

CORPORATE RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Rapala VMC Corporation has a responsibility to shareholders, employees, business associates and the society as well as all people who use the Rapala Group's products. The Group takes responsibility of its actions and their environmental impact wherever it operates. The Group's operations are continuously developed into an even more sustainable direction to promote a clean environment. The Group always respects local societies, practices and surroundings, and operates according to local legislation. The Group develops its products, manufacturing processes and operating methods in ways that reduce their environmental impact throughout the products' lifecycle.

The Group Strategy and Management Approach to Sustainable Development

The Rapala Group's strategic objective is profitable growth that is founded on four strategic cornerstones: brands, innovation, manufacturing and distribution.

The Group's fishing tackle manufacturing and sourcing platform consists of Europe's largest production facilities for lures with specialized factories in Finland, Estonia and Russia, manufacturing operations for lures in Batam, Indonesia, sourcing operations for lures and accessories in China, a treble hook production facility in France, hook manufacturing operations in Indonesia, knife manufacturing operations in Finland and Estonia and carp bait manufacturing in the UK. The Group has a well-established sourcing unit in Taiwan managing the high quality but low cost external sourcing of accessory products not considered feasible to manufacture in the Group's own manufacturing units.

The Group's own personnel operate in 42 countries. The Group runs distribution on six continents and works together with other distributors, which makes the products available in almost 50 000 stores in more than 120 countries. In addition to own brands, the Group distributes several third party brands that strengthen the Group's brand and product offering. The Group has been in the lure business, which was the first product category for the Group, for over 80 years. The VMC hook operations acquired in 2000 have over 100 years of experience. Marttiini knife manufacturing, acquired in 2005, has operated for 90 years. Many products offered by the Group have a life-cycle of several dozens of years.

The Group has developed corporate compliance and responsibility matters, and a global Code of Conduct and internal control procedures were introduced and implemented during 2015. As an appendix to the Code of Conduct, an Anti-Corruption and Bribery Policy has been created and will be implemented in 2018.

The Rapala Group's operations are continuously developed into an even more sustainable direction to promote a clean environment. Almost all of the Group's products are connected to experiences of nature and the outdoors. This close link to nature through sports and other activities makes a healthy environment integral to our business. The Group manages the impact of its business activities in ways that will allow future generations to enjoy fulfilling nature experiences while using its products.

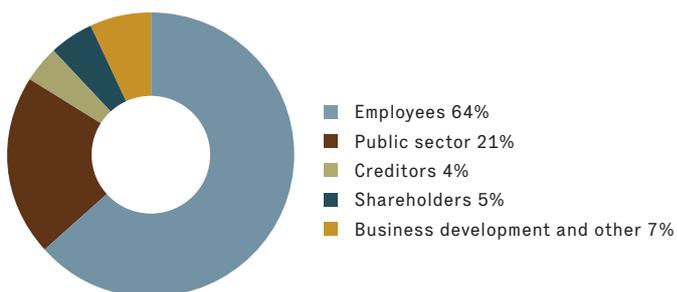
In its operations, the Group takes responsibility of its actions everywhere it operates. The Group always respects local societies, practices and surroundings, and operates according to local legislation.

Economic Responsibility

The Rapala Group's purpose is to create value for its stakeholders including customers, personnel, suppliers and subcontractors as well as shareholders and investors who are interested in the Group's financial performance. The financial success provides the Group companies with the resources and possibilities to develop their operations in a responsible and sustainable way also in the future.

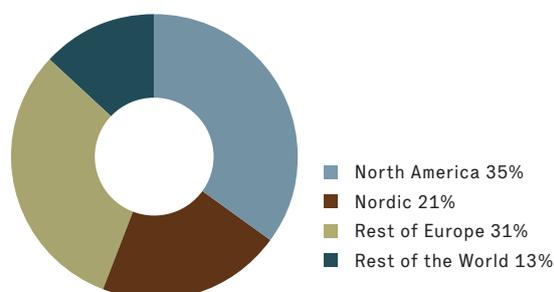
The Group focuses on profitable growth to increase shareholder value. This objective is achieved by providing customers with high-quality products and service, creating long-lasting partnerships with suppliers, subcontractors and customers, and offering employees competitive compensation and good working conditions. With operations in 42 countries worldwide, it also influences and creates well-being for the local societies. The Group's value added is distributed to these different stakeholders as shown in the graph below.

