



# Q1 Interim Report 2008

April 23, 2008



# Agenda



- Q1 in Brief
- Business Organisation
- Status of Performance Improvement Initiatives
- Sales Analysis
- Profitability Analysis
- Cash flow & Working Capital
- Strategy Implementation
- Outlook for 2008
- Financial Trend History for Rapala
- Rapala share performance and owners



# Q1 in Brief



EUR million	I/2008	I/2007	2007
Sales	65.1	63.4	242.5
EBITDA	12.2	12.3	33.8
Operating Profit (EBIT)	10.6	12.0	28.3
Profit Before Taxes	9.3	11.0	23.3
Net Profit for the Period	6.8	7.7	17.5
EPS (basic), EUR	0.16	0.20	0.45
Equity-to-assets, %	36.3	32.9	38.2
Net Interest-bearing Debt	96.5	109.1	80.2

- **Q1 2008 a new sales record for Q1**, up 3% from last year, comparable sales up 8%.
- **Operating profit affected** by weather conditions, one-offs, Easter & fx movements.
- **Performance improvement initiatives on plan**, results in the second half of 2008.
- **Outlook for 2008 unchanged**: net sales expected to increase 8-12% with 2007 fx-rates. Operating margin expected to improve from 2007 with 2007 fx-rates & without one-offs.



# Group Organization & Cornerstones of Strategy

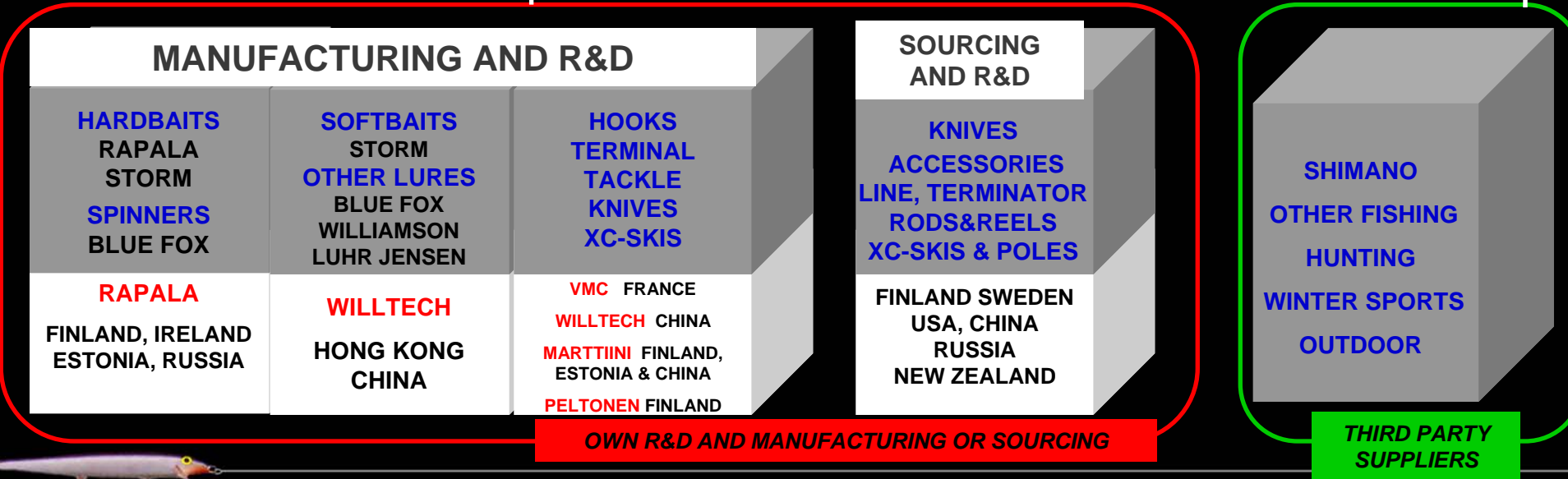
Distribution



Group Brands



Supply SOURCE PRODUCT



THE NEXT LEVEL



# Restructuring of European Operations



- **Consolidation of French operations**
  - Move from Bretagne completed
  - Move from Central France in mid-2008
  - New Morvillars distribution premises in use
  - 1st real estate sold (gain of 1.4 MEUR)
- **Development of lure manufacturing**
  - Sortavala ramp-up continues on plan
  - Inverin to be closed in end of April 2008
  - Production transfers between factories

