

# CORPORATE GOVERNANCE STATEMENT 2012

Tikkurila Oyj (hereafter also referred to as "Tikkurila" or "Group", both in relation to Tikkurila Oyj and the Group it forms) has prepared this corporate governance statement based on the existing legislation and regulations. This corporate governance statement is issued separately from the Board of Directors' Review, and is also available on the website

www.tikkurilagroup.com, as well as is included in the 2012 Annual Report.

## GENERAL PRINCIPLES AND FRAMEWORK

Tikkurila's governance principles and decision-making processes are based on:

- the Finnish Companies Act;
- the Finnish Securities Market Act;
- the Finnish Corporate Governance Code;
- the Articles of Association of Tikkurila;
- the standards issued by the Finnish Financial Supervision Authority;
- the rules and regulations of Nasdaq OMX Helsinki Ltd.;
- Helsinki Takeover Code issued by the Finnish Central Chamber of Commerce; and
- other legislation or regulations applicable to the Group's business.

Information about the governance practices of the Group is also available on the corporate website of Tikkurila.

As the Group's business is either directly or indirectly dependant on the markets outside of the domicile of Tikkurila Oyj, the relevant local (i.e. non-Finnish) laws and regulations are also taken into account in the Group's operations. Furthermore, the Group has issued a number of internal policies and guidelines where governance aspects are taken into account.

## ANNUAL GENERAL MEETING OF SHAREHOLDERS (AGM)

The Annual General Meeting is the supreme decision-making body of Tikkurila Oyj, and the tasks of the AGM are based on and defined in the Finnish Companies Act, Tikkurila's Articles of Association and any other relevant regulations. As stipulated by the Companies Act, the Annual General Meeting shall be held once a year, at the latest before the end of June. The AGM resolves on e.g.:

- the adoption of the financial statements of the previous financial year;
- the use of profit as stated by the adopted and audited financial statements;
- the number of members on the Board of Directors;
- the election of members of the Board of Directors;
- the remuneration of the members of the Board of Directors;
- the election of the Auditor;
- the compensation to be paid to the Auditor;
- the discharging from liability of the members of the Board and the President and CEO;
- any proposals by the Board of Directors or by the shareholders or group of shareholders related to e.g. authorizations granted to the Board, share buy-backs or granting of special rights related to shares; and
- any changes in the Articles of Association.

Tikkurila Oyj has one class of shares; therefore, all shares have equal voting rights at the General Meetings of shareholders. More detailed information on the process of the Annual General Meetings can be found in the Tikkurila's Articles of Association, which are available on the company's web page,

www.tikkurilagroup.com/corporate\_governance/articles\_of\_association/.

The decisions of the shareholders' meeting during 2012 are presented in the 2012 Board of Directors' Review, and all the meeting materials and decisions are published on the company's web page. The Annual General Meeting in 2013 will be held on April 10, 2013.

## NOMINATION BOARD

Tikkurila has a Nomination Board consisting of the shareholders or representatives of shareholders to prepare and present annually a proposal for the next Annual General Meeting concerning the composition and remuneration of the Board of Directors. Representatives of the three largest shareholders are elected to the Nomination Board. In addition, the Chairman of the Board of Directors of the company shall act as an expert member of the Nomination Board.

The Nomination Board was convened so that each of the company's three largest shareholders registered as shareholders in the shareholders' register maintained by Euroclear Finland Ltd were requested to appoint one member to the Nomination Board. In addition, the Chairman of the Board of Directors of Tikkurila acted as an expert member of the Nomination Board.

During 2012 the members of the Nomination Board were: Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy, Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company, and Risto Murto, Executive Vice President of Varma Mutual Pension Insurance Company. The fourth member of the Nomination Board was Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj.

During 2012, the Nomination Board met three times and the attendance rate was 100 percent.

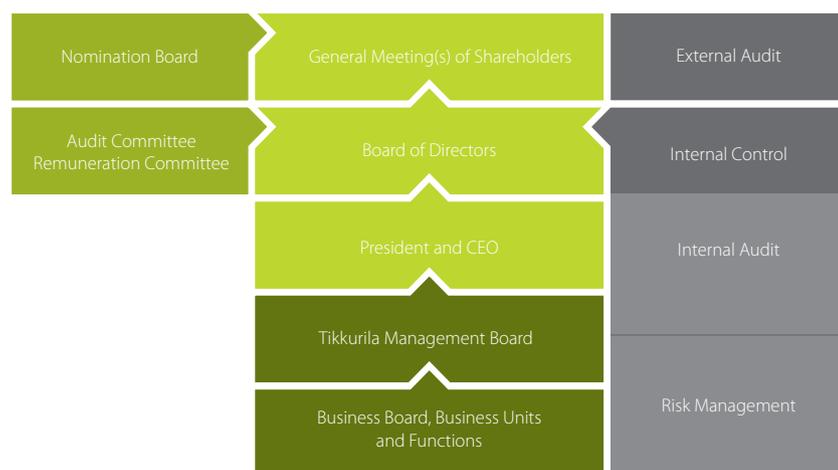
## BOARD OF DIRECTORS

The duties and responsibilities of the Board of Directors are governed by the Finnish Companies Act and other relevant legislation. The Board of Directors oversees the management and business operations of Tikkurila. The main duties of the Board include:

- to approve the strategy of the Group;
- to decide on long-term financial and operational goals;
- to approve annual budgets and medium-term business plans;
- to decide on any major corporate restructuring, merger, acquisition or divestment;
- to decide on major investments as well as major expenses, commitments and internal policies;
- to decide on the key funding and risk management issues and related pledges and commitments;
- to approve or confirm the appointment and remuneration of the Group management;
- to appoint and dismiss the Group President and CEO, and to appoint the members of the Tikkurila Management Board;
- to monitor and evaluate the performance of the Group President and CEO;

## OVERVIEW OF TIKKURILA'S GOVERNING BODIES

The following diagram summarizes the key governing bodies of Tikkurila:



The main duties of the Group's governing bodies are defined to a major extent by the Finnish Companies Act.