Distribution of value added



The Group creates value for its customers by offering its products and services worldwide. By unit location, North America contributed 35%, Nordic countries 21%, Rest of Europe 31% and Rest of the World 13% to the Group's total external net sales in 2017.

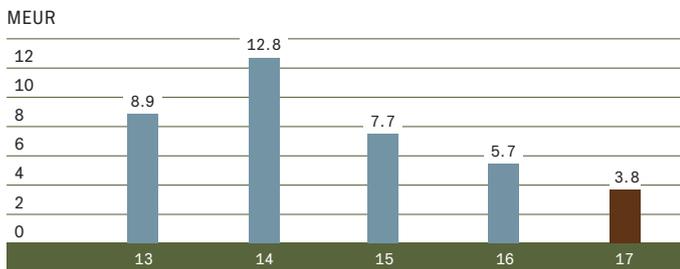
Net sales by unit location



More detailed geographical information is presented in note 2 to the consolidated financial statements.

In 2017, Group companies paid interests and other expenses of EUR 3.3 million to financial institutions and corporate income taxes of EUR 3.8 million to tax authorities worldwide. As presented in the graph below, the shareholders were paid dividends of total EUR 3.8 million in 2017.

Dividends to shareholders



Social Responsibility

Importance of Competent and Motivated Personnel and Human Rights

With 2 626 employees in 42 countries worldwide, The Rapala Group recognizes the importance of competent and well-motivated personnel. The Group’s principles regarding social responsibility and respecting human rights have been stated in the Code of Conduct. Operating globally in various different cultural areas creates challenges and risks regarding personnel and their rights and emphasizes the importance of good governance of these issues. Possible risks especially when using external suppliers can include using child or forced labor, following agreed working hours, ensuring safety at work and respecting equality and personal beliefs of employees. The Group requires its suppliers to comply with Group’s Code of Conduct. The Group has no knowledge of material non-compliances regarding personnel or human rights but monitors the realization of these right in its units frequently.

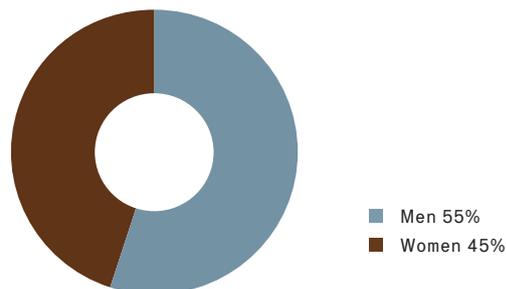
The Group appreciates the continuous development of its employees who have possibilities to both on-the-job learning and special training or education. The Group’s strategy for profitable growth requires that the management systems, the group-wide knowledge sharing and the everyday practices are developed systematically in all Group companies.

Personnel is treated with respect, and health and safety issues are a priority. Everyone who works for the Group have the possibility to constantly develop in their work and working practices and operations are systematically developed throughout the Group.

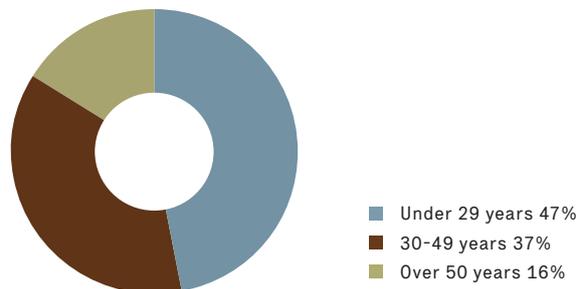
One of the Group’s key values in the corporate culture is entrepreneurship. Organization structure of the Group is low and subsidiaries around the world have the liberty and responsibility to plan and execute their business operations adjusting to local circumstances, nevertheless complying with the Group’s regulations and policies. The Group respects diversity and equal opportunities of all employees irrespective of color, nationality, gender, age or religion. The Group employs men and women of all ages. Employees represent tens of different nationalities worldwide. There is no use of child labor in any of the Group’s operations. At the end of 2017, 64% of the employees worked in manufacturing or R&D, 14% in administration and 22% in distribution.

