

# Corporate Governance Statement 2015

Tikkurila Oyj (later referred to also as “Tikkurila” or “Group” both in relation to Tikkurila Oyj and the Group it forms) has prepared this corporate governance statement based on existing legislation and regulations. This corporate governance statement is issued separately from the Board of Directors’ report, and is also available on the website [www.tikkurilagroup.com](http://www.tikkurilagroup.com), as well as is included in the 2015 Annual Review.

## General Principles and Framework

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

- Finnish Companies Act;
- Finnish Securities Market Act;
- Finnish Corporate Governance Code;
- Articles of Association of Tikkurila;
- standards issued by the Finnish Financial Supervision Authority;
- rules and regulations of Nasdaq Helsinki;
- Helsinki Takeover Code, issued by the Securities Market Association; 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 dependent on markets outside of the domicile of Tikkurila Oyj, 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 or instructed.

## 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 to major extent defined by the Finnish Companies Act.

## 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/](http://www.tikkurilagroup.com/corporate_governance/articles_of_association/).

The decisions of the shareholders’ meeting during 2015 are presented in the 2015 Board of Directors’ report, and all the meeting materials and decisions are published on the company’s web page. The Annual General Meeting in 2016 will be held on April 6, 2016.

## Nomination Board

Tikkurila has a Nomination Board consisting of 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 Tikkurila’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 acts as an expert member of the Nomination Board.

During 2015 the members of the Nomination Board were: Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; and Reima Rytsölä, Executive Vice President, Investments, 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 2015, the Nomination Board met twice, 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 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 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 confirm the appointment of the members of the Tikkurila Management Board;
- to monitor and evaluate the performance of the Group President and CEO;
- 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 policies are applied; and
- to ensure that the supervision of the accounting and financial matters, and any audits thereby, 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 within 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 2015, Tikkurila Oyj's Board of Directors had the following six members for the full year: Jari Paasikivi (Chairman), Petteri Walldén (Vice Chairman), Eeva Ahdekivi, Riitta Mynttinen, Pia Rudengren and Harri Kerminen. Furthermore, Aleksey Vlasov was a member of the Board until March 25, 2015.

All of the Board members are independent of the company, and other members than Jari Paasikivi 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 2015, the Board of Directors continued to restructure Group's operations in difficult market conditions, in e.g. Russia, to ensure profitability and to find new sources of growth.

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 2015, the Board had 9 (2014: 12) meetings, and the average attendance rate was 98 (89) percent.

### Remuneration of the Board of Directors

The Annual General Meeting decided on March 2015 on the remuneration to be paid to the members of the Board. According to that decision, the Board remuneration in 2015 was the following:

- Chairman of the Board, EUR 64,000 per year;
- Deputy Chairman of the Board and Chairman of the Audit Committee, EUR 40,000 per year; and
- other members of the Board, EUR 32,000 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 was paid as shares acquired from the market, and 60 percent was paid in cash.

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

- EUR 600 per meeting held in country of residence of member; and
- EUR 1,200 per meeting held outside country of residence of member.

Moreover, EUR 600 was decided to be paid per telephone or video meeting. The meeting-specific fee was also paid for any committee meetings. Members' travel expenses related to meetings were compensated in accordance with 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 2015, Eeva Ahdekivi was the Chairman of the Audit Committee, and the members of the Committee were Pia Rudengren and Riitta Mynttinen.

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 compliance with laws and regulations and the Tikkurila Code of Conduct as well as other internal policies.

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

- 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 laws, regulations and Tikkurila's internal Code of Conduct financial reporting principles as well as corporate social responsibility initiatives;
- to confirm audit plans for both external audit and internal audit;
- to prepare the election of auditors; and
- to review the corporate governance statement.

During 2015, the Audit Committee met 5 (2014: 5) times. The attendance rate was 100 (100) percent. The Group's CFO Jukka Havia acted as the Secretary of the Committee, and Tikkurila's principal auditor Toni Aaltonen was present in the meetings and presented reports to Audit Committee. In addition, Tikkurila's internal auditor reported audit findings to the Audit Committee.

In financial year 2015, 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 2015. The Audit Committee also continued the work started in 2011 in relation to the assessment and management of risks. For example, the Audit Committee prepared the reorganization of, and confirmed the focus areas for, the internal audit activities.