- to ensure the adequacy of planning, information and control systems, as well as the handling of financial reporting and risk management;
- to make proposals for, including but not limited to proposing the dividend payout, and to convene the Annual General Meeting;
- to oversee that the Group's disclosure policy is applied; and
- to ensure that the supervision of the accounting and financial matters, and any audits there-by, are properly organized.

The Board of Directors represents all the shareholders and shall always work to the best advantage of the Group and all the shareholders of Tikkurila Oyj.

In accordance with the Articles of Association, the Board of Directors of Tikkurila Oyj comprises 3–7 members elected by the Annual General Meeting for a term that lasts until the end of the next Annual General Meeting. The Board of Directors elects the Chairman and the Vice Chairman among its members immediately after the Annual General Meeting of the Shareholders. The Board is convened by the Chairman. The Board of Directors has a quorum when more than half of its members attend the meeting. The President and CEO, as well as the CFO, of the Group attend the Board meetings presenting the issues being discussed or decided upon, and the Group Vice President, Legal Affairs acts as the Secretary of the Board.

During the financial year 2012, Tikkurila Oyj's Board of Directors had five members from January 1 until March 28: Jari Paasikivi (Chairman), Petteri Walldén (Vice Chairman), Eeva Ahdekivi, Riitta Mynttinen and Pia Rudengren. According to the decision of the Annual General Meeting that took place in March 2012, the Board has seven members. Consequently, from March 28, 2012, the members of the Board have been: Jari Paasikivi (Chairman), Petteri Walldén (Vice Chairman), Eeva Ahdekivi, Riitta Mynttinen and Pia Rudengren, and as new members Harri Kerminen and Aleksey Vlasov.

All of the Board members are independent of the company, and six members out of seven are also independent of major shareholders. Chairman of the Board, Jari Paasikivi, is the CEO of Oras Invest Oy, and hence he is not independent of the key shareholders, since Oras Invest Oy owns about 18 percent of Tikkurila Oyj's shares.

During 2012, the Board of Directors concentrated on overseeing the implementation of the revised Group strategy, that was announced during the fall of 2011, and decided in November on the new long-term financial targets.

In order to ensure the effectiveness of the Board of Directors' work, the Board annually conducts a self-evaluation, the results of which are used to develop the working methods of the Board, as well as to enhance the cooperation between the Board and the President and CEO.

During 2012, the Board held 11 meetings, and the average attendance rate was 90 percent.

More detailed information is presented of the members of the Board of Directors on page 9–10.

## REMUNERATION OF THE BOARD OF DIRECTORS

In March 2012, the Annual General Meeting decided on the remuneration to be paid to the members of the Board. According to that decision, the Board remuneration was the following:

- Chairman of the Board: EUR 57,000 per year;
- Deputy Chairman of the Board: EUR 37,000 per year; and
- other members of the Board: EUR 31,000 per year.

The annual remuneration of the Board members was paid as a combination of shares and cash so that 40 percent of the annual remuneration has been paid as shares: either from shares already owned by Tikkurila or, if this is not possible, in shares acquired from the market, and 60 percent was paid in cash.

In addition, a meeting-specific fee was paid in the amount of:

- the members living in Finland: EUR 600 per meeting; and
- the members living in other countries: EUR 1,200 per meeting.

Moreover, EUR 600 was paid per conference call meeting. The meeting-specific fee was also paid for any committee meetings. Members' travel expenses related to meetings were compensated in accordance with the Tikkurila's Group travel policy. The meeting-specific fees were paid in cash.

There were no employment relationships or service contracts between the Board members and Tikkurila.

## AUDIT COMMITTEE

In 2012, Eeva Ahdekivi was the Chairman of the Audit Committee and the members of the Committee were Pia Rudengren (full year), Jari Paasikivi (until March 28) and Riitta Mynttinen (from March 28).

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and Tikkurila's process for monitoring the compliance with the laws and regulations and the Tikkurila Code of Conduct.

The Audit Committee of Tikkurila does not have any executive power. The Audit Committee is responsible for preparing and handling issues, e.g.:

- to assess and oversee the preparation of financial statements and interim reports, and to review the results of the impairment testing of the assets;
- to assess risks and to review risk management policies and actions;
- to evaluate Tikkurila's compliance with the laws, regulations and Tikkurila's internal Code of Conduct, financial reporting principles as well as corporate social responsibility initiatives;
- to approve audit plans for both external audit and internal audit;
- to prepare the election of auditors; and
- to review the corporate governance statement.

During 2012, the Audit Committee met five times. On average, the attendance rate was 93 percent. The Group's CFO Jukka Havia acted as the Secretary of the Committee, and Tikkurila's principal auditor Pekka Pajamo (until March 28, 2012) and Toni Aaltonen (from March 28, 2012) were present at the meetings and presented the reports to the Audit Committee. In addition, Tikkurila's internal auditor reported audit findings to the Audit Committee during the year.

In financial year 2012, the Audit Committee oversaw and edited the Group interim reports before Board meetings, discussed results guidance and guidelines related to it, reviewed internal and external audit reports and audit plans as well as prepared the election of Auditor, presented to the Annual General Meeting 2012. The Audit Committee also continued the work started in 2011 in relation to the risk assessment and management.

## REMUNERATION COMMITTEE

In March 2012 the Board of Directors of Tikkurila Oyj established the Remuneration Committee to discuss and propose remuneration of the Tikkurila's Group management. Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén and Harri Kerminen were the members of the Committee. During 2012, the Committee met once with all the members present at the meeting.

## PRESIDENT AND CEO

The Board of Directors appoints the President and CEO and decides on his/her remuneration and other benefits. The President and CEO is in charge of the day-to-day management of the company and the Group it forms. The President and CEO's responsibilities are based on the Finnish Companies Act, the Finnish Corporate Governance Code and the guidance and authorization given by the Board of Directors.

Erkki Järvinen has been the President and CEO of Tikkurila since January 2009. The President and CEO's duties include managing the business according to the instructions issued by the Board of Directors, presenting the matters to be dealt with in the Board of Directors' meeting, implementing the matters resolved by the Board of Directors and other issues determined in the Companies Act.