The Group’s employee benefit expenses of EUR 67.6 million in 2017 represent 27% of the consolidated net sales. The employee

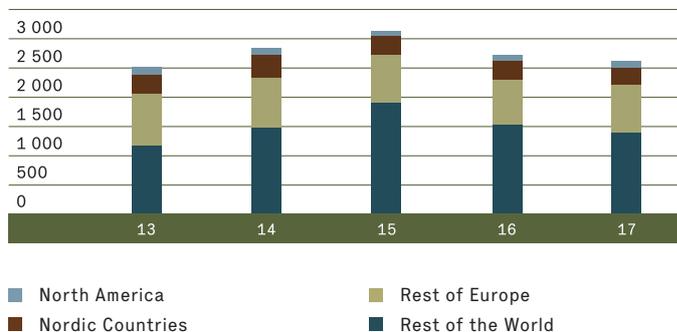
Percentages of men & women



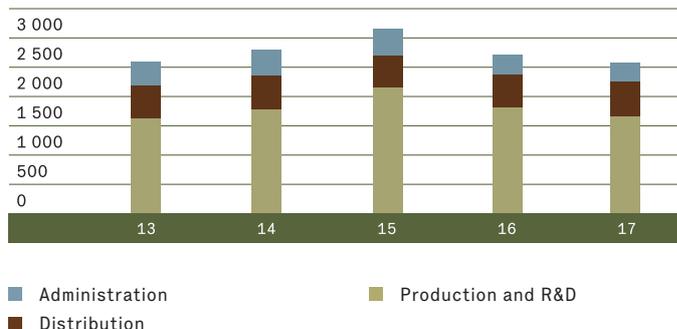
Ages of personnel



Personnel by geographical areas



Personnel by functions



benefits include wages, salaries, pension and other social security costs as well as other performance incentives. The CEO and senior management participate in the Group's senior management bonus scheme encouraging the achievement of the Group's targets and performance improvement. More information on top management remuneration is presented in Corporate Governance Statement and Remuneration Statement.

In order to secure profitability and enhanced efficiencies and quality, the Group occasionally carries out performance improvement initiatives, which may result in personnel reductions. When carrying out such initiatives, the Group strives to act responsibly and in accordance with local legislation and practices as well as good human resources management principles.

Supporting Local Societies

As the Rapala Group operates in 42 countries and is expanding its business into new markets, the Group supports sustainable development of local societies and protection of human rights. The Group or its subsidiaries are internationally, regionally and locally members of several associations and cooperate with various stakeholder organizations. Group companies worldwide contribute to many fundraising campaigns of local societies, and, for example, donate fishing equipment as prizes and encouragement for fishing competitions and environmental cleaning projects organized by non-profit organizations.

Rapala VMC Corporation was a founder member of the European Fishing Tackle Trade Association (EFTTA) which was established in London in 1981, as an international, independent association to serve the European fishing tackle trade by campaigning to promote sport fishing, environmental conservation, fishing legislature and international business. Rapala VMC Corporation has its own representative in EFTTA's Board. EFTTA supports annually several environmental and training projects across Europe.

The Rapala Group's South-African subsidiary has for a couple of years conducted several seminars and workshops under the name "Rapala Fishing for the Future" aimed at educating anglers on fishing, fisheries, catch and release and how to enjoy the sport more and be more aware of the environment. The subsidiary has also been involved in other initiatives to support sustainable fishing and catch and release.

In Lithuania the Group's subsidiary is a founding partner in a collaboration between members of the fishing tackle trade, local angler's associations, fisheries biologists and local legislation aiming to ban net fishing in all Lithuanian inland waters. The results can be seen in improved fish populations and better sport fishing opportunities.

