July 24, 2012 at 9:30 a.m.

# RAPALA'S INTERIM REPORT FOR JANUARY TO JUNE 2012: RECORD SALES AND CASH FLOW. PROFITABILITY WEAKER DUE TO CURRENCIES AND STOCK CLEARANCES.

- Net sales for the second quarter increased by 3% from last year to 83.7 (80.9 MEUR) and was up by 1% at 157.1 MEUR (155.6 MEUR) for January to June, reaching all time record sales for the quarter and the first half of the year. Sales were supported by foreign exchange rates and growth in sales especially in North America.
- Comparable operating profit decreased from last year and reached 11.7 MEUR (13.2 MEUR) for the second quarter and 22.0 MEUR (25.3 MEUR) for the first six months, driven by reduced gross margin due to foreign exchange rate changes and stock clearance campaigns. Comparable operating margin was lower than last year amounting to 14.0% (16.3%) for the quarter and 14.0 % (16.3%) for the first half of the year. Reported operating profit for the second quarter amounted to 11.6 MEUR (12.8 MEUR) and 22.0 MEUR (24.9 MEUR) for the first half of the year.
- Net profit for the quarter reduced to 7.2 MEUR (8.0 MEUR) and was 14.7 MEUR (15.9 MEUR) for the first half of the year. Quarterly earnings per share were 0.15 EUR (0.17 EUR) and 0.31 EUR (0.35 EUR) for the first half.
- Cash flow for operating activities reached a quarterly and first half record level, following the intense focus on cash flow and working capital management. Cash flow from operating activities for second quarter improved significantly to 21.5 MEUR (17.0 MEUR) and was 12.2 MEUR (1.5 MEUR) for the first half of the year.
- Implementation of Rapala's strategy of profitable growth continued during the second quarter of the year by taking several actions relating to manufacturing and distribution activities.
- Outlook for the full year remains positive, while cautious. It is expected that in 2012 the net sales will increase from 2011. Profitability estimate is specified so that comparable operating profit is expected to remain close to last year's level.

The attachment presents the interim review by the Board of Directors as well as the accounts.

A conference call on the second quarter result will be arranged today at 3.00 p.m. Finnish time (2.00 p.m. CET). Please dial +44 (0)20 3147 4971 or +1 212 444 0889 or +358 (0)9 2310 1667 (pin code: 196873#) five minutes before the beginning of the event. A replay facility will be available for 14 days following the teleconference. The number to dial is +44 (0)20 7111 1244 (pin code: 196873#). Financial information and teleconference replay facility are available at www.rapala.com.

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## Market Situation and Sales

During the second quarter of the year Rapala's business developed positively, and as a result of good sales performance in several countries, Group's net sales reached record levels for the second quarter and for the first six months, despite the divestment of the gift business. Business grew especially in the US, Eastern Europe, Baltics, Asia and in several European countries. Early spring and warm weathers supported the sales in the beginning of the second quarter, while in June weather turned unfavorable in many markets having some negative impact on consumer demand and replenishment orders. First six-month sales were also burdened by last winter's challenging business conditions, which have also had an impact on summer sales as some retailers have faced cash flow challenges. The re-emerging economical uncertainties especially in Europe and tighter credit control and limited availability of financing have impacted customer behavior in some countries. Changes in foreign exchange rates impacted the net sales positively compared to last year.

Net sales for the second quarter increased by 3% from last year reaching all-time quarterly high at 83.7 MEUR (80.9 MEUR). Changes in currency exchange rates increased sales by 3.5 MEUR, while establishment of new units, offset by divestment of the gift business, reduced the sales in net of 3.0 MEUR. The six-month net sales were 157.1 MEUR (155.6 MEUR), 1% increase from last year, also reaching all time sales record for the first half of the year. With comparable exchange rates and organization structure, net sales increased by 3% in the second quarter and 1% during the first six months.

Compared to last year, net sales of Group Products decreased by 1% in the second quarter and 2% for the first six months, negatively impacted by the divestment of the gift business, structural changes in UK distribution and slow winter sports equipment sales. Excluding the impact of gift and winter sports, Group Product sales increased by 7% for the quarter and 5% for the first half of the year. Sales of Third Party Products grew by 11% during the quarter and 5% year-to-date, following good second quarter sales in fishing, hunting and outdoor products.

In North America external sales were up by 16% for the second quarter and by 12% for the first half of the year. This was significantly impacted by the US dollar, which was 8% stronger year-to-date against euro compared to last year. In local currency, sales for the first six months were 4% above last year's level, evidencing a clear improvement in the North American business environment.

In Nordic countries, sales were up by 5% for the quarter and down by 5% for the first half of the year. First half sales were impacted by challenging winter business conditions and by structural changes in the Norwegian retail market. Especially the Finnish market has been negatively impacted by the economic uncertainties and past winter season.

In Rest of Europe sales increased by 4% for the quarter and by 3% for the first half of the year, supported by good sales in Eastern Europe, Baltics and France, while negatively impacted by European economical uncertainties especially in Spain, Hungary and Switzerland. Rest of Europe sales have also been impacted by the structural changes in UK distribution.

In Rest of the World sales decreased by 23% for the second quarter and by 17% for the first half of the year primarily as a result of the gift business divestment. Excluding the gift business divestment net sales of Rest of the World were up by 15% in the second quarter and 16% during the first six months. Sales increased in all Asian markets.