## TIKKURILA MANAGEMENT BOARD

The Tikkurila Management Board is chaired by the President and CEO, and it assists the CEO in the management and development of Tikkurila.

In 2012, the Tikkurila Management Board comprised of the following persons:

- Erkki Järvinen, President and CEO, Group (Chairman)
- Jukka Havia, Chief Financial Officer, Group
- Janno Paju, Chief Commercial Officer
- Petri Miettinen, Group Vice President, Supply Chain & HSEQ
- Kenneth Sundberg, Group Vice President, R&D

The President and CEO proposes the appointment of the Tikkurila Management Board members, and the Board of Directors approves the appointments as well as approves the remuneration

for the members of the Management Board.

Tikkurila has operations in multiple countries, and hence also has a large number of legal entities in various countries. The President and CEO is the decision-maker on any major decisions, which do not require the Board of Directors' resolution, and the Group or regional management teams make the operational decisions. The Boards of Directors of Tikkurila's subsidiaries do not have any independent operational or other major decision-making power, but the subsidiary Boards ensure that local legal entities are managed in accordance with the local laws and regulations, as well as in accordance with the Tikkurila Group's internal policies.

#### REMUNERATION OF THE MANAGEMENT MEMBERS REPORTING DIRECTLY TO THE PRESIDENT AND CEO

The Board of Directors decides on the remuneration as well as key employment terms for all management members that directly report to the President and CEO.

#### REMUNERATION OF THE PRESIDENT AND CEO IN 2012

During the financial year 2012 the following gross salary expenses were recognized, on accruals basis, in the group accounting in relation to the remuneration of Erkki Järvinen, the President and CEO of Tikkurila Oyj:

Fixed salary	EUR 416,138.56	64%
Fringe benefits	EUR 14,353.00	2%
Bonuses	EUR 220,815.60	34%
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Salaries total	EUR 651,307.16	100%

In addition to the abovementioned items, the President and CEO Erkki Järvinen is entitled to retire at the age of 63 and has a defined contribution-based supplementary pension plan. In 2012, the cost of the supplementary pension was EUR 57,881.00. The pension is based on a defined con-

tribution pension scheme. Moreover, he is a part of the share-based commitment and incentive plan decided by the Board in 2012, for which for his part an IFRS-based expense of EUR 158,607.97 was recognized in addition to the figures in the table above.

The bonus accrued to the CEO in relation to the financial year of 2012 will be paid in March 2013, and this bonus may not exceed 50 percent of his annual salary.

A six-month period of notice applies to the President and CEO. In addition, the President and CEO will receive a severance pay equaling his 12-month salary if the company terminates his agreement.

The President and CEO was a member of the 2012 management bonus scheme and the new share-based commitment and incentive plan introduced in 2012. The content of these incentive systems is described in more detail in the "Share-based Commitment and Incentive Plan 2012–2014" and "Annual Bonus Scheme".

#### REMUNERATION OF THE TIKKURILA MANAGEMENT BOARD IN 2012

Tikkurila Management Board members were included in the 2012 annual bonus scheme, and in the new share-based commitment and incentive plan, which was established in 2012. The content of these incentive systems is described in more detail in the "Share-based Commitment and Incentive Plan 2012–2014" and "Annual Bonus Scheme".

#### SHARE-BASED COMMITMENT AND INCENTIVE PLAN 2012–2014

In order to commit and motivate the key personnel, the Board of Directors of Tikkurila Oyj decided on a new share-based plan on February 15, 2012. This plan includes three performance periods. The Board of Directors of the company will decide on the performance criteria of the plan and their targets at the beginning of each performance pe-

riod. The prerequisite for participation in the plan and the receipt of the reward provides that a key employee purchases Tikkurila's shares from the market in accordance with the terms and conditions of the plan.

The potential reward from the performance period 2012–2014 is based on the Tikkurila Group's Operative Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Net Debt. Any key employee participating in the plan has the possibility to earn a reward only in case the employment or service contract continues at least up until spring 2015 and subject to that he/her still owns the shares originally purchased at the time of reward payment. The amount of the rewards depends on the number of purchased shares and the fulfillment of the performance criteria. Rewards will be paid in spring 2015 partially in the company's shares and partially in cash.

The target group of the share-based plan consists of ten key employees, which are members of the Group management or significant business area management. The key persons were chosen by the Board of Directors. Effective from the second quarter of 2012, Tikkurila has recorded personnel expenses into the Group income statement according to the IFRS 2 standard and according to the share purchases conducted by each of the participants.

Additional information about the share-based commitment and incentive plan, and its financial impact, is available in the note 38 included in the 2012 consolidated financial statements. During the financial year 2012 a total of about EUR 0.5 million was recognized as personnel expenses in the Group income statement, and at the end of 2012 the total bookkeeping value of the plan amounted to about EUR 2.4 million.

#### ANNUAL BONUS SCHEME

On February 15, 2012, the Board of Directors of Tikkurila Oyj approved the principles for the annual management bonus scheme for 2012.

#### SUMMARY OF THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND TIKKURILA MANAGEMENT BOARD

##### REMUNERATION IN 2012, GROSS, IN EUR '000

	Persons	Fees, Tikkurila Oyj shares	Fees, cash	Total Fees
<b>Board of Directors</b>				
Chairman	1	22.8	42.6	65.4
Other Board members, total	6	76.8	172.8	249.6
<b>Board of Directors, total</b>	<b>7</b>	<b>99.6</b>	<b>215.4</b>	<b>315.0</b>

	Persons	Fixed Salary	Fringe Benefits	Subtotal, Fixed Remuneration	Annual Bonus	Share-Based Remuneration*	Subtotal, Variable Remuneration	Supplementary Pension	Total Remuneration
<b>Tikkurila Management Board</b>									
President and CEO	1	416.1	14.4	430.5	220.8	158.6	379.4	57.9	867.8
Other management board members, total	4	563.6	57.7	621.3	225.3	186.3	411.6	155.2	1,188.2
<b>Tikkurila Management board, total</b>	<b>5</b>	<b>979.7</b>	<b>72.1</b>	<b>1,051.8</b>	<b>446.1</b>	<b>344.9</b>	<b>791.1</b>	<b>213.1</b>	<b>2,056.0</b>

\* IFRS 2 standard based annual personnel expense as recognized in 2012 Group income statement; to be paid only in spring 2015, and is subject to various conditions to be met, based on the share-based commitment and incentive Plan's 2012–2014 performance period

Participants in the management bonus scheme are the members of the Tikkurila Management Board, employees on the management team level and functions of the business units, managing directors of the companies belonging to the Tikkurila Group as well as selected managers and experts in specific positions in companies belonging to the Tikkurila Group, altogether 110 persons for 2012.

