Rapala®

ANNUAL REPORT 2006

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CRAFTED FROM EXPERIENCE — POSITIONED FOR GROWTH

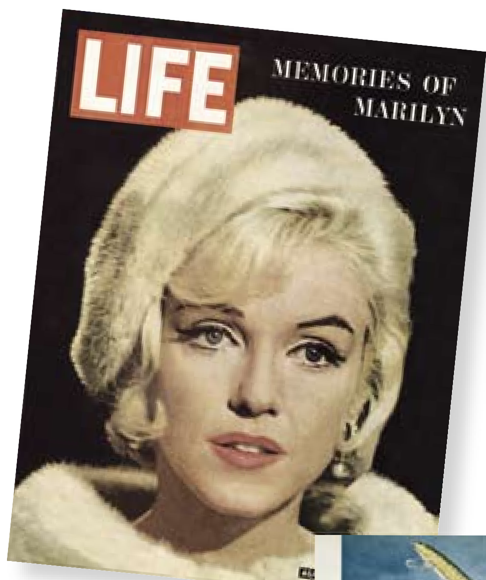
With a history of 60 years as a business, 70 years of lure making experience and close to 300 world-record catches, Rapala and its products are clearly crafted from experience. With its track record and current unique distribution network, manufacturing platform and brand portfolio, the Group is well positioned for growth.

Necessity — The Mother of Invention (1936—1945)

Lauri Rapala, the founder of the Rapala business, was born into poverty in Finland in 1905. He made his living by farm working and fishing. To make a better living for himself and his family, Lauri started to develop a lure that would increase the productivity of his fishing. In 1936, he finally managed to carve a rough-looking lure that produced an off-centre and enticing wobbling action – the one that is still the basis for many Rapala lures. The story of Rapala lures had begun.

The Business Is Born (1945—1955)

After World War II, Lauri revived his small lure making business that had blossomed just before the war. He was sure he had found a successful lure design, which he developed further. Lauri first made all the lures himself but was soon joined by his family. Production techniques and processes developed step by step throughout the 1950's. Despite the increased production volumes, Lauri insisted on testing every single lure to make sure that the action was correct. Even today, all Rapala-branded lures are tested before packing.

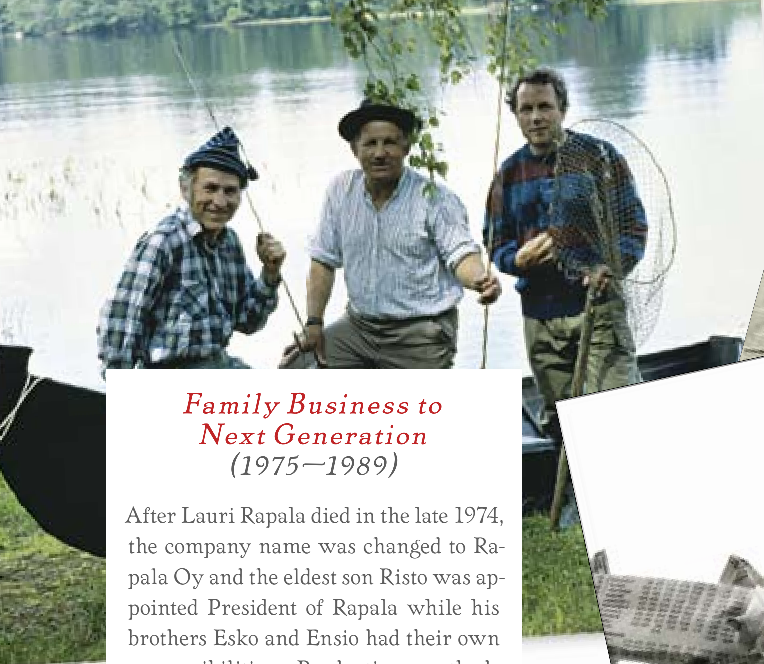


The American Dream (1955—1965)

Foreign visitors to the Helsinki Olympic Games of 1952 were amongst the first to take Rapala lures outside Finland. In 1955, the first export sales started to Sweden and Norway and later to the USA. In 1957, the business was formalized and the Rapala-Uistin (Lauri Rapala and Sons) company was established. In the late 1950's, the successful Rapala lures started to build a good reputation in North America, and in 1959, Ron Weber and Ray Ostrom started to distribute Rapala lures in the USA, a business later to become Normark Corporation. In 1962, Life magazine published a long article on Rapala. It happened to be in the same edition that covered the history of Marilyn Monroe who had just died and it broke all circulation records. Consequently, piles of orders started to pour in necessitating major capacity and production increases.

International Co-operation (1965—1975)

While Rapala continued to grow and gain its worldwide reputation, copies started to enter the market: at one time there were more than 40 copies in the US market from all over the world. Since then, Rapala has defended itself against copies with legal actions but more importantly with consistent high quality that has differentiated its original products from copies. After export sales were expanded in the early 60's from the US to Canada, Rapala strengthened the distribution in Sweden in the mid-60's and made the first contacts with the French companies Ragot and VMC. Many new lure models were introduced in 60's and the first Rapala fillet knives were launched in 1967 – the start of the co-operation with Marttiini. By the mid-1970's, Normark had established distribution companies in Canada, the UK and Sweden. At the same time, Rapala signed distribution agreements to Denmark and France. The new factory at Vääksy was opened in 1973.



Family Business to Next Generation (1975—1989)

After Lauri Rapala died in the late 1974, the company name was changed to Rapala Oy and the eldest son Risto was appointed President of Rapala while his brothers Esko and Ensio had their own responsibilities. Production methods and technology were further developed and the capacity increased markedly: while a total of 25 million lures were produced between 1936-1975, the total number of manufactured lures reached 100 million in 1988. The range of lures was further widened, the Blue Fox spinner brand was introduced and a manufacturing unit was established in Ireland. During this time, the Group acquired the Flipper boat company and a caravan business.

A Time of Change (1989—1998)

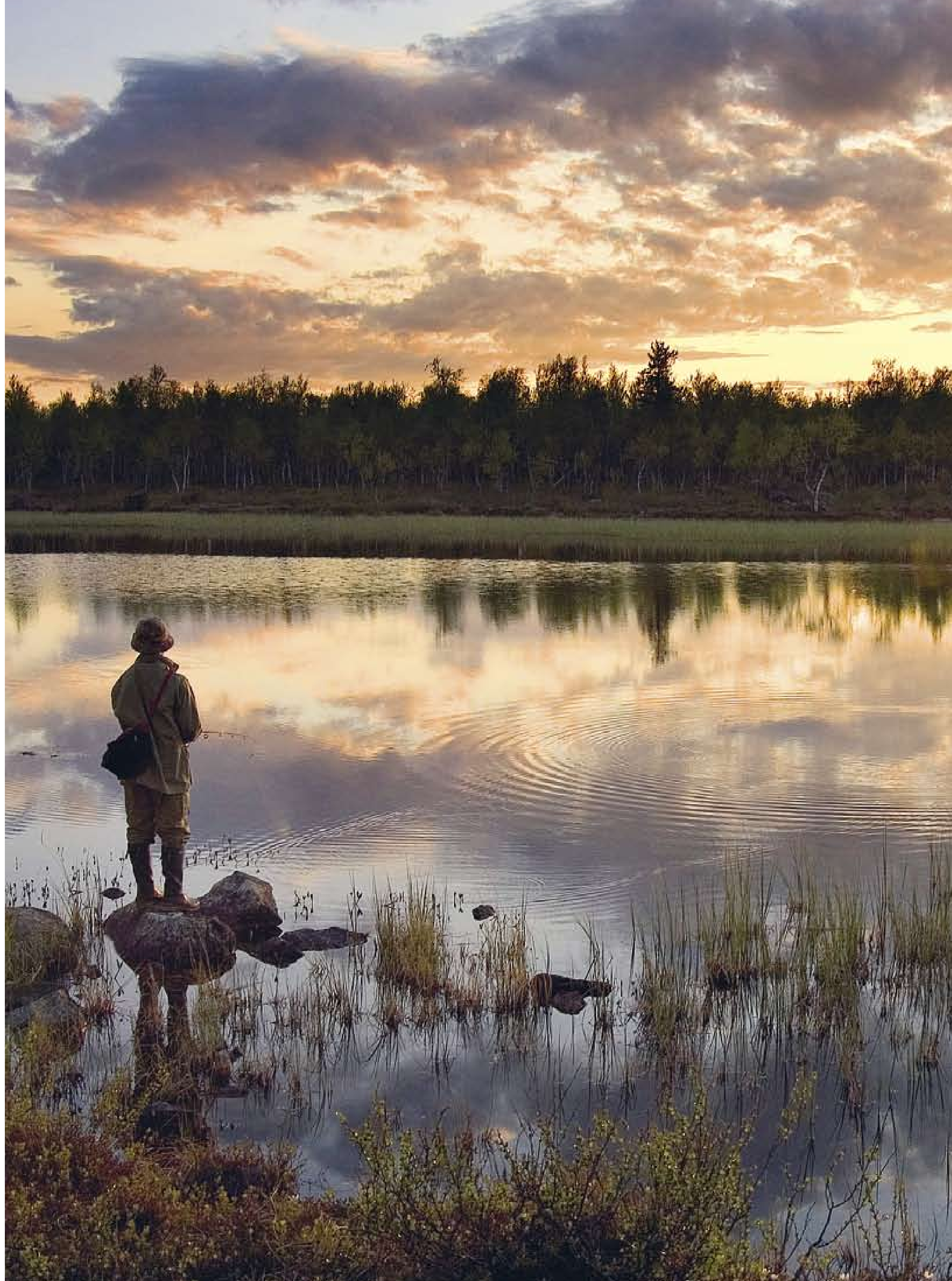
In 1989, Esko's son Jarmo Rapala, who had led the product development division from the mid-80's, was appointed President of Rapala and Jorma Kasslin was appointed Deputy President. Consequently, a major restructuring followed: in a few years Rapala sold both the boat and caravan business and acquired the Normark distribution companies in the USA, Canada, the UK, Sweden, Norway, Denmark, Holland and Finland as well as the French company Ragot. In 1991, Rapala started a distribution alliance with Shimano. These changes were followed by a management buy-out, where the management together with some investment bankers bought the company from the family and listed Rapala Normark Oy on the Helsinki Stock Exchange in 1998.

Expansion and Diversification (1998—2005)

In the late 1990's, Rapala bought Storm lures in the USA and a Norwegian distribution company Elbe, established a distribution company in Japan and started to develop a manufacturing unit in Estonia. The French VMC hook business was acquired in 2000 and the Chinese lure manufacturer Willtech in 2001. These deals increased the Group's manufacturing capabilities markedly and made the Viellard family and William Ng important shareholders of Rapala. The distribution network was further expanded to Eastern Europe, Switzerland and Brazil. Simultaneously, the product range was increased to include a wide variety of fishing accessories as well as rods, reels and fishing lines. The Williamson and Guigo big game fishing businesses were acquired in 2004.

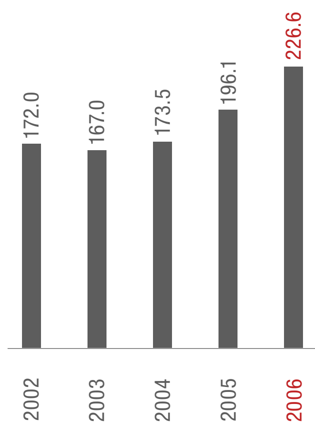
Profitable Growth Continues (2005-)

A new era of strong growth started in mid-2005 when Rapala continued to implement its strategy for profitable growth. During the following 10 months the Group acquired or established distribution companies in South Africa, Australia, Malaysia, China, Thailand and Switzerland and bought lure manufacturer Luhr Jensen in the USA, knife manufacturer Marttiini in Finland, fishing line supplier Tortue in France and cross-country ski manufacturer Peltonen in Finland. Thereafter, Rapala has established a lure factory in Russia, a distribution company to Korea, acquired the Terminator spinner bait business in the USA and widened the distribution alliance with Shimano. Simultaneously the Group has developed a large variety of new products and product categories including Rapala Pro Wear clothing, Rapala Vision Gear and new Trigger X attractants that include Ultrabite fish pheromone. With this product offering, distribution network, manufacturing platform and brand portfolio, the Group is well positioned to continue its growth.

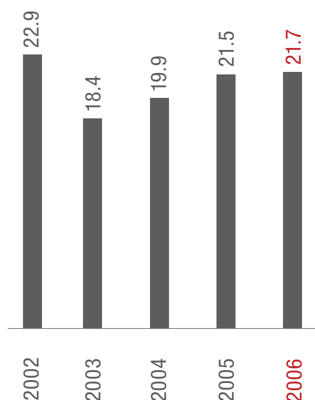


RAPALA AND YEAR 2006 IN BRIEF

Net sales
EUR million



Operating profit
EUR million



Focus on Fishing Tackle Business

Rapala's business organization can be divided to manufacturing and distribution and, on the other hand, into five different product lines: Lures, Fishing Hooks, Fishing Accessories, Third Party Fishing Products and Other Products. The Group core business is fishing tackle business, which is represented by four of these product lines. Rapala is an undisputed market leader in hard-bodied lures, metal lures, treble hooks and fillet knives. Other Products include products, like hunting and winter sports, which fit well into Rapala's distribution network in the Nordic countries and smoothen the seasonality of the fishing tackle business.

Rapala's strategic objective is profitable growth. This strategy is founded on three sub-strategies and established strengths: a unique manufacturing, sourcing and R&D platform including e.g. the world's largest lure factories in Europe and China, a leading global distribution network in the fishing tackle industry and a strong brand portfolio with several leading brands.

Rapala in 2006 — Strong Growth Continued

Implementation of the Group's strategy for profitable growth continued in 2006 while increasing emphasis was put on integration of the acquired businesses. Both the market coverage and the product portfolio were expanded and the Group's position in current markets and product categories was strengthened.

The French fishing line supplier Tortue and the South-African distributor Tatlow & Pledger were acquired in the beginning of 2006. In January 2007, Terminator branded spinner bait and lure business was acquired in the USA. A lure assembling factory was established in Russia and it commenced operations in the end of February 2007. The start-up process of the new sales companies in Asia continued well and the ramp-up of the production at the new knife factory in China was completed. In January 2007, a wholly owned distribution company was established in Republic of Korea. Integration of acquired businesses proceeded well.

Investments in growth continued to increase Group net sales, which increased 16% from last year and amounted to EUR 227 million. Starting of new operations, entering new markets, launching of new product categories and strong input in M&A activity increased fixed costs. Despite the cost increases and negative impact of currency movements, the Group's operating profit increased slightly from 2005 and totaled EUR 21.7 million.

The business outlook for 2007 is positive. Assuming the average currency rates of 2006, it is expected that the Group's net sales for the financial year 2007 will increase 5–10%. Possible additional acquisitions during 2007 may further increase the sales. Assuming the average currency rates of 2006, operating profit margin is expected to improve from 2006.

STATEMENT BY PRESIDENT AND CEO

"Last year was a strong period of growth. Both acquisitions and organic growth played an important role as we continued to implement our strategy."

In the fishing tackle business – as in any other business – a sales growth of 16% is very strong. Part of this growth came from the acquisitions we made in 2005 and 2006. Our own start-ups and other organic growth also increased our sales. Integration of the acquired businesses proceeded well and they are now an integral part of our Group.

Great work was done in product development. We brought a record number of new products to the market in 2006 and introduced a high number of new products for the 2007 season. We are also ready to introduce excellent new products for 2008, including products with Ultrabite fish pheromone. Rapala was again awarded first place in the IGFA lure category for the largest number of record catches in the world during 2006. This, together with our increasing sales volumes, demonstrates that our high quality products attract both fish and fishermen.

Several performance improvement initiatives were started during 2006 in business units with unsatisfactory profitability, and this work continues in 2007. We achieved improvements in our working capital project during 2006, and will see further improvements during 2007. In addition, we renegotiated our bank debt and we are now very satisfied with our two strong financing partners – Nordea and OKO Bank. We also signed several new global insurance policies with lower premiums for 2007. The distribution alliance with Shimano proceeded well and the acquisition of Terminator lures in January 2007 will further improve our product offering especially in the USA.

Most of our business operations performed well in 2006. New production and sales records were achieved in many Group operations. The net sales for 2006 of EUR 227 million, was an all time high for the Group. Operating profit was good but only at last year's levels, which means that our profit margin decreased. In 2007, we will work hard to reverse this trend and deliver even better results.

Last June, several senior managers in the Group decided to invest in Rapala and now indirectly own 4% of Rapala shares. This demonstrates the management's strong commitment to our company. The proposed dividend of EUR 0.12 for 2006 is an all time high, and represents the Board's trust in the company and its future. Rapala shares traded between EUR 5.60 and EUR 6.75 and ended at EUR 6.19 at the end of the year.

The fishing tackle market was quite stable during 2006 with some ups and downs in individual countries. The market outlook for 2007 seems, for the time being, to be quite similar to that of last year. In this business environment, taking into account the products we are offering for the forthcoming season together with all the new operations currently in place, we expect 2007 to be another good and interesting year for us.

Jorma Kasslin

President and CEO

STRATEGY, STRENGTHS AND PRIORITIES

Rapala's vision is to become the global leader in the fishing tackle industry. This will be achieved through profitable growth.

Strategic Objective

Rapala's strategic objective is profitable growth. This strategy is founded on three sub-strategies and established strengths: a unique manufacturing, sourcing and R&D platform including the world's largest lure factories in Europe and China, a leading global distribution network in the fishing tackle industry and a strong brand portfolio with several leading brands.

Established and Continuously Developed Strengths

The Group's unique manufacturing platform consists of the world's largest lure factory in China, Europe's largest manufacturing facility for lures with specialized factories in Finland, Estonia, Ireland and Russia, the most advanced treble hook production facility located in France, and high quality knife manufacturing in Finland. Rapala has also developed an extensive sourcing platform and process to ensure high quality but low cost third party manufacturing for its selected products. Rapala's research and development is globally well known and respected for its capability to continuously bring new high quality products with new and exceptional features to meet the fishermen's demanding expectations.

Today Rapala's distribution network covers the four major continents and is locally present in 26 different countries. It allows the Group to introduce new products efficiently and effectively to the market and to build long lasting partnerships and alliances with local retailers and fishermen. On the other hand, the wide distribution network also acts as a channel for market and customer input, which is used for product development. In addition to its own distribution network, the Group also uses external distribution agents in more than 100 countries where the sales volumes are lower than in the core markets. Rapala also has a distribution alliance with Shimano.

In addition to the global leading brand in the fishing tackle industry, Rapala, the Group's brand portfolio consists of several other well known brands like Storm, Luhr Jensen, Blue Fox, Williamson, VMC, Marttiini and Peltonen. The brand for any new product can be chosen from this portfolio to match the targeted market segment or price category.

Focus on Fishing Tackle Business

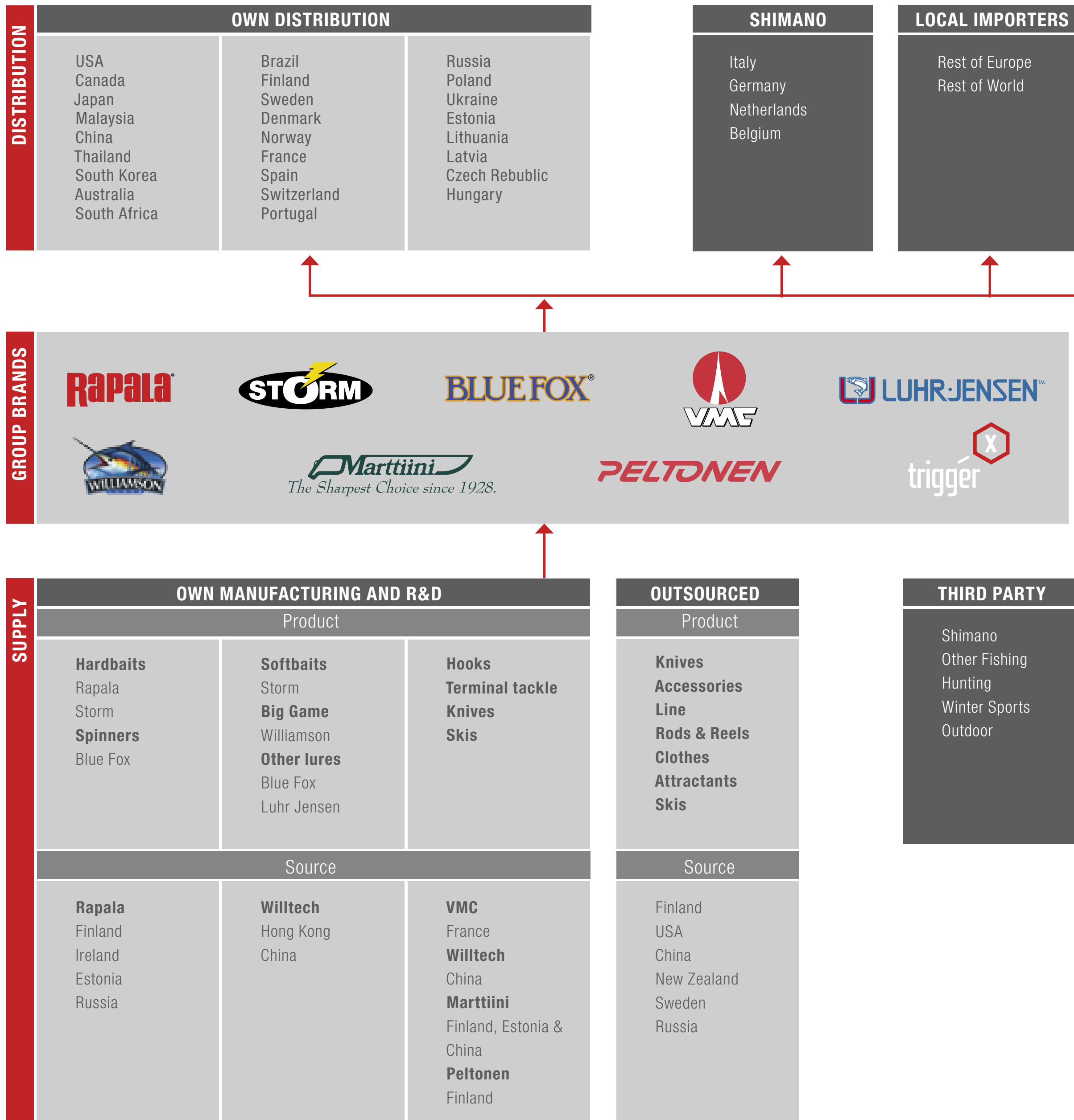
The Group's core business consists of lures, fishing hooks, fishing accessories and other fishing tackle. Lures are amongst the lowest cost but highest value adding elements of fishing. The consumable nature of lures and some other fishing tackle products leads to a stable replacement market. The fisherman's desire to have a tackle box filled with a wide range of established lures together with new "hot" lures ready for all occasions and circumstances makes the market both attractive and demanding.