## Financial Results and Profitability

Comparable operating profit, excluding non-recurring items, decreased from last year and amounted to 11.7 MEUR (13.2 MEUR) for second quarter and 22.0 MEUR (25.3 MEUR) for the six-month period. Comparable operating margin was lower than last year amounting to 14.0% (16.3%) for the quarter and 14.0 % (16.3%) for the six-month period. Operating profit was negatively impacted by the divestment of the gift business, decline in gross margin due to foreign exchange rate changes and stock clearance campaigns, establishment of new manufacturing units and cost of performance improvement initiatives.

Reported operating profit for the second quarter amounted to 11.6 MEUR (12.8 MEUR) and 22.0 MEUR (24.9 MEUR) for the first half of the year. Reported operating margin was 13.9% (15.8%) and 14.0% (16.0%) respectively. Reported operating profit for the quarter and for the first six months included 0.0 MEUR non-recurring costs (0.4 MEUR non-recurring costs in January-June 2011). Return on capital employed fell to 19.9% (22.6%) for second quarter and to 18.8% (22.0%) for the six-month period.

| **Key figures**<br>MEUR | **II**<br>**2012** | II<br>2011 | **I-II**<br>**2012** | I-II<br>2011 | I-IV<br>2011 |
|---|---|---|---|---|---|
| Net sales | **83.7** | 80.9 | **157.1** | 155.6 | 279.5 |
| EBITDA as reported | **13.3** | 14.4 | **25.3** | 28.1 | 37.7 |
| EBITDA excl. one-off items | **13.3** | 14.8 | **25.3** | 28.5 | 37.1 |
| Operating profit (EBIT) | **11.6** | 12.8 | **22.0** | 24.9 | 30.7 |
| EBIT excl. one-off items | **11.7** | 13.2 | **22.0** | 25.3 | 30.5 |

Operating profit for Group Products decreased from last year in the second quarter amounting to 7.8 MEUR (8.3 MEUR) and to 14.7 MEUR (17.3 MEUR) for the six-month period. Profitability was impacted by the divestment of the gift business, inventory clearance sales with lower margins and establishment of new manufacturing units. Six-months profit margin reduced in hooks and fishing accessories, while margin on lures improved. Six-month sales have also been impacted by declined sales in winter sports equipment. Operating profit for Third Party Products decreased to 3.9 MEUR (4.5 MEUR) in the second quarter and to 7.3 MEUR (7.6 MEUR) in first half of the year, impacted especially by currency impact on purchases of fishing products.

Total financial (net) expenses were 1.2 MEUR (1.5 MEUR) for the quarter and 1.2 MEUR (2.6 MEUR) for the first half of the year. Net interest and other financing expenses were 0.9 MEUR (1.1 MEUR) for the quarter and 1.9 MEUR (1.9 MEUR) for the first half of the year. Financial items were positively impacted by the change in (net) currency exchange expenses of 0.3 MEUR (0.4 MEUR) for the quarter and gain 0.7 MEUR (expense 0.6 MEUR) for the six-month period.

Net profit for the quarter was reduced to 7.2 MEUR (8.0 MEUR) and was 14.7 MEUR (15.9 MEUR) for the first half of the year. Earnings per share for the second quarter reached 0.15 EUR (0.17 EUR) and were 0.31 EUR (0.35 EUR) for the six-month period.

**Cash Flow and Financial Position**

Following the intense focus on cash flow and working capital management, cash flow from operating activities improved significantly and reached record levels for the second quarter and first half of the year at 21.5 MEUR (17.0 MEUR) and 12.2 MEUR (1.5 MEUR) respectively. Positive cash flow impact came from the net change in working capital, mainly inventories, being 12.1 MEUR (6.4 MEUR) for the quarter and -6.8 MEUR (-20.2 MEUR) for the six-month period.

Group's inventories increased 3.3 MEUR from last June to 119.5 MEUR (116.2 MEUR), of which 4.2 MEUR came from net impact of currency movements, having no cash flow impact, and 1.5 MEUR from net increase from divested gift business offset by the new winter fishing business, which will start during the second half of the year. Excluding the currency impact and the structural changes, inventories decreased 2.4 MEUR from last June.

Net cash used in investing activities was 2.5 MEUR (2.3 MEUR) for the quarter and 10.8 MEUR (4.0 MEUR) for the six-month period. Operative capital expenditure was 1.9 MEUR (1.7 MEUR) for the quarter and 4.2 MEUR (3.5 MEUR) for the six-month period, increased mainly by establishment of the manufacturing units in Batam. Investing activities also include acquisition of the assets of Strike Master Corporation and Mora ICE brand with total of 6.4 MEUR and proceeds from the sale of a real estate in Finland of 0.3 MEUR.

Net interest bearing debt decreased to 99.9 MEUR (103.4 MEUR) in the end of June. Gearing decreased accordingly to 70.6% (79.9%), close to second quarter record of 70.0%. Equity-to-assets ratio weakened by 50 basis points to 39.9% (40.4%) compared to last year.

**Strategy Implementation**

Implementation of Rapala's strategy of profitable growth continued during the second quarter of the year by taking several actions relating to manufacturing and distribution activities.