Bonus criteria consist of the 2012 Tikkurila Group business cash flow and operative EBIT as well as function, region, company or team specific targets. In addition, the criteria can include individual targets. Annual Group level cash flow and operative EBIT targets account for at least 50% of the total.

On December 3, 2012 the Board of Directors decided the criteria for annual management bonus scheme for the financial year 2013. Bonus criteria consist of the 2013 Tikkurila Group revenue growth, business cash flow and operative EBIT as well as function, region, company or team specific targets. In addition, the criteria can include individual targets. Annual group level targets account for at least 70% of the total.

### AUDITOR (STATUTORY AUDIT)

According to the Articles of Association of Tikkurila Oyj, Tikkurila has one ordinary auditor that shall be an auditing firm approved by the Finnish Central Chamber of Commerce. For the financial year 2012, KPMG Oy Ab was elected as an auditor.

The Audit Committee of the Board prepares the election process of auditors. The aggregate duration of the principal auditor cannot exceed seven years. The current principal auditor, Toni Aaltonen from KPMG Oy Ab, has started in the role of the principal auditor in 2012.

The auditor has a statutory responsibility to audit Tikkurila Oyj's accounting (based on Finnish accounting legislation), the Tikkurila Group's consolidated accounts (based on IFRS), the Board of Directors' Review, financial statements with all notes, as well as the administration of the company. Tikkurila's financial year is equal to the calendar year. The auditor primarily reports via the Audit Committee but also takes part in at least one Board meeting. When the corporate governance statement is issued as a separate report, the auditor shall check that the statement has been issued and that the description of the main features of the internal control and risk management systems in relation to the financial reporting process is consistent with the financial statements.

The auditor is elected by the Annual General Meeting for one year's term of service. The auditor reports to the Board of Directors at least once a year, and participates in Audit Committee meetings.

During 2012, the Group had a total of EUR 353 thousand audit-related expenses and EUR 55 thousand expenses for other services provided by KPMG, the Auditor of Tikkurila Oyj. During the financial year 2012, the Group companies had additional audit services from other audit companies than KPMG for a total of EUR 136 thousand, and non-audit services for EUR 87 thousand.

### INTERNAL CONTROL

Tikkurila maintains an internal control system, the purpose of which is:

- to safeguard the value of its assets; and
- to ensure the effectiveness and efficiency of its operations, including
  - the reliability of financial and operational reporting;
  - compliance with applicable regulations, policies and practices; and
  - consistency of its operations with set objectives.

Internal control is an integral part of all Tikkurila's operations and covers all levels of the company. The entire personnel of the company is responsible for internal control, and its effectiveness is monitored by managers as part of operational management.

The main components of the internal control are:

- management and organizational culture;
- risk assessment;
- control activities;
- reporting and communication; and
- monitoring and auditing.

Tikkurila's Values, Code of Conduct and group-level policies provide the basis for corporate governance and internal control in the company. Every employee has the right and duty to report, anonymously if needed, to the Group's Compliance Officer or Group Internal Audit any violations of the law and the Code of Conduct.

### FINANCIAL REPORTING PROCESS

Every Tikkurila Group subsidiary reports on a monthly basis the income statement, balance sheet, cash flow statement and future forecast in accordance with the IFRS principles and based on the pre-set reporting model, Group finance manual and timetable. Moreover, each subsidiary reports additional notes to the income statement and balance sheet, as well as their off-balance sheet liabilities, at the end of each quarter. The parent company consolidates all subsidiary reports and generates consolidated and segment reporting, which is the basis for the monthly reporting to the Board of Directors and to the Group management.

Subsidiaries' reporting timetable is followed on a daily basis. Local and group controllers are responsible for ensuring that reporting is timely and correct. In addition, Group's analytics center, which is independent of business units and functions, analyzes historical and forward-looking reporting e.g. between reporting entities, compared to the historical development and in relation to pre-set budgets or other targets.

Group management and business unit management visits business units on a regular basis. The financial reporting of each Group company is one part of the top management reporting, and hence under regular follow-up.

### INTERNAL CONTROL ACTIVITIES DURING 2012

Internal control aims at organizing structures that enhance compliance throughout the Group and support the achievement of the business objectives. Business practices are based on the Tikkurila Code of Conduct and other more specific policies.

As examples of the practical implementation of internal control activities during 2012, the following issues can be highlighted:

- organizational structures were simplified and responsibilities were changed aiming to clearer and more streamlined business model, the development of which will continue also in 2013;
- special attention was paid to the practical implementation of recommendations of internal audit and external audit; and
- harmonization of practices between business units was continued.

In 2012, the group-wide implementation of the so-called whistle blowing application was carried out. Via that internet-accessible software any employee or external partner can anonymously report any suspected violations. During 2012, a few reports were received via the application, but no significant violations were found.

### INTERNAL AUDIT

The internal audit provides independent appraisal and assurance for the review of operations within the Group in order to support the management and the Board of Directors in fulfilling their oversight responsibilities. The Audit Committee has confirmed the Internal Audit Charter for Tikkurila. The purpose is to evaluate and contribute to the improvement of risk management, control and governance systems in the Group. The internal audit function has complete and unrestricted access to all activities of Tikkurila. Internal audit focuses on both regular business unit auditing as well as business process audits. Annual internal audit plans are based on assessment of the importance of each topic and risks for the Tikkurila Group.

