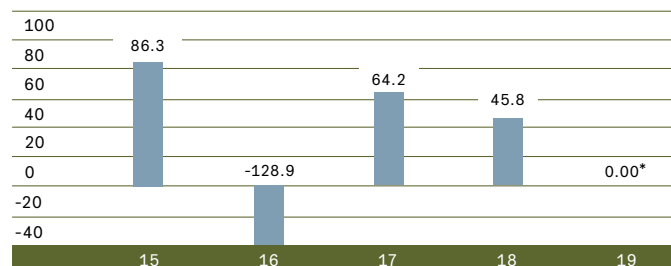


*Board proposal

EARNINGS PER SHARE, EUR



DIVIDEND/EARNINGS RATIO, %



*Board proposal

CONSOLIDATED FINANCIAL STATEMENTS, IFRS

CONSOLIDATED INCOME STATEMENT

EUR MILLION	NOTE	2019	2018
Net sales	2	275.4	262.4
Other operating income	4	2.2	0.9
Change in inventory of finished products and work in progress		-10.7	7.1
Production for own use		0.1	0.2
Materials and services	6	-120.6	-129.0
Employee benefit expenses	7	-71.6	-68.8
Other operating expenses	5	-48.6	-50.4
Share of results in associates and joint ventures	13	-0.2	0.0
Operating profit before depreciation, amortization and impairments		26.0	22.4
Depreciation, amortization and impairments	11, 12, 27	-12.6	-7.6
Operating profit		13.4	14.8
Financial income and expenses	9	-3.6	-2.1
Profit before taxes		9.8	12.7
Income taxes	10	-5.8	-6.2
NET PROFIT (LOSS) FOR THE PERIOD		4.1	6.5
Attributable to			
Equity holders of the parent company		4.4	6.1
Non-controlling interests	14	-0.4	0.4
Earnings per share for profit attributable to the equity holders of the parent company	30		
Earnings per share, EUR		0.10	0.13
Diluted earnings per share, EUR		0.10	0.13
Weighted average number of shares, 1 000 shares		38 387	38 323
Diluted weighted average number of shares, 1 000 shares		38 387	38 323

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION	2019	2018
Net profit (loss) for the period	4.1	6.5
Other comprehensive income, net of tax ¹⁾		
Items that will not be reclassified to income statement		
Remeasurements of defined benefit liabilities	-0.1	0.1
Total items that will not be reclassified to income statement	-0.1	0.1
Items that may be reclassified subsequently to income statement		
Change in translation differences	2.4	3.2
Cashflow hedges ²⁾	0.0	0.0
Net investment hedges	1.2	-1.0
Total items that may be reclassified subsequently to income statement	3.6	2.1
Other comprehensive income for the period, net of tax	3.5	2.2
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	7.5	8.8
Attributable to		
Equity holders of the parent company	7.8	8.6
Non-controlling interests	-0.2	0.2

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	2019	2018
ASSETS			
Non-current assets			
Goodwill	11	49.1	48.5
Other intangible assets	11	26.4	26.0
Tangible assets	12	26.9	29.5
Right-of-use-assets	27	13.3	-
Investments in associates and joint ventures	13	4.2	0.0
Other shares	15	0.2	0.3
Interest-bearing receivables	16	7.8	0.0
Non-interest-bearing receivables	16	0.2	0.2
Deferred tax assets	10	4.6	5.3
Total non-current assets		132.8	109.8
Current assets			
Inventories	17	92.6	99.1
Trade and other non-interest-bearing receivables	16	49.9	53.0
Income tax receivables		1.9	1.7
Cash and cash equivalents	18	12.3	13.4
Total current assets		156.7	167.3
TOTAL ASSETS		289.5	277.1
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		-4.9	-5.6
Translation differences		-7.6	-11.2
Retained earnings		109.2	108.6
Equity attributable to equity holders of the parent company	19	121.9	117.0
Non-controlling interests	14	4.6	5.1
Hybrid bond	19	25.0	25.0
Total equity		151.6	147.1
Non-current liabilities			
Interest-bearing liabilities	24	46.0	10.1
Non-interest-bearing liabilities	25	0.1	0.1
Lease liabilities	22, 24	9.0	-
Employee benefit obligations	20	2.9	2.6
Deferred tax liabilities	10	5.4	5.4
Provisions	21	0.1	0.1
Total non-current liabilities		63.5	18.2
Current liabilities			
Interest-bearing liabilities	24	35.3	73.7
Trade and other non-interest-bearing payables	25	33.8	36.7
Lease liabilities	22, 24	4.4	-
Income tax payables		0.4	1.3
Provisions	21	0.6	0.1
Total current liabilities		74.4	111.8
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		289.5	277.1

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR MILLION	NOTE	2019	2018
Net profit for the period		4.1	6.5
Adjustments			
Income taxes	10	5.8	6.2
Financial income and expenses	9	3.6	2.1
Reversal of non-cash items			
Depreciation and impairments	11, 12, 27	12.6	7.6
Share based payments	7, 29	0.0	0.4
Exchange rate differences	9	0.5	-0.6
Share of results in associated companies and joint ventures	13	0.2	0.0
Gains/losses on disposals of intangible, tangible assets and subsidiaries		-0.5	0.2
Other items		-3.7	1.3
Total adjustments		18.4	17.2
Financial items			
Interest paid		-2.8	-1.9
Interest received		0.8	0.7
Income taxes paid		-5.5	-4.6
Other financial items, net		-0.5	-0.1
Total Financial items		-7.9	-5.9
Change in working capital			
Change in receivables		3.9	-4.0
Change in inventories		11.2	-9.0
Change in liabilities		-3.6	1.9
Total change in working capital		11.4	-11.1
Net cash generated from operating activities		25.9	6.7
Net cash used in investing activities			
Acquisition of intangible assets	11	-0.5	-0.8
Proceeds from sale of tangible assets	12	3.2	1.7
Acquisition of tangible assets	12	-5.1	-5.6
Acquisition of DQC International	13	-4.4	
Change in interest-bearing receivables		-7.8	0.0
Total net cash used in investing activities		-14.6	-4.7
Net cash generated from financing activities			
Dividends paid to parent company shareholders		-2.3	-1.5
Dividends paid to non-controlling interest		-1.0	-2.0
Directed issue of own shares		0.7	-
Non-current loan withdrawals		41.0	1.3
Current loan withdrawals		66.7	86.8
Non-current loan repayments		0.0	-5.1
Current loan repayments		-110.5	-77.4
Payments of lease liabilities		-6.1	0.0
Hybrid bond		-1.6	-1.3
Total net cash generated from financing activities		-13.2	0.8
Change in cash and cash equivalents		-1.9	2.7
Cash and cash equivalents at the beginning of the period		13.4	10.3
Foreign exchange rate effect		0.8	0.4
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	18	12.3	13.4

CHANGES IN LIABILITIES INCLUDED CASH FLOW FROM FINANCING ACTIVITIES

Liabilities Jan 1, 2019	83.7
Drawdowns	107.7
Repayments	-110.2
Unrealized foreign exchange differences*	-
Liabilities Dec 31, 2019	81.2

Drawdowns and repayments of loans in statement of cash flows

Drawdowns and repayments of loans	-2.5
Derivatives and other realized foreign exchange on financial activities	-0.4
Drawdowns and repayments of loans, net	-2.8

*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 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 ¹⁾										
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 profit for the period							4.4	-0.4		4.1
Other comprehensive income ¹⁾										
Translation differences						2.3		0.1		2.4
Defined benefit plans							-0.1			-0.1
Cash flow hedging			0.0							0.0
Net investment hedges						1.2				1.2
Total comprehensive income			0.0			3.5	4.3	-0.2		7.5
Directed issue of own shares					0.7					0.7
Dividends paid							-2.3	-1.0		-3.3
Issuance of hybrid bond									25.0	25.0
Repayment of hybrid bond									-25.0	-25.0
Hybrid bond expenses							-1.3			-1.3
Sale of subsidiary						0.2		0.7		0.9
Share based payments							0.0			0.0
EQUITY ON DEC 31, 2019	3.6	16.7	0.0	4.9	-4.9	-7.6	109.2	4.6	25.0	151.6

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, 2019. The Board of Directors of the company has approved these financial statements for publication at its meeting on February 12, 2020. 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, 2019. 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 applies, as from January 1, 2019 IFRS 16 Leases standard. Other IFRS changes or interpretations did not have material effect on the consolidated figures.

IFRS 16 Leases

Starting from 1 January 2019 the Group has applied IFRS 16 Leases for the first time. The major part of the lease agreements that were reported as operating leases in 2018 were converted to lease agreements to be recognized on balance sheet on the adoption of IFRS 16. According to the standard these liabilities were measured at the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate on the application date.

The Group used modified retrospective approach as a transition method to IFRS 16 and no comparatives for 2018 were restated. Applying the modified retrospective approach the Group adopted the following practical expedients:

- 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, the Group will recognize the lease payments associated with short-term leases as an expense.
- Initial direct costs have not been included in the measurement of the right-of-use assets at the date of initial application
- Lease component and associated non-lease component is accounted as a single lease component
- A single discount rate has been applied to portfolios of leases with reasonably similar characteristics and main characteristic used is the currency.

Leases that are booked to the balance sheet are mainly consisting of the lease contracts of land, offices, warehouses and some machinery and equipment such as company cars. The discount rate that has been used in calculating the lease debt is determined according to the incremental borrowing rate determined in local market areas. The rate represents the interest that a lessee would have to pay over a similar term to a similar asset in a similar economic environment. The lease term matches to the non-terminable period, if necessary this is completed with renewal options if they are reasonably certain.

The Group's IFRS 16 project team did select lease accounting system for lease contracts provided by ZenTreasury Oy. This system has been fully implemented and trained within the Group in great success.

The impact of the initial application of IFRS 16 is described below by each income statement and balance sheet line item.