- ### Marttiini
- Knife manufacturing
  - 80 employees in Rovaniemi & Pärnu

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

- ### Sortavala
- Lure assembly
  - Start-up in 2007
  - 60 employees

- ### Pärnu
- Focus on assembly, finishing & testing
  - 280 employees

- ### Inverin
- Focus on final assembly & dispatch
  - Closure in April 2008

- ### Morvillars
- Manufacture of treble hooks
  - 150->250 employees
  - Location for consolidated operations



# Enhancement of Chinese Manufacturing



- Major operational changes and improvements to enhance production efficiencies and shorten lead times & physical split of fishing tackle & gifts
- International task force established to support the development of manufacturing and supply chain management in China

## Guangzhou

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



## Shenzhen

- Willtech manufacturing facility
- Some 3 000 employees
- Lures (metal & plastic)
- Hook manufacturing
- Knife manufacturing
- Gift production
- Consolidated shipments

## Hong Kong

- Sales, R&D and administration
- 40 employees



# Competition & Major Players in the Industry



- No major changes in the competitive environment in Q1

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

\* 2007 figures, partly estimated if published information not available

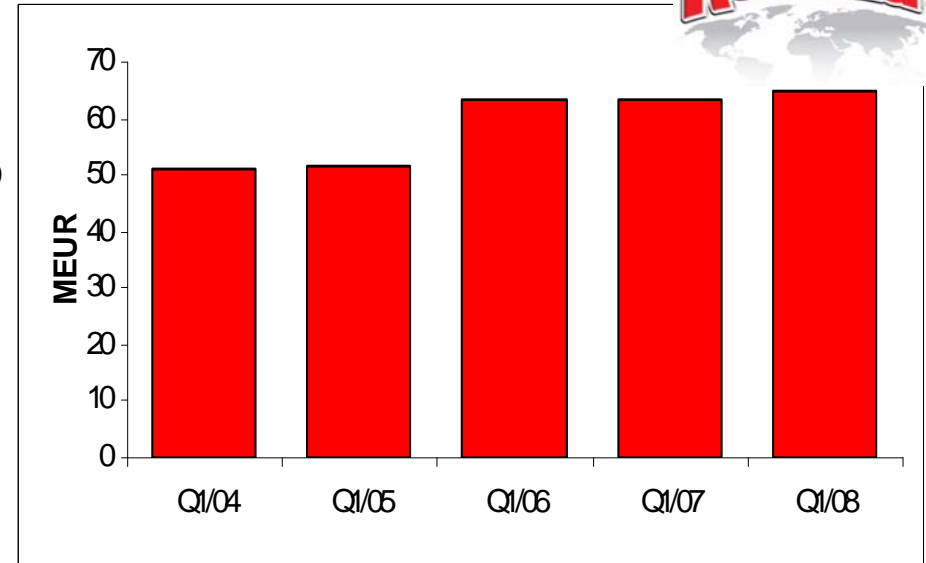
\*\* 2006 figures, partly estimated if published information not available



# Net Sales Analysis



- In Q1, season started well in Western Europe and Canada.
- In end Q1, **some US customers started to reduce their inventories** as a reaction to the changes in the US economy.
- US **consumer demand continued healthy** in the key product categories for Rapala.
- **Northern US** market was also affected by a very **cold and long winter**.
- In East Europe, Australia & South-Africa, markets continued strong.
- Due to an unusually **short and mild winter season in the Nordic countries**, the market for both winter fishing and winter sports equipment was very slow.
- **Easter holidays** were this year **in March** instead of April.
- **Q1 net sales a new record** for the first quarter at 65.1 MEUR (63.4)
- **Weakening of USD & South African** rand (etc.), decreased the net sales by 3.6 MEUR. Excluding the FX effects, Group **comparable net sales were up 8%**. With comparable FX rates, net sales were down 8% in North America.

