

# RAPALA VMC CORPORATION

## CORPORATE GOVERNANCE STATEMENT

### DECEMBER 31, 2017

Rapala VMC Corporation's Corporate Governance is based on Finnish laws, other regulations concerning publicly listed companies, Rapala VMC Corporation's Articles of Association and the rules and instructions of Nasdaq Helsinki Oy. Rapala VMC Corporation adheres also to the Finnish Corporate Governance Code which is publicly available at [www.cgfinland.fi](http://www.cgfinland.fi). More detailed and updated information on the Group's Corporate Governance issues, as well as this Corporate Governance Statement, is available on the corporate website [www.rapalavmc.com](http://www.rapalavmc.com). This Corporate Governance Statement has been approved in the Board of Directors ("Board") meeting on February 15th, 2018.

Corporate Governance Statement is presented separately from the Report of the Board and financial statements. Report of the Board and the financial statements are available at the website of the corporation.

#### GENERAL MEETING

The General Meeting is the highest decision-making body of a limited company where the shareholders participate in the supervision and management of the corporation. The Annual General Meeting ("AGM") decides on the matters stipulated in the Companies Act and Rapala VMC Corporation's Articles of Association such as adoption of the financial statements, the use of the profit shown on the balance sheet, the discharge of the Members of the Board and the Managing Director, the number and the appointment of the Members of the Board and appointment of the auditor.

The Group's President, the Chairman of the Board and all of the directors shall attend the General Meeting. A person nominated for the first time to be elected as a member of the Board shall participate in the General Meeting where the election takes place. The auditor shall participate in the AGM.

The AGM of the corporation is held once a year. According to the Articles of Association, the AGM shall be held before the end of June. An extraordinary General Meeting is to be convened when necessary. The shareholders exercise their rights of vote and action at the General Meeting. Each share is entitled to one vote in the General Meeting.

Under the Articles of Association the shareholders of the corporation are invited to the General Meeting by publishing the notice of a General Meeting in one national daily paper and on the Group's corporate website no earlier than three months and no later than three weeks before the General Meeting. The invitation shall state the matters to be handled at the General Meeting and in addition the information required by the Finnish Corporate Governance Code. Before the end of a financial year preceding the General Meeting the corporation will announce on its website a date on which at the latest the shareholder must suggest matters to be handled by the General Meeting. This date cannot be earlier than four weeks before sending the invitation to the General Meeting. Rapala VMC Corporation's AGM is on Thursday March 29th, 2018. Shareholders possible request to have a matter dealt with by the AGM 2018 shall be delivered March 1, 2018 at the latest. The minutes of the AGM are published on the Group's website at [www.rapalavmc.com](http://www.rapalavmc.com) within two weeks of the meeting.

More information on the General Meeting is found on the Group's corporate website.

#### BOARD OF DIRECTORS

The members of the Board are elected by the AGM. The term of a member of the Board lasts until the end of the next AGM. The Articles of Association provide that the Board consists of no fewer than five and no more than ten members. The Board elects the Chairman from among its members to serve until the next AGM. Possible new members of the Board are briefed to the business of the corporation.

The duties and responsibilities of the Board are principally based on the Finnish Companies Act and the corporation's Articles of Association. All significant issues concerning the corporation are decided by the Board. These include, but are not limited to, appointing and removing the CEO, approving strategic guidelines, financial statements, interim reports, business plans, annual budgets, stock exchange releases and considerable investments or divestments.

The Board assembles according to a pre agreed-time schedule to address designated matters. The Chairman of the Board composes an agenda according to a proposal made by the CEO. Members of the Board have a right to propose and include distinct matters into the agenda. The Board shall have a quorum when more than half of the Members of the Board are present. The opinion of the simple majority shall constitute the decision of the Board of Directors. The Board follows the written Charter of the Board approved by the Board of which crucial content has been covered here including the tasks of the Board of Directors. The CEO and the Company Counsel, who acts as a secretary of the Board attend the meetings of the Board of Directors. Another members of the Executive Committee attend the meetings when necessary.

In connection with the preparation of a proposition concerning the assembly of the Board the corporation follows a practice in where the significant shareholders of the corporation prepare the propositions concerning the Board of Directors, including the propositions for the number of board members, remuneration and when necessary the members of the Board for the General Meeting. In the corporation the Board has not established a Nomination Committee nor has the General Meeting erected a Shareholders' Nomination Committee. The representatives of the significant shareholders of the corporation noted above are also members of the Board of the Corporation and the proposition shall be served for the information of the Board and to be discussed. The proposition shall also be released as a stock exchange release and be included in the notice of the General Meeting provided that the proposition has been delivered to the corporation early enough to be included in the notice.