In February Rapala closed the deals to acquire assets of Strike Master Corporation as well as the brand and intellectual property rights relating to Mora ICE products. These deals together with the supply agreement concluded with Marcum Electronics Corporation will give Rapala the global leadership position in the ice fishing category and increase the sales in the seasonally slower second half of the year in all main arctic markets. During the second quarter the integration and development of the newly acquired business has proceeded swiftly.

Group's new lure and hook manufacturing units on Batam Island in Indonesia started their operations during the first quarter. Production volumes and operational efficiencies have been ramped up during the second quarter and lure production is already in line with planned output levels. Group has decided to triple the size of Batam lure manufacturing operations during the coming 6-12 months and preparations for this have started.

In order to strengthen presence in Latin America, the Group decided to establish a new distribution company in Chile, where the sales should start during the third quarter. Rapala already has distribution companies in Mexico and Brazil. In line with the existing joint venture agreements with Shimano, the distribution company in Belarus was transferred to the Rapala Shimano East Europe structure in June 2012.

A special initiative to improve the performance of the distribution company in Switzerland was started during the second quarter. The performance initiatives in Norway continued.

During the second quarter Rapala refinanced its bank loan facilities and extended its commercial paper program. These will provide flexibility to arrange Group’s seasonal and long term funding and strengthens Rapala’s capabilities to finance its strategy of profitable growth.

Working capital and cash flow management was still one of the top priorities of the Group, and the Group continues to work to reduce the inventory levels and develop the Group’s internal supply chain. In June 2012, the Board approved a new share based incentive plan for the Group's key personnel, in which potential reward is based on development of Rapala Group’s inventory levels and EBITDA.

The range of new products for the season 2013 was introduced to the market in the major fishing tackle shows in Europe and USA in June and July. Rapala was honored with the Best New Hard Lure and Best New Metal Lure awards at EFTTEX 2012, the Europe’s largest and most important international fishing tackle trade show. By combining balsa wood and plastic, the new Rapala BX Minnow lure is another example of Rapala’s innovativeness and it will continue to support Rapala’s organic growth.

Discussions and negotiations regarding acquisitions and business combinations continued during the second quarter.

**Short-term Outlook**

Outlook for the full year remains positive, while cautious. During the first half of the year Rapala’s sales reached record levels, despite the divestment of the gift business, challenging winter and summer weather conditions in some of the main markets and the continuing economical uncertainties originating from Europe, which are to some extent shadowing the general business sentiment and consumer confidence globally.

Although last winter’s difficult business conditions may have some knock-on effect on coming winter season’s sales, the new acquisitions and distribution agreements relating to winter fishing business will impact positively on the Group’s sales and operating profit during the second half of the year. E.g. in USA, where also the overall retail and consumer sentiment has improved during this year, the order book for winter fishing products is exceptionally strong and the category is expected to generate some 10 to 15 MUSD additional sales for the second half of 2012.

Group has put more emphasis on cash flow and working capital management, which together with foreign exchange rate changes, establishment of new manufacturing units and performance improvement initiatives will pressure the profitability this year.

It is expected that in 2012 the net sales will increase from 2011. Profitability estimate is specified so that the comparable operating profit is expected to remain close to last year's level.

Third quarter interim report will be published on October 23.

Helsinki, July 24, 2012

Board of Directors of Rapala VMC Corporation

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

| STATEMENT OF INCOME<br>MEUR | **II<br>2012** | II<br>2011 | **I-II<br>2012** | I-II<br>2011 | I-IV<br>2011 |
|---|---|---|---|---|---|
| **Net sales** | **83.7** | 80.9 | **157.1** | 155.6 | 279.5 |
| Other operating income | **0.2** | 0.3 | **0.5** | 0.4 | 2.9 |
| Materials and services | **40.5** | 36.4 | **72.6** | 68.3 | 129.0 |
| Personnel expenses | **15.9** | 16.0 | **31.6** | 31.5 | 62.4 |
| Other costs and expenses | **14.2** | 14.4 | **28.0** | 28.0 | 53.3 |
| Share of results in associates and joint ventures | **0.0** | 0.0 | **0.0** | 0.0 | -0.1 |
| **EBITDA** | **13.3** | 14.4 | **25.3** | 28.1 | 37.7 |
| Depreciation, amortization and impairments | **1.7** | 1.6 | **3.3** | 3.2 | 7.0 |
| **Operating profit (EBIT)** | **11.6** | 12.8 | **22.0** | 24.9 | 30.7 |
| Financial income and expenses | **1.2** | 1.5 | **1.2** | 2.6 | 5.5 |
| **Profit before taxes** | **10.5** | 11.3 | **20.8** | 22.4 | 25.2 |
| Income taxes | **3.3** | 3.3 | **6.1** | 6.4 | 8.0 |
| **Net profit for the period** | **7.2** | 8.0 | **14.7** | 15.9 | 17.2 |
| | | | | | |
| **Attributable to:** | | | | | |
| Equity holders of the Company | **6.0** | 6.6 | **12.2** | 13.6 | 14.0 |
| Non-controlling interests | **1.2** | 1.4 | **2.5** | 2.3 | 3.2 |
| | | | | | |
| **Earnings per share for profit attributable** | | | | | |
| Earnings per share, EUR (diluted = non-diluted) | **0.15** | 0.17 | **0.31** | 0.35 | 0.36 |