In the UK, the Group has, for example, participated in several projects to provide teaching of fishing and environmental awareness for children and also supported fishing projects for disabled people. In Australia the Group is a member of a trade association promoting public and sustainable angling as well as angling related education.

In Canada, the Group has participated in a national organization to promote sports participation for underprivileged youth. Also in the USA, the Group has provided products to many different local elementary, middle and high schools for their outdoor curriculums and sponsored tournaments and competitions as well as other organizations focusing on offering fishing experiences for children.

In Sortavala, Russia, the Rapala Group supports the local community by providing financial and material support for the communal culture and sports facilities as well as municipal childcare services.

High-Quality Products and Services

The Rapala Group's distribution network covers six continents and is locally present in 38 different countries. Strong local presence and decision-making makes it easy to adapt to different kinds of business environments and various types of customers. Customers range from smallest fishing tackle shops to world's largest retailers and local presence leads to close customer relations and market understanding everywhere. Manufacturing and R&D also benefit from insights gathered through the global distribution network, which in turn makes new products instantly available to the mass market globally.

Over the years, the Group has produced many proven classics that fishermen rely on. But the ability to create new products with the potential to become future classics equals consistent success.

As a proof of the quality and continuous development the Group holds the world record of catching world record fish. With Rapala, Storm, Sufix, and VMC products the Group holds over 1200 International Game Fish Association (IGFA) world records.

The Group's research and development expenses totaled to EUR 1.9 million in 2017 and represent 1% of the Group's net sales for the period.

Anti-corruption and bribery

Preventing corruption and bribery is a key element of Rapala Group's corporate responsibility due to the international nature of operations and operating in different cultural areas. Different cultures and practices globally create a risk for corruption and bribery which the Group needs to monitor. To minimize these risks the Group has created a new anti-corruption and bribery policy during 2017 which will be implemented in early 2018.

The Group has zero tolerance towards all forms of bribery and corruption. The Group requires that its employees and associates act honestly and with integrity at all times. Rapala VMC Corporation employees do not pay, offer to pay, authorize or accept illegal or improper payments or bribes in order to obtain or maintain business, or for any other reason. All employees are required to safeguard all Group's material, immaterial and human resources for which they are responsible. All claims of bribery and corruption, anonymous or otherwise, will be investigated thoroughly without regard to the suspected person's position, length of service or relationship with the Group. Based on the findings, appropriate corrective measures will be taken which may include further training or disciplinary action.

The policy defines actions constituting corruption and bribery, concerns engagement with third parties, gives information about incident reporting channels and defines the responsibilities of management and employees. The policy will be a part of the Group's Code of Contact.

The Group has no knowledge of material malpractices but monitors the situation continuously and will pay attention to the compliance with the new anti-corruption and bribery policy.

Environmental Responsibility

Approach to Environmental Affairs

Almost all of the Group's products are connected to experiences of nature and the outdoors. This close link to nature through sports and other activities makes a healthy environment integral to our business. We manage the impact of our business activities in ways that will allow future generations to enjoy fulfilling nature experiences while using the Rapala Group's products. The Group's general principles and approach to environmental affairs is stated in the Code of Conduct.

The use of raw materials, airborne emissions and waste are the most significant environmental impacts of the Group. Most of the Group's products are used for years or even decades. The Group develops its products, manufacturing processes and operating methods in ways that reduce their environmental impact throughout the products' lifecycle. The development process is long-lasting and, meanwhile, changes in production volumes and product mix may have greater short-term effects than the development trend as such.

Around 40% of the products sold by the Group are produced in its own manufacturing facilities. The Group's manufacturing sites develop their environmental operations in accordance with local legislation and regulations. Possible safety risks in manufacturing operations are caused by handling of flammable and toxic raw materials during the production process. The Group's production doesn't consist of materials or processes which would include a risk for major environmental accidents but e.g. waste water processing may cause environmental risks. The Group takes care of its processes to minimize these risks and no material non-compliance, environmental accidents or hazards occurred in 2017.

The rest of the Group's sales come from selling and distributing outsourced and third party products. The most significant environmental impacts of these products, while in Group ownership, are related to transportation and storage of goods.