### Remuneration Committee

In March 2012 the Board of Directors of Tikkurila Oyj established the Remuneration Committee to discuss and propose remuneration of Tikkurila's Group management. In 2015 Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén and Harri Kerminen were the other members of the Committee. During 2015 the Remuneration Committee met 3 (5) times, and the average attendance rate was 100 (93) percent.

### President and CEO

The Board of Directors appoints the President and CEO and decides upon 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.

From 2012 the composition of Tikkurila Management Board has been the following:

- Erkki Järvinen, President and CEO (Chairman)
- Jukka Havia, Chief Financial Officer, also acting as the Chairman of Nordic Area Board (Finland, Sweden, Norway, Denmark)
- Janno Paju, Chief Commercial Officer, also acting as the Chairman of Business Board
- Petri Miettinen, Group Vice President, Supply Chain & HSEQ, also acting as the Chairman of Area Boards for Russia, Central Asia and China
- Kenneth Sundberg, Group Vice President, RD&I, also acting as the Chairman of Area Boards for Poland, Baltics and Germany

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 for any major decisions, which do not require the Board of Directors' resolution.

The heads of regional business units have from summer 2015 reported to internal operative decision making units, so-called Area Boards, where the Group management has both direct participation and decision making authority in the key strategic decisions up until preset limits. Business Board prepares commercial issues at the Group level for the Tikkurila Management Board in relation to sales, marketing, product portfolio management and brand management.

### Remuneration of the management members reporting directly to the President and CEO

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

### Remuneration of the President and CEO in 2015

The gross salary expenses that were recognized during the financial year 2015 and 2014, on accruals basis, in the group accounting in relation to the remuneration of Erkki Järvinen, the President and CEO of Tikkurila Oyj, are presented in the chart at the bottom of this page.

For financial year 2016 the annual cash-based bonus may not exceed 58.33 percent of CEO's annual salary.

#### Gross salary expenses of the President and CEO

	2015		2014	
Fixed salary	EUR 430,877.65	73%	431,225.46 euroa	91%
Fringe benefits	EUR 13,735.17	2%	13,339.29 euroa	3%
Bonuses	EUR 145,388.39	25%	30,923.55 euroa	6%
<b>Salaries total</b>	<b>EUR 590,001.21</b>	<b>100%</b>	475,488.30 euroa	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 2015, the cost of the supplementary pension was EUR 67,005.00 (2014: EUR 63,814.00). The pension is based on a defined contribution scheme.

Moreover, he belongs to the share-based commitment and incentive plan, decided by the Board in 2012, for which for his part in 2015 an IFRS-based expense of EUR 350,956.19 (279,450.70) was recognized in Group IFRS accounts in addition to the figures in the prior mentioned table. Based on this plan, in December 2014 Erkki Järvinen was granted 7,000 Tikkurila Oyj shares and in March 2015 altogether 25,539 shares. In total during years 2012 – 2015 Erkki Järvinen was granted 32,539 shares and paid EUR 619,287.00 in cash-based compensation via the share-based plan. At the end 2015, based on plan's conditions, it is assumed that the further share-based and cash-based compensations during coming financial years total EUR 39,000.

The President and CEO was a member of the 2015 annual cash-based management bonus scheme and the share-based commitment and incentive plan introduced in 2012. The content of these incentive systems is described in more detail in the "Cash-based Annual Bonus Scheme" and "Share-based Commitment and Incentive Plans 2012-2014, 2013-2013 and 2014-2016".

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.

## Remuneration of the Tikkurila Management Board in 2015

Tikkurila Management Board members were included in the 2015 annual cash-based management bonus scheme, and in the share-based commitment and incentive plan, which was established in 2012. The content of these incentive systems is described in more detail in the "Cash-based Annual Bonus Scheme" and "Share-based Commitment and Incentive Plans 2012-2014, 2013-2013 and 2014-2016".

## Cash-based Annual Bonus Scheme

On February 9, 2015, the Board of Directors of Tikkurila Oyj approved the principles for the annual cash-based bonus scheme for 2015 for the members of the Tikkurila Management Board. Bonus criteria consisted of the 2015 Tikkurila Group revenue growth and operative EBIT. Furthermore, there were bonus schemes in 2015 for other management personnel and for local key employees based on locally agreed targets.

## Share-based Commitment and Incentive Plan: performance periods 2012-2014, 2013-2015 and 2014-2016

In order to commit and motivate key personnel, the Board of Directors of Tikkurila Oyj decided on a 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 period. The prerequisite for participation in the plan and receipt of reward provides that a key employee purchases Tikkurila's shares from the market in accordance with the terms and conditions of the plan.