| STATEMENT OF COMPREHENSIVE INCOME<br>MEUR | **II<br>2012** | II<br>2011 | **I-II<br>2012** | I-II<br>2011 | I-IV<br>2011 |
|---|---|---|---|---|---|
| **Net profit for the period** | **7.2** | 8.0 | **14.7** | 15.9 | 17.2 |
| **Other comprehensive income, net of tax** | | | | | |
| Change in translation differences | **3.9** | -1.1 | **2.0** | -5.3 | 2.0 |
| Gains and losses on cash flow hedges | **-0.6** | -0.2 | **-0.6** | 0.3 | -0.1 |
| Gains and losses on hedges of net investments | **-0.4** | 0.2 | **-0.1** | 0.8 | -0.4 |
| **Total other comprehensive income, net of tax** | **2.8** | -1.1 | **1.4** | -4.2 | 1.5 |
| | | | | | |
| **Total comprehensive income for the period** | **10.0** | 6.9 | **16.1** | 11.8 | 18.7 |
| | | | | | |
| Total comprehensive income attributable to: | | | | | |
| Equity holders of the Company | **9.1** | 5.5 | **13.7** | 9.6 | 15.8 |
| Non-controlling interests | **0.9** | 1.4 | **2.4** | 2.2 | 2.9 |

| STATEMENT OF FINANCIAL POSITION<br>MEUR | **June 30 2012** | June 30 2011 | Dec 31 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | **73.9** | 65.1 | 68.0 |
| Property, plant and equipment | **29.5** | 28.5 | 28.5 |
| Non-current financial assets | | | |
| Interest-bearing | **8.4** | 1.7 | 7.6 |
| Non-interest-bearing | **9.8** | 8.7 | 9.1 |
| | **121.7** | 104.0 | 113.2 |
| **Current assets** | | | |
| Inventories | **119.5** | 116.2 | 115.5 |
| Current financial assets | | | |
| Interest-bearing | **1.3** | 0.0 | 1.6 |
| Non-interest-bearing | **67.0** | 67.9 | 55.0 |
| Cash and cash equivalents | **45.0** | 32.3 | 28.9 |
| | **232.8** | 216.5 | 201.0 |
| Assets classified as held-for-sale | **0.3** | - | 0.3 |
| **Total assets** | **354.7** | 320.4 | 314.5 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Equity attributable to the equity holders of the Company | **133.4** | 122.4 | 128.6 |
| Non-controlling interests | **8.1** | 6.9 | 7.2 |
| | **141.4** | 129.3 | 135.8 |
| **Non-current liabilities** | | | |
| Interest-bearing* | **64.7** | 23.6 | 12.7 |
| Non-interest-bearing | **14.5** | 13.0 | 13.5 |
| | **79.2** | 36.6 | 26.2 |
| **Current liabilities** | | | |
| Interest-bearing* | **90.0** | 113.9 | 116.6 |
| Non-interest-bearing | **44.1** | 40.7 | 35.9 |
| | **134.1** | 154.6 | 152.5 |
| **Total equity and liabilities** | **354.7** | 320.4 | 314.5 |

* As of April 2012 the revolving credit facilities of the new bank loan agreements were classified as non-

| KEY FIGURES | **II 2012** | II 2011 | **I-II 2012** | I-II 2011 | I-IV 2011 |
|---|---|---|---|---|---|
| EBITDA margin, % | **15.9%** | 17.8% | **16.1%** | 18.1% | 13.5% |
| Operating profit margin, % | **13.9%** | 15.8% | **14.0%** | 16.0% | 11.0% |
| Return on capital employed, % | **19.9%** | 22.6% | **18.8%** | 22.0% | 13.7% |
| Capital employed at end of period, MEUR | **241.3** | 232.7 | **241.3** | 232.7 | 227.0 |
| Net interest-bearing debt at end of period, MEUR | **99.9** | 103.4 | **99.9** | 103.4 | 91.2 |
| Equity-to-assets ratio at end of period, % | **39.9%** | 40.4% | **39.9%** | 40.4% | 43.2% |
| Debt-to-equity ratio at end of period, % | **70.6%** | 79.9% | **70.6%** | 79.9% | 67.2% |
| Earnings per share, EUR (diluted = non-diluted) | **0.15** | 0.17 | **0.31** | 0.35 | 0.36 |
| Equity per share at end of period, EUR | **3.43** | 3.15 | **3.43** | 3.15 | 3.30 |
| Average personnel for the period | **2 025** | 2 304 | **2 058** | 2 304 | 2 208 |

Definitions of key figures in the interim report are consistent with those in the Annual Report 2011.