The internal audit function regularly reports to the Audit Committee of the Board, and the President and CEO of Tikkurila acts as the administrative superior of the internal auditor. Internal audit plans and findings are also subject to regular review by the external auditors over the course of the year.

From the beginning of 2011, Tikkurila has had its own internal audit function, including an in-house internal auditor, who has been helped by the third-party experts to the required extent to carry out the internal audit activities. Also ad hoc internal project groups, selected from among Tikkurila Group companies, have been utilized in carrying out certain internal audit tasks.

### INTERNAL AUDIT ACTIVITIES DURING 2012

During 2012, the internal audit function carried out audits based on the selected themes with the scope covering the key markets of Tikkurila's operations. Cross-country process-based audits were carried out in inventory management, internal fi-

financial reporting, transfer pricing and related party transactions. One of the targets was to find and implement best practices, as found out by the audits, into all Tikkurila's subsidiaries, as well as to unify the activities and fill any gaps found. In addition, two country-specific audits and follow-up activities were carried out on the implementation status of the 2011 audit recommendations.

### PLAN FOR INTERNAL AUDIT ACTIVITIES DURING 2013

Based on the Audit Committee's internal audit plan, the internal audit function in 2013 will focus on e.g. certain processes in human resources function, access rights and information distribution processes and sourcing practices. Also some country-specific audits are planned. Another objective for 2013 is to increase co-operation with Tikkurila Business Board in implementing recommendations and in increasing relevance of internal audit and its findings.

### RISKS

Tikkurila's business involves a number of risks, some of which could be of substantial nature. As the Group's business operations are divided into several geographical areas and into diverse product and customer segments, the amount, likelihood and impacts of various risks may vary between the Group's business units. The materialization of such risks may have a major adverse effect on Tikkurila's business, financial position or results of operations.

Tikkurila has risks of various character, such as strategic risks, operational risks, financial risks and hazard risks. Risks are assessed and managed according to the type and characteristics of each risk. In Tikkurila's view, the main risks are among strategic and operational risks, but all categories present risks that may have significant impact on Tikkurila's business.

In order to illustrate relevant risks to Tikkurila, and based on certain simplified assumptions, the

following chart outlines some key risks identified by the Board of Directors. The size of the bubble depicts the estimated rough potential monetary impact of that risk class, and the color of the bubble signals whether the risks are mostly internally manageable or externally created by nature. Risks are split by their most relevant time horizon, even though most of them have both short-term and long-term implications.

Comparing to the situation at the end of 2011, based on Tikkurila's internal assessment, the macroeconomic situation has worsened, and hence the probability of the related risks is higher. Moreover, the competition-related risks have increased and their probability increased even in the short-term due to consolidation taking place within the paint industry, and also due to the fact that competitors are increasing the production capacities and sales promotion activities in Tikkurila's key market areas. However, the short-term probability of commodity price and availability risks is considered to be lower than a year ago, as the supply and demand are balanced now better.

There is also information about relevant risks for Tikkurila in the 2012 Board of Directors' Review .

### RISK MANAGEMENT

The goal of risk management is to identify the risks that may hinder the company from achieving its business objectives. A risk can be defined as any uncertainty that affects Tikkurila's business and its ability to reach results.

Tikkurila endeavors to identify, analyze, evaluate and treat the risks systematically and proactively. Tikkurila's objective is to reach the desired aggregate risk level and ensure the continuity of operations.

Tikkurila's Board of Directors defines the main principles of Tikkurila's risk management and approves the Group's risk management policy, and the Audit Committee assists the Board in the supervision of risk management. The business units

and functions are responsible for identifying, reporting and monitoring the risks involved in their activities and for the related risk management.

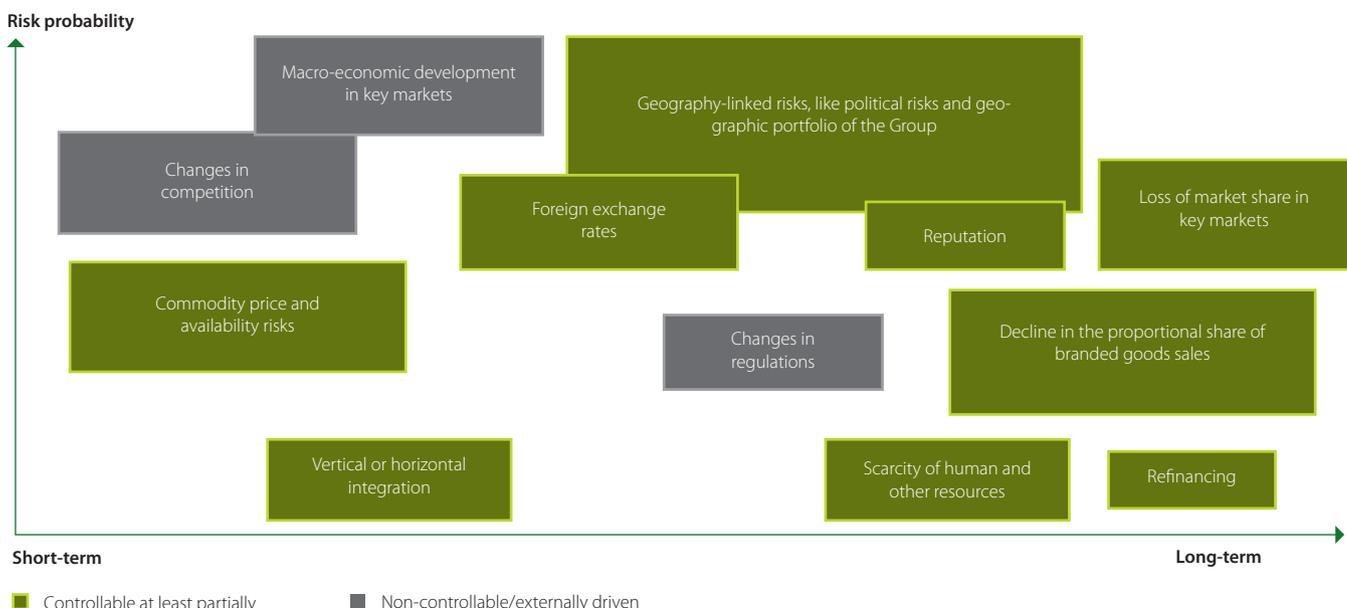
In Tikkurila, the business units and functions perform overall risk management in conformity with the risk self-assessment methodology where the risk registers are used as well. Third-party advisors are used in risk assessment or risk management development to the relevant extent. Current risks are regularly reported, both internally to the management and the Board, and as a part of Tikkurila's external reporting. The reports summarize the nature of the risk and its perceived probability and severeness.