The 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 during 2012-2014. 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/she still owns the shares originally purchased at the time of reward payment. The amount of rewards depends on the number of purchased shares and the fulfillment of the performance criteria. Rewards were partially paid in December 2014 and partially in spring 2015. Roughly half of the compensation was paid in company's shares and another half in cash.

The potential reward from the performance period 2013–2015 is based on the Tikkurila Group's Operative Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Net Debt during

## Remuneration of the members of the Board of Directors and Tikkurila Management Board in 2015, gross, in EUR million

accruals basis, i.e. not presented on cash basis • figures rounded to 0.1 million

Board of Directors	persons	Fees, Tikkurila Oyj shares	Fees, cash	Total Fees
Chairman	1	0.0	0.1	0.1
Other Board members, total	5	0.1	0.1	0.2
<b>Board of Directors, total</b>	<b>6</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>

Tikkurila Management Board	persons	Fixed Salary	Fringe Benefits	Subtotal, Fixed Remu- neration	Annual Bonus	Share- Based Remunera- tion*	Subtotal, Variable Remunera- tion	Additional Pension	Total Remunera- tion
President and CEO	1	0.4	0.0	0.4	0.1	0.4	0.5	0.1	1.0
Other management board members, total	4	0.7	0.1	0.8	0.2	0.3	0.5	0.0	1.2
<b>Tikkurila Management Board, total</b>	<b>5</b>	<b>1.1</b>	<b>0.1</b>	<b>1.2</b>	<b>0.3</b>	<b>0.7</b>	<b>1.0</b>	<b>0.1</b>	<b>2.2</b>

\* IFRS 2 standard based annual personnel expense as recognized in 2015 Group income statement

2013-2015. 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 2016 and subject to that he/she still owns the shares originally purchased at the time of reward payment. The amount of rewards depends on the number of purchased shares and the fulfillment of the performance criteria. Rewards will be paid in spring 2016 partly in the company's shares and partly in cash.

The potential reward from the performance period 2014–2016 is based on the Tikkurila Group's Operative Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Net Debt during 2014-2016. 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 2017 and subject to that he/she still owns the shares originally purchased at the time of reward payment. The amount of rewards depends on the number of purchased shares and the fulfillment of the performance criteria. Rewards will be paid in spring 2017 partly in the company's shares and partly in cash.

The target group of the share-based plan currently consists of nine key employees, which are members of the Group management or significant business area management. The key persons were chosen by the Board of Directors. With effect 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 37 included in the 2015 consolidated financial statements. For this plan, during the financial year 2015 a total of about EUR 0.9 million (2014: EUR 0.7 million) was recognized as personnel expenses in the Group income statement, and at the end of 2015 the total cumulative bookkeeping value of the plan amounted to about EUR 3.2 million (31.12.2014: EUR 2.4 million).

Based on this share-based plan, in December 2014 altogether 20,500 Tikkurila Oyj shares were paid to the nine participants of the plan and in March 2015 a total of 79,539 shares were paid. In addition to the shares, also cash compensation was paid to the participants.

### **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 2015, KPMG Oy Ab was re-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' report, 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 2015 the Group had a total of EUR 431 thousand (2014: EUR 412 thousand) audit related expenses and EUR 125 (188) thousand expenses for other services provided by KPMG, the Auditor of Tikkurila. The non-audit expenses in 2014 were mainly linked to the acquisitions the Group carried out. During the financial year 2015, the Group companies had additional audit services from other audit companies than KPMG for a total of EUR 67 (59) thousand, and non-audit services for EUR 30 (55) 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 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 income statement, balance sheet, cash flow statement and future forecast in accordance with IFRS principles and based on 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 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 historical development and in relation to pre-set budgets or other targets.

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

### Internal Control Activities during 2015

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

As examples of the practical implementation of internal control activities during 2015, the following issues can be highlighted:

- internal control organization visited two business units carrying out analysis and enhancing dialogue and local management knowledge to implement internal control measures in day-to-day activities with special focus on sales processes, cash flow management and sourcing processes;
- in one subsidiary activities were developed and personnel trained in the use of existing applications;
- to decrease internal process risks, the revised segregation of duties matrices and related control practices were implemented in two business units; and
- special attention was paid to the practical implementation of recommendations of internal audit and external audit.