| STATEMENT OF CASH FLOWS<br>MEUR | **II<br>2012** | II<br>2011 | **I-II<br>2012** | I-II<br>2011 | I-IV<br>2011 |
|---|---|---|---|---|---|
| Net profit for the period | **7.2** | 8.0 | **14.7** | 15.9 | 17.2 |
| Adjustments to net profit for the period * | **6.1** | 5.8 | **10.7** | 11.9 | 17.6 |
| Financial items and taxes paid and received | **-3.9** | -3.3 | **-6.4** | -6.2 | -12.3 |
| Change in working capital | **12.1** | 6.4 | **-6.8** | -20.2 | -7.3 |
| **Net cash generated from operating activities** | **21.5** | 17.0 | **12.2** | 1.5 | 15.2 |
| Investments | **-1.9** | -1.7 | **-4.2** | -3.5 | -8.4 |
| Proceeds from sales of assets | **0.1** | 0.0 | **0.6** | 0.2 | 0.7 |
| Acquisition of joint venture Shimano Normark UK | **-** | - | **-** | - | -1.5 |
| Dynamite Baits acquisition, net of cash | **-** | - | **-** | - | -0.1 |
| Sufix brand acquisition | **-0.8** | -0.7 | **-0.8** | -0.7 | -0.7 |
| Strikemaster and Mora ICE acquisitions | **-** | - | **-6.4** | - | - |
| Acquisition of other subsidiaries, net of cash | **-** | - | **-** | - | 0.0 |
| Proceeds from disposal of subsidiaries, net of cash | **-** | - | **-** | - | 0.6 |
| Change in interest-bearing receivables | **0.0** | 0.0 | **0.0** | 0.0 | 0.0 |
| **Net cash used in investing activities** | **-2.5** | -2.3 | **-10.8** | -4.0 | -9.6 |
| Dividends paid to parent company's shareholders | **-8.9** | -9.0 | **-8.9** | -9.0 | -9.0 |
| Dividends paid to non-controlling interest | **-1.5** | -2.7 | **-1.5** | -2.7 | -2.9 |
| Net funding | **6.6** | 3.4 | **24.9** | 19.7 | 6.7 |
| Purchase of own shares | **-** | - | **-0.1** | 0.0 | -0.1 |
| **Net cash generated from financing activities** | **-3.8** | -8.3 | **14.5** | 8.0 | -5.2 |
| Adjustments | **0.0** | 0.0 | **0.2** | 0.0 | 0.4 |
| Change in cash and cash equivalents | **15.1** | 6.4 | **16.1** | 5.5 | 0.8 |
| Cash & cash equivalents at the beginning of the period | **29.3** | 26.0 | **28.9** | 27.9 | 27.9 |
| Foreign exchange rate effect | **0.6** | -0.1 | **0.0** | -1.1 | 0.2 |
| **Cash and cash equivalents at the end of the period** | **45.0** | 32.3 | **45.0** | 32.3 | 28.9 |

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **MEUR** | Share capital | Share premium fund | Fair value reserve | Cumul. translation differences | Fund for invested non-restricted equity | Own shares | Retained earnings | Non-controlling interests | **Total equity** |
| **Equity on Jan 1, 2011** | **3.6** | **16.7** | **-1.5** | **-6.0** | **4.9** | **-2.5** | **106.7** | **7.4** | **129.2** |
| Comprehensive income * | - | - | 0.3 | -4.4 | - | - | 13.6 | 2.2 | **11.8** |
| Purchase of own shares | - | - | - | - | - | 0.0 | - | - | **0.0** |
| Dividends paid | - | - | - | - | - | - | -9.0 | -2.7 | **-11.7** |
| Other changes | - | - | - | - | - | - | - | 0.0 | **0.0** |
| **Equity on Jun 30, 2011** | **3.6** | **16.7** | **-1.1** | **-10.3** | **4.9** | **-2.5** | **111.3** | **6.9** | **129.3** |
| **Equity on Jan 1, 2012** | **3.6** | **16.7** | **-1.6** | **-4.1** | **4.9** | **-2.6** | **111.8** | **7.2** | **135.8** |
| Comprehensive income * | - | - | -0.6 | 2.0 | - | - | 12.2 | 2.4 | **16.1** |
| Purchase of own shares | - | - | - | - | - | -0.1 | - | - | **-0.1** |
| Dividends paid | - | - | - | - | - | - | -8.9 | -1.5 | **-10.4** |
| Share based payments | - | - | - | - | - | - | 0.0 | - | **0.0** |
| **Equity on Jun 30, 2012** | **3.6** | **16.7** | **-2.2** | **-2.1** | **4.9** | **-2.7** | **115.1** | **8.1** | **141.4** |

* For the period, (net of tax)

**SEGMENT INFORMATION***

| MEUR | **II** | II | **I-II** | I-II | I-IV |
|---|---|---|---|---|---|
| **Net Sales by Operating Segment** | **2012** | 2011 | **2012** | 2011 | 2011 |
| Group Products | **48.8** | 49.5 | **94.6** | 96.3 | 174.5 |
| Third Party Products | **34.8** | 31.4 | **62.5** | 59.3 | 105.0 |
| **Total** | **83.7** | 80.9 | **157.1** | 155.6 | 279.5 |
| | | | | | |
| **Operating Profit by Operating Segment** | | | | | |
| Group Products | **7.8** | 8.3 | **14.7** | 17.3 | 22.4 |
| Third Party Products | **3.9** | 4.5 | **7.3** | 7.6 | 8.4 |
| **Total** | **11.6** | 12.8 | **22.0** | 24.9 | 30.7 |

| | **June 30** | June 30 | Dec 31 |
|---|---|---|---|
| **Assets by Operating Segment** | **2012** | 2011 | 2011 |
| Group Products | **221.8** | 208.9 | 207.7 |
| Third Party Products | **78.2** | 77.4 | 68.8 |
| Non-interest bearing assets total | **300.0** | 286.3 | 276.5 |
| Unallocated interest-bearing assets | **54.7** | 34.1 | 38.1 |
| **Total assets** | **354.7** | 320.4 | 314.5 |
| | | | |
| **Liabilities by Operating Segment** | | | |
| Group Products | **44.1** | 40.3 | 35.0 |
| Third Party Products | **14.5** | 13.3 | 14.5 |
| Non-interest bearing liabilities total | **58.7** | 53.6 | 49.5 |
| Unallocated interest-bearing liabilities | **154.6** | 137.5 | 129.3 |
| **Total liabilities** | **213.3** | 191.1 | 178.8 |