Some risk management measures are performed centrally in order to generate cost benefits and to ensure a sufficient level of protection. These include insurance cover for certain risks, such as general third party and product liability, cargo, property damage and business interruption insurance for major production sites, as well as the hedging of treasury risks. Major investment and acquisition risks are assessed by the Management Board and Tikkurila Oyj's Board.

The responsibility for the implementation of the Group's risk management activities lies with the President and CEO as well as the Tikkurila Management Board. The Board of Directors is responsible for approving the key policies and principles of the risk management processes. The Board of Directors and the Audit committee approve and follow up the reporting procedures and monitor the adequacy, appropriateness and effectiveness of the Group's business and administrative processes.

### RISK MANAGEMENT ACTIVITIES DURING 2012

During 2012, the Group continued to further develop its risk strategy and risk management processes. The Board of Directors and Group management defined the key external strategic risks. Based on the business impact analysis carried



out at the end of 2011, contingency plans were drawn in relation to the production and raw material sourcing for better management of any interruptions. As the Board revised the financial risk management policy in December 2011, use of derivatives in managing interest rate risks was discontinued and some fine tuning was carried out in relation to foreign exchange rate risk management. An external survey was conducted on information security risks, based on which a number of development actions were initiated. During 2012, internal risk awareness dialogue was increased.

During the latter half of 2012, the group management carried out a risk assessment process in relation to the identification of long-term strategic risks most relevant for Tikkurila's business. Based on the internal process, the following themes were considered to be most relevant, and in 2013 attention will be paid to their further analysis:

- increased competition;
- changes in the value chain;
- sluggish and volatile macroeconomic outlook;
- need to promote broad-based innovation and potential technological changes; and
- compliance and reputation issues.

#### **PLAN FOR RISK MANAGEMENT ACTIVITIES DURING 2013**

The target in 2013 is still to develop the risk assessment, reporting and management, and take to the relevant extent into use quantitative risk tolerance KPIs to support strategy implementation and resource allocation. The implementation of various external and internal audit findings and development proposal shall be speeded up, and where needed, the roles and responsibilities to be redefined. Training and communication of risk management issues is aimed to be increased.

#### **MANAGEMENT OF INSIDER ISSUES**

As provided by the Finnish Securities Markets Act, Tikkurila Oyj's insiders consist of insiders subject to disclosure requirements, permanent compa-

ny-specific insiders and project-specific insiders.

On the basis of their position, Tikkurila's insiders subject to disclosure requirements comprise the Board members, the Managing Director, members of the Management Board and the responsible auditor representing the independent firm of public accountants. Tikkurila Oyj's permanent company-specific insiders comprise certain other persons specified separately by the Group Vice President, Legal, and approved by the President and CEO of Tikkurila.

Tikkurila Oyj complies with the Insider Guidelines issued by the Nasdaq OMX Helsinki Ltd, according to which the insiders should trade in company shares at a time when the marketplace has the fullest possible information on circumstances influencing the value of the company's share. Accordingly, and based on the resolution of the Board of Directors, Tikkurila's permanent insiders may not trade company's securities during the period that starts at the end of the reporting period and lasts until the publication of the following interim report or financial statement bulletin.

#### **SILENT PERIOD**

Tikkurila observes a silent period (closed window) before it publishes financial statements and interim reports. The silent period begins when the reporting period in question ends and continues until the financial statements or interim report for the period in question has been published. During the silent period, Tikkurila's spokespersons are not available for meetings with capital market representatives and may not discuss Tikkurila's performance or market development.

#### **GUIDANCE**

Tikkurila provides guidance in the form of an official outlook statement published in the interim reports, financial statements and the review of the Board of Directors. Tikkurila will provide outlook statements only for a period for which the company has a reasonable visibility. The outlook includes management's descriptive estimate on revenue and profitability. The estimate may also

include other elements. No other forward-looking statements or answers to questions concerning the future performance are given unless the company decides to update the guidance and publish a stock exchange release regarding the update. Any such updates are published without undue delay once reasonable visibility and accuracy of future prospects exist.

#### **COMMUNICATIONS**

Tikkurila is committed to transparency, which means that we communicate in a proactive, open, credible, consistent, unbiased and timely manner.

Tikkurila's shares are listed on the Nasdaq OMX Helsinki stock exchange. Tikkurila will strictly adhere to all regulatory disclosure requirements for listed companies. Tikkurila complies with the Finnish Corporate Governance Code ("Corporate Governance Code") issued by the Finnish Securities Market Association. In addition, Tikkurila's internal policies, such as Corporate Responsibility and Code of Conduct, guide communication activities.

The aim of Tikkurila's communications is to support the correct valuation of the company shares by providing the markets with sufficient information on financial position, strategy and objectives. The Board of Directors has approved the disclosure policy that defines the guidelines in communications to financial markets and investors and other parties. The Tikkurila website contains all information made public according to the disclosure requirements for listed companies.

#### **APPLICATION OF THE FINNISH CORPORATE GOVERNANCE CODE**

The Finnish Corporate Governance Code, which came into force on October 1, 2010, has altogether 55 recommendations. The Code also has the so-called "comply or explain" principle. Tikkurila fully complies with the recommendations in the Code, as in March 2012 the Group also established a separate Remuneration Committee (ref: Recommendation 31 in the Code).