STATEMENT OF INCOME

MEUR	2019 EXCL. IFRS 16	IFRS 16 IMPACT	2019 INCL. IFRS 16
Net sales	275.4		275.4
Other operating income	2.2		2.2
Materials and services	131.2		131.2
Employee benefit expenses	71.6		71.6
Other operating expenses	55.1	-6.5	48.6
Share of results in associates and joint ventures	-0.2		-0.2
Depreciation, amortization and impairments	6.4	6.2	12.6
Operating profit/loss (EBIT)	13.1	0.3	13.4
Financial income and expenses	3.1	0.5	3.6
Profit/loss before taxes	9.9	-0.1	9.8
Income taxes	5.8		5.8
NET PROFIT/LOSS FOR THE PERIOD	4.2	-0.1	4.1

STATEMENT OF FINANCIAL POSITION

MEUR	DEC 31, 2018	IMPACT OF IFRS 16	JAN 1, 2019
ASSETS			
Non-current assets			
Intangible assets	74.5		74.5
Property, plant and equipment	29.5		29.5
Right-to-use-assets	0.0	14.0	14.0
Non-current assets			
Interest-bearing	0.0		0.0
Non-interest-bearing	5.8		5.8
Total non-current assets	109.8	14.0	123.8
Current assets			
Inventories	99.1		99.1
Current assets			
Interest-bearing	0.0		0.0
Non-interest-bearing	54.8		54.8
Cash and cash equivalents	13.4		13.4
Total current assets	167.3		167.3
TOTAL ASSETS	277.1	14.0	291.1
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the parent company	117.0		117.0
Non-controlling interests	5.1		5.1
Hybrid bond	25.0		25.0
Total equity	147.1		147.1
Non-current liabilities			
Interest-bearing	10.1		10.1
Non-interest-bearing	8.1		8.1
Lease liability	0.0	8.4	8.4
Total non-current liabilities	18.2	8.4	26.6
Current liabilities			
Interest-bearing	73.7		73.7
Non-interest-bearing	38.1		38.1
Lease liability	0.0	5.6	5.6
Total current liabilities	111.8	5.6	117.4
TOTAL EQUITY AND LIABILITIES	277.1	14.0	291.1

Amendments to IAS 28 Investments in Associates and Joint Ventures

Effective for financial periods beginning on or after 1 January 2019. The amendments clarify that IFRS 9 Financial Instruments is applied to the accounting for long-term interest in an associate or joint venture to which the equity method is not applied. The amendments have no impact on the consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

Effective for financial periods beginning on or after 1 January

2019. This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The key matter is whether the tax authority will accept the chosen tax treatment. When considering this, the assumption is that tax authorities will have full knowledge of all relevant information in assessing the proposed tax treatment. The interpretation does not have any significant impact on the consolidated financial statements.

Amendment to IAS 19 Employee Benefits

Effective for financial periods beginning on or after 1 January 2019. This amendment clarifies the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment specifies that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to use updated assumptions to determine the current service cost and net interest. The amendment does not have a material impact on the consolidated financial statements.

Amendments to IFRS 9 Financial Instruments

Effective for financial periods beginning on or after 1 January 2019. Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Without the amendment these financial assets would have had to be measured at FVPL. The amendments have no impact on the consolidated financial statements.

ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN 2020

In 2020 the Group will adopt the following new, revised and amended standards and interpretations, which are relevant to its operations as they become effective.

Amendments to IAS 1 and IAS 8

Definition of Material. Amendments will clarify the definition of material and align the definition used in the Conceptual Framework and the standards themselves. The effective date for these amendments is 1 January 2020. The Group is assessing the impact of these amendments.

Amendments to References to the Conceptual Framework in IFRS Standards

The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The effective date for these amendments is 1 January 2020. The Group is assessing the impact of these amendments.

Amendments to IFRS 3 Business combinations

The amendments will help companies determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous

definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. The effective date for these amendments is 1 January 2019. The Group is assessing the impact of these amendments.

Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments are related to Interest Rate Benchmark Reform and require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform. The effective date for these amendments is 1 January 2020. The Group is assessing the impact of these amendments.

IFRS 17 Insurance Contracts

This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. The effective date for these amendments is 1 January 2021. The standard is not relevant to the Group.

Other published standard changes or interpretations are not expected to have a significant effect on the Group's consolidated financial statements or disclosures.

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. Sales of goods are recognized after the significant risks and rewards of ownership of the goods have passed to the buyer and no significant uncertainties remain regarding the consideration, associated costs and possible return of goods. The costs of shipping and distributing products are included in other operating expenses. Revenues from services are recorded when the service has been performed.

Rental income arising from 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.

ACCOUNTING FOR LEASES

Group as a lessee

Group's capitalised lease agreements consist mainly of buildings as production facilities, office premises and warehouses, also the Group has several vehicle lease agreements. The Group recognises a right-of-use (ROU) asset and a lease liability at the commencement of the lease. At the commencement date, a right-of-use asset as defined by IFRS 16 is measured at cost. The Group applies the two available exemptions, which relate to short-term contracts, in which the lease term is less than 12 months, or low-value assets, which are expensed to other operating expenses.

The nominal lease liability is initially measured at the present value of the lease payments over the lease term. The lease payments are discounted using the lessee's incremental borrowing rate. The incremental borrowing rates used are relevant interbank rates and the Group's internal finance margins. The incremental borrowing rates are currency specific.

The initial measurement of the lease payments does not include possible variable elements. Variable lease payments not included in the initial measurement of the lease liability are recognised directly in the statement of income. The lease term is the non-cancellable period of the lease plus period covered by an option to extend or option to terminate if the lessee is reasonably certain to exercise the extension option. Management judgment based on realistic estimates is used when determining the lease term, especially concerning lease agreements containing termination and purchase options and lease agreements with indefinite lease terms.

Subsequently, the right-of-use assets are measured at initial measurement less accumulated depreciation and impairment losses. The right-of-use assets are depreciated and recognised in the statement of income. Interest on lease liabilities are recognized in financial items in statement of income over the lease term. The lease liabilities are subsequently measured at initial recognition less occurring lease payments that are allocated to the principal.

Lease payments are presented as repayments of liabilities and related interest expenses. The lease payments are presented in the cash flow from financing activities and the interest related to leases are presented in the cash flow from operating activities. Lease payments related to short-term leases, low-value assets and variable payments are presented in the cash flow from operating activities. Modifications to lease agreements may result in adjustments to existing right-of-use assets and lease liabilities. A gain or loss arising from a modification and a termination of a lease agreement is recognised in other operating income or other operating expenses in the statement of income.

Group as a lessor

IFRS 16 did not modify substantially how a lessor recognizes lease agreements. Those leases under which the Group is a lessor are classified as 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. The Group acting as a lessor is not material to the Group consolidated financial statements.

FINANCIAL ASSETS

Financial assets are initially measured at fair value at trade date. Subsequently, financial assets are classified and measured at amortized cost, at fair value through other comprehensive income, or at fair value through profit and loss.

Financial assets are measured at amortized cost when business model is hold-to-collect and cash flows are solely payments of principal and interest. Financial assets at amortized cost include non-derivative financial assets such as cash and cash equivalents, trade receivables and loan receivables.

Loan and trade receivables are measured at amortized cost using the effective interest rate method less any expected credit losses. 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 measured at fair value through profit and loss are assets which are derivatives not in hedge accounting.

Financial assets measured at fair value through other comprehensive income are equity instruments where entity has done an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss.

Impairment of financial assets is assessed regularly and when the carrying value exceeds the fair value or recoverable value of discounted cash flows, appropriate impairment is recognized in the income statement.

For trade receivables Rapala applies IFRS 9 expected credit loss assessment. See note 22.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group is exposed to financial risks related especially to changes in foreign currency exchange rates and interest rates for loans and borrowings. Derivative financial instruments are used, from time to time, to hedge financial risk. All derivatives are initially recognized at fair value on the date derivative contract is entered into, and are subsequently remeasured at fair value on each balance sheet date. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models. 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 hedging 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 initially recognized at fair value at trade date. After initial recognition, the financial liabilities are subsequently measured and categorized at amortized cost, at fair value through profit and loss, or as derivatives designated at hedging instruments in an effective hedge. 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 are recognized at trade 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.

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.

TRADE RECEIVABLES

Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance. A credit loss allowance of trade receivables is made when there is objective evidence (such as significant overdue of receivables and unsuccessful dunning attempts or known financial difficulties and thus increased probability of customer insolvency) that the Group will not be able to collect all amounts due according to the original terms of the receivables. The assessment and decision for credit loss allowances is done locally in each business unit on case-by-case basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current interest-bearing loans.

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 hyperinflationary 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 Hyperinflationary 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 44. All the other segment reporting is consistent with IFRS accounting principles. Reportable segments are consistent with those in the financial statements 2018.