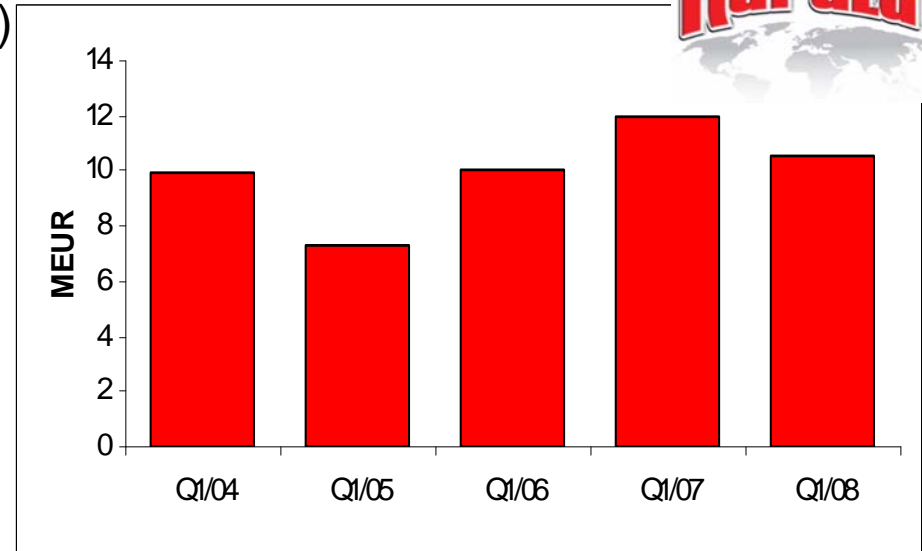




# Operating Profit Analysis (1)



- Q1 operating profit was 10.6 MEUR (12.0)
- Operating margin was 16.3% (18.9%) & ROCE 22.8% (25.4%).
- Result was negatively affected by
  - bad winter season for winter fishing & winter sports in Nordic countries,
  - cold and long winter in Northern US\*,
  - weakening of USD\* etc. (-0.4 MEUR),
  - timing of Easter holiday in March\*,
  - 0.3 MEUR of one-off costs related to restructurings in Europe and Asia,
  - Rapala has derivatives to fix part of its USD exposure related to purchases for the next 14 months. Since hedge accounting is not applied, the unrealized loss for these contracts (0.5 MEUR) decrease the operating profit for Q1.
- Result includes a one-off gain of 1.3 MEUR from the real estate sold in France.
- Comparable period in 2007 included one-off gains of 1.3 MEUR (Terminator etc.).
- Result of currency hedges (+0.1 MEUR) is booked in financial items.



\* These reduced the sales of Group-branded products

# Operating Profit Analysis (2)



Management Analysis	I/2008	I/2007		I/2008	I/2007
Net sales as reported	<b>65.1</b>	63.4	Operating profit as reported	<b>10.6</b>	12.0
Foreign exchange effects	<b>3.6</b>	0.0	Non-recurring items (net)	<b>-1.0</b>	-1.3
Comparable net sales	<b>68.7</b>	63.4	Foreign exchange effects	<b>0.9</b>	0.0
			Comparable operating profit	<b>10.5</b>	10.7
Operating margin as rep.	<b>16.3%</b>	18.9%	Comparable operating marg.	<b>15.3%</b>	16.9%

- **Comparable operating profit**, excluding one-offs & FX effects, was **10.5 MEUR (10.7)** and **comparable operating margin 15.3% (16.9%)**.
- Operating profit of **Nordic countries** down 0.8 MEUR as a result of FX movements and bad winter affecting winter sports & winter fishing equipment sales.
- **Rest of Europe's** result boosted by good sales and one-off gain (1.3 MEUR) from the real estate sold in France.
- Operating profit in **North America** and **Rest of the World** were down in line with the decrease in sales (in 2007 North America included a negative goodwill (Terminator)).
- **Financial expenses** increased from last year mainly due to decrease in currency exchange gains. Net interest expenses decreased slightly.
- **Net profit** for Q1 amounted to 6.8 MEUR (7.7) and **EPS** was 0.16 EUR (0.20).