# MANAGEMENT BOARD

# TIKKURILA

## Kenneth Sundberg

Born in 1965, M.Sc. (Eng.),  
Doctor of Technology  
Group Vice President, R&D  
Member of the Management Board  
since 2010  
Finnish citizen  
Joined Tikkurila in 2010  
Tikkurila shares on Dec 31, 2012: 4,000

### Career history

Kenneth Sundberg has been the Group Vice President, Research and Development of Tikkurila since 2010. Prior to joining Tikkurila, he was the Head of Innovation Center Paper and R&D Site Head at Ciba Finland Oy between 2007 and 2009, the Managing Director of Top Analytica Ltd. between 2006 and 2007, the Head R&D, Sizing and Starch at Ciba Specialty Chemicals Oy between 2004 and 2006 and the Research Manager for specialty group of Raisio Chemicals Oy between 2002 and 2004.

### Positions of trust

Kenneth Sundberg has been a member of the Industrial Advisory Board of the Åbo Akademi Process Chemistry Center (ÅAU) since 2005.

## Janno Paju

Born in 1971, Degree in Economics  
Chief Commercial Officer  
Member of the Management Board  
since 2000  
Estonian citizen  
Joined Tikkurila in 1993  
Tikkurila shares on Dec 31, 2012: 4,025

### Career history

Janno Paju has been the Chief Commercial Officer of Tikkurila as of January 1, 2012. Prior to that, he was the Senior Vice President of SBU East of Tikkurila between 2009 and 2011, the Group Vice President of Tikkurila's Deco Eastern Europe business area between 2004 and 2009, the President of Tikkurila Polska S.A. between 2000 and 2004 and the Vice President of Commerce of Tikkurila-Baltcolor Sp.z.o.o. between 1998 and 2000.

## Erkki Järvinen

Born in 1960, M.Sc. (Econ.)  
President and CEO  
Chairman of the Management Board  
since 2009  
Finnish citizen  
Joined Tikkurila in 2009  
Tikkurila shares on Dec 31, 2012: 14,000

### Career history

Erkki Järvinen has been the President and CEO of Tikkurila since 2009. Previously, he served as the President and CEO of Rautakirja Corporation between 2001 and 2008, and as the Senior Vice President of Kiosk Operations in Rautakirja Corporation between 1997 and 2001. Prior to joining Tikkurila, he held positions in companies that belonged to the Cultor Group, as Vice President, Marketing (Nordic) in Vaasamills Ltd between 1991 and 1996, as Managing Director of Siljans Knäcke AB between 1995 and 1996 and as Marketing Manager in Vaasamills Ltd between 1990 and 1991. He served as Product Manager and Marketing Manager in Fazer Bakeries, Oy Karl Fazer Ab between 1984 and 1990.

### Positions of trust

Erkki Järvinen has been a member of the Board of Directors of Snellman Ltd. and of the East Office of Finnish Industries Ltd. since 2011, of the Chemical Industry Federation of Finland and of the Association of Finnish Paint Industry since 2010, of the Association of Finnish Advertisers and of the Helsinki Chamber of Commerce since 2009, and of the Economic Information Office since 2007. In addition, he has been a member of the regional offices of the Confederation of Finnish Industries (EK) in Helsinki since 2011.

## Petri Miettinen

Born in 1968, M.Sc. (Econ.)  
Group Vice President,  
Supply Chain & HSEQ  
Member of the Management Board  
since 2007  
Finnish citizen  
Joined Tikkurila in 2007  
Tikkurila shares on Dec 31, 2012: 4,000

### Career history

Petri Miettinen has been the Group Vice President, Supply Chain of Tikkurila since 2007. In 2008, the HSEQ (Health, Safety, Environment and Quality) was also transferred to his area of responsibility. Prior to joining Tikkurila, he served at ABB; in the ABB Marine business as the Vice President of Sourcing and Logistics between 2002 and 2007, Vice President, controlling in addition to his normal duties between 2003 and 2004 and Business Controller between 2000 and 2002 and previously in the ABB electric machine business as Controller and Project Manager between 1997 and 2000.

## Jukka Havia

Born in 1968, M. Sc. (Econ.)  
Chief Financial Officer (CFO)  
Member of the Management Board  
since 2010  
Finnish citizen  
Joined Tikkurila in 2010  
Tikkurila shares on Dec 31, 2012: 4,000

### Career history

Jukka Havia has been the Chief Financial Officer of Tikkurila since 2010. Previously, he worked for Ruukki Group Plc as the Chief Financial Officer since 2005 and the Deputy Chief Executive Officer since 2008. Prior to that, he worked as the director of finance at the Student Union of the Helsinki School of Economics and as a managing director in KY-Palvelu Oy between 2001 and 2005, as the financial director of RSL Com Finland Oy between 1997 and 2001 and as controller at Oy Canon Ab between 1995 and 1997.

### Positions of trust

Jukka Havia is the Chairman of the Board of the Finnish Transport Safety Agency, as well as a member of the finance committee of the student union of Aalto University.

Kenneth

Janno





Erkki

Petri

Jukka

# BOARD OF DIRECTORS



Jari Paasikivi

Born in 1954, M.Sc. (Econ.)  
CEO, Oras Invest Ltd  
Member of the Board since 2008, Vice Chairman of the Board during 2008-2010 and the Chairman of the Board since 2010  
Member of the Audit Committee 2010-2012, the Chairman of the Remuneration Committee from 2012, an expert member of the Nomination Board since 2010  
Independent of the company, not independent of a significant shareholder  
Finnish citizen  
Tikkurila shares on Dec 31, 2012: 71,699

#### Career history

Jari Paasikivi has been the Chief Executive Officer of Oras Invest since 2006. Paasikivi served in various positions at Oras Ltd between 1989 and 2007, including as the President and Chief Executive Officer between 2002 and 2007, the Managing Director between 1994 and 2001 and a Plant Director between 1989 and 1994.