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

REPORTABLE SEGMENTS

2019

EUR MILLION	GROUP PRODUCTS	THIRD PARTY PRODUCTS	TOTAL REPORTABLE SEGMENTS
Net Sales	185.2	90.2	275.4
Depreciation, amortization and impairment losses	-9.9	-2.7	-12.6
Share of results in associates and joint ventures (included in OP)	0.0	-0.2	-0.2
Comparable operating profit	19.5	-1.6	17.8
Segment assets			
Non-interest-bearing assets	219.8	45.4	265.2
Investments in associates and joint ventures	0.0	4.2	4.2
Total segment assets	219.8	49.6	269.4
Investments	5.1	0.6	5.6

RECONCILIATIONS

EUR MILLION	2019	2018
Net sales		
Total sales for reportable segments	275.4	262.4
Group net sales	275.4	262.4
Comparable operating profit		
Total comparable operating profit for reportable segments	17.8	16.7
Mark-to-market valuations of operative currency derivatives	-0.4	0.7
Other items affecting comparability	-4.0	-2.6
Group total operating profit	13.4	14.8
Group financial income and expenses	-3.6	-2.1
Group profit before taxes	9.8	12.7
Other items affecting comparability		
Restructurings		
Management restructuring	-1.1	-0.2
Indonesia manufacturing restructuring	-1.1	-1.9
Other restructurings	-2.1	-0.6
Acquisition costs of DQC International	-0.8	
Other items	1.0	0.2
Total other items affecting comparability	-4.0	-2.6
Assets		
Total assets for reportable segments	269.4	263.7
Unallocated interest-bearing assets	20.1	13.4
Group total assets	289.5	277.1

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

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	2019	2018
Finland	27.7	26.0
Other Nordic Countries	28.9	29.1
Nordic total	56.6	55.1
Russia	12.0	11.8
France	37.3	34.6
Other European Countries	32.0	32.0
Rest of Europe total	81.3	78.4
USA	91.6	83.4
Other North America	12.6	12.0
North America total	104.2	95.4
Rest of the World total	33.3	33.6
TOTAL	275.4	262.4

Non-current assets by unit location

EUR MILLION	2019	2018
Finland	23.2	16.1
Other Nordic Countries	4.6	3.5
Nordic total	27.8	19.6
Rest of Europe total	21.3	17.3
USA	32.8	30.1
Other North America	3.6	3.7
North America total	36.5	33.8
China (incl. Hong Kong)	27.5	26.4
Other countries	6.9	7.0
Rest of the World total	34.4	33.4
TOTAL	119.9	104.0

3 ACQUISITIONS AND DISPOSALS

ACQUISITIONS IN 2019 ASSOCIATED COMPANY ACQUISITION

On September 18, 2019, Rapala VMC concluded definitive agreements to acquire in total 49% of the share capital of the Florida-based DQC International Corp, known especially in the USA for its 13 Fishing -branded rods and reels. For more details on the associated companies see note 13.

ACQUISITIONS IN 2018

No acquisitions were carried out in 2018.

DIVESTMENTS IN 2019

On 23 December, Rapala VMC divested 100% of the shares of its Ukrainian subsidiary VMC-WaterQueen Ukraine to a private Ukrainian company. VMC-WaterQueen Ukraine is a distribution company. The sale did not have a significant impact of Rapala VMC Corporation's financial position or result during 2019.

DIVESTMENTS IN 2018

No divestments were carried out in 2018.

4 OTHER OPERATING INCOME

EUR MILLION	2019	2018
Royalty income	0.2	0.1
Rental income	0.5	0.4
Scrap sales	-	0.1
Gains from sale of intangible and tangible assets	1.0	0.1
Insurance compensations	0.1	0.0
Other income	0.4	0.2
TOTAL	2.2	0.9

5 OTHER OPERATING EXPENSES

EUR MILLION	2019	2018
Selling and marketing expenses	-11.5	-11.0
Rents paid	-1.0	-7.4
Freight out	-6.1	-6.0
Maintenance and utility expenses	-5.7	-5.4
Traveling expenses	-4.1	-4.2
Sales commissions	-4.3	-3.8
Consulting expenses	-2.1	-1.7
IT and telecommunication	-2.7	-2.5
Auditors' fees and services	-0.8	-0.8
Outsourced logistics	-0.9	-0.7
Currency derivatives	0.3	0.4
Losses on sale of tangible and intangible assets	-0.5	-0.3
Other expenses	-9.3	-7.1
TOTAL	-48.6	-50.4

AUDITORS' FEES AND SERVICES

EUR MILLION	2019	2018
Audit fees	-0.7	-0.6
Fees for tax services	-0.1	-0.1
Non-audit fees	0.0	-0.1
TOTAL	-0.8	-0.8

6 MATERIALS AND SERVICES

EUR MILLION	2019	2018
Materials, goods and supplies		
Purchases during the period	-121.6	-127.4
Change in inventory	2.6	0.2
External services	-1.7	-1.8
TOTAL	-120.6	-129.0

7 EMPLOYEE BENEFIT EXPENSES

EUR MILLION	2019	2018
Wages and salaries	-57.8	-54.8
Pension costs - defined contribution plans	-4.2	-4.2
Pension costs - defined benefit plans	-0.4	-0.2
Other long-term employee benefits	-0.1	-0.1
Option programs to be settled in shares	0.0	-0.4
Other personnel expenses	-9.1	-9.1
TOTAL	-71.6	-68.7

The employee benefit expenses in 2019 included EUR 2.3 million employee related restructuring expenses (2018: EUR 0.5 million). For more details on employee benefits for top management and possible share-based incentive plans, see notes 28 and 29.

AVERAGE PERSONNEL

PERSONS	2019	2018
North America	129	126
Nordic	348	336
Rest of Europe	859	881
Rest of the World	1 268	1 430
TOTAL	2 604	2 772

8 RESEARCH AND DEVELOPMENT EXPENSES

Net profit for the period includes research and development expenses of EUR 1.7 million recognized as an expense in 2019 (2018: EUR 1.6 million). Group has not capitalized development costs.

9 FINANCIAL INCOME AND EXPENSES

EUR MILLION	2019	2018
Foreign exchange gains and losses		
From financial assets	2.6	-0.3
From financial liabilities measured at amortized cost	-3.4	-1.9
From IFRS 16 liabilities	0.0	-
Interest and other financial income		
Interest income from financial assets measured at amortized cost	0.8	0.9
Change in fair value of interest rate derivatives - hedge accounted	0.0	0.0
Interest rate derivatives - non-hedge accounted	0.0	0.1
Other financial income	0.0	0.0
Interest and other financial expenses		
Interest expense on financial liabilities measured at amortized cost	-2.0	-1.9
Currency derivatives - non-hedge accounted	-0.4	1.5
Interest expenses on leases, IFRS 16	-0.5	-
Other financial expenses	-0.9	-0.5
TOTAL	-3.6	-2.1

RECOGNIZED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

EUR MILLION	2019	2018
Change in fair value of interest rate derivatives - hedge accounted, net of tax	0.0	0.0
Gains and losses on hedges of net investments, net of tax	1.2	-1.0
TOTAL	1.2	-1.0

EXCHANGE GAINS AND LOSSES IN OPERATING PROFIT

EUR MILLION	2019	2018
In net sales	0.3	0.9
In purchases	-0.1	-0.9
In other operating expenses		
Currency derivatives, non-hedge accounted	0.3	0.4
TOTAL	0.5	0.4

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 (2018: EUR 0.0 million) is recognized in interest expenses.

In 2019, hedge accounted interest rate derivatives designed as cash flow hedges, which do not fulfill effectiveness requirements had impact of EUR 0.0 million (2018: EUR 0.0 million) in the financial income and expenses of income statement.

10 INCOME TAXES

INCOME TAXES IN THE INCOME STATEMENT

EUR MILLION	2019	2018
Income taxes	-6.8	-7.2
Deferred taxes	1.0	1.0
TOTAL	-5.8	-6.2

INCOME TAX RECONCILIATION

EUR MILLION	2019	2018
Income taxes at Finnish corporate tax rate (20%)	-3.2	-2.5
Effect of different tax rates in foreign subsidiaries	-0.1	-1.4
Taxes for prior years	-0.1	-0.1
Foreign withholding taxes	-0.2	-0.2
Non-deductible expenses and tax exempt income	-0.2	-0.2
Losses for which no deferred tax benefit is recognized	-1.7	-0.9
Changes in the carrying amounts of deferred tax assets and liabilities from prior years	-0.6	-0.2
Impact of the changes in the tax rates on deferred tax balances	0.1	-0.5
Other items	0.2	-0.2
INCOME TAXES IN THE INCOME STATEMENT	-5.8	-6.2

TAX EFFECTS RELATING TO EACH COMPONENT OF OTHER COMPREHENSIVE INCOME

2019

EUR MILLION	BEFORE TAX	TAX EXPENSE/BENEFIT	NET OF TAX
Change in translation differences	2.4		2.4
Remeasurements of defined benefit liabilities	-0.2	0.0	-0.1
Cash flow hedges	0.0	0.0	0.0
Net investment hedges	1.3	0.0	1.2
TOTAL	3.5	0.0	3.5

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

MOVEMENT OF DEFERRED TAXES**2019**

EUR MILLION	JAN 1	INCOME STATEMENT	EQUITY	TRANSLATION DIFFERENCES	DEC 31
Tax losses and credits carried forward	2.0	-0.5		0.0	1.4
Provisions	0.6	0.0		0.0	0.6
Employee benefits	0.6	0.0	0.0		0.6
Depreciation difference	0.0	0.0		0.0	0.1
Effect of consolidation and eliminations	3.0	-0.5		0.1	2.5
Other temporary differences	0.7	0.3		0.3	1.3
TOTAL DEFERRED TAX ASSETS	6.8	-0.7	0.0	0.4	6.5
Depreciation difference and other untaxed reserves	1.1	0.0		0.0	1.1
Inventory	1.5	0.1		0.0	1.7
Fair value allocations for acquired net assets	2.3	-0.2		0.1	2.3
Other temporary differences	2.1	0.2		0.0	2.3
TOTAL DEFERRED TAX LIABILITIES	7.1	0.2		0.2	7.4
NET DEFERRED TAX ASSET	-0.2	-0.9	0.0	0.2	-0.9

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

Deferred taxes have been reported as a net balance according to IAS 12. As of December 31, 2019, the Group had tax losses carried forward of EUR 27.5 million (2018: EUR 23.3 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 1.9 million of these tax losses will expire during the next five years (2018: EUR 2.9 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 0.2 million (2018: EUR 1.4 million) in group companies, which have generated losses in financial year 2019 or 2018. 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

2019

EUR MILLION	GOODWILL	TRADEMARKS	CUSTOMER RELATIONS	OTHER INTANGIBLE ASSETS	TOTAL
Acquisition cost Jan 1	48.5	24.6	3.9	8.3	85.3
Additions				0.5	0.5
Disposals	0.0			-0.4	-0.5
Reclassifications ¹⁾				0.0	0.0
Translation differences	0.6	0.6	0.1	0.0	1.3
ACQUISITION COST DEC 31	49.1	25.2	4.0	8.4	86.7
Accumulated amortization Jan 1		-0.9	-3.4	-6.6	-10.9
Disposals				0.4	0.4
Reclassifications ¹⁾				0.0	0.0
Amortization during the period			-0.1	-0.5	-0.7
Translation differences		0.0	-0.1	0.0	-0.1
ACCUMULATED AMORTIZATION DEC 31		-0.9	-3.6	-6.7	-11.2
CARRYING VALUE JAN 1	48.5	23.7	0.6	1.7	74.5
CARRYING VALUE DEC 31	49.1	24.2	0.4	1.7	75.5

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				-0.3	-0.3
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

¹⁾ Includes reclassifications between intangible and tangible assets.