| **Net Sales by Area**** | **II** | II | **I-II** | I-II | I-IV |
|---|---|---|---|---|---|
| MEUR | **2012** | 2011 | **2012** | 2011 | 2011 |
| North America | **21.4** | 18.4 | **41.9** | 37.3 | 69.1 |
| Nordic | **20.7** | 19.7 | **35.9** | 37.7 | 65.3 |
| Rest of Europe | **33.3** | 32.1 | **63.1** | 61.0 | 102.7 |
| Rest of the world | **8.2** | 10.7 | **16.3** | 19.6 | 42.4 |
| **Total** | **83.7** | 80.9 | **157.1** | 155.6 | 279.5 |

* As of January 1, 2012 the reportable operating segments include the following product lines: Group Products include Group Fishing Products, such as Lures, Fishing Hooks, Fishing Lines and Fishing Accessories, as well as Other Group Products, mainly Winter Sports and some other non-fishing related business manufactured and/or sourced by the Group and sold under the Group's brands. Third Party Products include non-Group branded fishing products and third party products for hunting, outdoor and winter sports distributed by the Group.

** Geographical information has been prepared on source basis i.e. based on the location of the business unit. As of January 1, 2012 the net sales is presented excluding intra-Group transactions, i.e. including only Group's external sales

| KEY FIGURES BY QUARTERS | I | II | III | IV | I-IV | **I** | **II** |
|---|---|---|---|---|---|---|---|
| MEUR | 2011 | 2011 | 2011 | 2011 | 2011 | **2012** | **2012** |
| Net sales | 74.7 | 80.9 | 63.0 | 60.8 | 279.5 | **73.5** | **83.7** |
| EBITDA | 13.7 | 14.4 | 4.1 | 5.5 | 37.7 | **12.0** | **13.3** |
| Operating profit | 12.1 | 12.8 | 2.3 | 3.5 | 30.7 | **10.4** | **11.6** |
| Profit before taxes | 11.1 | 11.3 | 0.3 | 2.5 | 25.2 | **10.4** | **10.5** |
| Net profit for the period | 7.9 | 8.0 | 0.2 | 1.1 | 17.2 | **7.5** | **7.2** |

## NOTES TO THE INCOME STATEMENT AND FINANCIAL POSITION

The financial statement figures included in this release are unaudited.

This report has been prepared in accordance with IAS 34. Accounting principles adopted in the preparation of this report are consistent with those used in the preparation of the Annual Report 2011, except for the adoption of the new or amended standards and interpretations. Adoption of amendment of IFRS 7 did not result in any changes in the accounting principles that would have affected the information presented in this interim report.

Rapala changed its reportable operating segments from January 1, 2012. Rapala's reportable operating segments are Group Products consisting of Group Fishing Products and Other Group Products, and Third Party Products.

### Use of estimates and rounding of figures

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

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

### Events after the end of the interim period

The Group has no knowledge of any significant events after the end of the interim period that would have a material impact on the financial statements for January-June 2012. Material events after the end of the interim period, if any, have been discussed in the interim review by the Board of Directors.

### Inventories

On June 30, 2012, the book value of inventories included a provision for net realizable value of 3.4 MEUR (2.8 MEUR at June 30, 2011 and 3.2 MEUR at December 31, 2011).

### Assets held for sale

As part of the relocation of Finnish distribution operations, an office and warehouse building in Korpilahti, Finland, was classified as held for sale during the fourth quarter in 2011.

### Impact of business acquisitions on the consolidated financial statements

During the first quarter Rapala acquired the assets, including Mora trademark in North America, of Minnesota based Strike Master Corporation ("Strike Master"), the leading supplier of ice augers in the US. Rapala also acquired 100% of the share capital of Swedish Mora Ice Ab including the Mora ICE brand, together with all intellectual property rights relating to the Mora ICE products. Mora ICE is Europe's leading and premium brand of ice augers and auger cutting blades. Both of the acquisitions were completed in February. The total consideration of 6.8 MEUR is subject to finalization of the closing accounts. Fair values of the acquired assets are provisional.

These strategic initiatives will give Rapala the global leadership position in the ice fishing category. Rapala is well equipped to exploit this position as it is having strong distribution companies in all main arctic markets: US, Canada, Russia, East European and Nordic countries, Japan and China.

Net sales after the acquisitions, 0.1 MEUR, are included in the consolidated income statement. The acquisitions did not have material impact on the profit of the Group. Due to the structure of the acquisitions it is not possible to reliably determine pre-transaction sales and profit prior in 2012. Together with Marcum distribution agreement these transactions are expected to increase Rapala's 2012 net sales some 10 MEUR.

The transaction costs of 0.0 MEUR have been expensed and are included in the other operating expenses in the income statement and treated as a non-recurring item.

The goodwill of 0.7 MEUR is justified by expansion of product assortment and market coverage as well as utilization of economies of scale in sourcing and distribution. None of the goodwill is expected to be deductible for income tax purposes. The goodwill will be tested for impairment.