The fishing tackle market is also very high on brand loyalty, which increases the value of well known high quality brands. As a result of the increasing trend for "catch and release", the use of live bait is declining. This has increased and will further increase the demand for high quality lures. One of Rapala's characteristics is that it has developed a unique capability of being both aspirational and affordable to the mass market.

Strategy Implementation in 2006

Strong investment in business development to implement the Group's strategy for profitable growth continued in 2006 while increasing emphasis was put on integration of the acquired businesses. Both the market coverage and the product portfolio were expanded and the Group's position in current markets and product categories was strengthened.

Management continued discussions and negotiations regarding acquisitions and business combinations to further implement the Group's strategy. The French fishing line supplier Tortue was acquired in January 2006 and the South-African distributor Tatlow & Pledger in February 2006. In January 2007, Ter-



minator branded spinner bait and lure business was acquired in the USA.

Efforts for organic growth continued strong. The Group started to establish a lure assembling factory to Russia and it commenced operations in February 2007. The start-up process of the new sales companies in Asia continued well and the ramp-up of the production at the new knife factory in China was completed. The sales growth to Eastern Europe continued strong through Group's own distribution network. In January 2007, a wholly owned distribution company was established in South Korea.

Work on integration of previously acquired businesses continued on plan. The manufacturing of Luhr Jensen products ended in the USA in June and the first products from the Group's Chinese factory were delivered in September. The integration of sales companies acquired in 2005 and early 2006 as well as Marttiini and Peltonen manufacturing operations is now completed.

During 2006 the Group also finalized the development of new products for 2007 season and introduced them to distribution channels. The deliveries of these new products started in the last quarter of 2006 and they have reached or are about to reach the retail stores by now.

The investments and development initiatives made in 2005 and 2006 will start to bear fruit in 2007 while the Group continues to implement its strategy for profitable growth. Negotiations and discussions for new acquisitions and business combinations continue while new products and applications are being planned and developed. New products for 2008 season have just been finalized and they will be introduced to the distributors within the next few months.

HARD-BODIED AND SOFT PLASTIC LURES

Rapala is an undisputed market leader in hard-bodied lures and Storm is one of the leading soft plastic lure brands. The net sales of Fishing Lures, including all Group brands, were some EUR 73 million in 2006 (EUR 63 million in 2005).

Dominance in Freshwater and Strong Growth in Saltwater Fishing

Rapala's lure brands continued to be the global number one choice for sport fishermen during 2006. The industry stalwarts, Rapala and Storm, again enjoyed one of their strongest years ever, with highly successful new product launches. The classic core lure families continued selling in strong volumes. Hard baits, soft plastics and the new revolutionary hybrids, complimented by metal lures and lures for big game fishing all strengthened their respective positions in the market. The newcomer in this product category, the Trigger X branded attractants that include Ultrabite pheromones, were introduced first time for the 2007 season. Together, our lure brands cover the fisherman's every need from practical entry level to sophisticated hi-end products.

In 2006, the Group celebrated the 70-year anniversary of Rapala lures. It was in 1936 that Lauri Rapala crafted his first hard-bodied lure - the Finnish minnow - that started the world-known legend and heritage of Rapala.

Rapala Hard-bodied Lures

Following the hugely successful introduction of the Rapala X-Rap 10 in 2005, the X-Rap family was extended in 2006 with four new models: X-Rap 8 and 14, X-Rap Jointed Shad 13 and X-Rap Magnum 30 – all featuring the extravagant swimming action, fish attracting rattle, vibration and flash combined with the highly detailed finishes that very seldom come in one package. Global sales for the X-Rap family exceeded two million pieces in 2006.

The new X-Rap Magnum 30 is a high speed trolling lure targeted at the saltwater market, but it also has great freshwater applications, just like the rest of the lure family. For the season 2007 Rapala is further strengthening its position in the saltwater market with several new lures including extensions for the X-Rap Magnum range and the introduction of X-Rap Walk 13 topwater lure.

Even though the growing X-Rap range is made of high-tech plastic, Rapala is not abandoning classic balsa. The 100th anniversary of our founder was celebrated with a limited edition Lauri Rapala Anniversary Lure – a unique balsa lure that sold out immediately. Another new balsa lure was the saltwater-freshwater crossover subsurface Twitchin' Rap that was designed to meet the needs of inshore fishermen, but has proven to have a lot of freshwater applications as well, from bass fishing in lakes to catching trout in rivers. The hero lure for 2007, the Minnow Rap, is also made of balsa to guarantee the most delicate action.

"While the continuous product and process development work progressed well at our lure factories in Finland, Estonia and Ireland, we made an important decision to further improve our cost efficiency, to ensure availability of work force and to increase the production capacity by establishing the new assembly factory for hard bodied lures in Russia."

Juhani Pehkonen
Head of Fishing Lures

Storm Soft Plastic and Hard-bodied Lures

Originally known for its legendary hard baits, in recent years Storm has also become a major player in soft plastic baits around the world. The brand awareness has never been higher. With

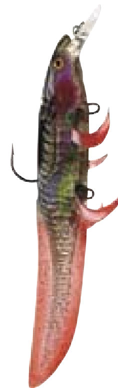
the expansion from traditional hard baits and soft plastics to new hybrid categories, Storm offers the most versatile product range on the market.

The invention of the ThunderCore lures was a huge leap forward in lure development. Combining a hard core insert with a swimming lip and a soft plastic outer, these lures are very lifelike in appearance and in action, and feature weight-shifting systems for longer and more accurate casting and rattles for additional attraction. The ThunderCore family was launched with a bang and the products were widely accepted. The series is an excellent launch pad for future expansions.

Storm hybrid lures are not limited only to the ThunderCore family. The new Kickin' Minnows are articulated hybrid lures that are targeted to a lower price point and they have created a positive buzz around the world, especially among pike and muskie aficionados. There are additional applications already on the way for this category.

RAPALA X-RAP MAGNUM 30

The launch of the X-Rap Magnum 30 was a successful extension for the X-Rap range that broadened the family appeal to serious saltwater fishing, and followed the legacy of the legendary wooden Rapala Magnums that have set the standard for saltwater trolling lures during the last decades.

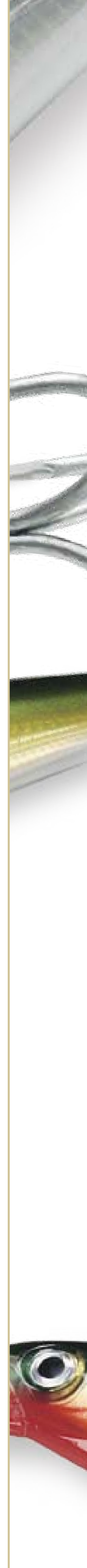


STORM THUNDERCORE DAWG

The introduction of the series of ThunderCore hybrid lures opened up a completely new lure category. The lures feature hard inner bodies with swimming lips and ultra realistic soft plastic outer skins with lifelike details – of not just fish, but also crawfish and waterdogs.

IGFA RECORDS FOR 2005

The International Game Fish Association (IGFA) records annually all record fish caught around the world, and awards the leading brands. In 2006, Rapala was awarded first price in the lure category (largest number of record fish caught) while Storm achieved second place.



BIG GAME AND METAL LURES AND ATTRACTANTS

Combined Blue Fox and Luhr Jensen production makes the Group the world's largest manufacturer and distributor of metal lures while Williamson is one of the leading brands for big game salt water fishing. Trigger X is the new Group brand for the fish attractants that include Ultrabite pheromones.

Williamson Big Game Lures

Rapala acquired the big game brand Williamson in 2004 and started to invest heavily in R&D and product design in order to make the famous South African lure brand truly global. The Group's dedicated offshore fishing specialists restructured and upgraded the Williamson product lines. At the same time, production was transferred from South Africa to China. The results of this development work are groundbreaking. Today, each Williamson product has detailed features like hook locking systems or loop protection and they incorporate the super sharp high quality VMC hooks. The attention to sophisticated design is typical for all Williamson products: small or large trolling lures, metal or lipless baits, teasers or accessories. The Williamson product range consists of 14 product families.

Supported by Rapala's distribution power, the strongest distribution network in the industry, Williamson has become one of the leading players in big game fishing in a short time with a worldwide brand presence in 32 countries. Major regions are the USA, Europe, Australia, Oceanic Asia and recently also Central America. Thanks to the strong export network Williamson is available in remote countries such as Fiji, Bahrain or New Caledonia. In 2006, the biggest growth came in Central and North America.

The new "Live" series of natural lifelike lures introduced for the 2006 season were a breakthrough in big game fishing. Five pre-rigged models imitate the live bait fish not only by color and texture, but also with an incredibly lifelike action. Available unrigged or prorigged, the new "Live" series of Live Little Tunny, Bunker, Ribbonfish, Squid and Ballyhoo were a revolution for big game fishing, removing the need for live baits and making chartered fishing trips much more effective and big game fishing focused. 2007 sees the expansion of the Live category with several new bait fish imitations.

The Abyss and Benthos Speed jigs introduced for 2006 have been the highlight of the year with successful catches and record sales from Norway to Australia. Innovative designs and quality manufacturing have made these deep water metal jigs the benchmarks for the "Jiggers" worldwide.

Blue Fox Metal Lures

Blue Fox is the Group's metal brand offering a wide, versatile range of products. The classics like Pixee spoons and Vibrax spinners are used by millions of fishermen every year for salmon and trout fishing while Musky Buck is a must for musky or pike fishing.

More recent innovations like the Double Header or Trout Quiver have found a permanent position in tackle boxes worldwide.

Highlights for the year 2006 were the new hammered finishes on the best selling spoon categories Moreungen and Esox. The Naturistic concept featuring detailed fish imitations was introduced to the popular Vibrax spinners.

Luhr Jensen Hard-bodied and Metal Lures

Hailing from Hood River, Portland, Oregon, Luhr Jensen is a legend in lures and trolling accessories. The company's great tradition of craftsmanship and durable, quality finishes on products like the Crippled Herring, Crocodile, Bangtail and Dipsy Diver need no introduction to salmon, trout or pike fishermen. Luhr Jensen has a huge market share and is the market leader in the North-West of the USA. It dominates salmon fishing but the products are sold successfully all around the world for other applications as well. Luhr Jensen, with in excess of 70 years history and an excellent reputation, is a good addition to the Group's brand portfolio after its acquisition in 2005.

"Our operations in China are growing fast but steadily and well planned. The integration of Luhr Jensen production and ramp-up of new knife production were both completed in 2006."

William Ng
Head of Chinese manufacturing operations and Hong Kong office

The brand was re-introduced globally through the Group's distribution network in 2006. The first full year of Luhr Jensen within the Rapala Group proved to be a great success. The integration of the famous salmon brand to Rapala's lure family went even smoother and faster than planned. The production and shipping has been shifted to Rapala manufacturing plants mainly in China without any hiccups. Luhr Jensen has maintained its dominant market share in north-west areas of the USA and is rapidly finding its way to new international markets through Group's effective distribution network.

Trigger X Attractants

In 2005, the Group signed a worldwide exclusive distribution agreement for the sport fishing market for a pheromone biotechnology brand called Ultrabite. Ultrabite is a pheromone based fish attractant developed by CEFAS (Centre for Environment, Fisheries and Aquaculture Sciences) governmental laboratories in the UK, which generates natural and irresistible feeding behavior in fish. Rapala plans to launch a wide range of lures and baits containing these pheromones.

Rapala already sold some minor Ultrabite related products in 2006 but the first new products in this category has been launched for the 2007 season. These products are branded as Trigger X and they include spray and gel to be used on lures and baits for salt water. The Big Bang in this product category is planned for the 2008 season.

Williamson Speed Jigs
The Abyss and Benthos were designed to drop faster than any other lure and have a very light resistance on the retrieve allowing the fisherman more fishing time. Space age glow in the dark pigments are used to make the jigs easier to spot at great depths. Sold pre-rigged at a very reasonable price, they were an instant hit in all major markets.

Blue Fox Salmon Super Vibrax
The launch of Salmon Super Vibrax (SSV) was giant step for the Group to extend its influence in the lucrative salmon market. Rapala Group offers high quality hard baits and spoons for the "silver king" in its range, but SSV is the first spinner for the category. The ultra durable SSV offers many great features like durable construction, detailed finish and solid sure action even in the fastest current.

Luhr Jensen Products
In just 12 months Rapala has successfully transferred the manufacturing of Luhr Jensen products from Portland, Oregon to Shenzhen, China. Luhr Jensen is a legend in lures and trolling accessories and the quality of the products has never been better than it is now. The new revitalized brand is ready to move to the next level with the global distribution power of the Group.

FISHING HOOKS

VMC branded treble hooks are market leaders with a worldwide market share approaching 50%. The Group also produces single hooks. The net sales of Fishing Hooks were some EUR 15 million in 2006 (EUR 14 million in 2005).

The World's Leading Hooks

The Group's fishing hooks are branded VMC, which is the leading treble hook brand, and a market leader with a worldwide market share close to 50%. The VMC range of hooks also includes a wide range of single hooks, which together with the treble hook range are sold to more than 70 countries. One fourth of the manufactured hooks are used within the Group and the rest is sold outside the Group to both lure manufacturers and distributors.

Advanced technology and strong product development are key success factors for VMC hooks. The hook plant in France manufactures large quantities of hooks with a short lead-time, which results in good reactivity, capability for proactivity and high quality. The technological edge is a combination of automated mechanical forming, heat treatment of steel and chemical finishing with electroplating. Successful innovations as well as value adding key customer partnerships in product development and high quality customer service are a major strength in the Group fishing hook business, and have contributed to VMC's position as the market leader.

A Short History of VMC Hooks

The family firm of Viellard, Migeon and Company, established in 1796, started to produce fishing hooks in France in 1910. At that time, each hook was individually hand crafted. The first automatic treble hook machine was introduced in 1974, increasing the daily production volumes from 5 000 hooks a day to 60 000 hooks. This development was followed by international expansion, which led to VMC treble hooks becoming a market leader in 1990's. In 2000, VMC was acquired by and merged with Rapala.

New Products and Development in 2006

New innovations introduced to the market and sold in 2006 included the Tournament Circle Hook and the Mini Sure Set Hook. The Tournament Circle Hook is the first non-offset circle hook from VMC and has the widest gap of all tournament approved circle hooks on the market. The Mini Sure Set Hook is a miniature version of the award-winning Sure Set treble hook, designed to hold bait and secure a catch like no other small-size treble available.

Factory performance was further improved in France by the investment in two machines: a treble hook machine and a new degreasing machine. The new VMC treble hook machine was designed and assembled at the Morvillars factory. It has a higher production rate and has increased treble hook capacity. The new degreasing machine enabled VMC to raise its quality in the degreasing process, in conformity with the latest environmental standards.

New Products and Development for 2007 Season

For the 2007 season, the Spark Point range is extended with single hooks for carp and dorado. New Stainless Steel models complement VMC's existing range of hooks for Big Game fishing.

"Our continuous investment in new technology with our capacity for innovation will enable us to maintain our leadership position in hooks."

Stanislas de Castelnau
Head of Fishing Hooks

TOURNAMENT CIRCLE HOOK

The Tournament Circle Hook (TCH) was designed by VMC for live bait fishing and trolling for billfish species. It offers the largest gap in its category, ensuring an optimal hooking rate and allowing more room for baiting even with large size bait. Moreover, TCH is the first non-offset circle hook from VMC and therefore Tournament Approved. This was great news for tournament anglers on the East Coast of the United States, where the use of all offset circle hooks was recently banned. All tournaments are operated on a "catch-and-release" basis, and non-offset circle hooks are proved to cause less damage to the fish.

FISHING ACCESSORIES

Rapala is a major supplier of a wide range of fishing accessories. The main product categories are fishing knives, fishing tools, fishing lines, fishing clothing, fishing glasses and other fishing related items. The net sales of Fishing Accessories were some EUR 46 million in 2006 (EUR 37 million in 2005).

The World's Leading Brand of Premium Fishing Equipment

Rapala designs and supplies dozens of different accessories and fishing related products to meet the demands of fishermen around the world. The manufacturing of most of these products is outsourced but the Group is in charge of the innovation, design, branding, supplier selection, supply chain management, quality control, marketing, and in most cases also of the packaging. The most important product categories include fishing knives, fishing tools, fishing lines and fishing glasses. The fishing accessories also include rods, reels and combos (combination of rods, reels and sometimes additional items of fishing tackle) as well as other fishing related products.

During 2006, Rapala increased its market share through answering the needs of the market, and expects growth in such "non-lure" categories to continue. Rapala Fishing Accessories are currently sold in over 90 countries around the world.

Knives

Rapala fishing knives have a long tradition, having been sold under the Rapala brand for 40 years. Rapala filleting knives are the market leader with over 35 million knives sold worldwide since their introduction.

Tools

Rapala fishing tools are built from experience. Launched five years ago, these practical tools have become the dominant player in this category throughout the fishing world. This category includes products such as scales, spring balances, fishing pliers, line cutters, hook removers and tackle boxes.

Lines

Award winning monofilament lines and the technically advanced braided line Rapala Titanium Braid have a stronghold in the fishing line category in all continents. Rapala fishing lines have the most accurate strength ratings ever. Since 2004, Rapala has given a strength guarantee to all of its lines: they are guaranteed not to break under the stated breaking strain. Rapala has gained trust and appreciation by anglers all over the world by giving true and precise information.

ProWear

The Rapala ProWear fishing clothing collection introduced to the market in early 2006 received a great reception. The ProWear collection cov-

"*Rapala continues to deliver premium quality and great value for the fishermen all around the world. Rapala and Marttiini knives, Rapala Fishing Tools, Rapala Fishing Lines and Rapala Pro Wear clothing collection are the key categories within the range of our fishing accessories.*"

Lars Ollberg
Sales and Marketing Director for Fishing Accessories

ers all climates from tropical to Nordic. The clothing was sold in 15 countries but more countries are joining in for the 2007 season to sell the expanding collection of clothing and the newly introduced Rapala luggage.

Fishing Glasses

Soon becoming a major brand in this segment, Rapala Vision Gear fishing glasses are setting the standards both for their optical quality and for their smart looks and packaging concept, allowing mass merchants to sell quality fishing glasses to demanding fishermen.

New Accessories in 2006

The acquisition of Marttiini knife factory in November 2005 was a success and the operation has continued to perform in an excellent manner throughout 2006. This acquisition further strengthened the filleting knife business of the Group, and Rapala is now the worldwide market leader. It also brought new Marttiini branded products to the Group's hunting and outdoor business. Marttiini, founded in 1928, has been the principal knife supplier to Rapala since the 1960's and prior to the deal the Group already bought some 40% of Marttiini's capacity.

During 2006, Rapala and Marttiini worked together to integrate the business and complete the knife manufacturing plant in China. The sales of the new Chinese knives had started well in 2005 and continued its strong growth during 2006. This investment allows Rapala to meet the demand for low cost knives and promotes further development and specialisation in each of the knife manufacturing units. The key product in this category was the new Marttiini Folding Knife. The first ever folding knife from Marttiini was designed in Rovaniemi, Finland, and manufactured in the new Group owned Chinese knife factory. The world's knife markets are dominated by folding knives, and the outlook for this category is excellent.

The Rapala computer fishing game, Rapala Pro Fishing, sold with phenomenal success throughout 2005, and its successor, the Rapala Tournament Fishing Game, hit the shelves in late 2006. Both games are made under a licence agreement with Activision Inc, one of the leading computer game manufacturers in the world. The games offer great fishing action, all with Rapala tackle. They are sold in all key formats.

During 2006, Rapala increased its presence in some of its key customers with a wide variety of tackle developed solely for these individual customers.

New Products for 2007 Season

Rapala Fishing Tools received numerous clever improvements on the classic designs, and upgrades in almost every category. New four-colour tri-lingual packaging enhances the shelf presence, better represents the technical side of Rapala and reflects an updated brand position.

Rapala fillet knives have taught the world to fillet. For 2007, Rapala introduced four new filleting knives. The new high-tech Rapala FNF Superflex fillet is being touted as the heir to the filleting legacy. The Collector Fillet and return of the Presentation and Sportsman Fillet round out the collection of the fixed blade fillet knives.

Rapala Vision Gear saw a new rimless Titanium Collection to crown the program.

THIRD PARTY FISHING PRODUCTS

In addition to the Group branded fishing products, Rapala also distributes third party products for sport fishing. The net sales of Third Party Fishing Products were some EUR 54 million in 2006 (EUR 43 million in 2005).

"Increasing number of fishermen use these day fishing electronics like fish finders and electronic outboard motors."

Hannu Murtonen
Head of Distribution in Eastern Europe

Shimano Rods and Reels

Since 1993, the Group has distributed Shimano rods and reels. In 2006, this distribution covered 12 European countries and South Africa. Shimano is one of the leading global brands in this product category. In its turn, Shimano distributes Rapala's products in four countries in Europe. This European distribution co-operation has lasted for 13 years.

In January 2007, Rapala and Shimano agreed to strengthen their distribution alliance in South-East Europe. From the beginning of 2007, Rapala's Hungarian distribution company became a South East European distribution centre that distributes not only Rapala products but also Shimano fishing tackle to Hungary, Rumania, Bulgaria, Slovenia, Croatia, Bosnia, Serbia, Macedonia and Albania.

Fishing Electronics and Other Products

Rapala distributes several non-Group fishing tackle brands, especially through the newly acquired distribution companies. In addition, Rapala distributes fishing related third party products and equipment that it does not have in its own product portfolio. These include fish finders (Humminbird), tackle boxes (Plano), down riggers (Cannon) and electric outboard motors (Minn Kota). The Group also distributes some non-Group branded baits and attractants.

"Shimano rods and reels are a very important addition to our product range and they are excellent also in salt water and big game fishing."