IFRS 16 related right-of-use assets are specified in note 27.

GOODWILL AND TRADEMARKS WITH INDEFINITE LIVES BY BUSINESS SEGMENTS

EUR MILLION	GROUP FISHING PRODUCTS	OTHER GROUP PRODUCTS	THIRD PARTY PRODUCTS	TOTAL
2019				
Goodwill	47.3	0.0	1.8	49.1
Trademarks with indefinite lives	23.8		0.4	24.2
Discount rate, %	8.0	8.0	6.3	
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	

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 2019 and 2018, 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 2019 or 2018.

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. 2020-2024 the average net sales growth % projected was stagnant. The actual EBITDA % average 2011-2018 was 10.3%. The realised EBITDA % 2019 was 9.4%. EBITDA % assumption average for 2020-2024 used in the calculation is 11.2%.

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 4.8 percentage points higher in Group Fishing Products and 2.0 percentage points in Third Party Products or EBITDA 52.0 percentage lower than used in the management's estimates in Group Fishing Products and 13.0 percentage points in Third Party Products, it would not lead to an impairment loss in these main cash generating units.

12 TANGIBLE ASSETS

2019

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	27.4	59.5	23.2	0.9	113.0
Additions		0.2	2.0	1.2	1.6	5.1
Disposals		-2.0	-2.2	-3.0		-7.2
Reclassifications ¹⁾		0.4	0.7	0.1	-1.3	-0.1
Translation differences	0.1	0.4	0.6	0.6	-0.1	1.5
ACQUISITION COST DEC 31	2.0	26.3	60.6	22.1	1.2	112.2
Accumulated depreciation Jan 1		-18.4	-48.2	-16.8		-83.4
Disposals		1.2	1.9	1.8		4.8
Reclassifications ¹⁾			0.0	0.0		0.0
Depreciation during the period		-0.8	-3.0	-1.7		-5.5
Impairments			0.0	0.0		0.0
Translation differences		-0.2	-0.4	-0.4		-1.0
ACCUMULATED DEPRECIATION DEC 31		-18.3	-49.8	-17.2		-85.2
CARRYING VALUE JAN 1	1.9	9.0	11.3	6.4	0.9	29.5
CARRYING VALUE DEC 31	2.0	8.1	10.8	4.9	1.2	26.9

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
Impairment			-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

¹⁾ Includes reclassifications between intangible and tangible assets and inventories.

IFRS 16 related right-of-use assets are specified in note 27.

13 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

On September 18, 2019 the Group acquired 49% of the share capital and voting rights of DQC International Corp, an unlisted company domiciled in the USA. DQC International Corp, known especially in the USA for its 13 Fishing -branded rods and reels and was established in 2012. The total consideration for the acquisition is 3.1 MUSD in cash and 225.000 treasury shares of Rapala VMC Corporation. Furthermore, the parties have agreed on an additional earn-out in cash to the sellers based on 13 Fishing's cumulative EBITDA in 2020-2021. The size of the possible earn-out will depend on the closing balance sheet of 13 Fishing and the company's actual EBITDA during 2020-2021, and according to Rapala's current estimate, the earn-out could result in a maximum payment of approximately 5 MUSD. It has also been agreed that Rapala will provide 10 MUSD of additional funding to 13 Fishing in the form of share capital and loans. The amount of the share capital increase from Rapala is 1 MUSD.

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, 2018 is the following: assets EUR 0.1 million, liabilities EUR 0.1 million, sales EUR 0.3 million and profit EUR 0.0 million.

Associated companies are consolidated according to the equity method.

EUR MILLION	2019	2018
Acquisition cost Jan 1	0.0	0.0
Increase	4.4	
Share of profit/loss	-0.2	0.0
ACQUISITION COST DEC 31	4.2	0.0

Information on associates and joint ventures

MILJ. EUR	LANIMO OÜ		DQC INTERNATIONAL CORP.	
	2019	2018	2019	2018
Net sales	0.2	0.3	6.2	-
Purchases and other expenses	-0.2	-0.2	-6.5	-
Depreciation	0.0	0.0	0.0	-
Interest income and expenses	0.0	0.0	-0.2	-
Net profit for the period	0.0	0.0	-0.5	-
Non-current assets	0.0	0.0	1.6	-
Current assets	0.1	0.1	7.4	-
Of which cash and cash equivalents	0.0	0.0	0.1	-
Non-current liabilities	0.0	0.0	10.1	-
Of which financial liabilities	0.0	0.0	-	-
Current liabilities	0.0	0.0	1.1	-
Net assets of associate/ joint venture	0.0	0.0	-2.2	-
Net assets belonging to Rapala Group	0.0	0.0	-0.7	-

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.

EUR MILLION	PROFIT (LOSS) ALLOCATED TO NON-CONTROLLING INTERESTS		EQUITY BELONGING TO NON-CONTROLLING INTERESTS	
	2019	2018	2019	2018
AO Normark	0.5	0.3	1.5	1.9
Other partly-owned subsidiaries	-0.9	0.1	3.2	3.2
TOTAL	-0.4	0.4	4.6	5.1

Summarized financial information

AO Normark

EUR MILLION	2019	2018
Net sales	11.8	11.9
Purchases and other expenses	-9.9	-11.2
Depreciation	-0.7	0.0
Interest income and expenses	-0.2	0.0
Net profit for the period	1.0	0.7
Non-current assets	0.2	0.2
Current assets	4.9	4.5
Non-current liabilities	0.1	0.2
Current liabilities	2.1	0.6
Equity	2.9	3.9
Cash flows from operating activities	1.1	1.5
Cash flows from investing activities	0.1	0.0
Cash flows from financing activities	-2.0	-0.4

15 OTHER SHARES

EUR MILLION	2019	2018
Carrying value Jan 1	0.3	0.3
Translation differences	0.0	0.0
CARRYING VALUE DEC 31	0.2	0.3

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

16 RECEIVABLES

EUR MILLION	2019	2018
Non-current receivables		
Interest-bearing		
Loan receivables	7.8	0.0
Other interest-bearing receivables	0.0	0.0
Non-interest-bearing		
Trade receivables	0.0	0.1
Derivatives	0.0	-
Other receivables	0.2	0.2
Current receivables		
Non-interest-bearing		
Trade receivables	43.1	46.0
Derivatives	0.3	0.8
VAT receivable	1.1	1.9
Other prepaid expenses and accrued income	2.9	2.8
Other receivables	2.4	1.5
TOTAL	57.9	53.3

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

The average interest rate of non-current loan receivables was 4.78% (2018: 5.85%).

ALLOWANCES BOOKED FOR TRADE RECEIVABLES

EUR MILLION	2019	2018
Allowance for trade receivables Jan 1	2.7	3.2
Additions	1.1	0.3
Deductions	-1.4	-0.6
Recovery	-0.4	-0.4
Adoption of IFRS 9	-	0.2
Translation differences	0.1	0.0
ALLOWANCE FOR TRADE RECEIVABLES DEC 31	2.0	2.7

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.

17 INVENTORIES

EUR MILLION	2019	2018
Raw material	14.7	13.1
Work in progress	9.2	9.8
Finished products	77.4	87.6
Net realizable value allowance	-8.6	-11.4
TOTAL	92.6	99.1

18 CASH AND CASH EQUIVALENTS

EUR MILLION	2019	2018
Cash at bank and in hand	12.3	13.4
TOTAL	12.3	13.4

19 SHARE CAPITAL AND EQUITY FUNDS

EUR MILLION	2019	2018
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	0.0
Cash flow hedges, fair value gains and losses during the year	0.0	0.0
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	2019	2018
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
Directed issue of own shares	-225 000	
OWN SHARES DEC 31	452 208	677 208

On December 31, 2019, 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

On 31 May 2019, Group redeemed its hybrid loan of 25 MEUR, issued in May 2017, following the permitting conditions of the bond. Accrued interest 1.3 MEUR was paid out in May 2019, resulting from the decision to pay dividends, and was recognized as a deduction from Group's equity.

In November 2019, the Group issued a new EUR 25 million hybrid bond, which is classified as equity with no maturity date and subordinated to other debt obligations. The bond bears a fixed interest rate of 5.25 per cent per annum until November 13, 2021. The Group is entitled to redeem the hybrid bond after 2 years. The interest on hybrid bond is paid if the Annual General Meeting decides to pay a dividend or in other ways to distribute capital to shareholders. If a dividend is not paid the Group has the right to decide on the possible payment of interest at its own discretion. Non-payable interest accumulates and is disclosed as off-balance sheet commitment. The hybrid bond does not confer to its holders the rights of a shareholder and does not dilute the holdings of the current shareholders. According to IAS 33, interest accrued in local books has been taken into account as an expense in earnings per share calculation as described in calculation of key figures. The accrued non-recognised interest on hybrid bond at December 31, 2019 was EUR 0.7 million (1.3).

DIVIDENDS

The dividend paid for 2018 was EUR 0.06 per share, totaling EUR 2.3 million and paid in two equal installments. The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on March 26, 2020 that no dividend will be paid for 2019.