# Cash Flow and Working Capital



EUR million	I/2008	I/2007	I-IV/2007
Net profit for the period	6.8	7.7	17.5
Adjustments	2.2	2.8	3.7
Change in working capital	-25.3	-17.8	-3.1
<b>Net cash from operating activities</b>	<b>-16.3</b>	<b>-7.3</b>	<b>18.2</b>
Net cash used in investing activities	-2.0	-3.0	-3.7
<b>Cash flow before financing</b>	<b>-18.3</b>	<b>-10.3</b>	<b>14.5</b>

- **Cash flow from operating activities** was below last year level due to decreased result and higher increase in working capital.
- **Working capital** was up from Dec. 2007 as inventories and trade receivables increased seasonally and new inventories were built up for Shimano products in Eastern Europe.
- **Net cash** used in investing activities, including acquisitions, was 2.0 MEUR (3.0).
- **Net interest-bearing debt** seasonally up to 96.5 MEUR (Dec 2007: 80.2, Mar 2007: 109.1).
- **Equity-to-asset ratio** seasonally down to 36.3% (Dec 2007: 38.2) and **gearing** up to 96.7% (Dec 2007: 82.8), both of these ratios improved clearly compared to March 2007.



# Strategy Implementation - Growth



- In Q1, Rapala continued to develop its product portfolio and market coverage to implement its strategy for profitable growth. Discussions and negotiations regarding acquisitions and business combinations continued.
- Rapala's competitive position both in the global and regional fishing tackle markets has strengthened in the past years thanks to innovative product development, high quality products, good service, extension of product offering for both global and regional markets as well as wide distribution network covering almost all fishing tackle markets.
- Rapala-Shimano distribution joint venture in East Europe has proven to be a success. South East European distribution center established with Shimano in early 2007 in Hungary has also progressed positively increasing both its sales and profitability.
- With the combined high quality product offering of Rapala and Shimano covering all key price points, the customers are able to fulfill majority of their fishing tackle needs. After these expansions of distribution alliance with Shimano, Rapala distributes Shimano fishing tackle, mainly rods and reels, in South Africa and in 22 countries in Europe. In Russia, the joint venture also distributes bicycle parts.
- New lure assembly factory in Russia is fully operational and increases its production volumes on a quarterly basis. The business of the new sales company established in 2007 in South Korea is proceeding on plan.



# Strategy Implementation - Profitability



- **Emphasis on performance improvement initiatives continued** with a target to further improve the Group's profitability in 2008.
- **Consolidation of the French operation proceeded on plan.** Sale of the first real estate was signed in Q1 (1.3 MEUR non-recurring gain) and the 2nd real estate will also be sold in 2008. **After all relocations have been made with the new organisation up and running, the annual savings are expected to reach 1-2 MEUR.** These savings will start to materialize from H2 2008 onwards with full effect in 2009.
- **Restructuring of Rapala's lure manufacturing operations in Europe proceeds on plan.** Manufacturing operations in Ireland will discontinue in the end of April 2008. The manufacturing functions of the Irish factory will be taken over by the Estonian factory. At the same time, significant part of assembly work is being transferred from Estonia to the new factory in Russia. **After the closing of the Irish factory and transfer of its duties to the Estonian factory, the annual savings are expected to reach some 0.7 MEUR.**
- **Operational changes and improvements in the Chinese factory progressed** with a target to enhance the production efficiencies and shorten the lead time. These changes also include the ongoing physical split of the fishing tackle and gift businesses to develop both businesses more on a standalone basis. **The full benefit of these changes are expected to materialize from 2009 onwards when all changes are done.**
- **Distribution joint ventures** with Shimano have proven to be a success for both sales and profitability. Impact of **other cost cutting initiatives** have started to gradually materialize. **New reorganizations** took place during Q1 in some Asian distribution units.