In addition, the Group promotes environmental issues beyond its own operations. Several Group companies are members of local and national environmental organizations. They take part in the funding of these organizations, providing education on clean and healthy waters and other environmental issues and participating in clean-up actions.

The following is a summary of practical actions and measurements the Group is taking to minimize the negative impacts of its business to environment and actions to improve environmental affairs in areas where it operates.

Production Processes

In the Rapala Group's own production, in order to minimize the waste in painting, the lures are electronically engaged for better adherence of the paint. With this advanced painting technique, also usage and waste of lacquer is minimized.

Production waste is separated into energy, plastics, bio materials, metals, carton, paper waste and hazardous materials to promote and increase recycling. In addition, some of the Group's factories have replaced oil as an energy source with gas, which is more environmentally friendly. In the European lure manufacturing units paint has partly been changed from soluble dyes to water-dilutable and painting and coating procedures have been improved to reduce VOC emissions and this is also being implemented in Indonesia. The long-term plan is to develop qualities of current paint to fully replace soluble dyes with water-dilutable paints.

Raw Materials

Hard-body lures manufactured by the Group are made of balsa, apache and plastics. The wood is sourced from registered farms that respect local law and regulations and sustainable development rules in farming and forestry. The Rapala Group's R&D department continuously seeks to replace current raw materials with more environmentally friendly substances – yet still maintaining the products' functionality. For example, some metal lures contain lead, but to the extent that it's functionally feasible, lead is being replaced with other metals such as zinc or tungsten. The Group is

also working in cooperation with external suppliers in order to find more environmentally friendly raw materials.

Products

Most of the Group's products are long-lasting, kept and used by consumers for years and even decades. All of the wooden parts of the Group's products are biodegradable and most of the metal used in the Group products can be recycled. The biggest environmental challenge has been the plastic products but the Group has successfully progressed in using environmentally friendly plasticizers in the soft plastic products. Even if some of the products may end up in the water or nature during e.g. the sport fishing activities, the important challenge is to get the consumers to make their used or damaged products available for recycling.

Also, emphasis has been given on sustainable packaging. More efficient packaging, for example, reducing the package size, decreasing the count in the inner packs and using recyclable packages saves energy in production and transportation in addition to creating less waste. The Group has replaced a lot of PVC used in packaging with PET and increased the use of post-consumer PET.

Transportation and Storage of Goods

To reduce the environmental impacts of transportation, the Group aims to maximize sea transportation and minimize air transportation between the continents, from the factories to distribution units. The Group also aims to consolidate the shipments so that small quantities will not be shipped separately. The storage of goods does not have much impact on environment other than use of energy for heating and lighting of the premises. The Group also optimizes its production to minimize the shipping volumes between factories and distribution companies and manages inventories to minimize the volume of goods stored.

Special Issues and Actions in 2017

The Group continuously develops reporting and follow-up of environmental affairs. More work is still needed to further develop these indicators and to standardize the measurement but especially to implement new ways of working to ensure long-term improvement in the underlying environmental effects.

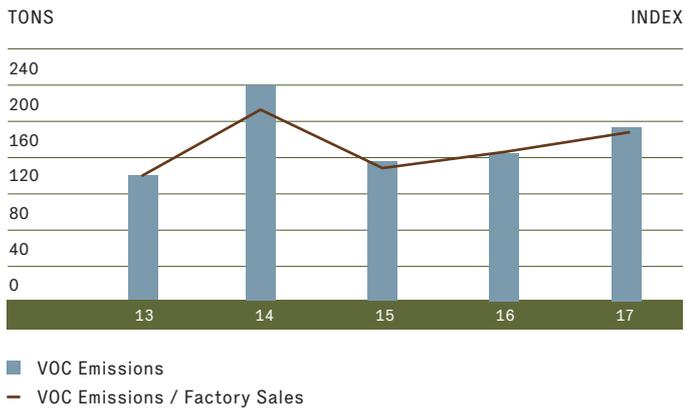
For Storm soft plastic and hybrid baits, the Group developed in co-operation with leading companies in the chemical industry a new, environmentally friendly material. The new material was gradually implemented to production and now the environmentally friendly plasticizer is used in all soft plastic products.