The requirements set by the corporation's operation and its development phase will be considered with regard to the composition of the Board of Directors. A candidate to the Board must have the necessary qualifications for the position and time to fulfil their duties. The number of members on the Board and its composition must enable efficient performance when the Board's tasks are being managed. In order to ensure the diversity of the Board of Directors, the members' competence, experience and industry-specific knowledge must be taken into account when candidates are being proposed as members of the Board. The corporation strives to have both genders represented in the Board and that members represent wide-ranging and diverse perspectives.

There were changes in the assembly of the Board during the year 2017. At the end of the financial year 2017 the Board consisted of six members.

The Board assesses its members' independency. Five external expert members are Mr. Emmanuel Viellard, Mr. Eero Makkonen, Mr. Marc Speeckaert, Ms. Julia Aubertin and Mr Louis Audemard D'Alancon. Jorma Kasslin is dependent on the corporation as he has acted earlier as a long-time CEO and President of the corporation and nowadays as a full-time Chairman of the Board of Directors. All members of the Board, other than Mr. Emmanuel Viellard and Louis Audemard D'Alancon are independent of significant shareholders of the corporation. Christophe Viellard resigned from the Board of Directors in March 2017.

As Group's President & CEO Jorma Kasslin acted also as a member of the Board in addition to his executive position. His coincident membership in the Board was based on his broad know-how and long-term experience in fishing tackle industry. Group's President and CEO Jussi Ristimäki is not acting as a member of the Board.

During the financial year 2017, the Board met 10 times. The average attendance rate at these meetings was 98%. Jorma Kasslin attended in 10 meetings, Emmanuel Viellard in 9 meetings, Eero Makkonen in 10 meetings, Marc Speeckaert in 10 meetings, Julia Aubertin in 10 meetings and Louis D'Alancon in 8 meetings. Christophe Viellard attended two meetings before resigning.

The current members of the Board and their shareholdings on December 31, 2017 are:

#### **Jorma Kasslin**

Chairman of the Board since 2016

Board member since 1998

M.Sc. (Eng.)

Year of birth: 1953

Shareholding and options\*: 16 113

#### **Emmanuel Viellard**

Board member since 2000

Chairman of the Board 2005-2016

Chairman and CEO of Viellard Migeon & Cie

President and Chief Executive Officer of Lisi Industries

MBA, CPA

Year of birth: 1963

Shareholding and options\*: -

#### **Eero Makkonen**

Board member since 1998

Chairman of the Board 1999-2005

B.Sc. (Eng.)

Year of birth: 1946

Shareholding and options\*: -

#### **Marc Speeckaert**

Board member since 2005

MBA

Year of birth: 1951

Shareholding and options\*: -

#### **Julia Aubertin**

Board Member since 2014

Deputy Managing Director, Good Goût Babyfood

M.Sc. (EDHEC)

Year of birth: 1979

Shareholding and options\*: -

#### **Louis Audemard D'Alançon**

Board member since March 30, 2017

MSc Civil Engineering, Major in Economy and Finance

Year of birth 1959

Shareholding\*: -

\* Shares and share-based rights of each member and corporations over which he/she exercises control in the company and its group companies.

Charter of the Board is available on the corporate website.

#### **BOARD COMMITTEES**

The Board decides of founding of committees. It also verifies the key tasks of each committee and the policies in the written charter. A committee must regularly report to the Board of its work.

In 2017, the Board had only one Board committee, the Remuneration Committee. The Remuneration Committee operates under its charter and its main responsibility is to prepare the decisions of the Board relating to the remuneration of key employees of the Group. The Committee's other tasks include reviewing and making recommendations with respect to the terms of employment of the CEO and reviewing the remuneration packages of the Executive Committee members and some other senior managers.

The Remuneration Committee is chaired by the board member Emmanuel Viellard. Its members are drawn from the corporation's non-executive and independent Directors and currently consist of Eero Makkonen and Marc Speeckaert. Committee members' appointments run concurrently with a Director's term as a member of the Board. In 2017, the Committee assembled one time in February. The attendance rate was 100%. The Charter of the Remuneration Committee is available on the corporation website.