#### Positions of trust

Jari Paasikivi has been a member of the Board of Directors of Confederation of Finnish Industries since 1.1.2013, a member of the supervisory board of Varma Mutual Pension Insurance Company since 2012, the Vice Chairman of the Board of Directors of Kemira Oyj since 2012, a member of the Board of Directors of Uponor Corporation since 2007 and the Chairman of the Board since 2008, a member of the Board of Directors of the Federation of Finnish Technology Industries since 2006 and the Chairman of the Board since 2012, as well as a member of the Board of Directors of Oras Ltd since 1982 and the Vice Chairman of the Board since 2008.



Petteri Walldén

Born in 1948, M.Sc. (Eng.)  
Member of the Board since 2008 and the Vice Chairman of the Board since 2010  
Member of the Remuneration Committee from 2012  
Independent Board member  
Finnish citizen  
Tikkurila shares on Dec 31, 2012: 4,420

#### Career history

Petteri Walldén served as the President and Chief Executive Officer of Alteams Oy between 2007 and 2010, of Onninen Oy between 2001 and 2005 and of Ensto Ltd. between 1996 and 2001. He has also served as the President of Nokia Cables Ltd and of Sako Ltd.

#### Positions of trust

Petteri Walldén has been a member of the Board of Directors of Staffpoint Holding Oy since 2012, a member of the Board of ONE Nordic Holding AB since 2011, a member of the Board of Mesera Oy since 2010, a member of the Board of Comptel Corporation and of Teleste Corporation since 2009, a member of the Board of Kuusakoski Group Oy since 2007, the Chairman of the Board of Nokian Tyres plc since 2006 and a member of the Board SE Mäkinen Logistics Ltd since 1996.



Eeva Ahdekivi

Born in 1966, M. Sc. (Econ.)  
Investment Director, Solidium Oy  
Member of the Board since 2009  
Chairman of the Audit Committee since 2010  
Independent Board member  
Finnish citizen  
Tikkurila shares on Dec 31, 2012: 3,386

#### Career history

Eeva Ahdekivi has been the Investment Director of Solidium since 2009. Prior to that, Ahdekivi was the senior financial specialist at the Prime Minister's Office in the ownership steering department between 2007 and 2009, the Director of Pohjola Asset Management Ltd between 2004 and 2006 and the partner of Conventum Oyj between 1997 and 2003. Ahdekivi has also served as the Director of Merita Corporate Finance Oy.



## Harri Kerminen

Born in 1951, M.Sc. (Eng.), MBA  
Member of the Board since 2012  
Member of the Remuneration Committee since 2012  
Independent Board member  
Finnish citizen  
Tikkurila shares on Dec 31, 2012: 843

### Career history

Harri Kerminen was the President and CEO of Kemira Oyj from 2006 until 2012. Prior to that he served as the President of the Kemira Pulp & Paper business area of Kemira Oyj in 2006–2007, the President of the Kemira Specialty business area in 2000–2006, the Managing Director of Kemira Pigments Oy in 2002–2003, the Vice President, Human Resources, Kemira Chemicals Oy in 1996–2000, the Manager of Oulu plant of Kemira Oyj in 1994–1996, the Production Manager of Kemira Kemi AB in 1990, and as the Project Manager of Kemira Oy/Kemira Oyj in plant construction projects in Finland, Sweden, Belgium and the US, in 1989–1994.

### Positions of trust

Harri Kerminen has been the Chairman of the Board of Directors of Finpro ry since 2011 and a member since 2010, a member of the Board of Finnair Oyj since 2011 and a member of the Board of Outokumpu Oyj, Normet Oy, and Achema Group since 2012.



## Riitta Mynttinen

Born in 1960, Chemical Engineer (B.Sc.), MBA  
Vice President, Minerals Technologies Europe NV  
Member of the Board since 2011  
Member of the Audit Committee since 2012  
Independent Board member  
Finnish citizen  
Tikkurila shares on Dec 31, 2012: 1,613

### Career history

Riitta Mynttinen has a high-level international business know-how acquired in the coating, chemical and paper industries in Europe, the United States and Asia. Prior to the current position she was responsible for Specialty Minerals' European Paper PCC. Mynttinen came to Minerals Technologies Corporation from Rohm and Haas where she worked in various management positions, lastly as Sales and Marketing Director.

### Positions of trust

Riitta Mynttinen has been a member of the Board of Directors at Mint of Finland since 2010.



## Pia Rudengren

Born in 1965, M.Sc. (BA & Econ.)  
Member of the Board since 2009  
Member of the Audit Committee since 2010  
Independent Board member  
Swedish citizen  
Tikkurila shares on Dec 31, 2012: 2,386

### Career history

Pia Rudengren was Executive Vice President of W Capital Management AB between 2001 and 2005. Between 1990 and 2001, Rudengren held a variety of positions at Investor AB, ultimately serving as Chief Financial Officer and a member of the Management Group between 1998 and 2001.

### Positions of trust

Pia Rudengren has been a member of the Board of Directors of Metso Corporation and of Swedbank AB since 2009, of Social Initiative AB since 2008 and the Chairman of the Board since 2011. She has also served as a Board member at Duni AB and at WeMind AB since 2007. Since 2006, Rudengren has worked as a board professional, serving on the Boards of Directors of several companies in Sweden.



## Aleksey Vlasov

Born in 1957, Medical Doctor  
First Vice President of Geotech Holding  
Member of the Board since 2012  
Independent Board member  
Russian citizen  
Tikkurila shares on Dec 31, 2012: 843

### Career history

Aleksey Vlasov was the Deputy General Director of JSC Gazprom (Mezhregiongaz), Moscow in 2003–2008, and the Director of the Russian Technology Fund, St Petersburg, in 1995–2003. He was also the Founder and Marketing Director of the Association of Foreign Economic Cooperation "Nauka-Service", St Petersburg, in 1987–1995.

### Positions of trust

Aleksey Vlasov has been a member of the Board of Directors of Nokian Tyres plc since 2006.