# Outlook for 2008



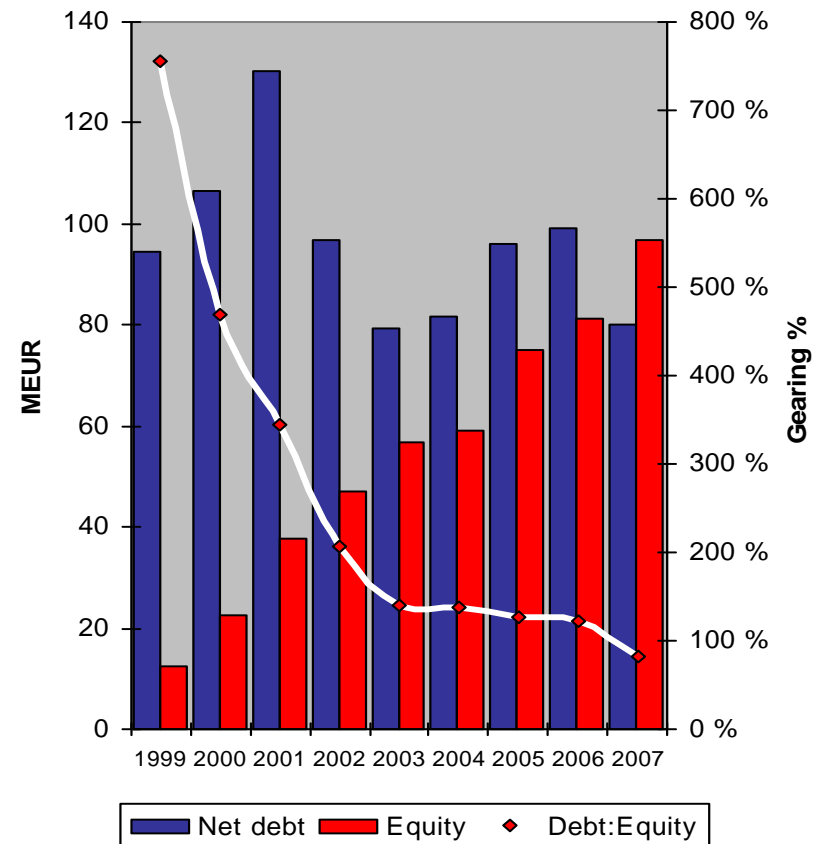
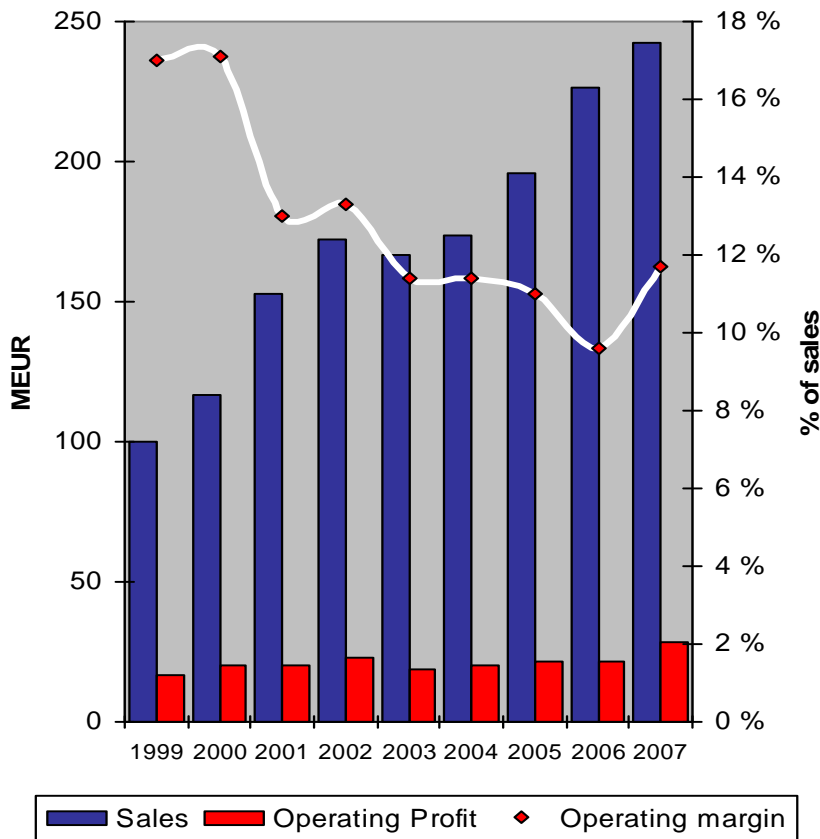
- In general, the **outlook for 2008 remains unchanged**.
- **Market outlook for 2008 is two-folded**. Fishing tackle business in product categories where Rapala operates has traditionally not been strongly influenced by changes in the general economic climate. This together with a good start in Europe and Canada indicates that the market could be quite stable for the rest of 2008. On the other hand, the increased uncertainties and downturns in the economic environment may influence the sales of fishing tackle if retailers reduce their inventory levels further. This risk remains especially in the USA.
- **Profitability of the Group's ongoing operations continues to be good. Special initiatives** are being implemented to further improve the profitability. In addition, **prices have been increased** and **further price increases are planned** to compensate for increases in raw material costs and wages especially in China. Business development and integration expenses and start-up costs are not expected to exceed the comparable costs in 2007.
- It is expected that the Group's **net sales for the financial year 2008 will increase 8-12%** from 2007 assuming comparable exchange rates. Possible additional acquisitions during 2008 would further increase the sales. Assuming comparable exchange rates and excluding non-recurring items, **operating margin is expected to improve from 2007**.
- **Negotiations** regarding further acquisitions and business combinations to implement the Group's strategy **continue**. Also the project to **manage working capital** continues.
- Launch of new products for season 2009 will take place during the next 3 months.
- Second quarter interim report will be published on July 23.