The scale of the business of the corporation does not require the matters relating to the financial reporting and control to be prepared in a smaller assembly than the Board of Directors. Therefore the Board has not established a separate Audit Committee, but the entire Board is responsible for the tasks of an Audit Committee such as the control of the financial reporting, the external accounting, the internal control and the risk management issues. Of the six Board members, at least three have the necessary financial expertise to assume these duties. The Board is regularly in contact with the auditors of the corporation.

The Board has not appointed a Nomination Committee due to the size of the Group and the significant shareholding represented by the current members of the Board. Nomination issues are managed by the Board. Neither has the General Meeting erected a Shareholders' Nomination Committee for the preparation of the Board election and remuneration.

#### **PRESIDENT AND CHIEF EXECUTIVE OFFICER**

The CEO is appointed by the Board. Jussi Ristimäki acts as the CEO of Rapala VMC Corporation.

The CEO acts also as the Group's President and Chairman of the Executive Committee. The duties and responsibilities of the President are set forth in the Finnish Companies Act. The President & CEO is responsible for the operative management within the scope of the strategic and operative plans, budgets and action plans approved by the Board. Unless separately authorized by the Board, the CEO shall not take actions, which may be considered unusual or far-reaching in view of the scope and nature of the Group's business. The CEO shall ensure that the accounting of the corporation complies with the law and that the financial management of the corporation has been arranged in a reliable manner. The CEO is entitled to represent the corporation

in any matter within his/her authority. The CEO chairs the Executive Committee. The CEO's service terms and conditions have been specified in writing in a service agreement approved by the Board.

#### **EXECUTIVE COMMITTEE**

The Executive Committee assists the CEO in planning and managing the operations of the Group, in the preparation of strategic questions and in the execution of the strategic objectives set by the Board of Directors. The Executive Committee convenes under the leadership of the CEO. The CEO Jussi Ristimäki acts as the Chairman of the Executive Committee. Aku Valta resigned from the Executive Committee on July 21, 2017. Jan-Elof Cavander was appointed June 30, 2017 as a new member of the Group's Executive Committee.

The current members of the Executive Committee and their shareholdings on December 31, 2017 are:

#### **Jussi Ristimäki**

President and Chief Executive Officer, Chairman of the Executive Committee

Executive Committee member since 2010

Master of Science (Economics)

Year of birth: 1974

Shareholding and options\*: -

#### **Olli Aho**

Executive Vice President, Company Counsel, Investor Relations, Secretary of the Board

Executive Committee member since 1998

Candidate of Jurisprudence

Year of birth: 1959

Shareholding and options\*: -

#### **Stanislas de Castelneau**

Executive Vice President, Manufacturing Operations and Global Supply Chain Development, Head of Hook and Carp business unit

Executive Committee member since 2002

Engineer

Year of birth: 1963

Shareholding and options\*: -

#### **Tom Mackin**

Executive Vice President, Distribution and Brands in North America

Executive Committee member since 2007

Bachelor of Fine Arts

Year of birth: 1961

Shareholding\*: 3 000

#### **Lars Oilberg**

Chief Operating Officer, Group's businesses and distribution, except North America, Russia, Japan and the Hooks

Executive Committee member since 2008

Vocational Qualification in Business and Administration

Year of birth: 1956

Shareholding and options\*: -

#### **Victor Skvortsov**

Executive Vice President Distribution in Russia, Belarus, Kazakhstan

Executive Committee member since 2013

Engineer

Year of birth: 1962

Shareholding and options\*:

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#### **Cyrille Viellard**

Executive Vice President, Market Intelligence and Business Development

Executive Committee member since 2015

MBA, ESSEC

Year of birth: 1977

Shareholding and options\*: -

#### **Arto Nygren**

Executive Vice President, Lure Manufacturing

Executive Committee member since 2017

Bachelor's degree in mechanical engineering

Year of birth: 1965

Shareholding and options\*: -

#### **Jan-Elof Cavander**

Chief Financial Officer

Executive Committee member since June 30, 2017

Master of Science (Technology)

Year of birth: 1985

Shareholding\*: -

\* Shares and share-based rights of each member and corporations over which he/she exercises control in the company and its group companies.

#### **BUSINESS ORGANIZATION**

The Rapala VMC Group comprises of the parent company and the manufacturing and distribution subsidiaries ("Group"). The head office of the Group is located in Helsinki. Rapala VMC Corporation's shares are traded on the Nasdaq OMX Helsinki's main list.