Jean-Claude Bel, *Head of Distribution in France*
Janne Paukkunen, *Head of Distribution in Spain and Portugal*

HUNTING, WINTER SPORTS AND OUTDOOR

Rapala also produces cross country skis and some other non-core products to compliment the seasonality of its core business. In addition to fishing products, Rapala also distributes third party products for hunting, outdoor and winter sports. The net sales of Other Products were some EUR 42million in 2006 (EUR 40 million in 2005).

"Distribution of winter sports equipment is very important to reduce the effects of seasonality in our fishing tackle business."

Saku Kulmala
Head of Distribution in Finland

"Rapala is a dominant player within the hunting and sport shooting activities in the Nordics, carrying some of the strongest brands in the industry."

Nils Larsen
Head of Distribution in Denmark

Hunting

Hunting, as well as winter sports, plays an important role in the Group distribution business in the Nordic countries where the fishing tackle business is very slow in the autumn and the winter. The Group has distributed hunting products since the 1960's and is today one of the leading distributors of hunting products in the Nordic countries.

The most important hunting products and brands distributed by Rapala are rifles and shotguns (Beretta, Franchi, Remington, Blaser, Winchester, Mauser, Tikka, Sako and CZ), ammunition (Norma, Winchester, CCI and Remington), cartridges (Eley Hawk, Rottweil and Gyttorp), optics (Leica, Bushnell, Schmidt & Bender and Tasco) and clothing (Geoff Anderson, Blaser and Beretta). The Group branded hunting products (Marttiini, Wild Game and Normark) include hunting knives, clothing and other hunting related accessories.

Winter Sports

Rapala has distributed winter sport equipment in Finland since 1999 and started this business in Norway in 2005. The most important winter sports products and brands are cross country skis (Peltonen), ski poles (Rex), ski wax (Rex), bindings (Rottefella) and cross country ski boots (Alpina).

The Peltonen brand has been owned by Rapala since 2002. In 2005, the Group increased its shareholding in the ski manufacturer Peltonen Ski Oy from 19% to 80% to secure and develop the distribution of Peltonen products. Prior to the acquisition, Rapala was a significant customer to Peltonen buying some 50% of Peltonen Ski Oy's production. In addition to the manufacture of skis in the Hartola factory in Finland, Peltonen also sources lower priced models from other ski manufacturers. Peltonen is one of the leading brands in cross-country skis, enjoying a 30% market share in Finland and a 7% share in other distribution markets. The most important export markets are Norway, Germany, Russia and France.

Outdoor

Rapala is also an important distributor of some other non-Group branded outdoor products and equipment. The most important outdoor products and brands distributed are GPS units (Magellan), hiking and trekking products (Vaude, TermoSwed, Tuckland and Garmont) and sports optics (Leica, Bushnell, Tasco). The Group branded outdoor products (Marttiini, Wild Game and Normark) include knives, backpacks and boots.

Other Products

To utilize its manufacturing capabilities and compensate for the seasonality of the core business, the Group also produces some other products mainly as a contract manufacturer for the consumer and electronics industry.

REVIEW OF BOARD OF DIRECTORS

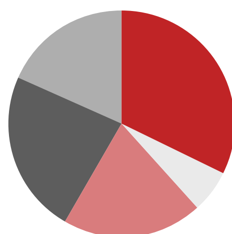
Markets and Sales

The general market conditions were quite good and stable during 2006. After the good first quarter, the US market temporarily slowed down due to certain working capital initiatives of some large customers. Second quarter also suffered from the cool spring in many countries. During the third quarter, US market recovered from the dip and showed growth again. Several markets benefited also from the summer lasting longer than normally. In West Europe, the trading conditions continued to be stable while the new markets like East Europe, South-Africa and Asia continued to grow faster than the other markets.

Year 2006 was characterized by strong sales growth and expansion of operations as a result of acquired businesses and newly established distribution companies in the end of 2005 and early 2006. The seasonality of the fishing tackle business was mitigated by expanding the Group's sales operations in southern hemisphere and closer to equator, including the acquisitions of Australian Freetime in 2005 and South African Tatlow & Pledger in 2006. Also new start-up operations in Malaysia, Thailand, China and South Korea balance the seasonality. This development has increased the sales of fishing tackle products in the seasonally slow third quarter. Accordingly, the sales and profitability differences between the quarters are decreasing.

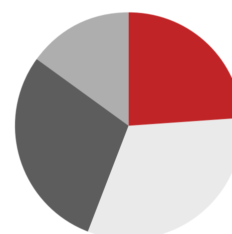
Net sales were up 16% from last year and amounted to EUR 226.6 million (196.1). This increase came from all geographical segments. Relatively, the sales growth was strongest in new markets. All product lines increased their sales: lures sales were up 15%, fishing hooks 3%, accessories 24%, third party fishing products 23% and other products 5%. The businesses acquired during 2006 increased sales by EUR 9.1 million. For more detailed segment information see the note 2 to the consolidated financial statements.

Net sales by product line



- Lures 32%
- Fishing Hooks 6%
- Fishing Accessories 20%
- Third Party Fishing Products 23%
- Other Products 19%

Net sales by unit location



- North America 24%
- Nordic 32%
- Rest of Europe 29%
- Rest of the World 15%

Financial Results

Operating profit increased slightly from previous year and totaled EUR 21.7 million (21.5). Increased costs for labor and raw materials especially in China and the weakening of US dollar during 2006 slowed down the increase of operating profit. Operating margin was 9.6% (11.0%) and return on capital employed 12.3% (13.8%). The profitability was affected by the start-up costs in newly established operations and strong investment in business development. In 2006, these costs were some EUR 3.0 million higher than in 2005. Operating profit includes a negative foreign exchange effect of EUR 2.3 million. Big part of this exposure was hedged in the second half of the year but the hedging result (EUR +0.3 million) is booked in financial items in accordance with IFRS. On the other hand, operating profit in 2005 included EUR 0.6 million more IFRS based option expenses than in 2006.

All geographical segments generated a positive operating profit for 2006 and the biggest improvement came from North America. Nordic was down from last year due to foreign exchange movements. For more detailed segment information see the note 2 to the consolidated financial statements.

Financial expenses were above previous year level as a result of increased interest rates and foreign exchange losses compared to major foreign exchange gains in 2005.

Net profit for 2006 amounted to EUR 11.0 million (14.0) and earning per share was EUR 0.28 (0.37).

Cash Flow and Financial Position

Cash flow from operating activities decreased from 2005 and amounted to EUR 10.0 million (12.1).

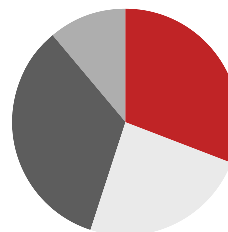
The project to reduce working capital continued during the year. Part of the business units met their targets while more work is still needed in few units. As a result of organic growth and acquired operations, the working capi-

KEY FIGURES EUR million	2006	2005*
Net sales	226.6	196.1
EBITDA	28.0	26.3
Operating profit (EBIT)	21.7	21.5
Profit before taxes	14.6	18.6
Net profit for the period	11.0	14.0

KEY FIGURES EUR million	2006	2005*
Net cash generated from operating activities	10.0	12.1
Net cash used in investing activities	-14.7	-16.2
Net interest-bearing debt at end of period	99.3	95.9
Equity-to-assets ratio at end of period, %	33.4%	33.1%
Debt-to-equity ratio at end of period, %	122.2%	127.1%

* 2005 comparables changed due to IFRS improvements during 2006 audit.

Net sales by market area



North America 31%
Nordic 24%
Rest of Europe 34%
Rest of the World 11%

tal increased. During 2006, the working capital increased EUR 8.1 million excluding acquisitions. Excluding the effect of newly acquired or established businesses, inventories increased 3% from 2005, which is clearly less than the sales growth in comparable operations, which was almost 11%.

Net cash used in investing activities amounted to EUR 14.7 million (16.2). This includes the final payment of Luhr Jensen acquisition closed in 2005 (EUR 2.9 million). The total purchase price for all acquisitions closed in 2006 is EUR 5.5 million of which EUR 3.9 million is allocated to working capital, EUR 1.7 million to fixed assets, EUR 0.2 million to other assets and EUR 0.3 million to liabilities.

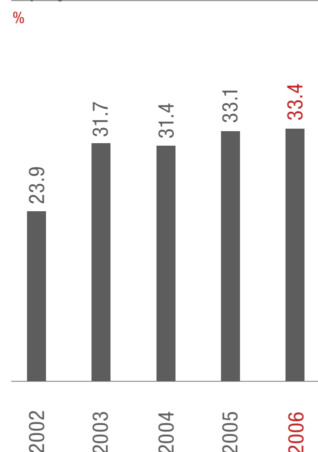
Net interest-bearing debt increased to EUR 99.3 million (95.9) as a result of acquisitions done in 2006. Thanks to good profitability, equity-to-asset ratio increased to 33.4% (33.1%) and gearing decreased to 122.2% (127.1%).

In October, the Group signed the agreements for refinancing its bank debt. The new 7-year multicurrency loan facility with Nordea Bank and OKO Bank totals EUR 130 million. These two banks currently hold more than 90% of the Group's bank debt. The new loan facility strengthens the Group's capabilities to finance its strategy for profitable growth and reduces financing costs.

Also Rapala's first ever commercial paper program of EUR 25 million was signed in October. It will be used to finance working capital and other short term financing needs.

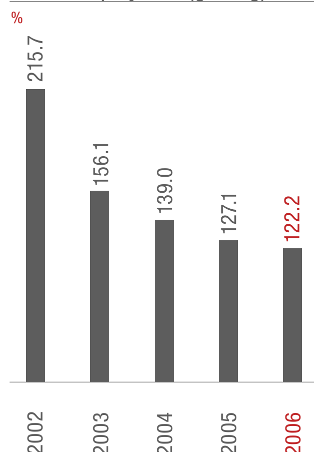
Equity-to-assets ratio

%



Debt-to-equity ratio (gearing)

%



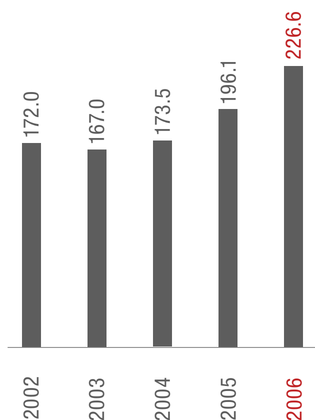
Strategy Implementation

Strong investment in business development to implement the Group's strategy for profitable growth continued in 2006 while increasing emphasis was put on integration of the acquired businesses. Both the market coverage and the product portfolio were expanded and the Group's position in current markets and product categories was strengthened.

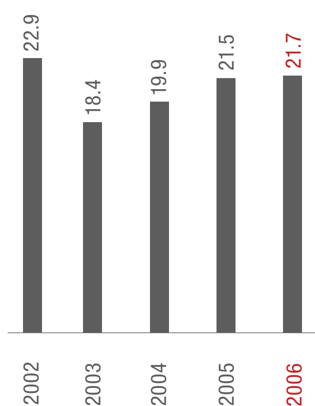
Management continued discussions and negotiations regarding acquisitions and business combinations to further implement Group's strategy. French fishing line supplier Tortue was acquired in January and the South-African distributor Tatlow & Pledger in February 2006. In January 2007, Terminator branded spinner bait and lure business was acquired in the USA. For more detailed information on acquisitions see the note 3 to the consolidated financial statements.

Also organic growth continued strong. The Group established a lure assembling factory in Russia and it will commence operations during February 2007. The start-up process of the new sales companies in Asia continued well and the ramp-up of the production at the Chinese new knife factory was completed. The sales growth in Eastern Europe continued strong through Group's own distribution network. In January 2007,

Net sales
EUR million



Operating profit
EUR million



a wholly owned distribution company was established in South Korea.

Work on integration of previously acquired businesses continued on plan. The manufacturing of Luhr Jensen products ended in the USA in June and the first products from the Group's Chinese factory were delivered in September. The integration of sales companies acquired in 2005 and early 2006, as well as Marttiini and Peltonen manufacturing operations, is now completed.

During 2006 the Group also finalized the development of new products for 2007 season and introduced them to distribution channels. The deliveries of these new products started in the last quarter of 2006 and they have reached or are about to reach the retail stores by now.

Performance Improvement Initiatives

In addition to the working capital project and renegotiation of bank debt, several cost cutting and sales improvement initiatives were started during 2006 in business units with unsatisfactory profitability. A clear improvement was seen in most of these units. This initiative will continue in 2007. Also a global tender process was arranged for several insurances and new Global insurance policies with lower premiums signed in December.

Shareholder Agreement and Management Ownership

In June 2006, Utavia S.à.r.l (Utavia) purchased 1 610 000 shares of Rapala from De Pruines Industries (DPI). Simultaneously, Viellard Migeon & Cie (VM&C) and Utavia entered into a shareholders' agreement with respect to their shares in Rapala. DPI is a subsidiary of VM&C. The main shareholder of Utavia is CEO Jorma Kasslin with some 43% shareholding. The other shareholders are Board members or managers of the Group. After the deal, VM&C owns directly or through its subsidiaries some 27% and Utavia some 4% of the issued share capital and voting rights of Rapala. For more detailed information on the shareholder agreement, shareholders, shares, options, board authorization and corporate governance see the sections "Shares and Shareholders" and "Corporate Governance" attached to the consolidated financial statements.

Personnel and R&D

The number of personnel decreased slightly during the year and was 3 921 (3 986) at year end.

For more detailed information onpersonnel see note 7 to the consolidated financial statements. R&D expenses increased to EUR 1.2 million (0.7) in 2006.

Outlook for 2007

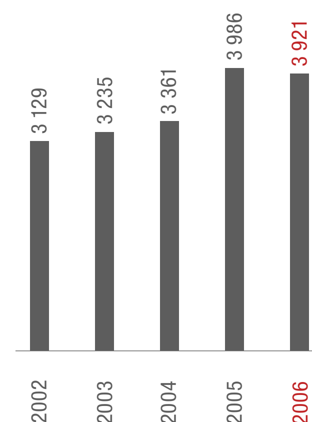
The outlook for 2007 is positive and no major changes are expected in the markets. Including the Terminator acquisition, it is expected that the Group's net sales for the financial year 2007 will increase 5-10% assuming 2006 average exchange rates. Possible additional acquisitions during 2007 would further increase the sales.

The profitability of the Group's ongoing operations continues to be good. Special initiatives have been started to further improve the profitability. In addition, prices have been increased to compensate for recent cost increases. Business development and integration expenses and start-up costs will continue still in 2007 while new initiatives are planned and implemented but these costs are not expected to exceed the comparable costs in 2006. Assuming 2006 average exchange rates, operating profit margin is expected to improve compared to 2006 while the investments and development initiatives made in 2005 and 2006 will start to bear fruit in 2007.

Negotiations and discussions for new acquisitions and business combinations continue while new products and applications are being planned and developed. New products for 2008 season have just been finalized and they will be introduced to the distributors within the next few months.

The project to reduce working capital and to improve cash flow will continue in 2007. The target is to see an improvement on ongoing operations while new acquisitions, start-ups and strongly growing units will tie additional working capital.

Personnel at the end of the period
Persons



Proposal for Profit Distribution

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.12 for 2006 (EUR 0.11) per share be paid from the Group's distributable funds and that any remaining distributable funds be allocated to retained earnings. At December 31, 2006, the parent company's distributable funds totaled EUR 52.3 million.

AUDITOR'S REPORT

To the Shareholders of

Rapala VMC Corporation

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Rapala VMC Corporation for the 12-month period ended 31 December 2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated Financial Statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent Company's Financial Statements, Report of the Board of Directors and Administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, 27 February, 2007

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Nenonen
Authorized Public Accountant

CONSOLIDATED FINANCIAL STATEMENT, IFRS

CONSOLIDATED INCOME STATEMENT EUR million	Note	2006	2005*
Net sales	2	226.6	196.1
Other operating income	4	1.5	0.8
Change in inventory of finished products and work in progress		1.1	-0.8
Production for own use		0.5	0.1
Materials and services	6	-99.5	-81.9
Employee benefit expenses	7	-54.1	-47.0
Other operating expenses	5	-48.1	-41.1
Operating profit before depreciation and impairments		28.0	26.3
Depreciation and impairments	8	-6.3	-4.8
Operating profit		21.7	21.5
Financial income and expenses	10	-7.1	-2.9
Share of results in associated companies	14	0.0	0.0
Profit before taxes		14.6	18.6
Income taxes	11	-3.6	-4.6
Net profit for the period		11.0	14.0
Attributable to			
Equity holders of the Company		10.8	14.0
Minority interest		0.2	0.0
Earnings per share	30		
Earnings per share, EUR		0.28	0.37
Diluted earnings per share, EUR		0.28	0.37
Weighted average number of shares, 1000 shares		38 565	37 871
Diluted weighted average number of shares, 1000 shares		38 609	37 889

CONSOLIDATED BALANCE SHEET

EUR million

	Note	2006	2005*
ASSETS			
Non-current assets			
Goodwill	13	45.4	47.5
Other intangible assets	13	7.9	7.6
Land	12	1.9	2.0
Buildings	12	9.4	10.5
Machinery and equipment	12	13.4	13.6
Other tangible assets	12	4.1	3.3
Advance payments and construction in progress	12	0.6	0.3
Investment in associated companies	14	0.0	0.0
Available-for-sale investments	15	0.6	0.6
Interest-bearing receivables	17	0.0	0.3
Non-interest-bearing receivables	17	0.0	0.1
Deferred tax assets	11	6.3	5.5
Total non-current assets		89.6	91.4
Current assets			
Inventories	16	73.0	71.7
Interest-bearing receivables	17	0.2	0.0
Trade and other non-interest-bearing receivables	17	52.6	45.2
Income tax receivable		3.9	0.3
Cash and cash equivalents	18	24.4	19.2
Total current assets		154.0	136.4
Total assets		243.6	227.8
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity			
Share capital		3.5	3.5
Share premium fund		16.7	16.3
Fair value reserve		0.1	0.0
Retained earnings		49.7	41.5
Net income for the period		10.8	14.0
Equity attributable to equity holders of the Company		80.7	75.3
Minority interest		0.6	0.2
Total equity	19	81.3	75.4
Non-current liabilities			
Interest-bearing loans	23	64.6	60.4
Pension obligations	20	0.7	0.7
Option programs to be settled in cash	29	0.0	0.0
Deferred tax liabilities	11	4.9	2.9
Provisions	21	0.9	0.0
Total non-current liabilities		71.1	64.0
Current liabilities			
Interest-bearing loans	23	59.0	55.5
Trade and other non-interest-bearing payables	24	28.1	28.5
Income tax payable		2.1	2.6
Provisions	21	1.1	1.7
Other interest-bearing liabilities	22, 23	0.8	0.0
Total current liabilities		91.2	88.4
Total shareholder's equity and liabilities		243.6	227.8

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million

	Attributable to equity holders of the company						
	Share capital	Share premium fund	Fair value reserve	Translation differences	Retained earnings	Minority interest	Total equity
Equity on Jan. 1, 2005	3.4	11.2	0.0	-5.1	49.8	0.6	59.8
Adjustments according to IAS 8	0.0	0.0	0.0	0.0	-1.0	0.0	-1.0
Restated equity on Jan. 1, 2005	3.4	11.2	0.0	-5.1	48.7	0.6	58.8
Change in translation differences	0.0	0.0	0.0	0.6	0.0	0.0	0.6
Net profit for the period	0.0	0.0	0.0	0.0	14.7	0.0	14.7
Total recognized income and expenses	0.0	0.0	0.0	0.6	14.7	0.0	15.3
Private offering	0.0	3.2	0.0	0.0	0.0	0.0	3.2
Dividends paid	0.0	0.0	0.0	0.0	-3.4	0.0	-3.4
Shares subscribed with options	0.1	1.9	0.0	0.0	0.0	0.0	2.0
Stock option program	0.0	0.0	0.0	0.0	1.4	0.0	1.4
Other changes	0.0	0.0	0.0	0.0	-0.6	-0.5	-1.0
Equity on Dec. 31, 2005	3.5	16.3	0.0	-4.5	60.8	0.2	76.3
Adjustments according to IAS 8	0.0	0.0	0.0	0.0	-0.8	0.0	-0.8
Restated equity on Dec. 31, 2005	3.5	16.3	0.0	-4.5	60.0	0.2	75.4
Change in translation differences	0.0	0.0	0.0	-2.6	0.0	0.0	-2.6
Net profit for the period	0.0	0.0	0.0	0.0	10.8	0.2	11.0
Total recognized income and expenses	0.0	0.0	0.0	-2.6	10.8	0.2	8.4
Dividends paid	0.0	0.0	0.0	0.0	-4.2	0.0	-4.2
Shares subscribed with options	0.0	0.4	0.0	0.0	0.0	0.0	0.4
Stock option program	0.0	0.0	0.0	0.0	0.8	0.0	0.8
Net investment in a foreign operation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value gains on available-for-sale investments, net of tax	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Other changes	0.0	0.0	0.0	0.0	0.2	0.2	0.4
Equity on Dec. 31, 2006	3.5	16.7	0.1	-7.1	67.6	0.6	81.3

CONSOLIDATED CASH FLOW STATEMENT

EUR million

	Note	2006	2005*
Net profit for the period		11.0	14.0
Adjustments			
Income taxes	11	3.6	4.6
Financial income and expenses	10	7.1	2.9
Reversal of non-cash items			
Depreciation and impairments	8	6.3	4.8
Share-based payments	7, 29	0.9	1.5
Exchange rate differences	10	1.7	-1.0
Other items		-0.4	-1.8
Interest paid		-5.6	-4.2
Interest received		0.6	0.4
Income taxes paid		-6.2	-5.3
Other financial items, net		-0.9	0.0
Total adjustments		7.1	1.9
Change in working capital			
Change in receivables		-13.2	-5.6
Change in inventories		-2.1	2.8
Change in liabilities		7.1	-1.0
Total change in working capital		-8.1	-3.8
Net cash generated from operating activities		10.0	12.1
Net cash used in investing activities			
Acquisition of intangible assets	13	-0.3	-0.1
Proceeds from sale of tangible assets	12	0.6	0.4
Acquisition of tangible assets	12	-6.9	-5.7
Acquisition of available-for-sale investments	15	0.0	-0.4
Acquisition of subsidiaries, net of cash	3	-8.3	-10.4
Change in loans receivable		0.2	0.0
Total net cash used in investing activities		-14.7	-16.2
Net cash generated from financing activities			
Dividends paid		-4.2	-3.4
Proceeds from share subscriptions		0.4	2.0
Non-current loan withdrawals		69.6	24.6
Current loan withdrawals		37.8	1.9
Non-current loan repayments		-58.3	-9.9
Current loan repayments		-34.4	-7.8
Payment of finance lease liabilities		-0.1	0.0
Total net cash generated from financing activities		10.9	7.4
Change in cash and cash equivalents		6.2	3.2
Cash and cash equivalents at the beginning of the period		19.2	14.8
Foreign exchange rate effect		-1.0	1.2
Cash and cash equivalents at the end of the period	18	24.4	19.2

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

1. Accounting Principles for the Consolidated Accounts

Company's Background

Rapala VMC Oyj ("Company") is a Finnish public limited liability company organized under the laws of Finland, domiciled in Asikkala and listed on the Helsinki stock exchange since 1998. The company and its subsidiaries ("Rapala" or "the Group") operate in 29 countries and the Company is one of the leading fishing tackle companies in the world.

