

**RAPALA VMC CORPORATION**  
**CORPORATE GOVERNANCE**  
**STATEMENT**

**DECEMBER 31, 2011**

## **CORPORATE GOVERNANCE STATEMENT**

Rapala's Corporate Governance is based on Finnish Companies Act, other regulations concerning publicly listed companies, Rapala's articles of association and the rules and instructions concerning listed companies of the NASDAQ OMX Helsinki. Rapala adheres to the Finnish Corporate Governance Code, which is publicly available e.g. on the website of the Securities Market Association at [www.cgfinland.fi](http://www.cgfinland.fi). The full version of Rapala's Corporate Governance document, as well as this Corporate Governance Statement, is available at the website [www.rapala.com](http://www.rapala.com). This Corporate Governance Statement has been approved in the Board meeting February 7, 2012, and is presented separately from the Review of the Board of Directors (Board).

### **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 company. The Annual General Meeting (AGM) decides on the matters stipulated in the Companies Act and Rapala's Articles of Association.

The Group President, the Chairman of the Board and a sufficient number of 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, unless there are well founded reasons for the absence.

The AGM of the Company 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 AGM.

Under the Articles of Association the shareholders of the Company are invited to the General Meeting by publishing the invitation and the agenda in a widely circulated daily paper and on the Company website as decided by the Board. The invitation to the Annual General Meeting shall state the matters to be handled at the General Meeting. The minutes of the AGM are published on Rapala's website at [www.rapala.com](http://www.rapala.com).

More information on the AGM is found on the Company 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 next AGM. The Board elects the Chairman to serve until the next AGM.

The duties and responsibilities of the Board are principally based on the Finnish Companies Act and the Company's Articles of Association. All significant issues concerning the Company 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 Articles of Association provide that the Board consists of no fewer than five and no more than ten members. A person elected as a member of the Board shall have the qualifications required to perform the Director's duties and the possibility to devote sufficient time to the work. The current Board of Directors comprises seven members: one member dependent on the Company: the Company's CEO,

and six non-executive members: Mr. Emmanuel Viellard, Mr. Eero Makkonen, Mr. Jan-Henrik Schauman, Mr. Marc Speeckaert, Mr. Christophe Viellard and Mrs. Isabelle de Bardies. In addition, all members of the Board, other than Mr. Emmanuel Viellard, Mr. Christophe Viellard and Mr. Marc Speeckaert, are independent of significant shareholders of the Company. Group President & CEO is a member of the Board in addition to his executive position. His membership in the Board is based on his broad know-how and long-term experience in fishing tackle industry. According to the majority of shareholders, the current composition and the number of Rapala's Board members is sufficient considering Rapala's operations. The Board does not have deputy members.

During the financial year 2011, the Board met 11 times. The average attendance rate at these meetings was 96.1%.

The current members of the Board are:

**Emmanuel Viellard**

Chairman

Chairman of the Rapala Board since 2005

President of Viellard Migeon & Cie

Vice Chairman and Executive Vice President of Lisi Industries

B.A., CPA

Year of birth: 1963

Shareholding\*: -

**Jorma Kasslin**

President and Chief Executive Officer

Rapala Board member since 1998

M.Sc. (Eng.)

Year of birth: 1953

Shareholding\*: -

**Eero Makkonen**

Rapala Board member since 1998

Chairman of the Rapala Board 1999–2005

B.Sc. (Eng.)

Year of birth: 1946

Shareholding\*: -

**Jan-Henrik Schauman**

Rapala Board member since 1999

M.Sc. (Econ.), MBA

Year of birth: 1945

Shareholding\*: -

**Christophe Viellard**

Rapala Board member since 2000

Chairman of Viellard Migeon & Cie

Diploma ESCP

Year of birth: 1942

Shareholding\*: -

**Marc Speeckaert**

Rapala Board member since 2005

MBA

Year of birth: 1951

Managing Director of Sofina

Shareholding\*: -

**Isabelle de Bardies**

Rapala Board member since 2011-

Degree from the ESCP, Ecole Supérieure de Commerce de Paris

Year of birth 1961

Shareholding\*: -

Mr. King Ming (William) Ng was a member of the board during 2001-2011. Mrs. Isabelle de Bardies was elected as a member of the board April 5, 2011.

\*Shareholdings on December 31, 2011.

**Board Committees in 2011**

In 2011, 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 Chairman of the Board, Emmanuel Viellard. Its members are drawn from the Company's non-executive and independent Directors and currently consist of Eero Makkonen and Jan-Henrik Schauman. Committee members' appointments run concurrently with a Director's term as a member of the Board. In 2011, the Committee met three times. The attendance rate was 100%.

Since the Company does not have a separate Audit Committee, the entire Board is responsible for the tasks of an Audit Committee. These include the control of the financial reporting, external accounting, internal control and risk management issues. Of the seven 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 Company.

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.

**President and CEO**

The CEO is appointed by the Board. Since 1998, Mr. Jorma Kasslin has acted as the CEO and as a member of the Board.

The CEO acts also as the Group's President. The duties and responsibilities of the President are set forth in the Finnish Companies Act. The President & CEO is responsible for the day-to-day management of the Group in accordance with the instructions and rules given 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 Company's business. The CEO is entitled to represent the Company 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. The members of the Executive Committee report to the CEO. The Executive Committee convenes under the leadership of the CEO and is composed of different Executive Committee members depending on the matters at hand.