Product distribution is organized through sales companies, which the Group has in about 40 countries. In other countries independent importers and distributors undertake product distribution. The Group's business organization consists of two reportable operating segments: Group Products and Third Party Products.

#### **REMUNERATION**

In 2017, the annual fee to the Chairman of the Board was EUR 80 000 and the fee to other Board members was EUR 30 000. In addition a reward of EUR 1 000 was paid of a Board or its Committee meeting. Members of the Board are reimbursed for travel expenses corresponding to the corporation's traveling compensation principles. Full-time Chairman of the Board Jorma Kasslin has a service agreement with the Rapala Group, which designates as his duties to be responsible of the strategy process and matters affecting the Group more widely together with the CEO. Jorma Kasslin was paid a reward of EUR 394 742 EUR, of which EUR 94 742 EUR in cash and EUR 300 000 EUR as a personal supplementary pension insurance policy. During 2017, the annual 80 000 EUR fee of the Chairman of the Board was not paid to Jorma Kasslin.

In 2017 CEO, Jussi Ristimäki's base salary and benefits amounted to EUR 265 259. CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus paid in 2017 totaled EUR 58 420. The CEO's pension security is arranged under the statutory Finnish contribution based employee pension plan. There is no additional pension scheme.

A mutual notice time of six months shall be applied when terminating the CEO. If the CEO is dismissed by the corporation without a reason stipulated in the agreement the CEO is entitled to a severance compensation corresponding to 12 months' salary (excluding profit bonuses).

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 require that the established targets on strategy execution, sales and return on capital are achieved. If the targets are not achieved, payment of bonus is fully at the discretion of the Board of Directors. Bonuses awarded under the scheme are paid in two installments, the first when the audited results for the relevant financial year are known and the second after a predetermined vesting period, to encourage retention of senior management. Principally the bonus can be no more than 100 percent of the annual salary.

For compensation of the Board, the CEO and the Executive Committee, see note 28 in the consolidated financial statements. Remuneration Statement is available at the Rapala Group's corporate website [www.rapalavmc.com](http://www.rapalavmc.com).

## **RESPONSIBILITY AND INTERNAL CONTROL**

The Group has a strong entrepreneurial and business oriented corporate culture that supports local decision making. This culture influences the set-up of the Group's internal control and management. The Group's management model is strongly based on people management, delegation of responsibility, and recognition of differences in business environments, which all enable quick and flexible decision making. Instead of formal and heavily structured processes, the internal control of the Group is based on a flat and transparent organization where the Group management is in frequent and personal interaction with the Group companies. Number of personnel of the Group management is relatively small, which enables focused and centralized information management and direct and tight relationships with operational and financial management of the business units. Business units are closely monitored through financial indicators and by observing the operative actions.

The Group comprises of the parent company and the manufacturing and distribution subsidiaries. The Group's internal controls and management are based on this legal structure. Responsibility for the management of these subsidiaries rests with each company's Board of Directors, which typically comprises of the Group CEO and the Company Counsel, and the subsidiary's managing director. In addition, the Group subsidiaries have their own management teams, which together with each subsidiary's managing director have responsibility over the operative decision making.

The Board monitors the business activities of the corporation, ratifies the risk management principles and is responsible for ensuring that accounting, reporting and asset management are appropriately organized.

The CEO, the members of the Board and the managing director of each Group company are responsible for ensuring that the accounting and administration in their respective areas of responsibility are in compliance with the local laws, the Group's operating principles, and the instructions and rules issued by the Board of Rapala VMC Corporation.

The aim of internal controls is to ensure the effectiveness and efficiency of the Group's operations, reliability of financial and operational reporting, and compliance with the applicable regulations, practices and policies.

The Group has a harmonized chart of accounts, uniform accounting principles (IFRS) and related reporting process. The Group is developing its Group wide information technology system, which improves the transparency of supply chain and inventories. The Group's financial management monitors the functionality

and reliability of the financial reporting process. The key instructions and regulations concerning financial reporting and risk management are available to managing directors and financial management of each subsidiary in the Group's intranet.

The Board monitors the Group's business risks on an ongoing basis. All Group companies report their financial performance and position at least once a month to the management that prepares for the Board a monthly management report, which explains the main recent developments in the business of the Group and the major Group companies.