The Board of Directors of the Company has approved these financial statements for publication at its meeting on February 6, 2007. 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.rapala.com or from Arabianranta 6, 00560 Helsinki, Finland.

Basis for Preparing the Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on December 31, 2006. The term 'IFRS standards' refers to standards and interpretations of these in Finnish legislation and provisions based on this approved for applying in the EU in accordance with the procedure established in EU regulation (EY) 1606/2002. The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated. The consolidated financial statements are presented in millions of euros.

Applied New and Amended Standards and Interpretations

The Group adopted in 2006 only one amended standard, which had impact on the Group's financial statements i.e. IAS 19 (amendment): Employee benefits. This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. Amendment also adds new disclosure requirements. Amendment had impact on the form and extent of Group disclosures, since Group chose not to change recognition of actuarial gains and losses.

The Group adopted in 2006 the following new and amended standards and interpretations, which did not have significant impact on the Group's financial statements:

IAS 21 (amendment) The Effects of Changes in Foreign Exchange Rates

IAS 39 (amendment) Financial Instruments: Recognition and Measurement

- Cash Flow Hedge Accounting of Forecast Intra-group Transactions
- The Fair Value Option
- Financial Guarantee Contracts (IAS 39 and IFRS 4 amendment)

IFRIC 4 Determining whether an Arrangement Contains a Lease

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

IFRS 6 Exploration for and Evaluation of Mineral Resources (not relevant to Group operations)

IFRIC 5 Rights to Interest arising from Decommissioning, Restoration, and Environmental Rehabilitation Funds (not relevant to Group operations)

The Group has not early adopted any new or amended standards or interpretations.

Adoption of New and Amended Standards and Interpretations in 2007-2009

The Group will adopt in 2007 the following new and amended standards and interpretations issued in 2005-2006:

IFRS 7 Financial Instruments: Disclosures and Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after January 1, 2007). This standard introduces new disclosures to improve the information on financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments. The Group estimates that this adoption will only impact the form and extent of Group disclosures.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006). This interpretation is not relevant to the Group.

IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Group estimates that this adoption will not impact the Group's financial statements.

IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006). This interpretation requires that an entity must assess whether an

embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. The Group estimates that this adoption will not impact the Group's financial statements.

IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006). This interpretation concludes that an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The Group estimates that this adoption will not impact the Group's financial statements.

The Group will adopt in 2008 and 2009 the following new and amended standards and interpretations issued in 2006:

IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007). This interpretation addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same Group (e.g. equity instruments of its parent). The Group estimates that adoption will not impact the Group's financial statements.

IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008). This interpretation addresses how to account for contractual arrangements arising from entities providing public services. The Group estimates that this adoption will not impact the Group's financial statements.

IFRS 8 Operating Segments (effective date January 1, 2009). According to the standard, segment information would be required to be reported on the basis that management uses internally for evaluating operating segment performance and deciding how to allocate resources to operating segments (management approach). Such information may be different from that reported in the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the income statement and balance sheet. The Group investigates the impact of this on the Group's financial statements.

Consolidation Principles

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries in which it holds, directly or indirectly, over 50% of the voting rights. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Acquired companies are accounted for using the purchase method of accounting, according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The excess acquisition cost 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. In accordance with the exemption under IFRS 1, acquisitions prior to the IFRS transition date, January 1, 2004, have not been restated and these values are according to the previous financial statement standards. 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, where the Group holds voting rights of 20-50% and in which the Group has significant influence, but not control, are included in the consolidated financial statements using the equity method. Under the equity method, the Group's share of the associate's profit or loss for the year is recognized in the consolidated income statement after operating profit. The Group's interest in an associated company is carried in the balance sheet at an amount that reflects its share of the net assets of the associate together with goodwill on acquisition, as amortized, less any impairment. Unrealized gains, if any, between the Group and associated companies are eliminated to the extent of the Group's holding. Associated companies' financial statements have been converted to correspond with the accounting principles in use in the Group. When the Group's share of losses exceeds the carrying amount of an 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.

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. Minority interest is presented separately from the net profit and disclosed as a separate item in the equity in accordance with the share of the minority interest. Minority interest of accrued losses is recognized in the consolidated financial statements up to a maximum of the amount of the investment.

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 part of a net investment in a foreign operation are recognized in a separate component of equity and recognized in profit or loss on disposal of the net investment.

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 are not euros, 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 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.

Revenue Recognition

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

Income Taxes

The Group's income tax expense includes taxes of the Group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred income taxes. The income tax effects of items recognized directly in equity are similarly recognized.

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 pension 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.

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. 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 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 10 years and adjusted for any impairment charges. The expected useful life for most trademarks is indefinite and therefore they are not amortized. Trademarks whose useful life is estimated to be indefinite are estimated to affect cash flow accumulation for an undefined period of time. 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, depreciation 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	20 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 the item 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 are expensed as 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 as income as lower 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

Carrying amounts of tangible assets and intangible assets, including goodwill, are reviewed at each balance sheet date for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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. Impairment loss is immediately recognized in income statement. The recoverable amount is the asset's value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. 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

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

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

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

Group as a Lessor

Those leases under which the Group is a lessor are classified as operating leases. Leased assets are presented in the lessor's 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.

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.

Derivatives may be designated as hedging instruments, in which case hedge accounting is applied. If hedge accounting is not applied, fair value changes in derivatives are recognized in income statement. In the case hedge accounting is applied, the accounting for hedging instruments is dependent on the particular nature of the hedging relationship.

Currently, all derivatives of the Group, if any, are foreign currency forwards to which hedge accounting is not applied. The Group does not currently hedge its income statement translation risk and translation of equity. Nor does the Group have any fair value hedges.

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. Gains and losses from derivative instruments recognized in income statement are presented before

operating profit and in financial income and expenses only when the derivative instrument is assigned to interest-bearing financial assets or liabilities. Accumulated fair value changes recognized in equity are released into income as adjustments to sales or purchases in the period when the hedged cash flow affects income or if the hedged subsidiary is sold or liquidated.

If hedge accounting is applied, hedging programs are documented according to the requirements of IAS 39 and designated hedging instruments are subject to prospective and retrospective testing of effectiveness.

Investments

Investments are classified as financial assets at fair value through profit or loss, held-to-maturity or available-for-sale investments. Investments are classified as financial assets at fair value through profit or loss if they are acquired for the purpose of held for trading and selling in the near future. Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has a positive intention and ability to hold to maturity. Investments that are not classified in the two preceding categories are classified as available-for-sale. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate re-evaluates this designation at each financial year-end. At present, all investments of the Group are classified as available-for-sale and they comprise of unlisted shares.

When available-for-sale investments are recognized initially, they are measured at fair value by using quota market rates and market prices, discounted cash flow analyses and other appropriate valuation models. Certain unlisted shares for which fair values cannot be measured reliably are reported at cost less impairment. The fair value changes of available-for-sale investments, net of tax, are recognized in shareholders' equity. Changes in fair value are transferred from equity to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognized for the instrument. Purchases and sales of available-for-sale investments are recognized on the trade date.

Interest-bearing Loan Receivables

Interest-bearing loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized at the settlement date and measured at amortized cost using the effective interest rate method less any allowance for impairment. Initially recognized amount includes directly attributable transaction costs. Gains and losses are recognized in income statement when loans and receivables are derecognized, impaired, and through the amortization process.

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.

Trade Receivables

Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance. A valuation allowance of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

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.

Treasury Shares

If the company or its subsidiaries recognizes own equity instruments (treasury shares) these are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. At present, the Group holds no such shares.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received plus directly attributable transactions costs. After initial recognitions, they are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized, impaired and through the amortization process.

Recognition and Derecognition of Financial Assets and Liabilities

A financial asset or a financial liability is recognized on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

A financial asset is derecognized when, and only when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset, so that transfers substantially all the risks and rewards of ownership of the financial asset.

A financial liability or a part of a financial liability is removed from the balance sheet when, and only when, it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial asset is impaired.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the

loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss shall be recognized in income statement. In relation to trade receivables, a provision for impairment is made when there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of the invoice. 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.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in income statement even though the financial asset has not been derecognized. The amount of the cumulative loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in income statement. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses cannot be reversed.

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.

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

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.

The Group operates defined benefit pension plans in France and Sweden. For defined benefit plans, pension costs are assessed using the projected unit credit actuarial valuation method, in which the costs of providing pensions 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 pension 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 past service and actuarial gains and losses cost not yet recognized and less the fair value of plan assets. All actuarial gains and losses are recognized in the income statement over the average remaining service lives of employees, to the extent that they exceed 10% of pension obligations or the fair value of plan assets. The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or change to, a pension plan, past service cost is recognized immediately. In accordance with the exemption under IFRS 1, all cumulative actuarial gains and losses have been recognized in retained earnings at the date of transition, January 1, 2004.

Share-based Payments

The Group has applied the requirements of IFRS 2 (Share-based Payment) to all stock option programs granted after November 7, 2002 that were unvested as of January 1, 2005. The Group has three separate share-based payment programs: two stock option programs and one synthetic option program settled in cash. Share-based payments 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 cash settled transactions liability is remeasured at each balance sheet date with changes in fair value recognized in income statement. The expense of the stock options determined at the grant date reflects the Group's estimate of the number of stock options 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. These 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 number of shares 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 stock options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium fund.

Dividends

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 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 operating business items; otherwise they are booked in financial income and expenses.

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 estimation uncertainty 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 Rapala and 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

Carrying amounts of tangible assets and other non-current assets, including goodwill and intangible assets, are reviewed at each balance sheet date for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is 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 the asset's value in use. The value in use 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 pension 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.

Employee Benefits

Pension 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 charged or credited to income over the expected remaining service lives of the employees which could have a slight impact on the Group's income statement.

Share-based Payments

Options are valued at fair value using Black-Scholes option-pricing model. Several assumptions are used in calculating the fair value of the option. These factors include dividend yield, risk free interest rate, expected life of option and personnel forfeit ratio. Then 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 number of shares that are expected to be settled. The changes in the estimates are recognized in the income statement.

Changes in 2005 Comparable Figures

During 2006 Rapala has improved its IFRS readiness in the whole Group. 2005 comparables were changed due to IFRS improvements during 2006 audit. Summarized effects on 2005 figures: decrease in operating profit EUR 0.6 million, decrease in net profit for the period EUR 0.7 million, decrease in non-interest-bearing assets EUR 1.0 million, increase in non-interest-bearing liabilities EUR 0.8 million and decrease in equity EUR 1.8 million. Biggest changes come from deferred taxes (decrease in equity EUR 0.7 million), internal margin in inventory (decrease in equity EUR 0.5 million) and intangible assets capitalized incorrectly (decrease in equity EUR 0.7 million).

Rounding of Figures

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.

DEFINITION OF KEY FIGURES

Key figure		Definition	
Net interest-bearing liabilities	=	Total interest-bearing liabilities - total interest-bearing assets	
Capital employed	=	Total equity + net interest-bearing liabilities	
Working capital	=	Inventories + total non-interest-bearing assets - total non-interest-bearing liabilities	
Return on capital employed (ROCE), %	=	Operating profit / Capital employed (average for the period)	x 100
Return on equity (ROE), %	=	Net profit for the period / Total equity (average for the period)	x 100
Debt-to-equity ratio (Gearing), %	=	Net interest-bearing liabilities / Total equity	x 100
Equity-to-assets ratio, %	=	Total equity / Total shareholders' equity and liabilities - advances received	x 100
Earnings per share, EUR	=	Net profit for the period attributable to the equity holders of the Company / Adjusted weighted average number of shares	
Dividend per share, EUR	=	Dividend for the period / Adjusted number of shares at the end of the period	
Dividend/earnings ratio, %	=	Dividend for the period / Net profit for the period attributable to the equity holders of the Company	x 100
Equity per share, EUR	=	Equity attributable to equity holders of the Company / Adjusted number of shares at the end of the period	
Effective dividend yield, %	=	Dividend per share / Adjusted share price at the end of the period	x 100
Price/earnings ratio	=	Adjusted share price at the end of the period / Earnings per share	
Average share price, EUR	=	EUR amount traded during the period / Adjusted number of shares traded during the period	
Year-end market capitalization, EUR	=	Number of shares at the end of the period x share price at the end of the period	
Average number of personnel	=	Calculated as average of monthly averages	

2. Segment Information

The Group is led as a whole and not organized or managed in segments. For IFRS purposes, segments have though been established for financial reporting in accordance with IAS 14.

To clarify and improve information, Rapala changed its segment structure in 2006 so that Nordic was added to geographical segments and Third Party Fishing was added to the product line based business segments. Nordic includes distribution of non-Group branded (third party) products for hunting, outdoor and winter sports that other geographical segments do not have. Business segment information has been specified during 2006 to show separately group branded and non-group branded products. Comparative information has been restated respectively.

Geographical segments (by unit location) provide products or services within a particular economic environment that is subject to risks and returns that are different from those of segments in other economic environments. Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Rapala's primary reporting segments are geographical segments, namely North America, Nordic, (rest of) Europe, and Rest of the World. Secondary reporting segments are based on product lines, which are Lures, Fishing Hooks, Fishing Accessories, Third Party Fishing Products and Other Products. Third Party Fishing Products include non-Group branded fishing products, mostly rods and reels. Other Products include non-Group branded (third party) products for hunting, outdoor and winter sports and Group branded products for winter sports and some other businesses. Pricing of inter-segment transactions is based on market prices.

GEOGRAPHICAL SEGMENTS **2006**

EUR million

	North America	Nordic	Rest of Europe	Rest of the World	Eliminations	Total
External net sales	69.5	62.4	63.1	31.5	0.0	226.6
Internal net sales	0.1	31.8	19.9	12.1	-64.0	0.0
Net sales	69.7	94.2	83.0	43.7	-64.0	226.6
External net sales by destination	70.8	55.0	76.2	24.7	0.0	226.6
Operating profit	6.4	6.9	7.0	2.8	-1.4	21.7
Financial income and expenses						-7.1
Income taxes						-3.6
Net profit for the period						11.0
Allocated assets	65.1	71.7	61.9	31.6	-18.1	212.2
Unallocated assets 1)						31.4
Total assets						243.6
Allocated liabilities	20.6	15.9	16.2	10.5	-30.2	33.0
Unallocated liabilities 1)						129.4
Total liabilities						162.3
Depreciation and impairments	-0.9	-1.6	-2.1	-1.7	0.0	-6.3
Capital expenditure	0.8	4.8	2.4	5.7	0.0	13.8
Non-recurring income and expenses	-0.1	0.0	-0.2	-0.2	0.0	-0.4

GEOGRAPHICAL SEGMENTS 2005*

EUR million

	North America	Nordic	Rest of Europe	Rest of the World	Eliminations	Total
External net sales	66.4	60.0	52.7	17.1	0.0	196.1
Internal net sales	0.0	24.0	17.2	10.8	-52.1	0.0
Net sales	66.4	84.0	69.9	27.9	-52.1	196.1
External net sales by destination	70.2	41.5	71.7	12.7	0.0	196.1
Operating profit	3.9	10.2	5.7	2.0	-0.4	21.5
Financial income and expenses						-2.9
Income taxes						-4.6
Net profit for the period						14.0
Allocated assets	72.3	79.2	53.8	23.2	-26.3	202.1
Unallocated assets 1)						25.7
Total assets						227.8
Allocated liabilities	35.5	12.9	18.5	7.5	-40.8	33.6
Unallocated liabilities 1)						118.8
Total liabilities						152.4
Depreciation and impairments	-1.0	-1.1	-1.4	-1.3	0.0	-4.8
Capital expenditure	2.4	6.1	4.6	8.5	0.0	21.7
Non-recurring income and expenses	0.0	0.8	0.0	-0.1	0.0	0.7

1) Unallocated assets and liabilities include interest-bearing assets and liabilities, and deferred tax assets and liabilities.

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

BUSINESS SEGMENTS

EUR million

2006	Lures	Fishing Hooks	Fishing Accessories	Third Party Fishing Products	Other Products	Eliminations	Total
Net sales	73.0	14.8	45.8	53.5	42.4	-2.9	226.6
Allocated assets	144.1	10.0	40.3	25.6	24.3	-0.6	243.6
Capital expenditure	3.0	0.7	3.4	4.1	2.6	0.0	13.8
2005*							
Net sales	63.4	14.3	37.0	43.4	40.3	-2.4	196.1
Allocated assets	133.2	10.1	42.9	22.8	19.1	-0.4	227.8
Capital expenditure	9.4	1.3	5.7	3.6	1.7	0.0	21.7

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

3. Acquisitions

Acquisitions in 2005

The business and assets of FunFish, a Swiss reseller and retailer of fishing tackle products, was acquired in May 2005. In July 2005, the Group strengthened its access and presence in Oceania by acquiring 100% of the shares of Freetime, a major Australian fishing tackle distributor. In August 2005, the Group purchased the remaining 33% minority stake of Rapala's Danish distribution company.

Rapala (70%) established a Hungarian distribution company Rapala Eurohold together with the former management of Eurohold Trade, Mr Agh Senior and Mr Agh Junior (jointly 30%). In October 2005, Rapala Eurohold acquired the fishing tackle distribution and retail business of Eurohold Trade. Also in October, the Group closed the acquisition of lure and other fishing tackle business of Luhr Jensen, a manufacturer of fishing lures and accessories.

In November 2005, the Group closed the acquisition of Finnish knife manufacturer Marttiini Oy (100%) from Lauri Marttiini, his son Ilkka Marttiini and Ilkka Marttiini's family members. The deal included the Finnish knife factory in Rovaniemi, the knife sheaths factory in Estonia and the 49% share in the Chinese knife joint-venture with Rapala. The consideration of the deal comprises of cash and newly issued shares of Rapala. Also in November, the Group closed the acquisition of 61% of the shares of the Finnish ski manufacturer Peltonen Ski Oy. Rapala already owned the brand and 19% of Peltonen Ski before the acquisition.

These acquisitions contributed EUR 6 million to the 2005 net sales and EUR 0.3 million to the net profit of the Group. If these acquisitions would have taken place at the beginning of the year, they would have contributed EUR 18 million to the 2005 net sales and EUR 0.3 million to the net profit of the Group.

Acquisitions in 2006

In January 2006, Rapala acquired the French fishing line supplier Tortue. In February 2006, Rapala VMC South-Africa Distributors Pty Ltd ("Rapala South-Africa") acquired 100% of the shares of Tatlow and Pledger Pty Ltd ("T&P"). Rapala's ownership of Rapala South-Africa is now 70% while the former managers of T&P, Grant and Mark Pledger, together own 30%. T&P is the leading fishing tackle distributor in South Africa with exports to several other African countries.

These acquisitions contributed EUR 9 million to the 2006 net sales and EUR 1.0 million to the net profit of the Group. These figures would have been the same even if the acquisitions would have taken place in the beginning of the year.

In January 2007, Rapala acquired the fishing tackle business of Outdoor Innovations LLC and Horizon Lures LP ("Terminator"), USA based manufacturers and distributors of Terminator branded spinner baits and other fishing lures. The deal includes patents for the use of nickel titanium wire in fishing lures, trademarks, customer lists, inventories, and some other assets. The total consideration was EUR 2.0 million including EUR 0.1 million of transaction costs. The book value of acquired assets where: working capital EUR 2.6 million, intangible assets EUR 0.1 million and tangible assets EUR 0.1 million. The fair value adjustment is EUR 0.5 million to intangible assets. Excess of Group's interest in the net fair value of acquired net assets over cost is EUR 1.4 million. These figures are preliminary.

EUR million	Note	2006 Fair value	2006 Seller´s carrying amount	2005 Fair value	2005 Seller´s carrying amount
Cash and cash equivalents and interest-bearing assets		1.1	1.1	0.2	0.2
Working capital		3.9	3.9	6.6	6.6
Intangible assets	13	1.2	0.0	4.8	0.2
Tangible assets	12	0.1	0.1	3.1	2.4
Deferred tax asset	11	0.0	0.0	0.1	0.1
Interest-bearing liabilities		0.0	0.0	-1.1	-1.1
Deferred tax liability	11	-0.3	0.0	-1.3	-0.2
Minority interest		0.0	0.0	0.6	0.0
Fair value of acquired net assets		5.9	5.0	12.9	8.1

EUR million	Note	2006	2005
Shares issued		0.0	1.0
Cash paid in 2005		0.0	10.1
Cash paid in 2006		6.3	2.9
Cash paid in 2007 or later		0.2	1.0
Cost associated with the acquisitions		0.1	0.5
Total purchase consideration		6.6	15.4
Excess of Group's interest in the net fair value of acquired net assets over cost		0.0	-0.8
Goodwill 1)	13	0.7	3.3
Net		0.7	2.5
Cash paid 2)		9.2	10.6
Cash and cash equivalents acquired		-0.9	-0.2
Net cash flow		8.3	10.4

1) 2006 translation differences EUR 0.2 million. Note 3 is based on exchange rates at acquisition date, whereas note 13 is based on exchange rates at closing date.

2) Cash paid in 2006 includes the final payment, EUR 2.9 million, of the Luhr Jensen acquisition closed in 2005.

The consideration of Marttiini Oy, acquired in November 2005, comprised of cash and newly issued shares of Rapala. Group issued 160 000 shares with a fair value of 6.13 euros each. The fair value is based on the market value of the share on the date of the acquisition.