In 2017, the Group companies participated in several countries in fisheries restoration and recreational fishing promotion campaigns. In addition, the Group supported cleaning of lakes, rivers and sea shores as well as environmental and fishing related education in many countries.

Together with Normark Suomi Oy, Rapala VMC Corporation founded in 2012 Rapala Fund to support locally or regionally important fisheries conservation projects, to help volunteer work-based projects by participating in the material costs, to start off more extensive and long-term projects as well as aid fisheries studies. Rapala Fund granted during the sixth year of operations, financial assistance or significant product donations to 30 parties in different parts of Finland. Among the recipients were foundations working for aquatic restoration and sustainable use, fishery boards, fishing clubs involved in voluntary youth work and researchers and students.

In Lithuania, the Group has participated in actions to promote

VOC Emissions



and improve recreational fishing opportunities.

The Group's subsidiary in the USA continued its participation in the American Sportfishing Association. ASA builds and maintains relationships with other conservation agencies to ensure that sportfishing interests are represented when policies are established. The subsidiary also contributed again to the International Game Fish Association. Its mission is the conservation of game fish populations and promoting responsible and ethical angling practices through science, education and rule making.

Initiatives to streamline the Group's supply chain continued, focusing on consolidating purchasing and logistics processes in selected third party products in Europe and further developing the logistics hub in Asia.

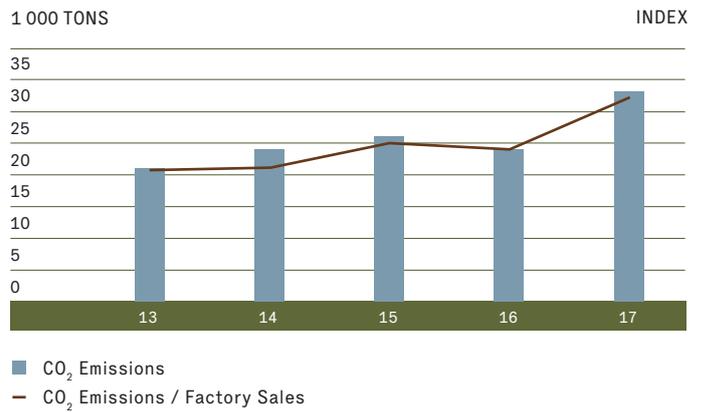
Environmental Performance 2017

The Group monitors the environmental performance of its own manufacturing operations globally. Depending on the level of use of outsourcing partners in manufacturing the environmental measures of Group's direct manufacturing operations may fluctuate from one year to another as shown in the presented graphs.

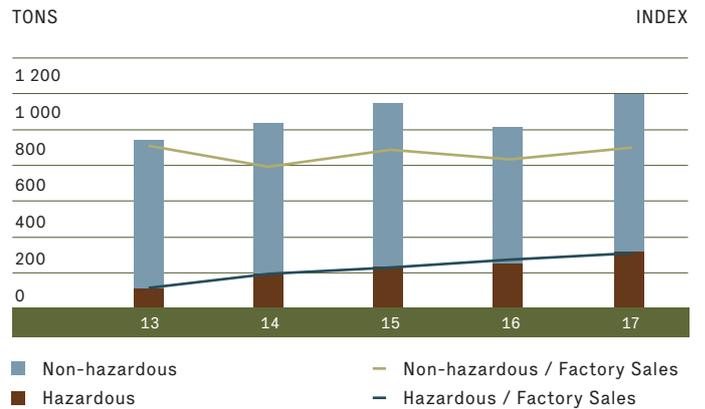
The Group's lure and hook manufacturing units on Batam Island in Indonesia started their operations in 2012. The establishment of new VMC hook manufacturing unit in Batam was finalized during 2013 and the production volumes were increased during the year. The project to cease own lure manufacturing in China and transfer the operations to Batam, Indonesia, reached its peak in 2014, and since 2015 all Group's own lure manufacturing has been done in Batam. The operating model of the lure manufacturing unit in Batam is more in-house based and more efficient, compared to more outsourced model in 2010–2013. Ramp-up of the Group's new ice drill manufacturing unit in Korpilähti, Finland, was finalized in 2014. The factory's impact on environmental measures has stabilized.