Communication and personal interaction between the Group management and subsidiaries is frequent and tight. Group management, managing directors, and financial management of all subsidiaries meet several times during the year, when also business performance and internal control issues are reviewed. In addition, representatives of Group management visit subsidiaries regularly in different assemblies. The purpose of these meetings is to share information mutually. These meetings enable Group management to monitor and give guidance to the subsidiaries.

## **RISK MANAGEMENT**

The objective of the Rapala Group's risk management is to recognize and manage the risk associated with the execution of the Group's strategy and execution of business targets. This is done by monitoring and mitigating the related threats and risks and simultaneously identifying and managing opportunities. The Board evaluates the Group's financial, operational and strategic risk position on a regular basis and establishes related policies and instructions to be implemented and coordinated by the Group management.

The Board evaluates the Group's strategic risks on annual basis as part of the strategy process, operational risks at least once a year as part of the operational plans and budgets and financial risks several times during the year. The CEO and the CFO continuously monitor changes in business environment and coordinate the management of the Group's strategic, operational and financial risks. The daily risk management activity is primarily delegated to the management of the business units, who are responsible for managing the local strategic, operational and financial risks.

## **INTERNAL AUDIT**

The Group does not have a separate Internal Audit organization due to the size of the Group's operations. The Group Finance, led by CFO Jan-Elof Cavander, is responsible for regular reviews of financial performance and internal control procedures at all Group companies, and reporting significant findings to the CEO and the Board. From time to time, the management conducts or buys external services, if needed, to conduct specific and limited internal audits. The absence of an in-house internal audit organization is also taken into account in the external audit.

The managing director and the controller of each subsidiary meet annually with the local auditor to discuss internal control and statutory compliance issues. The auditors of each subsidiary provide an audit opinion to the auditors of the corporation at the conclusion of each annual audit. Each annual audit may also give rise to the preparation of a management letter to the corporation outlining their audit findings in greater detail and recommending any improvements in internal controls. In addition, the auditors of the corporation meet regularly with the Group Management representatives to discuss and review the business and related financial, accounting, internal control and risk management issues.

## **INSIDER ADMINISTRATION**

The Group's guidelines on insider administration follow the applicable Guidelines for Insiders of Listed Companies issued by Nasdaq Helsinki Oy. Rapala VMC Corporation maintains the list of persons discharging managerial responsibilities, project-specific insider lists and permanent insider list section in the Euroclear Finland Ltd's SIRE system subject to Rapala VMC Corporation's Insider Officer's decision. At this point, Rapala VMC Corporation has decided not to establish or maintain an insider list for permanent insiders.

Moreover the persons determined by Rapala VMC Corporation having authorized access to the unpublished financial result information are entered in a list ("Financial Reporting Group") maintained and updated by Rapala VMC Corporation from time to time.

Persons discharging managerial responsibilities are subject to trading restrictions regarding the corporation's securities. Person discharging managerial responsibilities shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the shares or debt instruments of Rapala VMC Corporation or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report which Rapala VMC Corporation is obliged to make public. The trading restriction and the obligations on confidentiality and prohibition to disclose information or advice any person with respect to trade apply also to the Financial Reporting Group. The corporation extends the restriction on trading to include the permanent insiders in case this kind of list is established. The project specific insiders are prohibited from trading with the securities during their project participation.

The Group arranges internal communication, training and supervision of insider issues. The Group's insider officer is Company Counsel Olli Aho.

The previous public register on insiders and their closely associated persons has been updated up to July 2, 2016 and is available on the corporate website. Releases of managers' transactions are also published on the corporate website.

## **AUDIT**

An external audit is performed annually in each of the Group companies and for the consolidated Group. Ernst & young Oy auditor firm was elected as auditor in the annual general meeting on March 30, 2017. Ernst & Young Oy is responsible for the Group audit of the subsidiaries globally. The auditors of the parent company, Ernst & Young Oy, are responsible for instructing and coordinating the audit in all Group companies. The auditor with principal responsibility is Mikko Rytilahti, CPA. The fact that the Group has no separate internal audit organization of its own is reflected in the scope and content of the audit. It was decided in the annual general meeting on March 30, 2017 that the fee of the auditor will be paid as according to an invoice accepted by the corporation. During the financial year 2017 the auditors of the corporation were paid altogether EUR 0.7 million (2016: EUR 0.8 million) as auditing fees and EUR 0.1 million (2016: EUR 0.0 million) as of services not associated with auditing.