The current\*\* members of the Executive Committee are:

#### **Jorma Kasslin**

President and Chief Executive Officer (CEO)  
Rapala Executive Committee member since 1998  
See information in section "Board of Directors"

#### **Jussi Ristimäki**

Chief Financial Officer (CFO)  
Rapala Executive Committee member since 2010  
Shareholding\*: -

#### **King Ming (William) Ng \*\***

Head of Chinese Manufacturing Operations and Hong Kong Office  
Rapala Executive Committee member since 2001-  
B.Sc. (Eng.)  
Year of birth: 1962  
Shareholding\*: -

#### **Olli Aho**

Company Counsel, Secretary of the Board and Investor Relations  
Rapala Executive Committee member since 1998  
Shareholding\*: -

#### **Juhani Pehkonen**

Head of Lure Business  
Rapala Executive Committee member since 1998  
Shareholding\*: -

#### **Stanislas de Castelnau**

Head of Fishing Hook Business  
Rapala Executive Committee member since 2002  
Shareholding\*: -

#### **Tom Mackin**

President of Rapala USA  
Rapala Executive Committee member since 2007  
Shareholding\*: 3 000

**Lars Ollberg**

Head of Fishing Line and Accessory Business  
Rapala Executive Committee member since 2008  
Shareholding\*: -

\*Shareholdings on December 31, 2011.

\*\* Mr. King Ming (William) Ng resigned from Rapala's executive committee on February 8, 2012.

**Business Organization**

The Group comprises the parent company and the manufacturing and distribution subsidiaries. The head offices of the Group are located in Helsinki and Brussels. The share of the Company is quoted on the NASDAQ OMX Helsinki. The Group's business organization consists of three operating segments: Group Fishing Products, Other Group Products and Third Party Products.

**Remuneration**

In 2011, the annual fee to the Chairman of the Board was EUR 100 000 and the fee to other Board members was EUR 45 000. The members of the Remuneration Committee do not receive further compensation. Members of the Board are reimbursed for travel expenses corresponding to the Company's traveling compensation principles.

The monthly salary of the CEO is EUR 27 000. The CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus accrued for 2011 totaled EUR 123 646. In addition to the mandatory pension insurance, the CEO has the 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 the 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 the 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, the CEO is entitled to severance compensation corresponding to 24 months' salary (excluding profit bonuses). The Remuneration Committee prepares and makes proposals to the Board of Directors for the compensation of the CEO. The Board approves the compensation of the CEO.

The CEO and senior management of the Group participate in the Group's senior management bonus scheme. Every year, a profit bonus scheme is established for the following year. The amount and payment of the bonus requires that EBITDA and cash flow targets set by the Board are achieved. If the targets are not achieved, payment of bonus is fully at the discretion of the Board. 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 of few months, to encourage retention of senior management.

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

## **Responsibilities 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 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 Group management is in frequent and personal interaction with Group companies. Number of personnel of 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 the parent company and the manufacturing and distribution subsidiaries. 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 the Group CEO, the Group CFO, 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 CEO, the members of the Board of Directors, 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 Directors of the Company.

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 Board of Directors monitors the business activities of the Company and is responsible for ensuring that accounting, reporting and asset management are appropriately organized.

The Group has a harmonized chart of accounts, uniform accounting principles (IFRS) and related reporting process. The Group has adopted a 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 on Rapala finance intranet.

The Board of Directors 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 of Directors 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 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.

## **Risks and Risk Management**

Rapala Group's risks consist of strategic, operational and hazard risks, as well as financial risks.

The main strategic risks relate to the status of sport fishing as a leisure time hobby, environmental issues affecting the fishing opportunities, success in developing new products, competitor actions, value of Group's brands, corporate reputation and other intangible assets, managing the costs and productivity, development of Group's strategic supplier partnerships, country and political risks as well as success in merger and acquisition projects.

The main operational risks relate to the effects the changes in economic cycles may have on consumer demand and customer behavior, annual seasonality of the business, weather, high interdependency between the Group's units and consequent supply chain, inventory and supplier management issues and availability of competent production labor. The Group's main hazard risks relate to fire or other similar disaster scenarios, which could lead to property damages but also to business interruption losses throughout the supply chain.

The main financial risks relate to market prices, liquidity and counterparty risks. The main market price risks relate to foreign exchange rates, interest rates and raw material prices. Liquidity risks relate to availability of sufficient funding even at the peaks of the seasons. Counterparty risk relates to creditworthiness of customers and other counterparties, such as banks.

The objective of Rapala's risk management is to support the implementation of the Group's strategy and execution of business targets. This is carried out by monitoring and mitigating the related threats and risks while 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 Group management.

The CEO and Group Risk Management continuously monitor changes in the business environment and coordinate the management of the Group's strategic, operational and financial risks. Group Risk Management consists of Group CFO, Group Funding Manager and Group Risk Manager and convenes on a regular basis. The daily risk management activity is primarily allocated 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, lead by the CFO, is responsible for regular reviews of financial performance, and internal control procedures at Group companies, and reporting significant findings to the CEO and the Board. From time to time, 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 controllers 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 Company at the conclusion of each annual audit. Each annual audit may also give rise to the preparation of a management letter to the Company outlining their audit findings in greater detail and recommending any improvements in internal controls. In addition, the auditors of the Company meet regularly with the Group Management representatives of the Company



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 Guidelines for Insiders issued by the NASDAQ OMX Helsinki. Under the Group's guidelines on insider administration, both permanent and project specific insiders are subject to trading restrictions regarding the Company's securities. The permanent insiders as well as persons under their custody and the corporations controlled by them are prohibited from trading with the securities three weeks prior to the publication of an annual or quarterly report of the Company. The project specific insiders are prohibited from trading with the securities during their project participation. The Company arranges internal communication, training and supervision of insider issues.

Information on persons included in the public insider register can be found on the Company's 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 Mikko Järventausta, 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.