In the near-term at least the following areas are planned to be emphasized in internal control organization:

- the segregation of duties activities will be further enhanced, and
- the Group's current ERP applications will be checked to ensure harmonious reporting and forecasting practices as well as efficient utilization of business intelligence in subsidiaries' decision making.

### 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 each topic's importance and risks for the Tikkurila Group.

The internal audit function regularly reports to the Audit Committee of the Board. Internal audit plans and findings are also subject to regular review with the external auditors during 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 was, to the required extent, been helped by third-party experts to carry out the

internal audit activities. Also internal resources have been utilized in carrying out certain internal audit tasks. At the end of 2015 the Board of Directors decided to change the internal audit so that an external expert organization was selected to carry out the major part of internal audit activities as an outsourced service in the future. However, the Group will still have an internal resource responsible for internal audit actions.

### Internal Audit Activities during 2015

During 2015, the internal audit function carried out a cross-country process-based audit linked to the implementation of new Group ERP application and related processes. In addition, two country-specific audits were carried out and follow-up activities were carried out on the implementation status of the previous audit recommendations.

In 2012 group-wide implementation of 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 2015 a few reports were received via the application, but not significant violations were found out.

### Plan for Internal Audit Activities during 2016

Based on the internal audit plan confirmed by the Audit Committee, in 2016 the target is to audit cybersecurity related themes, implementation process of new Group ERP solution, as well as to start actions to audit processes in relation to environmental issues and in certain geographies also sales processes. Furthermore, three country-specific audits are planned to cover the functions and operations relevant in these country organizations. Internal audit function will also continue to follow up the implementation of the last years' audit recommendations.

### 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 the relevant risks to Tikkurila, and based on certain simplified assumptions, the following chart outlines some key risks identified by the Board of Directors based on the situation prevailing at the end of 2015. Risks are split by their most relevant time horizon, even though most of them have both short-term and long-term implications, and there is also a rough probability assessment attached to the table presented on the next page.

### Risks linked to general economic situation

During the last years, the macroeconomic situation has remained very challenging in Finland, in Russia and in countries adjacent to Russia, which had led to decreasing demand for Tikkurila's products. Also the purchasing power of consumers has declined, and moreover, demand is switching towards lower priced products.

In 2015 and in the beginning of 2016 the currencies relevant to Tikkurila's business areas have fluctuated significantly, and also depreciated against euro, which has had and still might have an adverse impact on Group's revenue, profitability and cash flows. On the other hand, the relative share of Russia and SBU East of the Group revenue has decreased to a major extent. Furthermore, both the United States and the European Union have issued various sanctions against Russia, which further deteriorated the business environment. Even though sanctions have so far not had any considerable direct impact on Tikkurila's business, they can force Tikkurila to change its production and logistics set-up to ensure competitiveness. In the eastern markets the availability of financing has in general become tighter and interest rates have stayed at high levels, which has increased credit risks. Tikkurila has not experienced any major bad debt losses, but still in the future counterparty risks might be enhanced and cause losses, even though Tikkurila has diversified customer base. Tikkurila's own financial position has stayed very good. In the short term, commodity market prices have been stabilized, and to some extent also declined, but there have been availability related problems in certain raw material categories.

### Risks linked to the industry and Tikkurila's operational activities

Digitalization has accelerated, which can in the future affect Tikkurila's logistics and distribution structures. Moreover, it will provide additional opportunities for the end-users of paint products to carry out tender processes across geographical borders. Advances in technological development might have a considerable impact on the use of various construction materials and thereby coatings solutions; hence, paint demand can decline, the magnitude and structure of Tikkurila's sales may change, and finally, there might be consequences for Tikkurila's technology investments. The increasing volatility in customer demand, combined with real-time data utilization, might cause needs to make structural changes in Tikkurila's production technology and equipment. It will be crucial to understand end customer needs better in the future. In the paint industry competition has intensified, and the importance of sales price is emphasized

in dire financial conditions. Furthermore, private label products launched by retailers are competing for the same end customers as the traditional paint manufacturers' brands. Certain companies operating in construction-related industries have expanded into paint products to have more extensive offering for professional customers whose role is increasing. These aspects could affect Tikkurila's product and customer portfolio, and hence have an adverse impact on profitability. Based on both general market situation and on intensified competition Tikkurila's sales volumes have declined already for a few years, especially in SBU East and within the lower price categories, which has had a negative impact on revenue and profitability, and which in addition can in future further deteriorate the development of operational efficiency and productivity. Large-scale volatility and fast technological change also create additional challenges to recruit competent personnel and to develop the know-how within the Group. To ensure relevant competencies and to diversify the talent base are essential to ensure future growth.

