

# RAPALA VMC CORPORATION

## CORPORATE GOVERNANCE STATEMENT

### DECEMBER 31, 2015

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. 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 at the corporate website [www.rapalavmc.com](http://www.rapalavmc.com). This Corporate Governance Statement has been approved in the Board of Directors ("Board") meeting February 8, 2016, and is presented separately from the Review of the Board of Directors and financial statements.

#### 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 General Meeting decides on the matters stipulated in the Companies Act and Rapala VMC Corporation'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 Annual General Meeting (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 General Meeting.

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 Group's corporate website as decided by the Board. The invitation shall state the matters to be handled at the General Meeting. 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 of Directors 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. There were no changes in the Board of Directors members during the year. The current Board of Directors comprises seven members. The company's CEO is dependent on the company. Other six non-executive members are Mr. Emmanuel Viellard, Mr. Eero Makkonen, Mr. Jan-Henrik Schauman, Mr. Christophe Viellard, Mr. Marc Speeckaert and Ms. Julia Aubertin. In addition, all members of the Board, other than Mr. Emmanuel Viellard, Mr. Marc Speeckaert and Mr. Christophe Viellard, 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. Following the resignation of one Board member, the composition and the number of Board members will be considered in the next AGM. The Board does not have deputy members.

During the financial year 2015, the Board met 13 times. The average attendance rate at these meetings was 100 %.

The current members of the Board and their shareholding on December 31, 2015 are:

#### Emmanuel Viellard

Chairman  
Chairman of the Rapala Board since 2005  
Viellard Migeon & Cie, President  
Lisi Industries, Vice Chairman and Executive Vice President  
B.A., CPA  
Year of birth: 1963  
Shareholding and options: -

#### Jorma Kasslin

President and Chief Executive Officer (CEO)  
Rapala Board member since 1998  
M.Sc. (Eng.)  
Year of birth: 1953  
Shareholding and options: -

#### Eero Makkonen

Rapala Board member since 1998  
Chairman of the Rapala Board 1999-2005  
B.Sc. (Eng.)  
Year of birth: 1946  
Shareholding and options: -

#### Jan-Henrik Schauman

Rapala Board member since 1999  
M.Sc. (Econ.), MBA  
Year of birth: 1945  
Shareholding and options: -

#### Christophe Viellard

Rapala Board member since 2000  
Viellard Migeon et Cie. (VMC), Chairman of the Board  
Diploma ESCP  
Year of birth: 1942  
Shareholding:-

**Marc Speeckaert**

Rapala Board member since 2005  
Sofina, Managing Director  
MBA  
Year of birth: 1951  
Shareholding and options: -

**Julia Aubertin**

Rapala Board Member since 2014  
Deputy Managing Director, Good Goût Babyfood  
M.Sc. (EDHEC)  
Year of birth: 1979  
Shareholding and options: -

**BOARD COMMITTEES**

In 2015, 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 2015, the Committee met one time. 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 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 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 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 company complies with the law and that the financial management of the company has been arranged in a reliable manner. 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. On September 24th, 2015 Aku Valta and Cyrille Viellard were appointed as new members to the Executive Committee.

The current members of the Executive Committee and their shareholding on December 31, 2015 are:

**Jorma Kasslin**

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

**Jussi Ristimäki**

Deputy CEO, Chief Financial Officer (CFO), Distribution in Nordics, South Africa and Eastern Europe, excl. Russia, Overall Supply Chain and Working Capital Management  
Executive Committee member since 2010  
Shareholding and options: -

**Olli Aho**

Executive Vice President Company Counsel, Investor Relations, Secretary of the Board  
Executive Committee member since 1998  
Shareholding and options: -

**Juhani Pehkonen**

Executive Vice President Lure Manufacturing and Product Development  
Executive Committee member since 1998  
Shareholding and options: -

**Stanislas de Castelnau**

Executive Vice President Hook and Carp Business, Distribution in France and Switzerland, Group Manufacturing Excellence  
Executive Committee member since 2002  
Shareholding and options: -

**Tom Mackin**

Executive Vice President Distribution and Brands in North America  
Executive Committee member since 2007  
Shareholding: 3 000

**Lars Oilberg**

Executive Vice President Accessory and Outdoor Business, APAC & ME Distribution  
Executive Committee member since 2008  
Shareholding and options: -

**Victor Skvortsov**

Executive Vice President Distribution in Russia, Belarus, Kazakhstan  
Executive Committee member since 2013  
Shareholding and options: -

**Cyrille Viellard**

Executive Vice President Supply Chain Management, Shimano Partnership Co-ordination  
Executive Committee member since 2015  
Shareholding and options: -

## **Aku Valta**

Executive Vice President - International Lure Sales & Brands

Executive Committee member since 2015

Shareholding and options: -

## **BUSINESS ORGANIZATION**

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

Product distribution is organized through sales companies, which the Group has in almost 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 2015, 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.

In 2015, CEO's annual base salary and benefits amounted to EUR 355 960, of which EUR 55 960 was paid in cash and EUR 300 000 as personal supplementary pension insurance policy. CEO is also entitled to a profit bonus according to the principles of the Group's senior management bonus scheme. His bonus paid in 2015 totaled EUR 110 433 accruing from year 2014. Bonus accrued for 2015 amounted to EUR 74 384. The CEO's pension security is no arranged under the statutory Finnish contribution based employee pension plan. Therefore in addition to the annual salary, CEO was paid in 2015 EUR 53 410 to arrange a pension security corresponding to the Finnish statutory employee pension plan. The retirement age corresponds to the Finnish employee pension plan. In addition, 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. Being a member of the board, the CEO is entitled to the same compensation as the other board members, which totals to EUR 45 000 for the year 2015.

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 cause, CEO is entitled to severance compensation corresponding to 24 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 requires that the established result 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. 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).

## **RESPONSIBILITIES AND INTERNAL CONTROL**

The Rapala 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, the Group CFO 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 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 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 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 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 on the Rapala Group's 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 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.

## **RISKS AND RISK MANAGEMENT**

The 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 fishing opportunities, success in developing new products, competitive landscape, changes in retail structure, value of the Group's brands, corporate reputation and other intangible assets, managing costs and productivity, development of strategic supplier partnerships, country and political risks as well as success in mergers and acquisitions.

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. The Group's main hazard risks relate to fire or other similar disaster scenarios, which could lead to property damages and 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 the Rapala Group's risk management is to support the implementation 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 of Directors 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 Group Risk Management continuously monitor changes in business environment and coordinate the management of the Group's strategic, operational and financial risks. Group Risk Management consists of Group CFO and Group Treasurer 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 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 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 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 Group's corporate website.

## **AUDIT**

An external audit is performed annually in each of the Group companies and for the consolidated Group. Ernst & Young 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 in charge is Mikko Ryttilahti, 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.