The business combinations are accounted for by applying the acquisition method. The fair value of intellectual property rights is established using the relief from royalty method. The fair value of customer relationships is established with the income approach based on the future economic returns from the customers over their useful lives.

| MEUR | **2012** |
|---|---|
| Inventories | **1.8** |
| Trade and other non-interest-bearing receivables | **0.4** |
| Intangible assets | **4.4** |
| Tangible assets | **0.1** |
| Trade and other non-interest-bearing payables | **0.0** |
| Deferred tax liability (net) | **-0.6** |
| **Fair value of acquired net assets** | **6.1** |

| MEUR | **2012** |
|---|---|
| Cash paid upon closing | **6.4** |
| Cash to be paid later | **0.4** |
| **Total purchase consideration** | **6.8** |
| | |
| **Goodwill** | **0.7** |
| | |
| Cash paid for the acquisitions | **6.4** |
| Cash and cash equivalents acquired | **-** |
| **Net cash flow** | **6.4** |

| **Non-recurring income and expenses included in operating profit** | **II** | II | **I-II** | I-II | I-IV |
|---|---|---|---|---|---|
| MEUR | **2012** | 2011 | **2012** | 2011 | 2011 |
| Costs related to business acquisitions | **0.0** | -0.1 | **0.0** | -0.1 | -0.3 |
| Restructuring of Hungarian operations | **-** | - | **-** | - | 0.1 |
| Relocation of Finnish operations | **-** | -0.1 | **-** | -0.1 | -0.3 |
| Net gain from sale of gift manufacturing unit in China* | **0.0** | -0.2 | **-0.1** | -0.2 | 1.5 |
| Other restructuring costs | **-** | 0.0 | **-** | 0.0 | -0.4 |
| Gain on disposal of real estate in Finland | **-** | - | **0.1** | - | - |
| Other non-recurring items | **0.0** | - | **0.0** | - | - |
| **Total included in EBITDA** | **0.0** | -0.4 | **0.0** | -0.4 | 0.6 |
| Impairment of non-current assets relating to relocation of Finnish | **-** | - | **-** | - | -0.4 |
| Other non-recurring impairments | **-** | - | **-** | - | 0.0 |
| **Total included in operating profit** | **0.0** | -0.4 | **0.0** | -0.4 | 0.2 |

* I-IV 2011: Including a gain of 1.9 MEUR and costs related to divestment.

| **Commitments** | **June 30** | June 30 | Dec 31 |
|---|---|---|---|
| MEUR | **2012** | 2011 | 2011 |
| **On own behalf** | | | |
| Business mortgage* | **-** | 16.1 | 16.1 |
| Guarantees | **0.1** | 0.1 | 0.1 |
| | | | |
| **Minimum future lease payments on operating leases** | **14.0** | 10.1 | 15.2 |

* The Group refinanced its loan facilities in April 2012, and the business mortgage related to the previous facility was released. The new loan facilities are unsecured and include normal financial covenants.

| **Related party transactions**<br>MEUR | Sales and other income | Pur-chases | Rents paid | Other expen-ses | Recei-vables | Paya-bles |
|---|---|---|---|---|---|---|
| **I-II 2012** | | | | | | |
| **Joint venture Shimano Normark UK Ltd** | **2.0** | **-** | **-** | **-** | **0.5** | **0.0** |
| **Associated company Lanimo Oü** | **-** | **0.0** | **-** | **-** | **0.0** | **-** |
| **Entity with significant influence over the Group*** | **-** | **-** | **0.1** | **0.1** | **0.0** | **-** |
| **Management** | **-** | **-** | **0.2** | **-** | **0.0** | **0.1** |
| | | | | | | |
| I-II 2011 | | | | | | |
| Associated company Lanimo Oü | 0.1 | - | - | - | 0.0 | - |
| Entity with significant influence over the Group* | - | - | 0.1 | 0.0 | 0.0 | 0.0 |
| Management | - | - | 0.2 | - | - | 0.0 |
| | | | | | | |
| I-IV 2011 | | | | | | |
| Joint venture Shimano Normark UK Ltd | 1.6 | - | - | - | 0.1 | - |
| Associated company Lanimo Oü | - | 0.1 | - | - | 0.0 | - |
| Entity with significant influence over the Group* | - | - | 0.2 | 0.1 | 0.0 | 0.0 |
| Management | - | - | 0.3 | - | 0.0 | 0.0 |

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

| **Open derivatives**<br>MEUR | Nominal amount | Positive fair values | Negative fair values | Net fair values |
|---|---|---|---|---|
| **June 30, 2012** | | | | |
| **Foreign currency options and forwards** | **3.0** | **0.1** | **0.0** | **0.1** |
| **Cross currency swaps** | **70.4** | **-** | **2.1** | **-2.1** |
| **Total** | **73.4** | **0.1** | **2.1** | **-2.0** |
| | | | | |
| June 30, 2011 | | | | |
| Foreign currency options and forwards | 6.0 | 0.0 | 0.4 | -0.4 |
| Interest rate swaps | 84.3 | - | 1.5 | -1.5 |
| Total | 90.3 | 0.0 | 1.9 | -1.9 |
| | | | | |
| Dec 31, 2011 | | | | |
| Foreign currency options | 3.4 | 0.2 | - | 0.2 |
| Interest rate swaps | 67.9 | - | 2.1 | -2.1 |
| Total | 71.3 | 0.2 | 2.1 | -1.9 |

The Group’s financial risks and hedging principles are described in detail in the Annual Report 2011.