There is also information about relevant risks for Tikkurila in the 2015 Board of Directors' report.

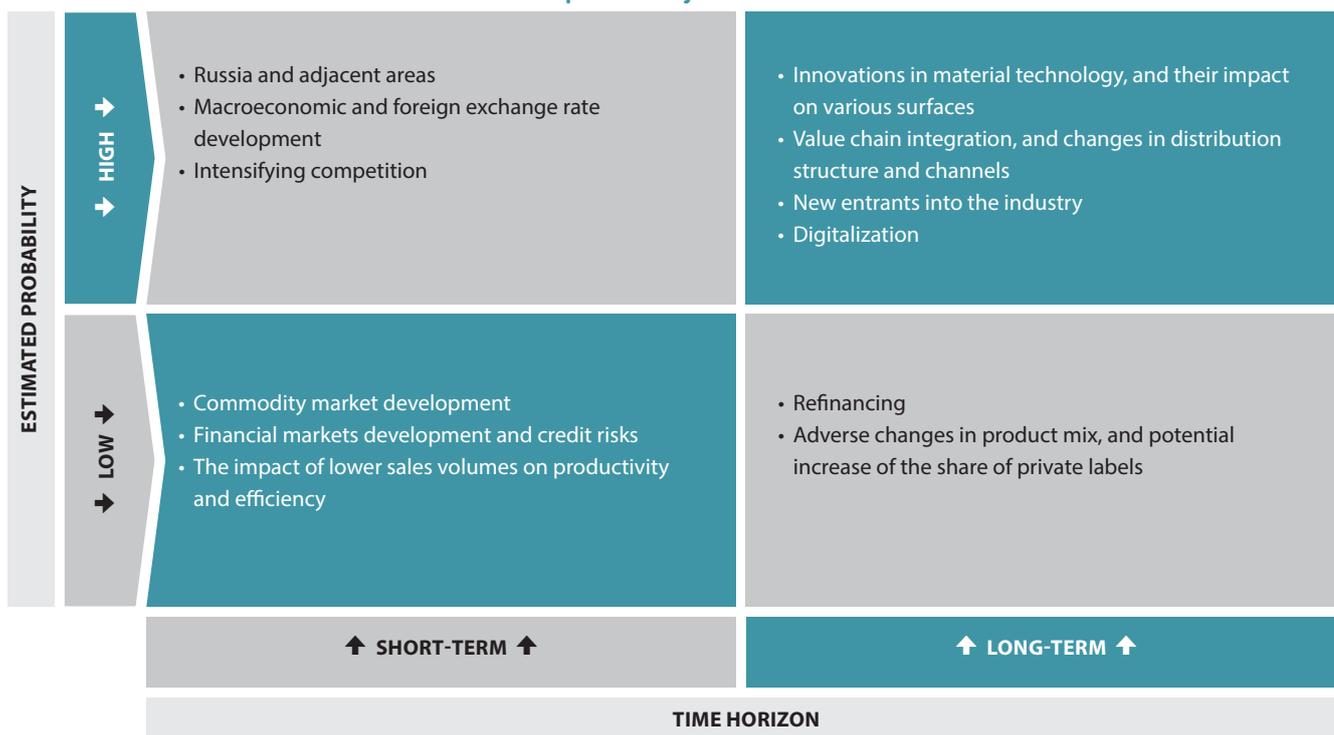
### Risk Management

The goal of risk management is to identify 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 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 risk management supervision. The business units and functions are responsible for identifying, reporting and monitoring the risks involved in their activities and for the related risk management.

### Risk probability assessment



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

Some risk management measures are performed centrally in order to generate cost benefits and 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 management of financial 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 key policies and principles of 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 2015**

During 2015, the Group continued its risk management activities based on previous years' decisions. Difficult market conditions were met particularly in the SBU East area; for example the volatility of foreign exchange rate was very high. To manage these risks the group has, inter alia, decreased the share of imports and made contingency plans to mitigate potential consequences of the sanctions imposed against Russia. At the Group level also numerous actions have been carried to increase efficiency and to adjust operations in order to have better flexibility and lower reliance in single counterparties. In addition, the group management was fine-tuned to speed up decision making.