Acquired companies are accounted for using the purchase method of accounting, which involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The purchase price of EUR 6.6 million (2005: EUR 15.4 million) resulted in the fair value allocation of EUR 0.0 million (2005: EUR 0.7 million) in tangible assets, EUR 0.9 million (2005: EUR 1.4 million) to customer related intangibles, EUR 0.3 million (2005: EUR 3.1 million) to intellectual property rights related intangibles (trademarks, patents and technology), EUR 0.3 million (2005: EUR 1.1 million) to deferred tax liabilities and net goodwill of EUR 0.7 million (2005: EUR 2.5 million).

The fair value of acquired intellectual property rights is established with the estimated discounted royalty payments. Determination of fair value is the market based estimated royalty rate (normalized net cash flow), that an external party would be willing to pay for the license contract. The fair value of customer relations is established based on the estimated duration of customer relationship (average minimum duration) and discounted net cash flows of present customer relationships.

Goodwill of EUR 0.7 million (2005: EUR 2.5 million) arose on these acquisitions. The goodwill resulted from acquiring a new distribution company in a new market and expansion of product and brand portfolio to implement the Group's strategy. Goodwill is justified by expansion of product assortment and market coverage as well as utilization of economies of scale in production and distribution. Resulted goodwill has been tested for impairment. For more details on the impairment testing of goodwill, see note 13.

4. Other Operating Income

EUR million	2006	2005
Insurance compensations	0.6	0.0
Rental income	0.2	0.1
Gain from sale of intangible and tangible assets	0.1	0.0
Government grants	0.0	0.0
Other income	0.6	0.7
Total	1.5	0.8

Other income, EUR 0.6 million (2005: 0.7 EUR million) is a combination of several smaller income items, of which none is individually significant.

5. Other Operating Expenses

EUR million	2006	2005*
Selling and marketing expenses	-12.0	-10.7
Freight	-4.9	-4.1
Rents paid	-4.4	-3.3
Maintenance	-4.3	-3.2
Traveling expenses	-4.1	-3.0
Sales commissions	-4.0	-3.5
IT and telecommunication	-1.2	-0.6
Auditors fees and services	-0.8	-0.7
Valuation allowance for trade receivables	-0.7	-0.4
Research and development expenses	-0.2	0.0
Losses on disposals of intangible and tangible assets	-0.2	0.0
Start-up costs	-0.1	-0.1
Other expenses	-11.4	-11.3
Total	-48.1	-41.1

AUDITORS FEES AND SERVICES

	2006	2005*
Audit fees	-0.7	-0.4
Audit-related fees	0.0	-0.1
Fees for tax services	-0.1	-0.2
Total	-0.8	-0.7

NON-RECURRING INCOME AND EXPENSES INCLUDED IN OPERATING PROFIT

	2006	2005*
Gains and losses on disposals of intangible and tangible assets	-0.1	0.0
Excess of Group's interest in the net fair value of acquired net assets over cost	0.0	0.8
Restructuring costs	-0.2	0.0
Start-up costs	-0.1	-0.1
Total	-0.4	0.7

6. Materials and Services

EUR million	2006	2005
Materials, goods and supplies		
Purchases during the period	-98.1	-82.4
Change in inventory	0.3	2.6
External services	-1.6	-2.1
Total	-99.5	-81.9

7. Employee Benefit Expenses

EUR million	2006	2005
Wages and salaries	-46.0	-36.2
Pension costs - defined contribution plans	-3.3	-2.9
Pension costs - defined benefit plans	0.0	-0.1
Option programs to be settled in shares	-0.9	-1.5
Option programs to be settled in cash	0.0	0.0
Other personnel expenses	-3.9	-6.2
Total	-54.1	-47.0

AVERAGE PERSONNEL

Persons	2006	2005
North America	118	216
Nordic	436	410
Rest of Europe	755	747
Rest of the World	2 678	2 407
Total	3 987	3 780

8. Depreciation and Impairments

EUR million	2006	2005
Depreciation of intangible assets		
Other intangible assets	-0.6	-0.4
Excess of Group's interest in the net fair value of acquired net assets over cost	0.0	0.8
Depreciation of tangible assets		
Buildings	-1.0	-1.0
Machinery and equipment	-3.7	-3.4
Other tangible assets	-1.0	-0.8
Total	-6.3	-4.8

9. Research and Development Expenses

Net profit for the period includes research and development expenses of EUR 1.2 million recognized as an expense in 2006 (2005: EUR 0.7 million).

10. Financial Income and Expenses

EUR million	2006	2005
Foreign exchange gains	4.8	6.4
Foreign exchange losses	-6.3	-5.1
Interest and other financial income		
Interest income	0.7	0.5
Other financial income	0.1	0.2
Interest and other financial expenses		
Interest expense	-5.8	-4.2
Interest expense of finance lease contracts	-0.1	-0.1
Other financial expenses	-0.5	-0.5
Total	-7.1	-2.9

TRANSLATION DIFFERENCES RECOGNIZED IN THE INCOME STATEMENT

EUR million	2006	2005
Translation differences recognized in net sales	-1.5	2.4
Translation differences included in purchases and other expenses	-0.2	0.0
Translation differences included in other operating income and expenses		
Derivates	0.1	0.0
Foreign exchange gains and losses in financial income and expenses	-1.4	1.3
Total	-3.1	3.6

11. Income Taxes

INCOME TAXES IN THE INCOME STATEMENT EUR million	2006	2005*
Current income tax	-3.0	-5.6
Deferred tax	-0.6	1.0
Total	-3.6	-4.6

INCOME TAX RECONCILIATION

EUR million	2006	2005*
Income taxes at Finnish corporate tax rate (26%)	-3.8	-4.8
Effect of different tax rates in foreign subsidiaries	0.2	0.9
Non-deductible expenses and tax exempt income	0.1	0.1
Losses for which no deferred tax benefit is recognized	-0.4	0.1
Taxes for prior years	-0.8	-0.2
Changes in the carrying amounts of deferred tax assets from prior years	1.1	-1.0
Impact of the changes in the tax rates on deferred tax balances	0.0	0.0
Effect of consolidation and eliminations	-0.5	0.6
Other items	0.5	-0.3
Income taxes in the income statement	-3.6	-4.6

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

MOVEMENT OF DEFERRED TAXES

EUR million

2006	Jan. 1	Income statement	Equity	Translation differences	Acquisitions (see note 3)	Dec. 31
Tax losses carried forward	1.0	0.6	0.0	-0.1	0.0	1.5
Provisions	0.2	0.1	0.0	0.0	0.0	0.3
Pension obligations	0.2	0.0	0.0	0.0	0.0	0.2
Effect of consolidation and eliminations	3.6	0.3	0.0	-0.4	0.0	3.4
Other temporary differences	0.6	0.3	0.0	0.0	0.0	0.9
Total deferred tax assets	5.5	1.4	0.0	-0.6	0.0	6.3
Depreciation difference and other untaxed reserves	0.6	1.3	0.0	-0.1	0.0	1.9
Inventory	1.1	0.6	0.0	-0.1	0.0	1.6
Fair value adjustments for acquired net assets	1.1	0.0	0.0	0.0	0.3	1.3
Other temporary differences	0.1	0.1	0.0	0.0	0.0	0.1
Total deferred tax liabilities	2.9	2.0	0.0	-0.2	0.3	4.9
Net deferred tax asset	2.6	-0.6	0.0	-0.4	-0.3	1.3

2005*	Jan. 1	Income statement	Equity	Translation differences	Acquisitions (see note 3)	Dec. 31
Tax losses carried forward	0.6	0.1	0.0	0.3	0.0	1.0
Provisions	0.1	0.1	0.0	0.0	0.0	0.2
Pension obligations	0.2	0.0	0.0	0.0	0.0	0.2
Effect of consolidation and eliminations	3.0	0.6	0.0	0.0	0.0	3.6
Other temporary differences	0.8	-0.3	0.0	0.1	0.1	0.6
Total deferred tax assets	4.7	0.3	0.0	0.4	0.1	5.5
Depreciation difference and other untaxed reserves	1.4	-0.8	0.0	0.0	0.1	0.6
Inventory	0.9	0.2	0.0	0.0	0.0	1.1
Fair value adjustments for acquired net assets	0.0	0.0	0.0	0.0	1.1	1.1
Other temporary differences	0.0	0.0	0.0	0.0	0.1	0.1
Deferred tax liabilities	2.3	-0.7	0.0	0.0	1.3	2.9
Net deferred tax asset	2.4	1.0	0.0	0.4	-1.2	2.6

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

No deferred taxes have been recognized in equity.

At December 31, 2006 the Group had tax losses carried forward of EUR 4.3 million (2005: EUR 4.4 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 0.0 million of these tax losses will expire in years 2007 through 2012.

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.

12. Tangible Assets

EUR million

2006	Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	2.0	18.4	42.9	6.5	0.3	70.1
Additions	0.0	0.3	4.7	1.5	1.3	7.7
Acquisitions (see note 3)	0.0	0.0	0.0	0.1	0.0	0.1
Disposals	0.0	0.0	-1.3	-0.4	-0.8	-2.4
Reclassifications 1)	0.0	0.0	-0.3	0.6	-0.2	0.1
Translation differences	-0.1	-0.5	-1.2	-0.4	0.0	-2.2
Acquisition cost Dec. 31	1.9	18.1	44.8	8.0	0.6	73.5
Accumulated depreciation Jan. 1	0.0	-7.9	-29.2	-3.2	0.0	-40.3
Acquisitions (see note 3)	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.6	0.1	0.0	0.7
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation during the period	0.0	-1.0	-3.7	-1.0	0.0	-5.7
Translation differences	0.0	0.2	1.0	0.2	0.0	1.4
Accumulated depreciation Dec. 31	0.0	-8.7	-31.4	-3.9	0.0	-44.0
Book value Jan. 1	2.0	10.5	13.6	3.3	0.3	29.8
Book value Dec. 31	1.9	9.4	13.4	4.1	0.6	29.4

2005	Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	1.9	16.6	34.8	4.9	0.1	58.2
Additions	0.1	1.4	3.0	1.6	0.2	6.2
Acquisitions (see note 3)	0.0	0.7	3.9	0.1	0.0	4.7
Disposals	-0.1	-0.3	-0.9	-0.8	0.0	-2.2
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0
Translation differences	0.2	0.1	2.1	0.8	0.0	3.2
Acquisition cost Dec. 31	2.0	18.4	42.9	6.5	0.3	70.1
Accumulated depreciation Jan. 1	0.0	-7.2	-24.2	-2.0	0.0	-33.4
Acquisitions (see note 3)	0.0	-0.3	-1.3	0.0	0.0	-1.7
Disposals	0.0	0.1	0.8	0.0	0.0	0.9
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation during the period	0.0	-1.0	-3.4	-0.8	0.0	-5.2
Translation differences	0.0	0.5	-1.1	-0.5	0.0	-1.1
Accumulated depreciation Dec. 31	0.0	-7.9	-29.2	-3.2	0.0	-40.3
Book value Jan. 1	1.9	9.4	10.6	2.9	0.1	24.8
Book value Dec. 31	2.0	10.5	13.6	3.3	0.3	29.8

1) Includes reclassifications between intangible and tangible assets of EUR 0.1 million in 2006.

The acquisition value remaining after depreciation for machinery in tangible assets was EUR 11.1 million on December 31, 2006 (2005: EUR 10.0 million).

ASSETS LEASED BY FINANCE LEASE AGREEMENTS

EUR million

	2006		2005	
	Buildings	Machinery and equipment	Buildings	Machinery and equipment
Book value Jan. 1	1.4	0.0	1.5	0.0
Additions	0.0	0.1	0.0	0.0
Reclassifications	0.0	0.1	0.0	0.0
Depreciation during the period	-0.1	-0.1	-0.1	0.0
Translation differences	0.0	0.0	0.0	0.0
Book value Dec. 31	1.3	0.2	1.4	0.0
Accumulated depreciation Dec. 31	-0.4	-0.1	-0.4	0.0
Acquisition cost Dec. 31	1.8	0.3	1.8	0.0

13. Intangible Assets

EUR million

	2006			2005*		
	Goodwill	Other intangible assets	Total	Goodwill	Other intangible assets	Total
Acquisition cost Jan. 1	47.5	11.3	58.8	41.3	5.3	46.6
Additions	0.0	0.3	0.3	0.0	0.1	0.1
Acquisitions (see note 3)	0.4	1.2	1.6	3.3	4.9	8.3
Disposals	0.0	-0.3	-0.3	0.0	0.0	0.0
Reclassifications 1)	0.0	-0.1	-0.1	0.0	0.0	0.0
Translation differences	-2.6	-0.3	-2.9	2.9	1.0	3.9
Acquisition cost Dec. 31	45.4	12.1	57.5	47.5	11.3	58.8
Accumulated depreciation Jan. 1	0.0	-3.7	-3.7	0.0	-2.6	-2.6
Disposals	0.0	0.1	0.1	0.0	-0.1	-0.1
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation during the period	0.0	-0.6	-0.6	0.0	-0.4	-0.4
Translation differences	0.0	0.0	0.0	0.0	-0.6	-0.6
Accumulated depreciation Dec. 31	0.0	-4.2	-4.2	0.0	-3.7	-3.7
Book value Jan. 1	47.5	7.6	55.1	41.3	2.8	44.1
Book value Dec. 31	45.4	7.9	53.3	47.5	7.6	55.1

Other intangible assets include trademarks, patents, licenses, computer software and customer relationships acquired in business combinations. Intangible assets are stated at cost, amortized on a straight line method over expected useful lives which vary from 3 to 10 years and adjusted for any impairment charges. The expected useful life for most trademarks is decades and therefore these intangibles are measured at cost less any accumulated impairment loss and not amortized. Goodwill is measured at cost less any accumulated impairment loss, and not amortized. Trademarks and goodwill are tested for impairment annually.

GOODWILL AND TRADEMARKS BY BUSINESS SEGMENTS

EUR million

2006	Lures	Fishing Hooks	Fishing Accessories	Third Party Fishing Products	Other Products	Total
Goodwill	34.1	0.8	7.0	2.2	1.2	45.4
Trademarks	1.5	0.0	1.4	0.5	0.0	3.4
2005						
Goodwill	36.6	0.8	5.2	2.4	2.4	47.5
Trademarks	1.5	0.0	1.1	0.5	0.0	3.1

Impairment Testing of Goodwill and Trademarks

The Group is led as a whole and not organized nor managed in segments. 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 a segment based on either the entity's primary or the entity's secondary segment reporting. As a consequence, goodwill and trademarks are tested on the business segment (product lines) 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 approved by management. 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 gross margins. Discount rate is the weighted average pre-tax cost of capital (WACC), which was 9% in 2006 (2005: 9%). The growth rate used to extrapolate the cash flow beyond the five-year period is 0% (2005: 0%). As a result of the performed impairment tests, no impairment losses have been recognized in 2006 or in 2005.

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.

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 been also taken into account in the development of EBITDA margin.

Discount rate – Discount rate is the weighted average pre-tax cost of capital (WACC). Average cost of capital represents the total cost of Group's equity and debt taken into account their different return requirements.

Growth rate – Compared to actual growth rates during past 5 years, management has been conservative in determining the growth rate for impairment purposes.

Sensitivity Analysis

The key sensitivity for the impairment test is the EBITDA margin and discount rate. It is management's opinion that no probable change in any of the key sensitivities would lead to a situation where the carrying amount would exceed the recoverable amount. If EBITDA margin would be over 20% lower than estimated by management or if the discount rate would be over 5% higher than used in the calculations, it would not lead to an impairment loss in any of the cash generating units.

1) Includes reclassifications between intangible and tangible assets of EUR 0.1 million in 2006.

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

14. Investment in Associated Companies

The Group has a 30% interest in unlisted Lanimo Oü. Its main activity is producing leather-haberdashery. The carrying amount of Lanimo Oü does not include goodwill or impairments. Lanimo Oü's figures for 2006 are based on the information for the period ending on September 30, 2006, due to differences in reporting time schedule. However, the comparison figures are based on the entire financial year 2005.

EUR million	2006	2005
Acquisition cost Jan. 1	0.0	0.0
Additions	0.0	0.0
Acquisition cost Dec. 31	0.0	0.0
INFORMATION ON LANIMO OÜ, ESTONIA		
Assets	0.0	0.0
Liabilities	0.0	0.0
Sales	0.2	0.1
Profit/loss	0.0	0.0
Ownership,%	30	30

15. Available-for-sale Investments

EUR million	2006	2005
Book value Jan. 1	0.6	0.2
Additions	0.0	0.4
Fair value changes	0.1	0.0
Disposals	0.0	0.0
Book value Dec. 31	0.6	0.6

Available-for-sale investments 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, which corresponds approximately to their fair value. The fair value changes of available-for-sale investments, net of tax, are recognized in shareholders' equity. Principal available-for-sale investments comprise of Kanavagolf Vääksy Oy, Asikkalan Matkailu Oy, As Oy Tahkon Eagle, and BRF Morkullan.

16. Inventories

EUR million	2006	2005*
Raw material	8.5	12.5
Work in progress	6.6	5.7
Finished products	58.9	53.5
Net realizable value provisions	-1.0	0.0
Total	73.0	71.7

In 2006 the book value of inventories differed from its net realizable value by EUR 1.0 million. In 2005 the book value of inventories did not differ significantly from its net realizable value.

17. Receivables

EUR million	2006	2005
Non-current receivables		
Interest-bearing		
Loan receivables	0.0	0.3
Non-interest-bearing		
Other receivables	0.0	0.1
Current receivables		
Interest-bearing		
Loan receivables	0.0	0.0
Other receivables	0.1	0.0
Non-interest-bearing		
Trade receivables	46.0	40.9
Prepaid expenses and accrued income	3.6	2.6
Other receivables	4.6	3.4
Valuation allowance for trade receivables	-1.7	-1.7
Total	52.8	45.6

Prepaid expenses and accrued income consists of VAT receivables and other accrued income, of which none is individually significant. Due to their short maturity, the fair value of current receivables is regarded as corresponding to their original carrying amount.

The weighted average interest rate of non-current loan receivables at December 31, 2006 was 4.00% (2005: 3.95%). The weighted average interest rate of current loan receivables at December 31, 2006 was 3.95%. Loan receivables are based on floating rates, in which case their fair value is regarded as corresponding to their book value.

Other current interest-bearing receivables include interest receivable.

18. Cash and Cash Equivalents

EUR million	2006	2005
Cash at bank and in hand	23.3	18.2
Short-term bank deposits	1.1	1.0
Total	24.4	19.2

Fair value of cash and cash equivalents does not differ significantly from the carrying value.

19. Equity Attributable to Shareholders

EUR million	2006	2005*
Share capital Jan. 1	3.5	3.4
Shares subscribed with options	0.0	0.1
Share capital Dec. 31	3.5	3.5
Share premium fund Jan. 1	16.3	11.2
Private offering	0.0	3.2
Shares subscribed with options	0.4	1.9
Share premium fund Dec. 31	16.7	16.3
Fair value reserve Jan. 1	0.0	0.0
Fair value gains on available-for-sale investments, net of tax	0.1	0.0
Fair value reserve Dec. 31	0.1	0.0
Retained earnings Jan. 1	55.5	43.7
Translation differences	-2.6	0.6
Dividends paid	-4.2	-3.4
Stock option program	0.8	1.4
Other changes	0.2	-0.8
Net income for the period	10.8	14.0
Retained earnings Dec. 31	60.5	55.5

Translation differences contain exchange differences arising from the currency translation of foreign subsidiaries' financial statements and exchange differences arising from a monetary item that forms part of a net investment in a foreign operation. Fair value reserve contains hedging reserve for fair value gains on available-for-sale investments.

Dividends

For more details on dividends, see note 31.

Shares and Share Capital

Rapala VMC Corporation's ("Rapala" or "Company") minimum share capital is EUR 2.8 million and its maximum authorized share capital is EUR 11.3 million, within which limits the share capital may be increased or decreased without amending the Articles of Association ("Articles"). On December 31, 2006, the share capital fully paid and reported in the Trade Register was EUR 3.5 million. The book value of a share is EUR 0.09. On December 31, 2006, the number of shares was 38 576 269 (2005: 38 498 303). Each share is entitled to one vote.

Changes in Share Capital in 2006

A total of 77 966 new shares were subscribed with 2003A option rights in February 2006. The share capital increased by 7 016.94 EUR. The new shares were listed on the main list of the Helsinki Exchange on March 6th, 2006. The shares grant its holders the same rights as the already listed shares. A further 2 500 shares may still be subscribed with 2003A option rights by March 31, 2007 at the latest.

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

Authorization of the Board of Directors

Based on the authorization given by the Annual General Meeting in April 2006, the Board can decide on an increase of the share capital by a maximum of EUR 675 000 in one or more issues of new shares within one year from the Annual General Meeting. A maximum of 7 500 000 new shares each with a counter book value of EUR 0.09 may be offered for subscription. By February 27, 2007 the Board has not used this authorization.

Share Based Payments

For more details on share based payments, see note 29.

20. Pension Obligations

The Group has defined benefit pension plans only in France and Sweden. In French plans retirement benefits are determined based on salary and period of employment. These obligations are unfunded. ITP-pension plans operated by Alecta in Sweden are multi-employer defined benefit pension plans. However, it has not been possible to get sufficient information for the calculation of obligations and assets by employer from plan operations, and therefore these plans have been accounted for as defined contribution plans in the financial statements. From Group's point of view the Swedish plans are not significant. 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 (TEL) through an external pension insurance company.

EUR million	2006	2005
EXPENSES RECOGNIZED IN THE INCOME STATEMENT		
Current service cost	0.0	-0.1
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Total	0.0	-0.1
AMOUNTS RECOGNIZED IN THE BALANCE SHEET		
Present value of obligations	0.9	0.8
Unrecognized actuarial gains/losses	-0.2	-0.1
Total	0.7	0.7
RECONCILIATION		
Obligations Jan. 1	0.7	0.7
Current service cost	0.0	0.1
Interest cost	0.0	0.0
Actuarial gains and losses	0.0	0.0
Paid contributions	0.0	0.0
Obligations Dec. 31	0.7	0.7

ASSUMPTIONS
%

	2006	2005
Discount rate	4.5	4.1
Future salary increase	2.5	0.8
Annual inflation rate	2.0	2.0

AMOUNTS FOR CURRENT AND PREVIOUS TWO PERIODS
EUR million

	2006	2005	2004
Present value of obligations	0.9	0.8	0.8
Experience adjustment on plan liabilities	0.1	0.0	0.0
Total	0.9	0.8	0.8

The Group expects not to contribute to its defined benefit pension plans in 2007.