The most significant emissions for the Group are the volatile organic compounds (VOC) and carbon dioxides (CO₂). The Group's VOC emissions are calculated based on materials used in production, and carbon dioxides are calculated based on energy purchased and fuel used. In 2017, Group's VOC emissions were 192 (164) tons and carbon dioxide emissions 33 (24) thousand tons. VOC emissions originate mainly from different types of solvent used in conjunction with painting operations. Majority of the CO₂ emissions are created indirectly when energy produced elsewhere is purchased and consumed by the Group's factories. The Group has specified its calculation principles on

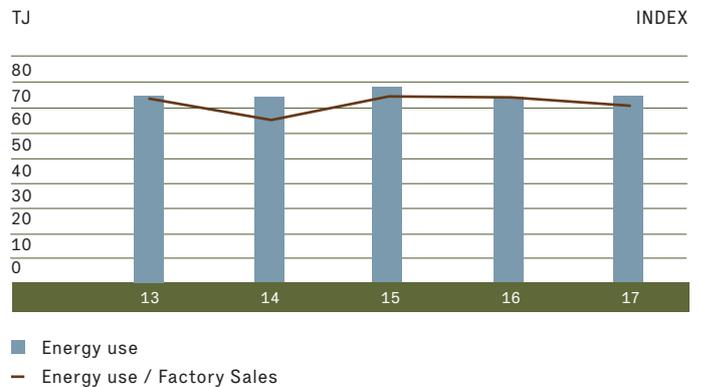
CO₂ Emissions



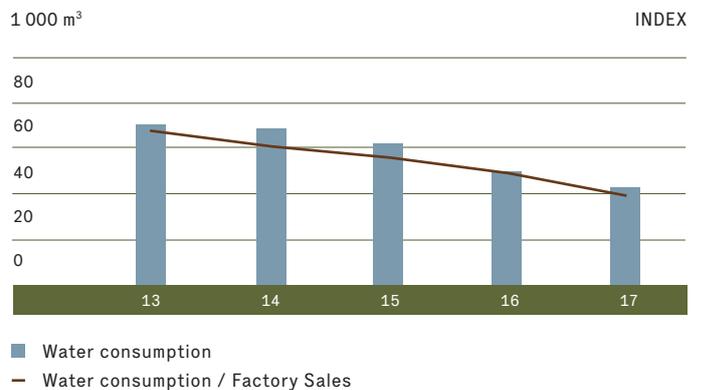
Waste



Energy use



Water consumption



CO2 emissions in 2017 and the figure is therefore not totally comparable to previous periods.

The Group's operations generate e.g. metal, wood, plastics, cardboard and municipal waste. Significant part of the waste is biodegradable like wood or recyclable like metals. Waste is recycled in compliance with local regulations and practices.

All the waste that can't be recycled can still be utilized and used as energy fraction towards energy production. In 2017, the Rapala Group's manufacturing operations generated 1 195 tons (1 016 tons) of waste of which 307 tons (240 tons) were hazardous waste, which is processed by disposal facilities dedicated for hazardous waste.

The Group's manufacturing is not very energy-intensive but energy consumption is an environmental aspect measured by the Group. The majority of the energy is consumed in the form of electricity, natural gas and district heat. Fuel oil is used in some units for reserve and additional energy. In 2017, the Group's total energy consumption was 76 TJ (74 TJ). Majority of this is electricity. This amount does not include the fuels used in transportation and vehicles.

Manufacturing units do not use much water in their processes. Most of the use is for sanitation and catering purposes. In 2017, the water consumption was 42 000 m³ (50 000 m³).

In 2017, environmental expenses were some EUR 0.2 million (EUR 0.2 million) and environmental investments were some EUR 0.3 million (EUR 0.1 million).