### **Plan for Risk Management Activities during 2016**

In 2016 the target is to primarily focus on identifying and managing intangible risks, as the operating environment is becoming more and more digital by nature and the importance of brands is increasing. Moreover, recruiting knowledgeable employees, as well as further developing the knowhow of all the current employees, is crucial. The aim is also to develop the quality of operations in all parts of the Group, and to further speed up the implementation of actions and to shorten lead times in production and in product launches.

### **Management of Insider Issues**

As provided by the Finnish Securities Markets Act, Tikkurila Oyj's insiders consist of insiders subject to disclosure requirements, permanent company-specific insiders and project-specific insiders.

On the basis of their position, Tikkurila's insiders subject to disclosure requirements comprise 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 separately specified 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 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 a 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 release, half-yearly report and business reviews. The silent period begins when the reporting period in question ends and continues until the financial statement release, half-yearly report or business review 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 gives guidance in the form of an official outlook statement published in financial statements release, the review of the Board of Directors and half-yearly report. 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.

### **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 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 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 web site 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. On October 1, 2015, revised Governance Code was accepted by the Finnish Securities Market Association. This revised code comes into force for financial year 2016, where after Tikkurila applies the revised recommendations.

## More detailed information on the members of the Board of Directors and of the Tikkurila Management Board

### Information on the members of the Board of Directors

#### Jari Paasikivi

Born 1954, M.Sc. (Econ.)

CEO, Oras Invest Ltd, since 2006

Chairman of the Board since 2010, Member of the Board since 2008

Chairman of the Remuneration Committee since 2012

Expert member of the Nomination Board since 2011

Independent of the company, not independent of a significant shareholder

Finnish citizen

Tikkurila shares on Dec 31, 2015: 76,149 (Dec 31, 2014: 74,794)

#### Career history

- President and Chief Executive Officer, Oras Ltd, 2002-2007
- Managing Director, Oras Ltd, 1994-2001
- Plant Director, Oras Ltd, 1989-1994

#### Positions of trust

- Kemira Oyj, Member of the Board of Directors since 2012, Chairman of the Board of Directors since 2014
- Kemira Oyj, Member of the Nomination Committee since 2009
- Oras Ltd, Member of the Board of Directors since 1982, Chairman of the Board of Directors since 2013
- Varma Mutual Pension Insurance Company, Member and Vice Chairman of the Board of Directors since 2014
- Federation of Finnish Technology Industries, Member of the Board of Directors 2006-2015, Chairman of the Board of Directors 2012-2015
- Confederation of Finnish Industries (EK), Member of the Board of Directors 2013-2015

#### Petteri Walldén

Born 1948, M.Sc. (Eng.)

Vice Chairman of the Board since 2010, Member of the Board since 2008

Member of the Remuneration Committee since 2012

Independent Board member

Finnish citizen

Tikkurila shares on Dec 31, 2015: 6,972 (Dec 31, 2014: 6,125)

#### Career history

- President & CEO, Alteams Oy, 2007-2010
- President & CEO, Onninen Oy, 2001-2005
- President & CEO, Ensto Ltd, 1996-2001
- President, Nokia Cables, 1990-1996
- President & CEO, Sako Ltd, 1987-1990

#### Positions of trust

- Ledil Oy, Chairman of the Board of Directors since 2015
- Savonlinna Opera Festival Patrons' Association, Chairman of the Board of Directors since 2015
- Savonlinna Opera Festival Ltd., Chairman of the Board of Directors since 2015
- Efla Oy, Member of the Board of Directors since 2014

- Staffpoint Holding Oy, Member of the Board of Directors since 2012
- Teleste Corporation, Member of the Board of Directors since 2009
- Kuusakoski Group Oy, Member of the Board of Directors since 2007
- Nokian Tyres plc., Chairman of the Board of Directors since 2006
- SE Mäkinen Logistics Ltd, Member of the Board of Directors since 1996

#### Eeva Ahdekivi

Born 1966, M. Sc. (Econ.)