# Financial Position Healthy - Fuelled for Growth



- Rapid growth in last few years from €100m to above €240m.
- Promised **turnaround in operating margin** delivered in 2007.
- Continuous growth, improving profitability, strong balance sheet & cash flow.



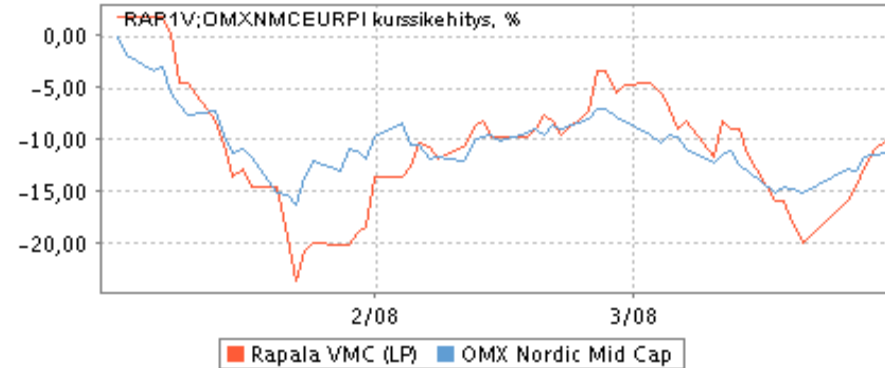
# Share Price Performance & Shareholders



## Share Related Data (3/2008)

- Market Cap 197 MEUR
- 12-month high 6.18 EUR
- 12-month low 4.02 EUR
- All-time high 8.40 (2/99)
- All-time low 2.50 (11/01)

## Share price for last 3 months



## Major Shareholders

- VMC 27 %
- Sofina 19 %
- Odin Funds 9 %
- Utavia 4 %
- William Ng 2 %
- Shimano 2 %

## Share price performance for 2003-2007 (5 years)