21. Provisions

EUR million	2006	2005
Warranty provisions		
Provisions Jan. 1	0.1	0.1
Provisions Dec. 31	0.1	0.1
Other provisions		
Provisions Jan. 1	1.6	0.8
Additions	1.0	1.4
Utilized provisions	-0.3	-0.8
Acquisitions	0.0	0.1
Reclassification 1)	-0.3	0.0
Translation differences	0.0	0.1
Provisions Dec. 31	1.9	1.6
Non-current	0.9	0.0
Current	1.1	1.7
Total provisions	2.0	1.7

There are no significant restructuring provisions in the Group. Other provisions include distinct provisions, but no amounts which are individually significant. All provisions are expected to realize within the next 14 months.

22. Financial Risk Management and Derivative Financial Contracts

Financial risk management

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 Group's finance management, for development and implementation of financial risk management procedures.

Financial risks consist of market, default and liquidity risks.

1) Includes reclassifications between provisions and Accrued liabilities and deferred income of EUR 0.3 million in 2006.

Market Risk

In Rapala, 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. In order to mitigate adverse impacts of market price changes the Group uses, from time to time, derivative contracts. Currency forwards made to fix exchange rates of sales and purchase orders cause timing differences between exchange gains/losses and sales/purchases.

IAS 39 hedge accounting is not applied but the derivatives used are for the purpose of reducing adverse impacts of market price changes on earnings and cash flows related to business and financing activities.

Major part of the Group's sales is in euros and US dollars. Also a significant part of expenses arise in euros, US dollars as well as HK dollars and Chinese yuans (renminbi), which both follow quite closely US dollar. There is quite a good balance between the income and expenses in different currencies, which provide quite an effective hedge in it self. This has also affected the Group's principle not to hedge all transactions nor all open positions.

The effect of 10% change in the US dollar on the Group's operating profit is some EUR 0.6 million. USD based loans hedge all internal USD loans and, in addition, major part of the exposure related to the net of USD based accounts receivables and accounts payables. However, since hedge accounting is not applied the effect of this hedge is booked in financial items. The effect of Canadian dollar and Swedish krona is smaller. These figures are estimates and the effect of hedging has not been taken into account in them. HK dollar and Chinese yuan have been included in the USD basket in this sensitivity analysis.

Forecasted cash flows and firm commitments are hedged selectively. The Group does not currently hedge its income statement translation risk and translation of equity. On February 1, 2007 the Group will start to hedge its net investments in AUD-, JPY-, NOK- and SEK- currency denominated foreign subsidiaries using equivalent currency loans. The Group will partially start to hedge its net investment in USD- currency denominated foreign subsidiaries in first quarter of 2007. Hedging relationships will be treated according to IAS 39 as hedges of a net investment in a foreign subsidiary. The total non-euro-denominated equity of the Group's foreign subsidiaries was EUR 68.9 million on December 31, 2006 (2005: EUR 33.6 million).

The Group's interest rate risk is monitored as cash flow and fair value risks. In order to manage the balance between risk and cost efficiently, most of the loans and financial investments have a short-term interest rate as a reference rate.

Group borrowings are mainly in euros and US dollars, which have a substantial contribution to overall interest rate risk. All of the Group's interest-bearing liabilities have an interest period of less than one year.

Since the value of raw-materials, for which prices are determined in regulated markets, used by the Group is quite low, no commodity hedging is carried out.

Default Risk

The Group's accounts receivables are generated by a large number of customers worldwide. Credit risk related to business operations is reduced for example with credit insurances and letters of credit.

The Group's finance management manages a major part of the credit risk related to financial instruments. It seeks to reduce these risks by limiting the counterparties to banks, which have a good credit standing. All investments related to liquidity management are made in liquid instruments with low credit risk.

Liquidity Risk

The Group's finance management raises most of the Group's interest-bearing debt centrally. 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. Efficient cash and liquidity management is also reducing liquidity risk. Group's credit limit not drawn at December 31, 2006 was EUR 16.7 million. In addition, the Group has a EUR 25.0 million domestic commercial paper program.

DERIVATIVE FINANCIAL INSTRUMENTS	2006	2005
EUR million		
Currency derivatives		
Contract amount	1.0	0.6
Negative fair values	0.0	0.0
Net fair values	0.0	0.0

Currency forwards are used for hedging. They are current and do not meet the hedge accounting criteria. Currency forwards mature within the next 12 months.

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. Currency forward contracts are valued at the market forward exchange rates. Changes in fair value are measured by comparing these rates with the original contract forward rate.

23. Interest-bearing Liabilities

EUR million	2006 Average interest rate, %	2006	2005
Non-current interest-bearing liabilities			
Loans from financial institutions	4.83	62.9	58.8
Finance lease	5.15	1.7	1.6
Current interest-bearing liabilities			
Loans from financial institutions	4.48	59.0	55.5
Finance lease	5.13	0.1	0.0
Derivatives		0.0	0.0
Other current liabilities		0.8	0.0
Total		124.5	116.0

Non-current interest-bearing loans are based on floating rates, in which case their fair value is regarded as equaling their book value. Due to their short maturity, the fair value of current interest-bearing liabilities is regarded as corresponding to their book value.

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

Other current liabilities include interest payable.

REPAYMENT SCHEDULE OF NON-CURRENT INTEREST-BEARING LIABILITIES

EUR million

Dec 31, 2006	2007	2008	2009	2010	2011	Later	Total
Loans from financial institutions							
EUR	0.6	5.3	5.3	5.2	5.0	10.0	31.4
USD	0.0	4.8	4.8	4.8	4.8	9.6	28.9
DKK	0.3	0.3	0.3	0.9	0.0	0.0	1.7
PLN	0.8	0.0	0.0	0.0	0.0	0.0	0.8
AUD	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Finance lease							
DKK	0.1	0.1	0.1	0.1	0.1	1.3	1.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	1.8	10.5	10.4	11.0	9.9	20.9	64.6

CURRENT INTEREST-BEARING LIABILITIES BY CURRENCY

EUR million

	2006	2005
Loans from financial institutions		
EUR	38.7	29.7
NOK	5.7	2.1
USD	4.6	20.5
SEK	3.2	0.0
AUD	2.7	0.0
ZAR	2.4	0.0
JPY	1.0	0.0
CHF	0.6	0.6
HUF	0.1	2.0
Other	0.0	0.6
Finance lease		
DKK	0.1	0.0
Other	0.0	0.0
Total	59.0	55.5

FINANCE LEASE

EUR million

	2006		2005	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	0.2	0.1	0.2	0.2
1-3 years	0.4	0.2	0.3	0.1
3-5 years	0.3	0.2	0.3	0.2
Later than 5 years	1.8	1.3	1.9	1.2
Total minimum lease payments	2.7	1.8	2.8	1.6
Less future finance charges	-1.0	0.0	-1.2	0.0
Present value of minimum lease payments	1.8	1.8	1.6	1.6

The Group has a finance lease contract for a building in Denmark. This lease has terms of purchase option and escalation clauses but no renewal option. Other finance lease contracts are for machinery and equipment and are not individually significant.

24. Non-interest-bearing Liabilities

EUR million	2006	2005*
Current non-interest-bearing liabilities		
Advances received	0.1	0.1
Trade payables	12.7	14.1
Accrued liabilities and deferred income	11.4	11.7
Other current liabilities	3.9	2.6
Total	28.1	28.5

Accrued liabilities and deferred income consists of VAT payable, personnel costs and prepaid income, of which none is individually significant. Due to their short maturity, the fair value of non-interest-bearing liabilities is regarded as corresponding to their book value.

25. Commitments and Contingencies

COMMITMENTS EUR million	2006	2005
Mortgages and pledges		
On own behalf	17.6	41.8
Guarantees		
On own behalf	1.1	0.5
On behalf of other parties	0.6	0.1
Total	19.3	42.4

The mortgages given as security for own commitments include business mortgage of parent company EUR 16.1 million.

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. Open disputes relate to taxation and to protecting patents and trademarks.

26. Lease Contracts

GROUP AS A LESSEE EUR million	2006	2005
Future minimum rental payable under non-cancellable operating lease commitments		
Within one year	3.2	2.0
1-3 years	4.4	2.3
3-5 years	3.1	0.8
Later than 5 years	1.8	0.6
Total	12.6	5.6

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

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

GROUP AS A LESSOR EUR million	2006	2005
Future minimum rental receivable under non-cancellable operating leases		
Within one year	0.1	0.1
1-3 years	0.2	0.2
3-5 years	0.0	0.1
Total	0.3	0.4

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

27. Related Party Transactions

Subsidiaries owned directly or indirectly by the parent company have been listed in note 32. Related party transactions between Group companies have been eliminated.

TRANSACTIONS EUR million	2006	2005
Purchases from associated company Lanimo Oü	0.1	0.0
Trade payables to associated company Lanimo Oü	0.1	0.0

EMPLOYEE BENEFITS FOR TOP MANAGEMENT EUR million	2006	2005
Wages, salaries and other short-term employee benefits	-1.5	-1.8
Post employment benefits	0.0	0.0
Option programs to be settled in shares	-0.2	-0.5
Option programs to be settled in cash	0.0	0.0
Total	-1.8	-2.3

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

On December 31, 2006, members of the Board and the Executive Committee held directly a total of 1 895 580 Company shares and indirectly through a controlled corporation 1 120 000 shares.

In 2006, 142 000 synthetic options (year 2006 program) and 22 500 stock options (year 2004 program) where granted to top management. In 2005, no options where granted to top management. On December 31, 2006, top management held 523 273 options of which exercisable 143 773 options (on December 31, 2005, 534 233 option of which exercisable 175 460 options). The option scheme principles are the same for top management as for other employees. For more details on option programs, see note 29. Details of top management shareholdings and options are given on page 69.

The Group has no transactions or outstanding balances with top management or close members of their family.

CHIEF EXECUTIVE OFFICER	2006	2005
EUR million		
Wages, salaries and other short-term employee benefits	-0.3	-0.4
Option programs to be settled in shares	-0.1	-0.1
Option programs to be settled in cash	0.0	0.0
Total	-0.4	-0.5

The monthly salary of CEO is EUR 21 630. CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. In addition to the mandatory pension insurance, CEO has a right to receive further compensation of EUR 8 400 annually to be placed in a voluntary pension scheme or a similar arrangement. The retirement age and pension of CEO are determined in accordance with the legislation in force . The Company shall give notice at any time or using 24 months notice period and CEO shall give notice 3 or 6 months prior to terminating the service contract. The term of notice is dependent on the cause for termination of employment. If the service agreement is terminated by the Company without a cause, CEO is entitled to severance compensation corresponding to 24 months' salary (excluding profit bonuses).

OTHER MEMBERS OF THE EXECUTIVE COMMITTEE	2006	2005
EUR million		
Wages, salaries and other short-term employee benefits	-1.0	-1.2
Post employment benefits	0.0	0.0
Option programs to be settled in shares	-0.1	-0.2
Option programs to be settled in cash	0.0	0.0
Total	-1.1	-1.4

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 established EBITDA and cash flow 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.

BOARD OF DIRECTORS	2006	2005
EUR million		
Wages, salaries and other short-term employee benefits	-0.2	-0.2
Option programs to be settled in shares	0.0	-0.2
Option programs to be settled in cash	0.0	0.0
Total	-0.2	-0.4

Each member of the Board of Directors is paid an annual remuneration of EUR 27 500. The members of the Remuneration Committee do not receive further compensation. Members of the Board of Directors are paid a daily travel allowance corresponding to the maximum tax-exempt travel allowance and are reimbursed for accommodation and travel expenses. Members of the Board of Directors were paid a total of EUR 195 000 for their work on the Board of Directors and the Remuneration Committee in the financial year 2006 (2005: EUR 220 000).

28. 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 2006. Material events after the balance sheet date have been discussed in the Review of the Board of Directors.

29. Share-based Payments

The Group has applied the requirements of IFRS 2 (Share-based Payment) to all option programs granted after November 7, 2002 that were unvested as of January 1, 2005. The Group has three separate share-based payment programs: two stock option programs (2003 and 2004 programs) and one synthetic option program settled in cash (2006 program). Share-based payments 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. The total estimated value of the option program is EUR 5.5 million.

The outstanding options under 2003 and 2004 share option programs represented a 3.5% interest in the company's outstanding shares on December 31, 2006.

GENERAL TERMS AND CONDITIONS OF THE OPTION PROGRAMS

	2003A	2003B	2004A I	2004A II
Nature of program	Granted share options	Granted share options	Granted share options	Granted share options
Personnel	90	90	95	11
Number of options granted	500 000	500 000	453 750	46 250
Number of options outstanding	2 500	446 168	411 250	46 250
Exercise price, EUR 1)	4.68	6.02	5.96	5.96
Share price at the grant date, EUR	6.15	6.15	6.15	6.40
Term of contract	June 8, 2004-Mar. 31, 2007	June 8, 2004-Mar. 31, 2008	June 8, 2004-Mar. 31, 2009	Feb. 14, 2006-Mar. 31, 2009
Vesting period	June 8, 2004-Mar. 31, 2005	June 8, 2004-Mar. 31, 2006	June 8, 2004-Mar. 31, 2007	Feb. 14, 2006-Mar. 31, 2007
Conditions of the agreement	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.
Execution	In shares	In shares	In shares	In shares

	2004B I	2004B II	2006A	2006B
Nature of program	Granted share options	Granted share options	Granted synthetic options	Granted synthetic options
Personnel	95	11	116	117
The number of options granted	453 750	46 250	493 000	497 500
Number of options outstanding	411 250	46 250	493 000	497 500
Exercise price, EUR 1)	6.21	6.21	6.44	6.44
Share price at the grant date, EUR	6.15	6.40	5.93	5.93
Term of contract	June 8, 2004-Mar. 31, 2010	Feb. 14, 2006-Mar. 31, 2010	Dec. 14, 2006-Mar. 31,2011 2)	Dec. 14, 2006-Mar. 31,2012 2)
Vesting period	June 8, 2004-Mar. 31, 2008	Feb. 14, 2006-Mar. 31, 2008	Dec. 14, 2006-Mar. 31,2009	Dec. 14, 2006-Mar. 31,2010
Conditions of the agreement	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.
Execution	In shares	In shares	In cash 2)	In cash 2)

1) The exercise price has been reduced by the amount of dividends distributed after the subscription period for option rights has ended and before the commencement of the share subscription period.

2) The share-specific cash value will be determined in accordance with the end price on the test date (i.e. vesting date) or, as the case may be, on an additional test date. End price is the volume weighted average price of the share during the ten trading days before the test date. If at test date the difference between the exercise price and the end price (including the dividend adjustment) is positive, the reward will be paid. If the difference between the exercise price and end price on the test date (including the dividend adjustment) is negative, the end price will be determined again on an additional test date, which is the six, twelve, eighteen and twenty-four months' anniversary of the test date. If the difference between the exercise price and the end price is positive on any of the additional test dates, the reward will be paid and this incentive scheme shall automatically expire.

INPUT TO THE MODEL

	2003A	2003B	2004A I	2004A II	2004B I	2004B II	2006A	2006B
Expected volatility, %	27	38	38	18	38	18	18	19
Expected life of option (years)	2.8	3.8	4.8	3.1	5.8	4.1	4.3	5.3
Risk-free interest rate, %	2.96	3.25	3.54	2.99	3.74	3.16	3.79	3.79
Estimated forfeit ratio at the grant date, %	0	5	7	0	10	5	5	7
Fair value of the option at the grant date, EUR	2.13	2.07	2.35	1.33	2.61	1.41	1.09	1.34
Option-pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

The expected volatility has been determined by using the historical volatility of the share price. Period very close to Initial Public Offering, in December 1998, has been excluded from the history, since it is not considered to be qualitative for volatility estimation purposes. The historical volatility is calculated based on the weighted average remaining life of the share options. The expected life of the option is based on historical data. 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.

Weighted average share price at the date of exercise for the options exercised in 2006 was EUR 6.50 (2005: EUR 6.45). The weighted average remaining contractual life for the share options outstanding as at December 31, 2006 is 3.29 years (2005: 1.83 years). The weighted average fair value for options granted during the year 2006 was EUR 1.23 (no options where granted in 2005). The range of exercise prices (reduced by the amount of dividends distributed) for options outstanding at the end of the year 2006 was EUR 4.68-6.44 (2005: EUR 4.68-6.81).

MOVEMENT IN NUMBER OF OPTIONS AND WEIGHTED AVERAGE EXERCISE PRICES OF OPTIONS DURING THE YEAR	2006		2005	
	Pcs.	Weighted average exercise price EUR/share	Pcs.	Weighted average exercise price EUR/share
Outstanding Jan. 1	2 340 134	6.74	2 900 500	6.12
Granted during the year	1 083 000	6.41	0	0.00
Forfeited during the year	0	0.00	-140 832	6.01
Exercised during the year	-77 966	4.68	-419 534	4.59
Expired during the year	-991 000	6.77	0	0.00
Outstanding Dec. 31	2 354 168	6.22	2 340 134	6.74
Exercisable at the end of the year	448 668	6.01	80 466	4.68

SHARE-BASED PAYMENT RECOGNITION IN THE INCOME STATEMENT	2006	2005
EUR million		
Employee benefit expenses		
Option programs to be settled in shares	-0.8	-1.4
Option programs to be settled in cash	0.0	0.0
Social security expenses liability from option programs	-0.1	-0.1
Deferred taxes	0.0	0.0
Total	-0.9	-1.5

SHARE-BASED PAYMENT RECOGNITION IN THE BALANCE SHEET	2006	2005
EUR million		
Assets		
Deferred tax assets	0.0	0.0
Equity and liabilities		
Equity	-0.1	-0.1
Liabilities from option programs to be settled in cash	0.0	0.0
Social security expenses liability from option programs 3)	0.1	0.1

3) Included in current other non-interest-bearing payables.

When the stock options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium fund. In 2006 EUR 0.0 million was credited to share capital (2005: EUR 0.1 million) and EUR 0.4 to share premium fund (2005: EUR 1.9 million).

30. Earnings per Share

	2006	2005*
Net profit for the period attributable to the equity holders of the Company, EUR million	10.8	14.0
Weighted average number of shares, 1000 shares	38 565	37 871
Effect of dilution	44	18
Diluted weighted average number of shares, 1000 shares	38 609	37 889
Earnings per share, EUR	0.28	0.37
Diluted earnings per share, EUR	0.28	0.37
Weighted average number of shares, 1000 shares	38 565	37 871
Effect of 2003A share option, 1000 shares	1	18
Effect of 2003B share option, 1000 shares	17	0
Effect of 2004A share option, 1000 shares	23	0
Effect of 2004B share option, 1000 shares	4	0
Diluted weighted average number of shares, 1000 shares	38 609	37 889

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

For more details on the calculations of earnings per share, see accounting principles for the consolidated accounts page 36.

31. Dividend per Share

The dividend paid for 2005 was EUR 0.11 per share. A dividend of EUR 0.12 per share is proposed for the Annual General Meeting of Shareholders to be held on April 4, 2007. This dividend payable is not reflected in the financial statements for 2006.

32. Group Companies

Subsidiaries by geographical area		Country	Group holding %	Nature of activity
Europe				
Normark S.r.o.		Czech Republic	100	Distribution
Elbe Lystfiskeudstyr ApS		Denmark	100	Administration
Normark Denmark A/S	✪	Denmark	100	Distribution
Normark Sport Ltd.		England	100	Distribution
Marttiini Oü		Estonia	100	Manufacturing
Normark Eesti Oü		Estonia	100	Distribution
Rapala Eesti As	✪	Estonia	100	Manufacturing
KL Teho Oy	✪	Finland	100	Manufacturing
Marttiini Oy	✪	Finland	100	Manufacturing
Normark Sport Finland Oy	✪	Finland	100	Distribution
Normark Suomi Oy		Finland	100	Distribution
Peltonen Ski Oy		Finland	80	Manufacturing
Cannelle SA		France	100	Distribution
Nautisme SA		France	100	Distribution
Rapala France SAS	✪	France	100	Distribution
RNF Diffusion SARL		France	100	Distribution
Tortue SAS	1)	France	100	Distribution
VMC Péche SA	✪	France	100	Manufacturing
Rapala Eurohold Ltd.	✪	Hungary	70	Distribution
Rapire Teo	✪	Ireland	100	Manufacturing
SIA Normark Latvia		Latvia	100	Distribution
Normark UAB		Lithuania	82	Distribution
Rapala B.V.	✪	Netherlands	100	Administration
Elbe Normark A/S	✪	Norway	100	Distribution
Remen Slukfabrikk AS		Norway	100	Administration
SB Sport AS		Norway	51	Distribution
Vangen AS		Norway	100	Administration
Normark Polska Sp.z.o.o.	✪	Poland	100	Distribution
Normark Portugal SA		Portugal	100	Distribution
OOO Raptech	✪ 1)	Russia	100	Manufacturing
ZAO Normark		Russia	100	Distribution
Normark Spain SA	✪	Spain	100	Distribution
Normark Scandinavia AB	✪	Sweden	100	Distribution
Normark Trading AB		Sweden	100	Distribution
Rapala-Fishco AG	✪	Switzerland	100	Distribution
VMC Waterqueen Ukrainia		Ukraine	100	Distribution
North America				
Normark Inc.		Canada	100	Distribution
NC Holdings Inc.	✪	USA	100	Administration
Normark Corporation		USA	100	Distribution
Normark Innovations, Inc.		USA	80	Sourcing/design
VMC Inc.		USA	100	Distribution
Rest of the World				
Freetime Pty Ltd.	✪	Australia	100	Distribution
Rapala V.M.C. Do Brazil	✪	Brazil	100	Distribution
Rapala VCM China co.		China	100	Distribution
Willtech Industrial Ltd.	✪	Hong Kong	100	Administration and sourcing/design
Starcut Ltd		Hong Kong	100	Manufacturing
Willtech (PRC) Ltd.		Hong Kong	100	Manufacturing
Rapala Japan K.K.	✪	Japan	100	Distribution
Rapala Asia Pacific Pte Ltd.	✪	Malaysia	100	Distribution
Rapala VMC South-Africa Distributors Pty Ltd.	✪	South Africa	70	Distribution
Rapala VMC Korea Co., Ltd	✪ 2)	South Korea	100	Distribution
Rapala VMC (Thailand) Co.,Ltd.	✪	Thailand	80	Distribution
Associated company				
Lanimo Oü		Estonia	30	Manufacturing

1) Established in 2006
2) Established in January 2007
✪ Shares owned by the parent company