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	2019	2018
Current service cost	-0.2	-0.3
Interest cost	-0.1	-0.1
TOTAL	-0.3	-0.4

AMOUNTS RECOGNIZED IN THE BALANCE SHEET

EUR MILLION	2019	2018
Rest of Europe	2.3	2.1
Rest of the World	0.6	0.5
PRESENT VALUE OF UNFUNDED OBLIGATIONS	2.9	2.6

BALANCE SHEET RECONCILIATION

EUR MILLION	2019	2018
Obligations Jan 1	2.7	2.5
Current service cost	0.3	0.3
Interest cost	0.1	0.0
Actuarial gains and losses		
Changes in demographic assumptions	0.0	0.0
Changes in financial assumptions	0.2	0.0
Changes in experience assumptions	0.0	0.0
Effect of any curtailments or settlements	-0.1	0.0
Translation differences	-0.1	0.0
OBLIGATIONS DEC 31	2.9	2.6

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

EUR MILLION	2019	2018
Within one year	0.1	0.1
1-5 years	0.2	0.2
5-10 years	0.6	0.6
Later than 10 years	2.0	1.8
TOTAL	2.9	2.6

ASSUMPTIONS

Rest of Europe		
%	2019	2018
Discount rate	0.7	1.6
Future salary increase	3.0	2.6
Annual inflation rate	1.8	1.8
Rest of the World		
%	2019	2018
Discount rate	3.0-8.0	3.0-8.0
Future salary increase	8.0	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 2020.

21 PROVISIONS

EUR MILLION	2019	2018
Provisions		
Provisions Jan 1	0.2	0.1
Additions	0.5	0.1
Utilized provisions	-	-0.1
PROVISIONS DEC 31	0.6	0.2
Non-current	0.2	0.1
Current	0.5	0.1
TOTAL PROVISIONS	0.6	0.2

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. 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 2019 currency derivatives that are used for operative hedging purposes had an income statement effect of EUR 0.3 million (2018: EUR 0.4 million). Fair values and nominal values of currency derivatives are summarized under section 4. Derivatives.

At the end of 2019 and 2018 the following currencies represent a significant portion of the currency mix in the outstanding financial instruments:

Transaction risk position

2019

EUR MILLION	USD	RUB	IDR	CAD	ZAR
Transaction risk and hedging					
Transaction exposure	-19.5	11.3	-9.1	7.3	8.2
Hedges ¹⁾	14.0	-4.3	3.5	-3.1	-2.6

2018

EUR MILLION	USD	RUB	IDR	CAD	ZAR
Transaction risk and hedging					
Transaction exposure	-37.3	7.4	-10.1	8.0	7.5
Hedges ¹⁾	20.9	-1.9	3.6	-2.8	-2.7

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 CAD, which comprise approximately 84.4% 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 2019 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 173.2 million as of December 31, 2019 (2018: EUR 174.5 million). The exposures are summarized in the following table.

Group translation exposure	2019		2018
	EUR MILLION	NET INVESTMENTS	NET INVESTMENTS
USD		107.2	101.9
HKD		16.6	19.9
IDR		11.5	14.2
SEK		5.7	5.9
CAD		5.2	4.3
TOTAL		146.2	146.2

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, 2019.
- 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:

2019

EUR MILLION	USD	RUB	IDR	CAD	ZAR
Operating profit	-0.7	-0.8	1.2	-0.9	-0.4
Equity ²⁾	-10.7	-0.3	-1.2	-0.5	-0.4

2018

EUR MILLION	USD	RUB	IDR	CAD	ZAR
Operating profit	1.4	-0.5	1.3	-0.5	-0.6
Equity ²⁾	-10.2	-0.4	-1.4	-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 regularly 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. 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.

EUR MILLION	2019		2018	
	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	0.0

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 available-for-sale financial assets 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, interest rate 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.

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 2019, the amount of the ineffective portion that was recognized in the financial income and expenses of income statement was EUR 0.0 million (2018: 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, 2019.

EUR MILLION	2019		2018	
	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
TOTAL			5.3	0.0

Non-hedge accounting derivative financial instruments

Interest rate swaps, 1 to 5 years	21.0	-0.1	16.0	0.0
Currency forwards, less than 12 months	48.3	-0.4	40.6	0.6
Cross currency swaps, less than 12 months			10.1	-0.2
TOTAL	69.3	-0.5	66.6	0.4

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 2019 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 2020.

Below are presented the Group's unutilized credit limits as of December 31, 2019. Group's domestic commercial paper program not sold at December 31, 2019 was EUR 55.0 million (2018 EUR 37.0 million).

Committed unutilized credit facilities

EUR MILLION	2019	2018
Overdraft facilities, expiring within one year	19.1	19.3
Revolving credit facility, expiring within one year	30.0	10.0
Revolving credit facility, expiring beyond one year	29.9	49.9
TOTAL	79.1	79.1

Maturity of the group's financial liabilities

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

2019

EUR MILLION	CARRYING VALUE	FINANCIAL LIABILITIES ⁴⁾	CONTRACTUAL CASH FLOWS	2020	2021	2022	2023 ONWARDS	TOTAL
Interest-bearing liabilities								
Loans from financial institutions	56.2	56.2	59.1	11.1	6.2	26.6	15.2	59.1
Commercial paper program	25.0	25.0	25.0	25.0				25.0
Lease liabilities	13.5	13.5	13.3	4.4	3.0	2.0	3.9	13.3
Non-interest-bearing liabilities								
Trade and other non-interest-bearing payables	33.0	10.9	10.9	10.9				10.9
Derivative liabilities and receivables								
Interest rate derivatives, non-hedge accounted	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Currency derivatives, non-hedge accounted	0.4	0.4	0.4	0.4				0.4
TOTAL	128.2	106.1	108.9	51.9	9.3	28.6	19.1	108.9

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 derivatives, hedge accounted	0.0	0.0	0.0	0.0				0.0
Interest rate and currency derivatives, non-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

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 2018. Net allowance for credit losses related to trade receivables decreased EUR 0.7 million from 2018.

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 its 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.

Group recognizes credit loss of trade receivables by applying simplified approach of expected credit loss according to IFRS 9, which uses a lifetime expected loss allowance. Group has estimated based on previous year's credit losses by aging category and nature as well as macroeconomic outlook in the near future, the expected credit loss provision. Trade receivables are monitored in client segment and location information.

Estimate on expected credit losses is based on management's best judgement.

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	2019	2018
Neither past due nor impaired	33.4	36.8
Past due but not impaired		
Less than 1 month	4.7	4.5
1-3 months	2.8	3.0
3-6 months	1.8	1.2
Over 6 months	0.5	0.6
TOTAL	43.2	46.1

Trade loss provision from expected credit loss model

%	2019
Neither past due or impaired	0.2
Past due but not impaired	
Less than 1 month	0.9
1-3 months	6.0
3-6 months	11.0
Over 6 months	20-100

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

For definitions of key figures, see page 44.

	TARGET	2019	2018
Gearing %	below 150 %	49.2	47.8
Net interest-bearing debt to EBITDA	below 3.8	2.9	3.1

Definitions of the alternative performance measures are presented on page 44.

23 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES AND FAIR VALUES

EUR MILLION	NOTE	2019		2018			
		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							
Financial liabilities measured at amortized cost²⁾							
Non-current financial assets							
Loan receivables	16	7.8	7.8	7.8	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	0.0	0.0	0.2	0.1	0.1
Current financial assets							
Cash and cash equivalents	18	12.3	12.3	12.3	13.4	13.4	13.4
Trade and other non-interest-bearing receivables	16	49.6	43.1	43.1	52.2	46.0	46.0
Fair value through other comprehensive income							
Other shares	15	0.2	0.2	0.2	0.3	0.3	0.3
Financial assets at fair value through income statement							
Currency derivatives - non-hedge accounted	16, 22	0.3	0.3	0.3	0.8	0.8	0.8
FINANCIAL LIABILITIES							
Financial liabilities at fair value through income statement - held-for-trading							
Interest rate and currency derivatives - non-hedge accounted	22, 25	0.9	0.9	0.9	0.4	0.4	0.4
Hedge accounted derivatives							
Interest rate derivatives - cash flow hedges	22, 25	-	-	-	0.0	0.0	0.0
Financial liabilities measured at amortized cost²⁾							
Non-current financial liabilities							
Loans from financial institutions	24	46.0	46.0	45.9	10.0	10.0	10.0
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	10.2	10.2	10.2	30.6	30.6	30.6
Commercial paper program	24	25.0	25.0	25.0	43.0	43.0	43.0
Trade and other non-interest-bearing payables	25	33.0	10.9	10.9	36.3	16.0	16.0

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

EUR MILLION	2019			2018				
	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS AT FAIR VALUE								
Fair value through other comprehensive income								
Other shares	0.2			0.2	0.3			0.3
Financial assets at fair value through income statement								
Currency and interest derivatives - non-hedge accounted	0.3		0.3		0.8		0.8	
TOTAL	0.6		0.3	0.2	1.1		0.8	0.3
FINANCIAL LIABILITIES AT FAIR VALUE								
Financial liabilities at fair value through income statement								
Currency and interest derivatives - non-hedge accounted	0.9		0.9		0.4		0.4	
Hedge accounted derivatives								
Interest rate derivatives - cash flow hedges					0.0		0.0	
TOTAL	0.9		0.9		0.5		0.5	

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.