Managing Director, Hartwall Capital Oy Ab, since 2015

Member of the Board since 2009

Chairman of the Audit Committee since 2010

Independent Board member

Finnish citizen

Tikkurila shares on Dec 31, 2015: 6,150 (Dec 31, 2014: 5,303)

#### Career history

- Investment Director, Solidium Ltd, 2009-2015
- Senior Financial Specialist, Government Ownership Steering Department of the Prime Minister's Office, 2007-2009
- Director, Pohjola Asset Management Ltd, 2004-2006
- Partner, Conventum Oyj, 1997-2003
- Director, Merita Corporate Finance Oy, 1995-1997

#### Positions of trust

- John Nurminen Foundation, Member of the Board of Directors since 2014

#### Riitta Mynttinen

Born 1960, Chemical Engineer (B.Sc.), MBA

Member of the Board since 2011

Member of the Audit Committee since 2012

Independent Board member

Finnish citizen

Tikkurila shares on Dec 31, 2015: 3,718 (Dec 31, 2014: 3,041)

#### Career history

- Vice President, Minerals Technologies Inc., 2005-2014
- Director, Rohm and Haas Company, 1998-2005
- Director, Ferro Corporation, 1996-1998
- Manager, Rohm and Haas Company, 1987-1996
- Research Chemist, NIF, 1986-1987
- Research Chemist, Tikkurila OY, 1984-1986

#### Positions of trust

- Okmetec Oyj, Member of the Board of Directors since 2015
- Mint of Finland, Member of the Board of Directors since 2010

#### Pia Rudengren

Born 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, 2015: 4,491 (Dec 31, 2014: 3,814)

#### Career history

- Executive Vice President, W Capital Management AB, 2001-2005
- Chief Financial Officer, Member of the Management Group, Investor AB, 1998-2001

#### Positions of trust

- Kappahl AB, Member of the Board of Directors since 2013
- Social Initiative Norden AB, Member of the Board of Directors since 2008, Chairman of the Board of Directors since 2011
- Swedbank AB, Member of the Board of Directors since 2009
- Duni AB, Member of the Board of Directors since 2007

#### **Harri Kerminen**

Born 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, 2015: 2,970 (Dec 31, 2014: 2,293)

#### Career history

- President and CEO, Kemira Oyj, 2008-2012
- President, Kemira Pulp & Paper business area of Kemira Oyj, 2006-2007
- President, Kemira Specialty business area, 2000-2006
- Managing Director, Kemira Pigments Oy, 2002-2003
- Vice President, Human Resources, Kemira Chemicals Oy, 1996-2000
- Manager, Oulu plant of Kemira Oyj, 1994-1996
- Production Manager, Kemira Kemi AB, 1990
- Project Manager, plant construction projects in Finland, Sweden, Belgium and the US, Kemira Oy/Kemira Oyj, 1989-1994

#### Positions of trust

- Spinverse Group, Chairman of the Board of Directors since 2015
- SK Spice Holdings S.A.R.L, Member of the Board of Directors since 2015
- LUT, Lappeenranta University of Technology, Member of the Advisory Board since 2015
- Harjavalta Oy, Member of the Board of Directors since 2014
- Magsort Oy, Chairman of the Board of Directors since 2014
- Metgen Oy, Chairman of the Board of Directors since 2012
- Normet Oy, Member of the Board of Directors since 2012
- Finnair Oyj, Member of the Board of Directors since 2011, Vice Chairman of the Board of Directors since 2012

#### **Aleksey Vlasov**, member of the Board until 25.3.2015

Born 1957, Medical Doctor

First Vice President, Geotech Holding, Moscow, since 2008

Member of the Board 2012 - 2015

Independent Board member

Russian citizen

#### Career history

- Deputy General Director, JSC Gazprom (Mezhregiongaz), Moscow, 2003-2008
- Director, Russian Technology Fund, St. Petersburg, 1995-2003
- Founder and Marketing Director, Association of Foreign Economic Cooperation "Nauka-Services", St. Petersburg, 1987-1995

## Information on the members of the Tikkurila Management Board

#### **Erkki Järvinen**

Born 1960, M.Sc. (Econ.)