**Share based incentive plan**

In June 2012, the Board approved a new share based incentive plan for the Group's key personnel. The plan includes one earning period which commenced on April 1, 2012 and will end on June 30, 2013. The potential reward from the plan will be based on development of Rapala Group’s inventory levels and EBITDA. The potential reward will be paid primarily as Rapala's shares in August 2013. The target group of the plan consists of 20 key employees. The gross rewards to be paid on the basis of the plan will correspond to the value maximum total of 235 000 Rapala shares.

**Shares and share capital**

On April 11, 2012 The Annual General Meeting updated Board’s authorization on issuance and repurchase of shares.

On June 30, 2012, the share capital fully paid and reported in the Trade Register was 3.6 MEUR and the total number of shares was 39 468 449. The average number of shares in January-June 2012 was 39 468 449. On February 8, 2012, the Board decided to continue buying back own shares in accordance with the authorization granted by the AGM on April 5, 2011. The repurchasing ended on March 31, 2012. At the end of June 2012, Rapala held 563 235 own shares, representing 1.4% of the total number and the total voting rights of Rapala shares. The average share price of all repurchased own shares held by Rapala was EUR 4.75.

During the first six months, 2 513 753 shares (5 394 111) were traded at a high of 6.50 EUR and a low of 4.75 EUR. The closing share price at the end of the period was 5.12 EUR.

**Short term risks and uncertainties**

The objective of Rapala's risk management is to support the implementation of the Group's strategy and execution of business targets. The importance of risk management has increased as Rapala has continued to expand its operations. Accordingly, Group management continues to develop risk management practices and internal controls during 2012. Detailed descriptions of the Group's strategic, operative and financial risks as well as risk management principles are included in the Annual Report 2011.

Due to the nature of the fishing tackle business and the geographical scope of the Group's operations, the business has traditionally been seasonally stronger in the first half of the year compared to the second half.

The new ice fishing business will to some extent offset this seasonality during latter part of 2012, while introduction of such new business will be subject to increased uncertainties and risks.

The biggest deliveries for both summer and winter seasons are concentrated into relatively short time periods, and hence a well functioning supply chain is required. The Group's sales are to some extent affected by weather as it impacts consumer demand and the timing and length of the seasons. The 2011/2012 winter season was challenging in some markets and consequently retailers may be left with excess inventories. This together with general cautiousness may affect winter business in the next winter season. Difficult winter season may also increase some retailers' credit risk and thereby decrease the Group's sales.

A major supply chain and logistics initiative to improve the Group's inventory turnovers and shorten the factory lead-times continues in 2012, including planning of new initiatives. Before fully implemented, these initiatives may temporarily have negative impact on the Group's inventory levels. The possible product life-cycle initiatives as well as inventory clearance sales supporting the inventory reduction targets may have some short-term negative impacts on sales and profitability of some product groups. The ramp-up phase of the new production facility in Batam, Indonesia, may increase certain production and supply chain risks temporarily. The Group successfully refinanced its credit facilities in April, 2012. This has decreased the Group's liquidity and refinancing risks. The new credit facilities include some financial covenants, which are actively monitored.

The fishing tackle business has not traditionally been strongly influenced by the increased uncertainties and downturns in the general economic climate. They may, however, influence, at least for a short while, the sales of fishing tackle, when retailers reduce their inventory levels and face financial challenges. Also quick and strong increases in living expenses, such as gasoline price, uncertainties concerning employment and governmental austerity measures may temporarily affect consumer spending also in the fishing tackle business. The major global sporting events of summer 2012 might have some effect on the end consumer demand. However, the underlying consumer demand has historically proven to be fairly solid.

The truly global nature of the Group's sales and operations spreads the market risks caused by the current uncertainties in the global economy. The Group is cautiously monitoring the development both in the global macro economy as well as in the various local markets it operates in. The uncertainties in future demand as well as the length of the Group's supply chain increases the importance of supply chain management. Strong and rapid increases in consumer demand may put challenges on Group's supply chain to meet the demand. Management balances between risk of shortages and risk of excess production and purchasing, which would lead to excess inventories in the Group. Cash collection and credit risk management is high on the agenda of local management and this may affect sales to some customers. Quality of the accounts receivables is monitored closely and write-downs are initiated if needed.

The Group's sales and profitability are impacted by the changes in foreign exchange rates, especially US dollar and other currencies connected to it. The disturbances in global economy may cause heavy and unexpected fluctuations in foreign exchange rates. The Group monitors actively its currency position and risks and uses e.g. foreign currency denominated loans to generate natural hedges. In order to fix the exchange rates of some of the future USD-denominated purchases, the Group has entered into currency hedging agreements. As the Group is not applying hedge accounting to currency hedging agreements in accordance to IAS 39, the change in fair value of these unrealized currency hedging agreements has an impact on the Group's operating profit. Development of oil price may impact value of Russian rouble, which has become a significant inflow currency to the Group. The continuing strengthening of the Chinese yuan coupled with the possible strengthening of the US dollar increases cost pressures. Additionally, certain inflationary trends increase this pressure. The Group is closely monitoring market development and cost structure and considering possibility and feasibility of price increases, hedging actions and cost rationalization.

No significant changes are identified in the Group's strategic risks or business environment.