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, 2019, 0.0% (2018: 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 2019, % ¹⁾	2019	2018
Non-current interest-bearing liabilities			
Loans from financial institutions	2.74	46.0	10.0
Lease liabilities	4.50	9.0	-
Current interest-bearing liabilities			
Loans from financial institutions	3.28	5.2	4.1
Current portion of non-current loans from financial institutions	3.50	5.0	26.5
Commercial paper program	0.69	25.0	43.0
Lease liabilities	3.92	4.4	-
TOTAL		94.7	83.7

¹⁾ 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	NON-CURRENT	2019 CURRENT	NON-CURRENT	2018 CURRENT
Loans from financial institutions				
EUR	46.0	6.9	10.0	13.6
USD		2.1		16.3
AUD			0.0	0.0
ZAR		1.2		0.7
Commercial paper program				
EUR		25.0		43.0
TOTAL	46.0	35.3	10.1	73.7

25 NON-INTEREST-BEARING LIABILITIES

EUR MILLION	2019	2018
Non-current non-interest-bearing liabilities		
Derivatives	0.1	0.0
Other non-current liabilities	0.0	0.0
Current non-interest-bearing liabilities		
Trade payables	10.9	16.0
Accrued employee-related expenses	10.5	10.4
Other accrued expenses and deferred income	6.9	5.8
Derivatives	0.8	0.4
Advances received	0.4	0.4
VAT payable	1.7	1.4
Other current liabilities	2.6	2.4
TOTAL	33.9	36.8

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

RIGHT-OF-USE ASSETS

2019	LAND AND BUILDINGS	OTHER ASSETS	TOTAL
EUR MILLION			
Acquisition cost Jan 1, 2019	-	-	-
Additions	18.2	1.5	19.6
Disposals	-0.1	0.0	-0.1
Translation differences	0.1	0.0	0.1
ACQUISITION COST DEC 31, 2019	18.1	1.5	19.6
Accumulated depreciations Jan 1, 2019	-	-	-
Disposals	0.0	-	0.0
Depreciations during the period	-5.6	-0.6	-6.2
Translation differences	0.0	0.0	0.0
ACCUMULATED DEPRECIATIONS DEC 31, 2019	-5.6	-0.6	-6.2
CARRYING VALUE JAN 1, 2019	-	-	-
CARRYING VALUE DEC 31, 2019	12.5	0.9	13.3

Group's most material right-of-use assets capitalised consist of buildings as production facilities, offices and warehouses. Right-of-use asset section Other assets consists mainly of vehicles.

OFF-BALANCE SHEET LEASE COMMITMENTS

EUR MILLION	2019	2018
The group as a lessee		
Minimum future lease payments on leases	0.6	10.5
TOTAL	0.6	10.5

The non-cancellable lease agreements include short-term and other lease contracts that are not included in lease liabilities. Other rents include IT equipment leases, that are not material.

OFF-BALANCE SHEET LEASE ASSETS

EUR MILLION	2019	2018
The group as a lessor		
Future minimum rental receivable under non-cancellable leases	0.2	0.2
TOTAL	0.2	0.2

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 lengths, some of which may contain renewal options.

28 RELATED PARTY TRANSACTIONS

The Group's related parties include members of the Board, CEO, members of the Executive Committee, family members of the above-mentioned individuals, entities controlled by the above-mentioned individuals, Rapala VMC Corporation's subsidiaries, associated companies and joint ventures 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
2019						
DQC International Corp.	0.4	-0.2			7.1	
Associated company Lanimo Oü	0.0	0.0				
Entity with significant influence over the Group ¹⁾			-0.2	-0.1	0.0	
Management	0.0		-0.4	0.0	0.7	0.0
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

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	2019	2018
Salaries and other employee benefits	-3.7	-4.3
TOTAL	-3.7	-4.3

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

On December 31, 2019, 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 110 678 Rapala VMC Corporation shares (on December 31, 2018: 126 178). Top management owned 0.3% (0.3%) of the issued share capital and voting rights of the company on December 31, 2019. 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 -50 615 for 2019. 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	2019	2018
Salaries and other employee benefits		
Louis d'Alançon, CEO starting from Sep 27, 2019	-0.1	
Jussi Ristimäki, CEO until Sep 26, 2019	-0.4	-0.6
TOTAL	-0.4	-0.6

²⁾ Excluding compensation for being a member of the Board which is presented in section employee benefits for Board of Directors.

In 2019, Jussi Ristimäki's annual base salary and benefits as CEO amounted to EUR 235 897. He was also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus paid in 2019 totaled EUR 133 925 accruing from year 2018. Bonus accrued for 2019 amounted to EUR 133 313. His pension security was arranged under the statutory Finnish contribution based employee pension plan. There was no additional pension scheme. In 2019, salaries and other employee benefits include a provision for share-based incentives in total of EUR -49 613. After Ristimäki stepped down from the CEO position he worked as an advisor to the Board of Directors. Contractual payments paid to him after termination of the CEO agreement amounts to EUR 448 740.

Louis d'Alançon was paid in 2019 under the CEO agreement in total a compensation of EUR 51 800. He did not have any pension agreement and his termination time was 1 month.

EMPLOYEE BENEFITS FOR OTHER MEMBERS OF THE EXECUTIVE COMMITTEE

EUR MILLION	2019	2018
Salaries and other employee benefits	-2.9	-3.3
TOTAL	-2.9	-3.3

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 2019, salaries and other employee benefits included a provision for share-based incentives in total of EUR -1 002.

EMPLOYEE BENEFITS FOR BOARD OF DIRECTORS

EUR MILLION	2019	2018
Salaries and other employee benefits		
Louis d'Alançon, Chairman of the Board starting from Sep 6, 2018	-0.1	0.0
Jorma Kasslin, Chairman of the Board until Sep 5, 2018		-0.2
Other Board members	-0.2	-0.2
TOTAL	-0.3	-0.4

In 2019, 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 paid of a Board or its Committee meeting. Members of the Board are reimbursed for travel expenses corresponding to the corporation's traveling compensation principles. Louis d'Alançon had as the CEO of the Group a separate CEO agreement, which remuneration is presented under the employee benefits to the CEO.

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	1.3
Number of persons at the end of the reporting year	35
Payment method	Cash & Equity
Changes during the period 2019	PSP Earning Period 2018–2020
Outstanding at the beginning of the reporting period, pcs Jan 1, 2019	732 500
Changes during the period	
Granted	0
Forfeited	103 000
Exercised	0
Expired	0
Outstanding at the end of the period Dec 31, 2019	629 500

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:

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

Expenses for the financial year, share-based payments	-41 942
Expenses for the financial year, share-based payments, equity-settled	-38 257
Liabilities arising from share-based payments Dec 31, 2019	51 698
Future cash payment to be paid to the tax authorities from share-based payments, estimated at the end of the period	290 329

30 EARNINGS PER SHARE

	2019	2018
Net profit for the period attributable to the equity holders of the parent company, EUR million	4.4	6.1
Accrued interest on the hybrid bond	-0.7	-1.3
Tax effect	0.1	0.3
Net effect	-0.6	-1.1
	3.8	5.0
Weighted average number of shares, 1000 shares	38 387	38 323
Diluted weighted average number of shares, 1000 shares	38 387	38 323
Earnings per share, EUR	0.10	0.13
Diluted earnings per share, EUR	0.10	0.13

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 2019.

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 Ltd.	¹⁾	Belarus	50	Distribution
Normark-Bel		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 Pêche SA	*	France	100	Manufacturing
Normark Deutschland GmbH	²⁾	Germany	100	Distribution
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
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
Normark Africa 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
DQC International Corp.		USA	49	Administration

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 2019.

* Shares owned by the parent company.

DEFINITIONS OF KEY FIGURES

Operating profit before depreciation and impairments (EBITDA)	= Operating profit + depreciation and impairments
Items affecting comparability	= Change in mark-to-market valuations of operative currency derivatives +/- other items affecting comparability
Other items affecting comparability	= Restructuring costs + impairments +/- gains and losses on business combinations and disposals - insurance compensations +/- other non-operational items
Comparable operating profit	= Operating profit +/- change in mark-to-market valuations of operative currency derivatives +/- other items affecting comparability
Net interest-bearing debt	= Total interest-bearing liabilities - total interest-bearing assets - cash and cash equivalents
Capital employed (average for the period)	= Total equity (average for the period) + net interest-bearing debt (average for the period)
Working capital	= Inventories + total non-interest-bearing assets - total non-interest-bearing liabilities
Total non-interest-bearing assets	= Total assets - interest-bearing assets - intangible and tangible assets - assets classified as held-for-sale
Total non-interest-bearing liabilities	= Total liabilities - interest-bearing liabilities
Net interest-bearing debt to EBITDA	= $\frac{\text{Net interest-bearing debt}}{\text{Operating profit before depreciation and impairments}}$
Return on capital employed (ROCE), %	= $\frac{\text{Operating profit} \times 100}{\text{Capital employed (average for the period)}}$
Return on equity (ROE), %	= $\frac{\text{Net profit (loss) for the period} \times 100}{\text{Total equity (average for the period)}}$
Debt-to-equity ratio (Gearing), %	= $\frac{\text{Net interest-bearing liabilities} \times 100}{\text{Total equity}}$
Equity-to-assets ratio, %	= $\frac{\text{Total equity} \times 100}{\text{Total shareholders' equity and liabilities - advances received}}$
Earnings per share, EUR	= $\frac{\text{Net profit for the period attributable to the equity holders of the parent Company - hybrid capital accrued unrecognised interests after tax}}{\text{Adjusted weighted average number of shares}}$
Dividend per share, EUR	= $\frac{\text{Dividend for the period}}{\text{Adjusted number of shares at the end of the period}}$
Dividend/earnings ratio, %	= $\frac{\text{Dividend for the period} \times 100}{\text{Net profit for the period attributable to the equity holders of the parent Company}}$
Equity per share, EUR	= $\frac{\text{Equity attributable to equity holders of the parent Company}}{\text{Adjusted number of shares at the end of the period}}$
Effective dividend yield, %	= $\frac{\text{Dividend per share} \times 100}{\text{Adjusted share price at the end of the period}}$
Price/earnings ratio	= $\frac{\text{Adjusted share price at the end of the period}}{\text{Earnings per share}}$
Average share price, EUR	= $\frac{\text{EUR amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$
Year-end market capitalization, EUR	= Number of shares at the end of the period, excluding 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	2019	2018
Net sales	2	29 518 413	29 640 931
Other operating income	3	288 693	164 039
Change in inventory of finished products and work in progress		420 043	1 720 905
Production for own use		97 871	116 507
Materials and services	5	-14 487 586	-15 452 984
Employee benefit expenses	6	-8 732 861	-7 964 723
Other operating expenses	4	-6 148 402	-5 925 567
Operating profit before depreciation and impairments		956 170	2 299 108
Depreciation and impairments	7	-1 185 898	-1 212 606
Operating profit		-229 728	1 086 502
Financial income and expenses	8	2 954 485	-1 610 807
Profit before appropriations and taxes		2 724 756	-524 305
Appropriations	9	2 284 889	2 350 426
Income taxes	10	-17 999	-26 206
NET PROFIT FOR THE PERIOD		4 991 646	1 799 916