President and CEO since 2009

Chairman of the Management Board since 2009

Finnish citizen

Joined Tikkurila in 2009

Tikkurila shares on Dec 31, 2015: 46,539 (Dec 31, 2014: 21,000)

#### Career history

- President and CEO, Rautakirja Corporation, 2001-2008
- Senior Vice President, Kiosk Operations, Rautakirja Corporation, 1997-2001
- Vice President, Marketing (Nordic), Vaasamills Ltd, 1991-1996
- Managing Director, Siljans Knäcke AB, 1995-1996
- Marketing Manager, Vaasamills Ltd, 1990-1991
- Product Manager, Marketing Manager, Fazer Bakeries, Oy Karl Fazer Ab, 1984-1990

#### Positions of trust

- YIT Oyj, Member of the Board of Directors since 2013
- Snellman Ltd, Member (Vice Chairman) of the Board of Directors since 2011
- East Office of Finnish Industries Ltd, Member of the Board of Directors since 2011
- CEPE (European Council of Paint, Printing Ink and Artists' Colours Industry), Member of the Board of Directors since 2013
- Association of Finnish Paint Industry, Member of the Board of Directors since 2009
- Chemical Industry Federation of Finland, Member of the Board of Directors since 2009
- Association of Finnish Advertisers, Member of the Board of Directors since 2009
- Helsinki Chamber of Commerce, Member of the Board of Directors since 2013
- Helsinki Chamber of Commerce, Vantaa Regional Office, Member of the Board of Directors since 2010, Chairman of the Board of Directors since 2013
- Confederation of Finnish Industries (EK) in Helsinki, Member of the Regional Offices since 2011
- Economic Information Office, Member of the Board of Directors since 2007

#### **Jukka Havia**

Born 1968, M. Sc. (Econ.)

Chief Financial Officer (CFO) since 2010

Member of the Management Board since 2010

Finnish citizen

Joined Tikkurila in 2010

Tikkurila shares on Dec 31, 2015: 14,000 (Dec 31, 2014: 6,000)

#### Career history

- Deputy Chief Executive Officer, Ruukki Group plc., 2008-2010
- Chief Financial Officer, Ruukki Group plc., 2005-2008
- Director of Finance, Student Union of the Helsinki School of Economics, 2001-2005
- Managing Director, KY-Palvelu Oy, 2001-2005

- Financial Director, RSL Com Finland Oy, 1997-2001
- Controller, Oy Canon Ab, 1995-1997

#### Positions of trust

- Leipurin Oyj, Member of the Board of Directors since 2014
- Student Union of Aalto University, Member of the Finance Committee since 2010

#### **Janno Paju**

Born 1971, Degree in Economics  
Chief Commercial Officer since 2012

Member of the Management Board since 2000

Estonian citizen

Joined Tikkurila in 1993

Tikkurila shares on Dec 31, 2015: 14,025 (Dec 31, 2014: 6,025)

#### Career history

- Senior Vice President, SBU East, Tikkurila Oy, 2009-2011
- Group Vice President, Deco Eastern Europe business area, Tikkurila Oy, 2004-2009
- President, Tikkurila Polska S.A., 2000-2004
- Vice President, Commerce, Tikkurila-Baltcolor Sp.z.o.o., 1998-2000

#### **Petri Miettinen**

Born 1968, M.Sc. (Econ.)  
Senior Vice President, Supply Chain Management & HSEQ since 2007

Member of the Management Board since 2007

Finnish citizen

Joined Tikkurila in 2007

Tikkurila shares on Dec 31, 2015: 14,000 (Dec 31, 2014: 6,000)

#### Career history

- Vice President, Sourcing and Logistics, Marine business, ABB, 2002-2007
- Vice President, controlling (in addition to normal duties), Marine business, ABB, 2003-2004
- Business Controller, Marine business, ABB, 2000-2002
- Controller, Project Manager, Electric Machine business, ABB, 1997-2000

#### Positions of trust

- Finnish Association of Purchasing and Logistics (LOGY), Member of the Board since 2014

#### **Kenneth Sundberg**

Born 1965, M.Sc. (Eng.), Doctor of Technology  
Senior Vice President, Research, Development and Innovation (RDI) since 2010

Member of the Management Board since 2010

Finnish citizen

Joined Tikkurila in 2010

Tikkurila shares on Dec 31, 2015: 14,000 (Dec 31, 2014: 6,000)

#### Career history

- Head of Innovation Center Paper, Ciba, 2007-2009
- Managing Director, Top Analytica Ltd., 2006-2007
- Head R&D, Sizing and Starch, Ciba Specialty Chemicals Oy, 2004-2006
- Research Manager, Specialty group, Raisio Chemicals Oy, 2002-2004

#### Positions of trust

- Finnish Wood Research Oy, Member of the Board of Directors 2014-2015
- Åbo Akademi Process Chemistry Center (ÅAU), Member of the Industrial Advisory Board 2005-2015