KEY FINANCIAL FIGURES

SCOPE OF ACTIVITY AND PROFITABILITY

EUR million

	FAS 2002	FAS 2003**	IFRS 2004*	IFRS 2005*	IFRS 2006
Net sales	172.0	219.4	173.5	196.1	226.6
Operating profit before depreciation and impairments	32.0	31.4	24.9	26.3	28.0
as a percentage of net sales, %	18.6	14.3	14.3	13.4	12.4
Operating profit	22.9	19.0	19.9	21.5	21.7
as a percentage of net sales, %	13.3	8.6	11.4	11.0	9.6
Profit before extraordinary items and taxes	20.6	17.4	0.0	0.0	0.0
as a percentage of net sales, %	12.0	7.9	0.0	0.0	0.0
Profit before taxes	19.1	15.2	16.0	18.6	14.6
as a percentage of net sales, %	11.1	6.9	9.2	9.5	6.5
Net profit for the period 1)	14.8	11.4	12.1	14.0	11.0
as a percentage of net sales, %	8.6	5.2	7.0	7.1	4.9
Attributable to					
Equity holders of the Company 1)	0.0	0.0	12.0	14.0	10.8
Minority interest 1)	0.0	0.0	0.1	0.0	0.2
Capital expenditure	7.6	9.9	9.2	21.7	13.8
as a percentage of net sales, %	4.4	4.5	5.3	11.0	6.1
Research and development expenses	3.3	2.2	0.6	0.7	1.2
as a percentage of net sales, %	1.9	1.0	0.3	0.4	0.5
Net interest-bearing debt at the end of the period	102.8	84.8	81.7	95.9	99.3
Capital employed at the end of the period	150.4	139.0	140.6	171.3	180.6
Return on capital employed (ROCE), %	14.1	13.1	14.2	13.8	12.3
Return on equity (ROE), %	38.4	26.8	21.7	20.8	14.1
Equity-to-assets ratio at the end of the period, %	23.9	31.7	31.4	33.1	33.4
Debt-to-equity ratio (gearing) at the end of the period, %	215.7	156.1	139.0	127.1	122.2

SHARE RELATED KEY FIGURES

	FAS 2002	FAS 2003**	IFRS 2004*	IFRS 2005*	IFRS 2006
Earnings per share, EUR	0.43	0.36	0.32	0.37	0.28
Fully diluted earnings per share, EUR	0.43	0.36	0.32	0.37	0.28
Equity per share, EUR	1.26	1.43	1.55	1.96	2.09
Dividend per share, EUR	0.05	0.12	0.09	0.11	0.12
Dividend/earnings ratio, %	11.6	33.5	28.2	30.3	42.8
Effective dividend yield, %	1.30	2.20	1.55	1.80	1.94
Price/earnings ratio	9.2	15.1	18.2	16.5	22.1
Share price at the end of the period, EUR	3.95	5.45	5.82	6.10	6.19
Lowest share price, EUR	2.55	3.60	5.24	5.50	5.60
Highest share price, EUR	4.83	5.75	6.85	6.88	6.75
Average share price, EUR	3.79	4.36	5.87	5.91	6.26
Number of shares traded, shares	9 048 064	9 164 995	5 090 048	23 027 428	12 468 161
Number of shares traded of average number of shares, %	24.10	24.41	13.56	60.81	32.33
Share capital, EUR million	3.4	3.4	3.4	3.5	3.5
Year end market capitalization, EUR million	148.3	204.6	218.5	234.8	238.8
Dividend for the period, EUR million	1.9	4.5	3.4	4.2	4.6
Weighted average number of shares , 1000 shares	37 543	37 543	37 543	37 871	38 565
Fully diluted weighted average number of shares, 1000 shares	37 543	37 543	37 560	37 889	38 609
Number of shares at the end of the period, 1000 shares	37 543	37 543	37 543	38 498	38 576
Fully diluted number of shares at the end of the period, 1000 shares	37 543	37 543	37 560	38 516	38 620
Average personnel for the period	2 879	3 095	3 067	3 780	3 987
Personnel at the end of the period	3 129	3 235	3 361	3 986	3 921

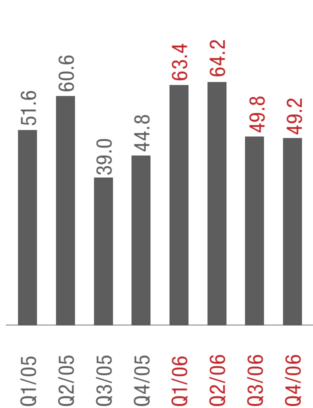
KEY FIGURES BY QUARTER

EUR million

	Q1/05*	Q2/05*	Q3/05*	Q4/05*	Q1/06*	Q2/06*	Q3/06*	Q4/06
Net sales	51.6	60.6	39.0	44.8	63.4	64.2	49.8	49.2
Operating profit before depreciation and impairments	8.7	13.1	1.3	3.3	11.6	9.7	4.4	2.4
as a percentage of net sales, %	16.9	21.6	3.3	7.3	18.2	15.1	8.8	4.8
Operating profit	7.3	11.7	-0.2	2.7	10.0	8.1	2.8	0.7
as a percentage of net sales, %	14.1	19.3	-0.5	6.1	15.8	12.6	5.7	1.5
Profit before taxes	6.9	11.7	-0.5	0.5	7.8	6.1	1.0	-0.3
as a percentage of net sales, %	13.4	19.3	-1.3	1.1	12.3	9.6	2.0	-0.6
Net profit for the period	5.1	8.7	-0.6	0.8	5.7	4.5	0.4	0.5
as a percentage of net sales, %	9.9	14.4	-1.5	1.8	8.9	7.0	0.8	1.0
Attributable to								
Equity holders of the Company	5.1	8.6	-0.5	0.8	5.7	4.3	0.3	0.4
Minority interest	0.0	0.1	-0.1	0.1	-0.1	0.2	0.1	0.1
Capital expenditure	1.5	1.5	4.8	13.9	8.2	2.0	1.7	1.9
Net interest-bearing debt at the end of the period	94.8	90.0	79.2	95.9	112.7	106.4	98.4	99.3
Capital employed at the end of the period	159.5	164.1	150.4	171.3	195.2	189.0	181.2	180.6
Return on capital employed (ROCE), %	19.4	30.6	-0.6	7.0	21.9	18.0	6.4	1.7
Return on equity (ROE), %	32.9	52.2	-3.4	4.7	28.6	22.6	2.1	2.6
Equity-to-assets ratio at the end of the period, %	31.2	33.2	33.4	33.1	32.3	32.6	34.4	33.4
Debt-to-equity ratio (gearing) at the end of the period, %	146.4	121.5	111.2	127.1	136.6	128.7	118.9	122.2
Average personnel for the period	3 457	3 374	3 402	3 780	3 797	3 835	3 907	3 964
Personnel at the end of the period	3 811	3 330	3 569	3 986	3 766	4 076	4 090	3 921

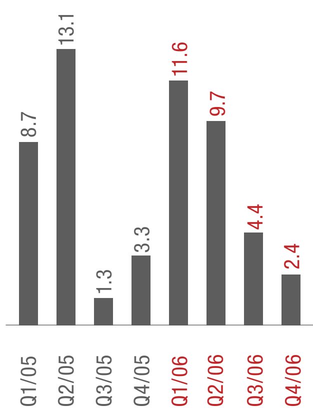
Net sales

EUR million



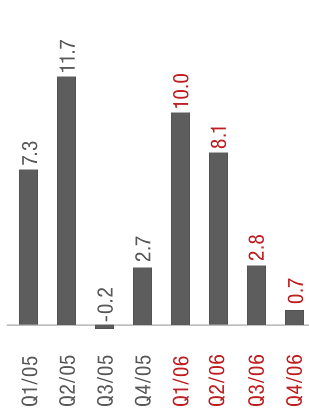
Operating profit before depreciation and impairments

EUR million



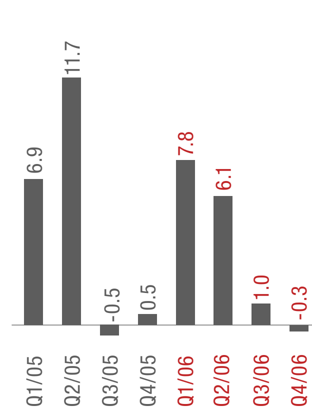
Operating profit

EUR million



Profit before taxes

EUR million



1) Minority interest has been deducted from 2002-2003 net profit for the period.

* 2005 comparables changed due to IFRS improvements during 2006 audit. See accounting principles for details.

** Financial year 17 months

PARENT COMPANY FINANCIAL STATEMENTS, FAS

PARENT COMPANY INCOME STATEMENT EUR million	Notes	2006	2005
Net sales	2	27.4	29.3
Other operating income	3	0.1	0.6
Cost of sales	4	-21.4	-18.9
Other operating expenses	5	-4.2	-4.1
Operating profit before depreciation and impairments		2.0	6.9
Depreciation and impairments	6	-1.0	-1.1
Operating profit		1.0	5.8
Financial income and expenses	7	0.3	4.5
Profit before extraordinary items		1.3	10.3
Extraordinary items	8	1.5	1.3
Profit before appropriations and taxes		2.8	11.6
Appropriations	9	0.1	0.1
Income taxes	10	-0.8	-2.2
Net profit for the period		2.1	9.4

PARENT COMPANY BALANCE SHEET

EUR million

	Notes	2006	2005
ASSETS			
Non-current assets			
Intangible assets	11	1.7	2.1
Tangible assets	12	4.7	4.1
Investments	13	98.8	65.3
Interest-bearing receivables	15	44.0	51.4
Total non-current assets		149.2	123.0
Current assets			
Inventories	14	4.1	4.5
Current financial assets			
Interest-bearing	15	6.2	0.0
Non-interest-bearing	15	20.6	26.9
Cash and cash equivalents		7.2	4.6
Total current assets		38.2	36.0
Total assets		187.4	159.0
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		3.5	3.5
Share premium fund		16.7	16.3
Retained earnings		50.2	45.0
Net income for the period		2.1	9.4
Total shareholders' equity	16	72.5	74.2
Appropriations		0.2	0.3
Non-current liabilities			
Interest-bearing		58.7	42.3
Non-interest-bearing		0.9	0.0
Total non-current liabilities	17	59.6	42.3
Current liabilities			
Interest-bearing		44.9	37.4
Non-interest-bearing		10.2	4.8
Total current liabilities	17	55.1	42.2
Total shareholder's equity and liabilities		187.4	159.0

PARENT COMPANY CASH FLOW STATEMENT

EUR million

	Notes	2006	2005
Net profit for the period		2.1	9.4
Adjustments			
Income taxes	10	0.8	2.2
Financial income and expenses	7	-0.3	-4.5
Reversal of non-cash items			
Depreciation and impairments	6	1.0	1.1
Other items		0.9	-0.4
Interest paid		-4.2	-2.8
Interest received		2.7	2.4
Income taxes paid		-1.8	-2.3
Dividends received		3.9	3.9
Other financial items, net		-1.2	1.0
Total adjustments		3.9	10.1
Change in working capital			
Change in receivables		-28.5	-13.1
Change in inventories		0.4	0.3
Change in liabilities		6.3	-4.7
Total change in working capital		-21.8	-17.5
Net cash generated from operating activities		-17.9	-7.4
Net cash used in investing activities			
Purchases of intangible assets	11	0.0	-0.1
Proceeds from disposal of tangible assets	12	0.0	0.0
Purchases of tangible assets	12	-1.2	-0.9
Purchases of available-for-sale investments	13	0.0	0.0
Acquisition of subsidiaries	13	-1.7	-5.6
Total net cash used in investing activities		-2.9	-6.6
Net cash generated from financing activities			
Dividends paid		-4.2	-3.4
Loan withdrawals		101.8	24.0
Loan repayments		-74.6	-9.9
Proceeds from issue of shares		0.4	1.9
Total net cash generated from financing activities		23.4	12.6
Change in cash and cash equivalents		2.6	-1.4
Cash and cash equivalents at the beginning of the period		4.6	6.0
Cash and cash equivalents at the end of the period		7.2	4.6

1. Accounting Principles

The financial statements of Rapala VMC Oyj have been prepared according to Finnish Accounting Standards (FAS).

2. Net Sales

EUR million	2006	2005
By destination		
North America	12.7	13.9
Nordic	2.3	2.3
Rest of Europe	8.9	8.3
Rest of the World	3.6	4.7
Total	27.4	29.3

For business segment purposes, parent company's net sales is allocated to Lure Business.

3. Other Operating Income

EUR million	2006	2005
Rental income	0.1	0.1
Government grants	0.0	0.0
Other income	0.0	0.6
Total	0.1	0.6

Other income, EUR 0.0 million (2005: EUR 0.6 million) is a combination of several smaller income items, of which none is individually significant.

4. Cost of Sales

EUR million	2006	2005
Change in inventory of finished products and work in progress	-0.4	0.3
Production for own use	0.1	0.1
Use of materials and supplies		
Purchases during the financial year	-13.8	-11.3
Change in inventory	0.0	-0.6
External services	-0.1	-0.1
Employee benefit expenses		
Wages and salaries	-5.6	-5.6
Pension costs	-0.9	-1.0
Other personnel expenses	-0.6	-0.6
Total	-21.4	-18.9
Average personnel for the period	187	182

The remuneration of the Board of Directors amounted to EUR 0.2 million (2005: EUR 0.2 million).

5. Other Operating Expenses

EUR million	2006	2005
Maintenance	-1.0	-1.1
Selling and marketing expenses	-0.5	-0.5
Traveling expenses	-0.5	-0.5
Rents paid	-0.3	-0.3
IT and telecommunication	-0.2	-0.1
Research and development expenses	-0.1	-0.1
Auditors fees and services	-0.1	-0.1
Freight	0.0	-0.2
Sales commissions	0.0	0.0
Other expenses	-1.5	-1.3
Total	-4.2	-4.1

6. Depreciation and Impairments

EUR million	2006	2005
Depreciation of intangible assets		
Intangible assets	-0.4	-0.5
Depreciation of tangible assets		
Buildings	-0.1	-0.2
Machinery and equipment	-0.5	-0.4
Total	-1.0	-1.1

7. Financial Income and Expenses

EUR million	2006	2005
Dividend income from subsidiaries	3.9	3.9
Dividend income from third parties	0.0	0.0
Foreign exchange gains	3.7	5.7
Foreign exchange losses	-5.6	-4.5
Interest and other financial income		
Interest income	2.8	2.4
Interest and other financial expenses		
Interest expense	-4.2	-2.8
Other financial expenses	-0.3	-0.2
Total	0.3	4.5

FINANCIAL INCOME AND EXPENSES FROM AND TO SUBSIDIARIES

EUR million	2006	2005
Dividend income from subsidiaries	3.9	3.9
Interest and other financial income		
Interest income	2.7	2.3
Total	6.6	6.2

TRANSLATION DIFFERENCES RECOGNIZED IN THE INCOME STATEMENT

EUR million	2006	2005
Translation differences recognized in net sales	-1.3	2.2
Translation differences included in purchases and other expenses	-0.6	0.0
Foreign exchange gains and losses in financial income and expenses	-1.9	1.2
Total	-3.8	3.4

8. Extraordinary Items

EUR million	2006	2005
Group contributions received	1.5	1.3
Total	1.5	1.3

9. Appropriations

EUR million	2006	2005
Change in accelerated depreciation		
Buildings	0.0	0.0
Machinery and equipment	0.1	0.1
Total	0.1	0.1

10. Income Taxes

EUR million	2006	2005
Current income tax		
Income taxes for the current year	0.0	-2.1
Taxes from previous financial years	-0.8	-0.1
Total	-0.8	-2.2

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

11. Intangible Assets

EUR million	2006	2005
Acquisition cost Jan. 1	7.2	7.1
Additions	0.0	0.1
Acquisition cost Dec. 31	7.2	7.2
Accumulated depreciation Jan. 1	-5.1	-4.7
Depreciation during the period	-0.4	-0.5
Accumulated depreciation Dec. 31	-5.5	-5.1
Book value Jan. 1	2.1	2.4
Book value Dec. 31	1.7	2.1

12. Tangible Assets

EUR million

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

2005	Land	Buildings	Machinery and equipment	Advance payments and construction in progress	Total
Acquisition cost Jan. 1	0.1	4.0	10.0	0.1	14.4
Additions	0.0	0.1	0.7	0.2	1.0
Disposals	0.0	0.0	0.0	0.0	0.0
Acquisition cost Dec. 31	0.1	4.1	10.7	0.3	15.3
Accumulated depreciation Jan. 1	0.0	-2.8	-7.8	0.0	-10.6
Depreciation during the period	0.0	-0.2	-0.4	0.0	-0.6
Accumulated depreciation Dec. 31	0.0	-2.9	-8.2	0.0	-11.1
Book value Jan. 1	0.1	1.3	2.2	0.1	3.8
Book value Dec. 31	0.1	1.2	2.5	0.3	4.1

13. Investments

EUR million	2006	2005
Shareholdings in subsidiaries		
Book value Jan. 1	65.1	56.3
Acquisitions of subsidiaries	33.5	8.9
Book value Dec. 31	98.6	65.1
Available-for-sale investments		
Book value Jan. 1	0.2	0.2
Book value Dec. 31	0.2	0.2

14. Inventories

EUR million	2006	2005
Raw material	1.2	1.2
Work in progress	2.2	2.4
Finished products	0.7	1.0
Total	4.1	4.5

15. Receivables

EUR million	2006	2005
Non-current receivables		
Interest-bearing		
Loan receivables	44.0	51.4
Current receivables		
Interest-bearing		
Loan receivables	6.2	0.0
Non-interest-bearing		
Trade receivables	11.3	17.8
Prepaid expenses and accrued income	9.3	9.1
Total	70.8	78.3

RECEIVABLES FROM SUBSIDIARIES EUR million	2006	2005
Non-current receivables		
Interest-bearing		
Loan receivables	44.0	51.4
Current receivables		
Non-interest-bearing		
Trade receivables	10.9	17.2
Prepaid expenses and accrued income	7.3	7.4
Total	62.2	76.1

In addition to receivables from subsidiaries, prepaid expenses and accrued income consists of VAT and other tax receivables and other accrued income, but of which none is individually significant.

16. Shareholders' Equity

EUR million	2006	2005
Share capital Jan. 1	3.5	3.4
Shares subscribed with options	0.0	0.1
Share capital Dec. 31	3.5	3.5
Share premium fund Jan. 1	16.3	11.2
Private offering	0.0	3.2
Shares subscribed with options	0.4	1.9
Share premium fund Dec. 31	16.7	16.3
Retained earnings Jan. 1	54.4	48.4
Net investment in a foreign operation	0.0	0.0
Dividends paid	-4.2	-3.4
Net income for the period	2.1	9.4
Retained earnings Dec. 31	52.3	54.4
Distributable equity		
Retained earnings	54.4	48.4
Dividends paid	-4.2	-3.4
Net income for the period	2.1	9.4
Total distributable equity	52.3	54.4

PARENT COMPANY SHARE CAPITAL	2006		2005	
	Shares	EUR	Shares	EUR
One vote per share	38 576 269	3 471 864	38 498 303	3 464 847

17. Liabilities

EUR million	2006	2005
Non-current liabilities		
Interest-bearing		
Loans from financial institutions	58.7	42.3
Non-interest-bearing		
Other liabilities	0.9	0.0
Current liabilities		
Interest-bearing		
Loans from financial institutions	44.9	37.4
Non-interest-bearing		
Advances received	0.0	0.0
Trade payables	6.8	1.8
Accrued liabilities and deferred income	3.3	3.0
Total	114.7	84.5

LIABILITIES TO SUBSIDIARIES	2006	2005
EUR million		
Current liabilities		
Non-interest-bearing		
Advances received	0.0	0.0
Trade payables	4.7	1.3
Accrued liabilities and deferred income	0.0	0.0
Total	4.7	1.3

Accrued liabilities and deferred income consists of VAT, other taxes, personnel costs and prepaid income, of which none is individually significant.

18. Lease Contracts

PARENT COMPANY AS A LESSEE	2006	2005
EUR million		
Repayment schedule of non-cancellable operating lease commitments		
Within one year	0.2	0.2
1-3 years	0.3	0.5
3-5 years	0.0	0.2
Total	0.6	0.9

PARENT COMPANY AS A LESSOR	2006	2005
EUR million		
Rental receivable schedule of non-cancellable operating leases		
Within one year	0.0	0.0
Total	0.0	0.0

19. Commitments and Contingencies

COMMITMENTS	2006	2005
EUR million		
Mortgages and pledges		
On own behalf and on behalf of subsidiaries	16.1	37.9
Guarantees		
On behalf of subsidiaries	0.8	0.5
Total	16.9	38.4

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

CORPORATE GOVERNANCE

Rapala complies with the Corporate Governance recommendation for listed companies issued by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, which entered into effect on 1 July 2004. The Company's Corporate Governance statement is available at the website www.rapala.com.

The Duties and Responsibilities of the Board of Directors

The Board of Directors' (Board) duties and responsibilities are principally based on the Finnish Companies Act and the Company's Articles of Association. All matters of key importance to the Group are decided by the Board. These include appointment of the President and CEO, approval and confirmation of strategic guidelines, approval of quarterly and annual financial reports, business plans, annual budgets, and stock exchange releases as well as deciding on major investments and disposals.

Election and Terms of Board Members

The Articles of Association provide that the Board consists of no less than five and no more than ten members. The current Board comprises seven members: the Group's President and CEO, the President of Willtech Industrial Ltd. and five non-executive expert members not employed by the Group.

Board members are elected by the Annual General Meeting (AGM). The term of a Board member is until the date of the next AGM. The Board of Directors elects a Chairman to serve until the date of the next AGM. During the financial year, the Board met 18 times.

Remuneration Committee

The Board has appointed a Remuneration Committee that is chaired by Mr. Emmanuel Viellard. Its members are drawn from the Company's non-executive directors and currently consist of Mr. Eero Makkonen and Mr. Jan-Henrik Schauman.

Committee members' appointments run concurrently with a director's term as a member of the Board. The Committee's tasks include approval of the remuneration and employment policies applied to the Company's senior management, including terms of employment contracts, remuneration and benefit levels and bonus arrangements.

The Committee is charged with ensuring that the remuneration scheme is consistent with the company's goals.