PARENT COMPANY BALANCE SHEET

ASSETS

EUR	NOTE	2019	2018
Non-current assets			
Intangible assets	11	116 341	283 820
Tangible assets	12	4 672 683	4 808 470
Investments	13	179 162 203	174 821 768
Interest-bearing receivables	15	16 997 844	16 049 903
Non-interest-bearing receivables	15	367 011	168 235
Total non-current assets		201 316 082	196 132 196
Current assets			
Inventories	14	6 054 781	6 036 304
Current financial assets			
Interest-bearing	15	20 361 581	18 565 982
Non-interest-bearing	15	7 560 098	8 010 771
Cash and cash equivalents		305 064	1 578 701
Total current assets		34 281 525	34 191 759
TOTAL ASSETS		235 597 607	230 323 955

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR	NOTE	2019	2018
Shareholders' equity			
Share capital		3 552 160	3 552 160
Share premium fund		16 680 961	16 680 961
Fair value reserve			16 155
Fund for invested non-restricted equity		4 914 371	4 914 371
Own shares		-4 889 643	-5 553 393
Retained earnings		18 690 477	19 196 678
Net income for the period		4 991 646	1 799 916
Total shareholders' equity	16	43 939 972	40 606 848
Appropriations		1 058 604	1 333 493
Provisions		203 596	249 596
Non-current liabilities			
Interest-bearing		78 800 000	17 800 000
Non-interest-bearing		90 241	45 492
Total non-current liabilities	17	78 890 241	17 845 492
Current liabilities			
Interest-bearing		105 275 226	163 765 615
Non-interest-bearing		6 229 968	6 522 910
Total current liabilities	17	111 505 194	170 288 525
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		235 597 607	230 323 955

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR THOUSAND	NOTE	2019	2018
Net profit for the period		4 992	1 800
Adjustments			
Income taxes	10	18	26
Financial income and expenses	8	-2 954	1 611
Reversal of non-cash items			
Depreciation and impairments	7	1 186	1 213
Other items		-2 089	-2 941
Total adjustments		-3 838	-93
Financial items			
Interest paid		-3 479	-2 938
Interest received		1 552	1 440
Income taxes paid/received		31	48
Other financial items, net		40	236
Total financial items		-1 856	-1 214
Change in working capital			
Change in receivables		4	1 118
Change in inventories		33	-1 877
Change in liabilities		-141	939
Total change in working capital		-103	179
Net cash generated from operating activities		-806	672
Net cash used in investing activities			
Proceeds from disposal of intangible assets	11		743
Purchases of intangible assets	11		-293
Proceeds from sale of tangible assets	12	513	199
Purchases of tangible assets	12	-1 260	-650
Disposals of available-for-sale investments	13	47	
Investments to subsidiaries and acquisition of subsidiaries	13		-3
Investments to associates	13	-4 387	
Change in interest-bearing receivables		164	1 575
Dividends received	8	6 017	
Total net cash used in investing activities		1 094	1 571
Net cash generated from financing activities			
Dividends paid		-2 306	-1 533
Directed issue of own shares		663	
Hybrid bond		-1 574	-1 344
Loan withdrawals		108 917	85 336
Loan repayments		-109 817	-85 674
Group contributions received		2 105	978
Total net cash generated from financing activities		-2 013	-2 237
Change in cash and cash equivalents		-1 724	7
Cash and cash equivalents at the beginning of the period		1 579	1 099
Foreign exchange rate effect		450	473
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		305	1 579

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 current 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.

8 FINANCIAL INCOME AND EXPENSES

EUR THOUSAND	2019	2018
Dividend income	6 017	
Foreign exchange gains	6 595	5 093
Foreign exchange losses	-6 499	-5 805
Interest and other financial income		
Interest income	1 695	1 752
Other financial income	370	1 821
Interest and other financial expenses		
Interest expenses	-3 904	-3 979
Other financial expenses	-1 321	-492
TOTAL	2 954	-1 611

FINANCIAL INCOME AND EXPENSES FROM AND TO SUBSIDIARIES

EUR THOUSAND	2019	2018
Dividend income from subsidiaries	6 017	
Interest and other financial income		
Interest income	1 110	983
Other financial income	297	304
Interest and other financial expenses		
Interest expenses	-1 324	-1 047
TOTAL	6 100	240

TRANSLATION DIFFERENCES RECOGNIZED IN THE INCOME STATEMENT

EUR THOUSAND	2019	2018
Translation differences recognized in net sales	414	555
Translation differences included in purchases and other expenses	48	-5
Foreign exchange gains and losses in financial income and expenses	96	-712
TOTAL	557	-162

9 EXTRAORDINARY ITEMS

EUR THOUSAND	2019	2018
Change in depreciation difference	275	245
Group contribution	2 010	2 105
TOTAL	2 285	2 350

CHANGE IN DEPRECIATION DIFFERENCE

EUR THOUSAND	2019	2018
Intangible assets	83	
Buildings	-27	-11
Machinery and equipment	218	256
TOTAL	275	245

10 INCOME TAXES

INCOME TAXES IN THE INCOME STATEMENT

EUR THOUSAND	2019	2018
Income taxes	-18	
Taxes from previous financial years		-26
TOTAL	-18	-26

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

11 INTANGIBLE ASSETS

EUR THOUSAND	TRADE-MARKS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
2019				
Acquisition cost Jan 1	930	2 380		3 310
Reclassifications		45		45
ACQUISITION COST DEC 31	930	2 425		3 355
Accumulated amortization Jan 1	-842	-2 185		-3 026
Amortization during the period	-85	-127		-213
ACCUMULATED AMORTIZATION DEC 31	-927	-2 312		-3 239
Book value Jan 1	88	195		283
Book value Dec 31	3	113		116

EUR THOUSAND	TRADE-MARKS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
2018				
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

12 TANGIBLE ASSETS

2019

EUR THOUSAND	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
Acquisition cost Jan 1	106	4 691	19 523	1 613	359	26 293
Additions			86	116	1 058	1 260
Disposals			-50	-88	-239	-377
Reclassifications		235	295		-576	-45
ACQUISITION COST DEC 31	106	4 927	19 854	1 641	602	27 130
Accumulated depreciation Jan 1		-4 125	-16 098	-1 261		-21 484
Depreciation during the period		-63	-781	-129		-973
ACCUMULATED DEPRECIATION DEC 31		-4 188	-16 880	-1 390		-22 457
Book value Jan 1	106	566	3 425	352	359	4 808
Book value Dec 31	106	739	2 974	251	602	4 673

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

13 INVESTMENTS

2019

EUR THOUSAND	SHAREHOLDINGS IN SUBSIDIARIES	SHARES IN ASSOCIATES	AVAILABLE-FOR-SALE INVESTMENTS	TOTAL
Book value Jan 1	174 593		228	174 821
Additions		4 387		4 387
Disposals			-47	-47
BOOK VALUE DEC 31	174 593	4 387	181	179 162

2018

EUR THOUSAND	SHAREHOLDINGS IN SUBSIDIARIES	SHARES IN ASSOCIATES	AVAILABLE-FOR-SALE INVESTMENTS	TOTAL
Book value Jan 1	174 590		228	174 819
Additions	3			3
BOOK VALUE DEC 31	174 593		228	174 822

14 INVENTORIES

EUR THOUSAND	2019	2018
Raw material	242	1 507
Work in progress	2 177	2 035
Finished products	3 636	2 494
TOTAL	6 055	6 036

15 RECEIVABLES

EUR THOUSAND	2019	2018
Non-current receivables		
Interest-bearing		
Loan receivables	16 998	16 050
Non-interest-bearing		
Derivatives	7	
Other receivables	360	168
Current receivables		
Interest-bearing		
Loan receivables	20 362	18 566
Non-interest-bearing		
Trade receivables	2 565	2 545
Prepaid expenses and accrued income	2 480	2 910
Other receivables	2 192	1 723
Derivatives	323	833
TOTAL	45 287	42 795

RECEIVABLES FROM SUBSIDIARIES

EUR THOUSAND	2019	2018
Non-current receivables		
Interest-bearing		
Loan receivables	16 321	16 050
Current receivables		
Interest-bearing		
Loan receivables	20 362	18 566
Non-interest-bearing		
Trade receivables	2 548	2 542
Other receivables	2 010	2 113
Derivatives	2 192	1 723
TOTAL	43 432	40 994

16 SHAREHOLDERS' EQUITY

EUR THOUSAND	2019	2018
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	16	5
Gains and losses on cash flow hedges	-16	11
FAIR VALUE RESERVE DEC 31	-	16
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
Directed issue of own shares	663	
OWN SHARES DEC 31	-4 890	-5 553
Retained earnings Jan 1	20 997	20 730
Dividends paid	-2 306	-1 533
RETAINED EARNINGS DEC 31	18 690	19 197
Net income for the period	4 992	1 800
TOTAL SHAREHOLDERS' EQUITY	43 940	40 607

DISTRIBUTABLE FUNDS

EUR	2019	2018
Fund for invested non-restricted equity	4 914 371	4 914 371
Retained earnings	18 690 477	19 196 678
Own shares	-4 889 643	-5 553 393
Fair value reserve	-	16 155
Net income for the period	4 991 646	1 799 916
TOTAL DISTRIBUTABLE FUNDS	23 706 851	20 373 728

PARENT COMPANY SHARE CAPITAL

	2019	2018
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	2019	2018
Non-current liabilities		
Interest-bearing		
Loans from financial institutions	46 000	10 000
Hybrid bond	25 000	
Other non-current liabilities	7 800	7 800
Non-interest-bearing		
Derivatives	90	45
Current liabilities		
Interest-bearing		
Loans from financial institutions	8 188	29 274
Hybrid bond		25 000
Commercial paper program	25 000	43 000
Other current liabilities	72 087	66 492
Non-interest-bearing		
Derivatives	762	414
Prepayments	1	1
Trade payables	2 358	3 218
Accrued liabilities and deferred income	3 109	2 890
TOTAL	190 395	188 134

LIABILITIES TO SUBSIDIARIES

EUR THOUSAND	2019	2018
Non-current liabilities		
Interest-bearing		
Other non-current liabilities	7 800	7 800
Current liabilities		
Interest-bearing		
Other non-current liabilities	72 087	71 952
Non-interest-bearing		
Derivatives		1
Trade payables	1 709	1 440
TOTAL	81 702	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	2019	2018
Within one year	289	373
1-3 years	778	160
TOTAL	1067	533

19 COMMITMENTS AND CONTINGENCIES

COMMITMENTS

EUR THOUSAND	2019	2018
On own behalf and on behalf of subsidiaries		
Guarantees	3 814	5 100
TOTAL	3 814	5 100

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	2019	2018
Currency derivatives with bank		
Fair value	-439	602
Nominal value	48 252	40 554
Interest rate derivatives		
Fair value	-83	-34
Nominal value	21 000	21 315
Cross currency swaps		
Fair value		-194
Nominal value		10 070

In 2019, changes in fair value of currency derivatives had an income statement effect of EUR -1 041 thousand (2018: EUR 1 053 thousand), in interest rate derivatives EUR -41 thousand (2018: EUR -105 thousand) and in cross currency swaps EUR 194 thousand (2018: EUR 479 thousand).

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 2019. The focus of Group level risk management in 2019 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 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. 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. 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 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 2019 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 import tariffs, 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 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 2019, the shares traded between EUR 3.43 and 2.56 with an average price of EUR 2.88.

Shares and Voting Rights

On December 31, 2019, 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 2019.

Board's Authorizations

The AGM on 28 March, 2019 authorized the Board to resolve to repurchase a maximum of 2 000 000 own shares by using funds in the unrestricted equity. The proposed number 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, 2020.

The AGM on 29 March, 2018 authorized the Board of Directors to decide on a share issue and the issue of special rights entitling to shares as defined in §1 of Chapter 10 of the Companies Act, against or without consideration, as follows. By virtue of the authorization the Board is entitled to issue up to 5 000 000 shares corresponding to approximately 12.8 per cent of all current shares. Except for issuing of option rights or special rights entitling to shares, the authorization can also be used for incentive arrangements for the management and key persons, however, not more than 900 000 shares in total. The Board would decide on all terms and conditions of share issues and the issues of special rights. The authorization covers both the issuance of new shares and the transfer of own shares. A share issue or the issue of special rights may be executed in deviation of the shareholders pre-emptive rights to subscribe for new shares. This authorization shall be effective until March 29, 2021.

Own Shares

In 2019, no own shares were repurchased. In 2019, Rapala VMC Corporation acquired 49% of the share capital of DQC International Corp ("13 Fishing"). As part of the acquisition, the Board of Directors of Rapala VMC Corporation resolved directed

issue of 225 000 treasury shares to James Coble, based on the authorization granted by the Annual General Meeting held on March 29, 2018. At the end of December 2019, the company held 452 208 own shares, representing 1.2% 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 4.95.

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

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.

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, 2019, the members of the Board and the Executive Committee held directly a total of 110 678 company shares and corresponding to 0.3% of all shares and voting rights. Details of management shareholdings are given on page 59.

Trading and Performance of the Company's Shares

The company share (RAP1V) is quoted on the Nasdaq Helsinki. The closing price on December 31, 2019 was EUR 2.77. The highest price in 2019 was EUR 3.43, the lowest price EUR 2.56 and the average price EUR 2.88. A total 4 804 467 company's shares were traded in 2019. This represents 12.3% of all shares on December 31, 2019.

At the end of 2019, the market capitalization of all outstanding shares, excluding own shares, was EUR 106.8 million. Earnings per share (basic) were EUR 0.10 (EUR 0.13 in 2018). For more share related key figures see page 7.

Dividend

The Board proposes to the AGM that no dividend is paid for the 2019.

PRINCIPAL SHAREHOLDERS ON DECEMBER 31, 2019

SHAREHOLDERS	NUMBER OF SHARES	%
Viellard Migeon & Cie	15 000 088	38.5
Sofina S.A.	7 500 000	19.2
Nordea Funds	5 168 476	13.3
The State Pension Fund	1 290 000	3.3
Shimano Singapore Private Limited	889 680	2.3
Taaleritehdas Funds	570 000	1.5
Ilmarinen Mutual Pension Insurance	292 007	0.7
Säästöpankki Funds	261 401	0.7
Coble James Jay	225 000	0.6
Elo Mutual Pension Insurance	155 000	0.4
Rapala VMC Oyj (own shares)	452 208	1.2
Other shareholders total	7 196 140	18.5
TOTAL NUMBER OF SHARES	39 000 000	100.0

* Viellard Migeon & Cie's holds together with its subsidiary De Pruines Industries 15 105 398 shares, representing 38.7% of total number and the total voting rights of shares.

SHAREHOLDERS BY CATEGORY ON DECEMBER 31, 2019

SHAREHOLDER CATEGORY	NUMBER OF SHARES	%
Private and public corporations	1 576 933	4.0
Financial and insurance companies	5 929 447	15.2
Public institutions	1 737 307	4.5
Non-profit organizations	50 242	0.1
Individuals	3 578 113	9.2
International shareholders	23 572 838	60.4
Administrative registrations	2 555 120	6.6
TOTAL	39 000 000	100.0

DISTRIBUTION OF SHAREHOLDING ON DECEMBER 31, 2019

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	%	TOTAL SHARES	%
1 - 100	1 498	32.6	81 024	0.2
101 - 500	1 689	36.7	477 246	1.2
501 - 1 000	678	14.7	556 229	1.4
1 001 - 10 000	635	13.8	1 826 076	4.7
10 001 - 1 000 000	94	2.0	5 155 341	13.2
1 000 001 -	6	0.1	30 904 084	79.2
TOTAL	4 600	100	39 000 000	100

Number of shares includes 452 208 own shares held by the parent company.

SHARE PRICE IN 2019, %**SHARE PRICE DEVELOPMENT IN 2015–2019, EUR**

BOARD OF DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

LOUIS D'ALANÇON

**President and Chief Executive Officer since September 27, 2019
Chairman of the Board since 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
President of Viellard Migeon & Cie
CEO of LISI
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
M.Sc. (EDHEC)
Year of birth: 1979
Shareholding and options *: -

EXECUTIVE COMMITTEE

Rapala VMC Corporation announced change of CEO on September 27, 2019. Louis d'Alañon was appointed as the company's new President and CEO. Louis d'Alañon succeeded Jussi Ristimäki, who acted as President and CEO since 2016.

LOUIS D'ALANÇON

**President and Chief Executive Officer since September 27, 2019
Chairman of the Board since 2018**

Board member since 2017
M.Sc. Civil Engineering, Major in Economy and Finance
Year of birth 1959
Shareholding*: 2 200

OLLI AHO

**Executive Vice President, General Counsel, Investor Relations
and 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, Head of Operations

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

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, and President of VMC Peché

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

JEAN-PHILIPPE NICOLLE (AS OF JANUARY 1, 2020)

Executive Vice President, Head of European Distribution

Executive Committee member since 2020
Executive MBA, Business School ICS, Paris and CPA
Year of birth: 1968
Shareholding*: -

* 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 12, 2020

Louis d'Alañon,
Chairman of the Board, President and CEO

Emmanuel Viellard

Jorma Kasslin

Marc Speeckaert

Eero Makkonen

Julia Aubertin

THE AUDITOR'S NOTE

A report on the audit performed has been issued today.
Helsinki, February 27, 2020

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, 2019. 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

Valuation of 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 75,5 M€ (74,5 M€) representing 26.1 % (26,9 %) 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 included among others:

- Involvement EY valuation specialists to assist us in evaluating methodologies, impairment calculations and underlying assumptions applied by the management in impairment testing.
- Testing of the mathematical accuracy of the impairment calculations.
- 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.
- 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.

Valuation of inventories

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

Inventories are valued at the lower of cost or net realizable value. Inventories are presented net of an impairment loss recognized for obsolete and slow-moving inventories. At the balance sheet date, the total value of inventory and related provision for obsolete goods amounted to 101,2 M€ and 8,6 M€, respectively (net 92,6 M€).

Valuation of inventories was a key audit matter because the carrying value of inventories and related provisions are material to the financial statements, and because valuation of inventories requires management judgment relating to future sales and the level of provision for obsolete goods.

Our audit procedures 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 25 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, February 27, 2020

Ernst & Young Oy

Authorized Public Accountant Firm

Mikko Ryttilahti

Authorized Public Accountant

CONTACTS

RAPALA VMC CORPORATION

Mäkelänkatu 91
FI-00610 HELSINKI
FINLAND

OLLI AHO

General Counsel and Investor Relations

Tel: +358 9 7562 540
E-mail: olli.aho@rapala.fi

JAN-ELOF CAVANDER

Chief Financial Officer

Tel: +358 9 7562 540
E-mail: jan-elof.cavander@rapala.fi

www.rapalavmc.com



4041 0624
Painotuote