President and Executive Committee

The President is appointed by the Board. Since 1998, Mr. Jorma Kasslin has acted as the President and Chief Executive Officer and as a member of the Board. The Executive Committee assists the President in managing and planning the operations of the Group. The members of the Executive Committee report to the President.

Business Organization and Responsibilities

The Group comprises the Company and it's manufacturing and distribution subsidiaries. Responsibility for the management and direction of these subsidiaries rests with each company's Board of Directors, which typically comprises the Group President, Group Chief Financial Officer, Company Counsel and the subsidiary's President. In addition, each Group company has its own management team. The Group's business organization can be divided into manufacturing and distribution and, on the other hand, into five different businesses, which are: Group branded lures, fishing hooks and fishing accessories, third party fishing tackle and other products.

Insider Register

In February 2000, the Company adopted a set of guidelines on insider shareholdings based on the new regulations on insider shareholdings prepared by the Helsinki exchanges. The Group's guidelines on insider shareholdings follow to a great extent the principles of the current regulations on insider shareholdings prepared by the Helsinki exchanges. Information on persons included in the public insider register can be found on the company website.

Audit

Ernst & Young is responsible for the audit of the majority of Group companies globally. The auditors of the Parent Company, Ernst & Young Oy, are responsible for instructing and coordinating the audit in all Group companies. The auditor in charge is Juha Nenonen, CPA. The fact that the Group has no separate internal audit function of its own is reflected in the scope and content of the audit.

Emmanuel Viellard

Jorma Kasslin

Eero Makkonen

Jan-Henrik Schauman

Christophe Viellard

King Ming (William) Ng

Marc Speeckaert

THE BOARD OF DIRECTORS

Emmanuel Viellard
Chairman
B.A., CPA
Year of birth: 1963
Vice Chairman and Executive Vice President of Lisi Industries
Shareholding*: -
Indirect shareholding through controlled corporation*: 100 000
Options*: 30 000

Jorma Kasslin
Group President and Chief Executive Officer
M.Sc. (Eng.)
Year of birth: 1953
Shareholding*: -
Indirect shareholding through controlled corporation*: 680 000
Options*: 118 334

Eero Makkonen
B.Sc. (Eng.)
Year of birth: 1946
Shareholding*: -
Indirect shareholding through controlled corporation*: 100 000
Options*: 30 000

Jan-Henrik Schauman
M.Sc. (Econ.), MBA
Year of birth: 1945
Shareholding*: -
Options*: 30 000

Christophe Viellard
Diploma ESCP
Year of birth: 1942
Shareholding*: -
Indirect shareholding through controlled corporation*: 100 000
Options*: 30 000

King Ming (William) Ng
Head of Rapala's Chinese Manufacturing Operations and Hong Kong Office
B.Sc. (Eng.)
Year of birth: 1962
Shareholding*: 1 890 580
Options*: 71 533

Marc Speeckaert
Member since December 13, 2005
MBA
Year of birth: 1951
Shareholding and options*: -

*Shareholdings and options on December 31, 2006. Options also include synthetic options.

THE EXECUTIVE COMMITTEE

Jorma Kasslin
Group President and Chief Executive Officer (CEO)
See information above (Board of Directors)

Jouni Grönroos
Chief Financial Officer (CFO)
Shareholding*: 5 000
Indirect shareholding through controlled corporation*: 30 000
Options*: 44 500

King Ming (William) Ng
Head of Chinese Manufacturing Operations and Hong Kong Office
See information above (Board of Directors)

Olli Aho
Company Counsel and Secretary of the Board, Investor Relations
Shareholding*: -
Indirect shareholding through controlled corporation*: 70 000
Options*: 58 806

Juhani Pehkonen
Head of Lure Business
Shareholding*: -
Indirect shareholding through controlled corporation*: 30 000
Options*: 58 800

Stanislas de Castelnau
Head of Fishing Hook Business
Shareholding*: -
Indirect shareholding through controlled corporation*: 10 000
Options*: 51 300

*Shareholdings and options on December 31, 2006. Options also include synthetic options.

OTHER GROUP KEY MANAGERS

LURES
Aku Valta, Sales and Marketing
Jari Kokkonen, Research & Development – Storm and Blue Fox
Jukka Sairanen, Research & Development – Rapala
Philippe Guigo, Research & Development – Williamson
Arto Nygren, Vääksy Factory
Rauno Rantanen, Pärnu Factory
Martyn Lydon, Inverin Factory
Jevgeni Maksutenko, Sortavala Factory
LF Yung, Willtech Factory
DQ Yung, Willtech Factory
Kevin Au, Willtech Lures

FISHING HOOKS
Christian Victor, Sales and Marketing

FISHING ACCESSORIES
Lars Ollberg, Sales and Marketing
Päivi Ohvo, Marttiini
Brian Wong, Willtech Fishing Accessories

OTHER PRODUCTS
Juhani Eskelinen, Peltonen
Cynthia Foong, Gift Products
Tapio Nirkkonen, KL-Teho

ADMINISTRATION
Mikko Häikiö, Financial Planning and Business Control
Esko Jäntti, Group Treasury
Anu Natunen, Group Reporting and Financial Control
Jussi Ristimäki, Group Tax and Risk Management

DISTRIBUTION
Tom Mackin, USA
Gregg Wollner, USA
Nancy Adelmann, USA
Roger Cannon, Canada
Jean-Claude Bel, France
Jean-Philippe Nicolle, France
Janne Paukkunen, Spain and Portugal
Saku Kulmala, Finland
Mats Baum, Sweden
Nils Larsen, Denmark
Hasse Coucheron-Aamot, Norway
Håkon Rekstad, Norway
Thomas Brumann, Switzerland
Hannu Murtonen, Eastern Europe
Victor Skvortsov, Russia
Mirek Adamski, Poland
Roman Sereda, Ukraine
Janis Adamovics, Latvia
Vitas Miskinis, Lithuania
Daniel Sirucka, Czech Republic
Mati Banhard, Estonia
Karoly Agh, Hungary
Manabu Kimoto, Japan
Leong Loke, Malaysia
Frank Chi, Thailand, China and South Korea
Lion Huang, China
Jay Choi, South Korea
Brian Hale, Australia
Grant Pledger, South Africa
Mark Pledger, South Africa
Mika Mahlamäki, Brazil

SHARES AND SHAREHOLDERS

Rapala's shares have been traded on the Helsinki Stock Exchange since 1998. In 2006, the shares traded between EUR 6.75 and 5.60 with an average price of EUR 6.26.

Shares and Voting Rights

Rapala VMC Corporation's ("Rapala" or "Company") minimum share capital is EUR 2.8 million and its maximum authorized share capital is EUR 11.3 million, within which limits the share capital may be increased or decreased without amending the Articles of Association ("Articles"). On December 31, 2006, the share capital fully paid and reported in the Trade Register was EUR 3.5 million. The book value of a share (RAP1V) is EUR 0.09. On December 31, 2006, the number of shares was 38 576 269. Each share is entitled to one vote.

Redemption Obligation

According to Articles, a shareholder whose shareholding or voting rights, either alone or jointly with other shareholders as specified in the Articles, equals or exceeds 33 per cent (it will be proposed to AGM 2007 to reduce this to 30 per cent, in line with the new Companies Act in Finland) of all outstanding shares of the Company or of the voting rights afforded by such shares, shall upon requests by other shareholders purchase these shares and other securities affording the holder thereof under the Companies Act the right to these shares in the manner provided for in the Articles.

Board's Authorizations

Based on the authorization given by the Annual General Meeting in April 2006, the Board can decide on an increase of the share capital by a maximum of 675 000 euros in one or more issues of new shares within one year from the Annual General Meeting. A maximum of 7 500 000 new shares each with a counter book value of 0.09 euro may be offered for subscription.

Changes in Share Capital

A total of 77 966 new shares were subscribed with 2003A option rights in February 2006. The share capital increased by 7 016.94 EUR. The new shares were listed on the main list of the Helsinki Exchange on March 6, 2006. The shares grant its holders the same rights as the already listed shares. A further 2 500 shares may still be subscribed with 2003A option rights by March 31, 2007 at the latest.

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.

Shareholder Agreement

Viellard Migeon & Cie and Utavia S.à.r.l (Utavia) entered into a shareholders' agreement on June 29, 2006 with respect to their shares in Rapala VMC Corporation, and the shareholders of Utavia have agreed to be bound by the said shareholders' agreement. The main shareholder of Utavia is the CEO of Rapala, Jorma Kasslin, with approximately 43% shareholding. The other shareholders are board members or managers of the Group. In total, Utavia has some 40 shareholders.

On June 29, 2006 Utavia purchased from De Pruines Industries 1 610 000 shares representing approximately 4.17% of the issued share capital and voting rights in Rapala. De Pruines Industries is a subsidiary of Viellard Migeon & Cie. After the deal, Viellard Migeon & Cie owns directly or through its subsidiaries approximately 27.0% of the issued share capital and voting rights of Rapala.

In the shareholders' agreement Utavia has undertaken to vote in Rapala's general meetings of shareholders in favor of the resolutions approved and/or submitted by Viellard Migeon & Cie and authorized Viellard Migeon & Cie to exercise the voting rights attached to the Rapala shares held by it. Utavia has undertaken not to sell more than 50% of the shares it owns in Rapala during the period of first two years after the execution of the shareholders' agreement. Viellard Migeon & Cie has a right of first refusal to any shares sold by Utavia.

The parties to the shareholders' agreement undertake to use and exercise the votes that they control at the general meetings of shareholders of Ra-

PRINCIPAL SHAREHOLDERS ON DECEMBER 31, 2006

Shareholder	Number of shares	%
Viellard Migeon & Cie	10 414 071	27.0
Sofina NV	7 500 000	19.4
Odin Norden	1 630 022	4.2
Odin Forvaltnings AS	1 152 050	3.0
Evli-Select investment fund	749 000	1.9
Odin Forvaltning AS/Odin Europa SMB	661 750	1.7
Eläke-Fennia pension insurance company	600 000	1.6
Nordea Nordic Small Cap investment fund	550 400	1.4
OP-Finland Small Firm fund	530 000	1.4
Administrative registrations	9 665 229	25.1
Other shareholders total	5 123 747	13.3
Total number of shares	38 576 269	100%

SHAREHOLDERS BY CATEGORY ON DECEMBER 31, 2006

Shareholder category	Number of shares	%
Private companies	736 092	1.9
Financial institutions	3 504 950	9.1
Public institutions	1 835 005	4.8
Non-profit organizations	183 900	0.5
Individuals	1 011 691	2.6
International shareholders	31 304 631	81.1
Total	38 576 269	100%

DISTRIBUTION OF SHAREHOLDING ON DECEMBER 31, 2006

Number of shares	Number of shareholders	%	Total shares	%
1 - 100	451	29.6	37 742	0.1
101 - 500	612	40.1	182 740	0.5
501 - 1000	209	13.7	178 926	0.5
1001 - 10 000	201	13.2	670 115	1.7
10 001 - 1 000 000	46	3.0	7 192 654	18.6
1 000 001 -	7	0.5	30 314 092	78.6
Total		100%	38 576 269	100%

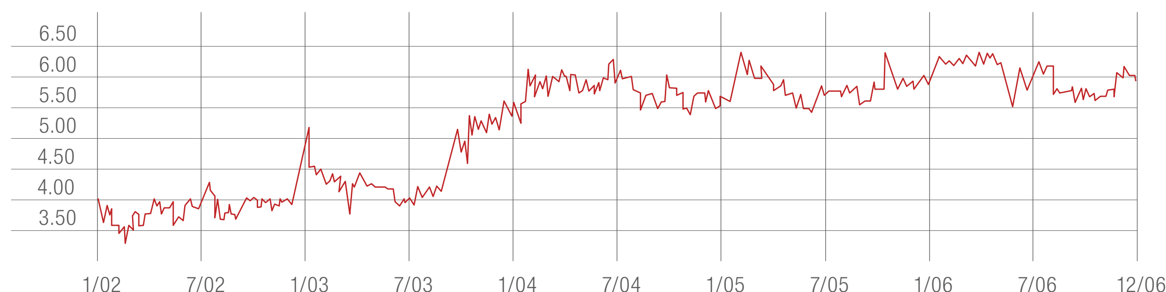
pala so that two persons designated by Viellard Migeon & Cie and one person designated by Utavia (the first person to be appointed being Jorma Kasslin in this respect) are appointed as members of the Board. The parties to the shareholders' agreement have agreed to support Jorma Kasslin as the CEO of Rapala for a period of three years from the execution of the shareholders' agreement and election of Emmanuel Viellard as the chairman of the Board during the same period.

Option Programs

In 2006, the Board approved the implementation of a new synthetic option program (share-based incentive plan) to complement the existing option programs. The following option schemes are currently in place mainly for senior and middle management and for the Board, excluding 2006 program, which is not for non-executive Board members:

- The 2003 Share Option Program: A maximum of 1 000 000 options were issued to 90 managers, 500 000 exercisable between March 31, 2005 and March 31, 2007 at an exercise price of EUR 4.80 per share (2003A) and

SHARE PRICE DEVELOPMENT IN 2002-2006



500 000 exercisable between March 31, 2006 and March 31, 2008 at an exercise price of EUR 6.23 per share (2003B). A total of 497 500 options out of the 2003A program and none of the 2003B program was exercised by the end of 2006.

- The 2004 Share Option Program: A maximum of 1 000 000 options were issued to 106 managers, 500 000 exercisable between March 31, 2007 and March 31, 2009 at an exercise price of EUR 6.16 per share (2004A), and 500 000 exercisable between March 31, 2008 and March 31, 2010 at an exercise price of EUR 6.41 per share (2004B).

- The 2006 Synthetic Option Program (share-based incentive plan): A maximum of 1 000 000 options were issued to 117 managers, 500 000 exercisable between March 31, 2009 and March 31, 2011 at an exercise price of EUR 6.44 per share (2006A), and 500 000 exercisable between March 31, 2010 and March 31, 2012 at an exercise price of EUR 6.44 per share (2006B). The share-specific cash value will be determined in accordance with the end price on the test date (i.e. vesting date) or, as the case may be, on an additional test date. End price is the volume weighted average price of the share during the ten trading days before the test date. If at test date the difference between the exercise price and the end price (including the dividend adjustment) is positive, the reward will be paid. If the difference between the exercise price and end price on the test date (including the dividend adjustment) is negative, the end price will be determined again on an additional test date, which is the six, twelve, eighteen and twenty-four months' anniversary of the test date. If the difference between the exercise price and the end price is positive on any of the additional test dates, the reward will be paid and this incentive scheme shall automatically expiry.

The subscription price shall be reduced by the amount of dividends distributed after the subscription period for option rights has ended and before the commencement of the share subscription period.

The outstanding options under 2003 and 2004 share option programs represented a 3.5% interest in the company's outstanding shares on December 31, 2006. For more details on share based payments see note 29 in financial statements.

Management Shareholding

On December 31, 2006, members of the Board and the Group Executive Committee held directly a total of 1 895 580 Company shares and indirectly through controlled corporation 1 120 000 Company shares, corresponding to 7.8% of all shares and voting rights. If the share option programs 2003 and 2004 were exercised in their entirety, shareholdings and aggregate voting rights held by the members of the Board and Group Executive Committee would increase by 1.0 percentage points. Details of management shareholdings are given on page 69.

Trading and Performance of the Company's Shares

The Company share (RAP1V) is quoted on Exchanges in Helsinki. The 2006 closing price on December 31 was EUR 6.19. The highest price in 2006 was EUR 6.75, the lowest price EUR 5.60 and the average price EUR 6.26. The share price rose 1.5% in 2006. The Helsinki OMX index for all shares rose 17.9% during the same period. A total of 12 468 161 Rapala shares were traded during 2006. This represents 32.3% of all shares.

At the end of the year, the market capitalization of the outstanding shares was EUR 238.8 million. Earnings per share (basic) were EUR 0.28 (EUR 0.37 in 2005).

Dividend

The Board proposes to the AGM that a dividend of EUR 0.12 per share will be paid.

SHAREHOLDER INFORMATION

Annual General Meeting

The Annual General Meeting (AGM) of Rapala VMC Corporation will be held at 10.00 on April 4, 2007 at Rapala Office, Arabianranta 6, Helsinki, Finland.

In order to attend the AGM shareholders must register in the Company's shareholder register maintained by the Finnish Central Securities Depository Ltd (Suomen Arvopaperikeskus Oy) by March 23, 2007. Nominee-registered shareholders who wish to attend the AGM should temporarily re-register the shares under their own name. Such re-registration must be made no later than March 23, 2007.

Shareholders who wish to attend the AGM must notify the Company no later than March 26, 2007 at 4 pm (Finnish time). Instructions for submitting notice of attendance, as well as additional information on the AGM, are available at www.rapala.com.

CONTACTS

Should you require more information about Rapala VMC Corporation, please do not hesitate to contact one of the following persons:

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Company Councel and Investor Relations
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Fax: +32 2 6260 439
E-mail: olli.aho@rapala.fi

Financial Reporting Schedule in 2007

In 2007 Rapala will publish financial information as follows:

1st Quarter 2007
Interim Report on April 26, 2007

2nd Quarter 2007
Interim Report on July 26, 2007

3rd Quarter 2007
Interim Report on October 25, 2007

Analysts Covering Rapala

The following analysts follow Rapala and prepare investment analysis on the Company. These persons cover Rapala on their own initiative.

Alfred Berg ABN AMBRO
Rauli Juva

eQ Bank
Tomi Tiilola

Evli Bank
Mika Karppinen

FIM Securities
Jussi Hyöty

Kaupthing Bank
Eva Serlachius

SEB Enskilda
Sasu Ristimäki

OKO Bank
Anita Kostermaa

Press and Stock Exchange Releases in 2006

Dec 5
Financial Reporting in 2007
Nov 2
Interim Report Q3
Oct 31
Refinancing of bank dept
Oct 23
New market making partner
Aug 29
Notification of Viellard Migeon & Cie´s and Utavia S.à.r.l ´s ownership
Aug 3
Interim Report Q2
June 29
Shareholders Agreement
May 4
Interim Report Q1
Apr 5
Decisions of Annual General Meeting
Mar 24
Terje Langli joins Rapala´s XC-ski business unit
Mar 22
Notification of William Ng´s ownership
Mar 20
Annual Report 2005 published
Mar 16
Notice to convene the Annual General Meeting
Feb 28
Subscription of new shares with 2003A option rights and increase of share capital
Feb 16
Annual Accounts 2005

Full press and stock exchange releases are available at www.rapala.com.

LOCATIONS OF BUSINESS OPERATIONS

- Group manufacturing and sourcing units
- Group administration units
- Group distribution units
- Shimano distribution companies

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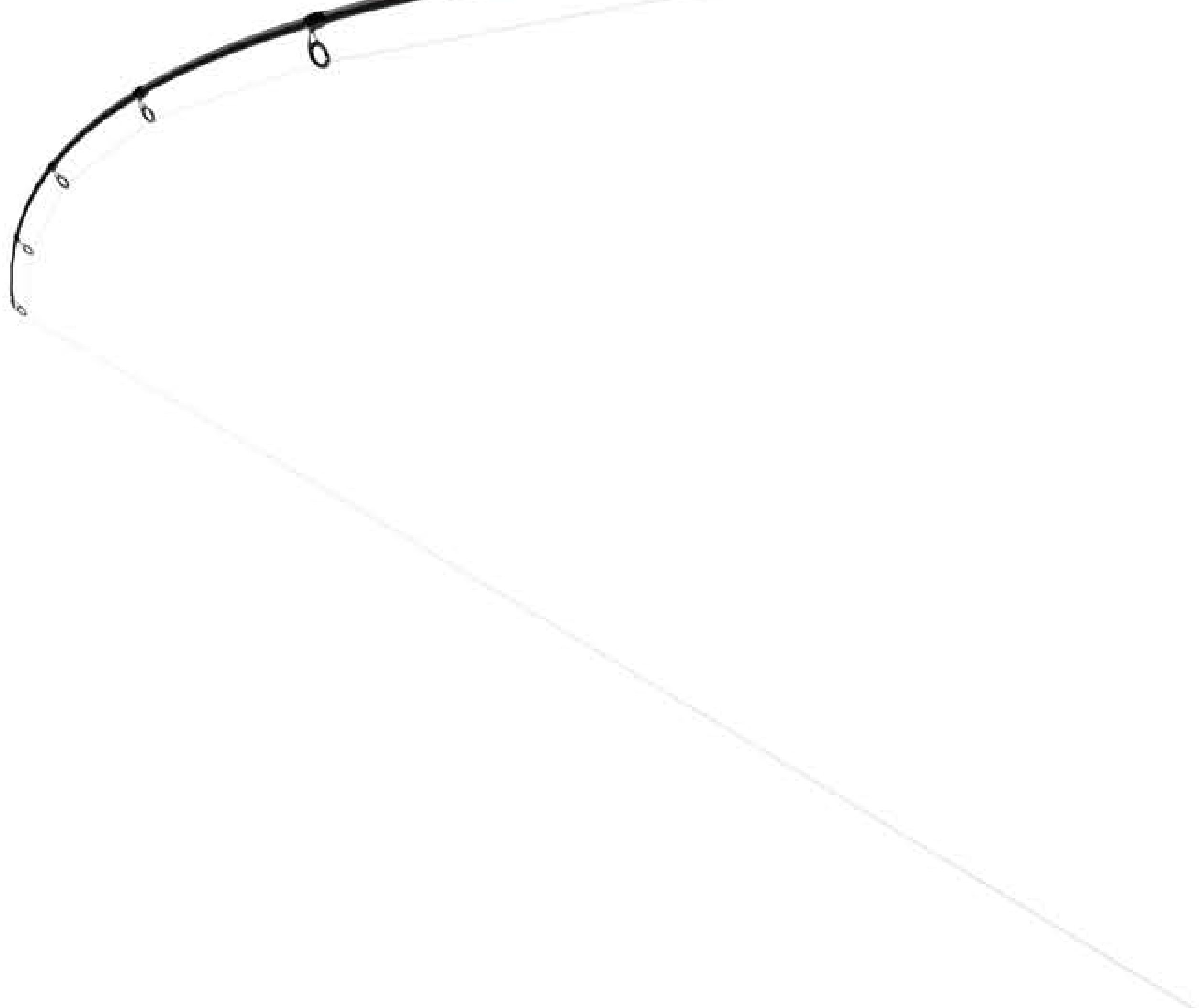

www.rapala.com

Rapala VMC Corporation (RAP1V) is a public company
listed on the Helsinki Stock Exchange

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