TIKKURILA OYJ
REMUNERATION POLICY December 10, 2019

# Tikkurila Remuneration Policy

# 1. INTRODUCTION

The Remuneration Policy includes the framework and principles for the remuneration of the Board of Directors and the CEO of Tikkurila Oyj ("Tikkurila", or "the Company"). The Remuneration Policy is presented to the Tikkurila Annual General Meeting. .The Remuneration Policy is prepared by the Remuneration Committee and approved by the Board of Directors, after which the Remuneration Policy is presented to the General Meeting. The General Meeting makes an advisory decision on the remuneration policy. The remuneration policy is presented to the Annual General Meeting at least every 4 years or in case of essential changes.

The Tikkurila Remuneration Committee has taken into account the recommendations on the Finnish Corporate Governance Code as well as the latest provisions to the Finnish Securities Market Act and Limited Liability Companies Act in the preparation of the Remuneration Policy. The Remuneration Committee monitors and evaluates the Remuneration Policy continuously in order to ensure alignment with the Company's business strategy and pay-for-performance philosophy. In addition, the Remuneration Committee takes into account the results of the General Meeting votes and comments by shareholders regarding the Remuneration Policy.

## 1.1. Foundation

The aim of the Remuneration Policy is to ensure the alignment of pay and performance in Tikkurila. To achieve this, Tikkurila has built a remuneration framework that incentivizes to pursue the Company's success and shareholder value creation in the long term. It is also important that the Remuneration Policy allows Tikkurila to be able to attract and retain competent Management and members of the Board of Directors in the Company.
The Remuneration Policy is based on the following guiding principles:

- Total remuneration opportunity shall be sufficiently competitive in relation to typical market level in relevant peer companies
- For the CEO, performance-based remuneration forms a significant part of the total remuneration opportunity in order to align remuneration with achieved performance
- Majority of the performance-based remuneration emphasizes long-term performance, and is linked to shareholder value development
- Requirements for share ownership and claw back provisions are set for the CEO in order to promote optimal risk taking

The Remuneration Policy is set to be consistent with the remuneration framework applied to all Tikkurila employees. This is reflected for example in variable pay metrics, where a logical portion of the performance metrics in the CEO's incentive plans are concurrently used in employees' incentive plans. However, the variable pay opportunity constitutes a more significant portion of the CEO's total compensation. , since the Company aims to have an especially strong link between executive remuneration and the Company performance.

## 2. DECISION-MAKING PROCESS

### 2.1. Board of Directors

The General Meeting decides on remuneration paid to the members of the Board of Directors on the basis of the proposal made by the Nomination Board. The Nomination Board consists of the three largest shareholder representatives, in addition to which the Chairman of the Tikkurila Board of Directors acts as an expert member of the Nomination Board.

### 2.2. CEO

The Board of Directors' Remuneration Committee organizes matters connected with the CEO's remuneration. The Remuneration Committee continuously evaluates the appropriateness of the CEO's remuneration in order to ensure it is aligned with the Company's strategy, business needs and shareholder interests. In this evaluation, external experts as well as related external research data are utilized in order to ensure the CEO's remuneration is appropriate compared to typical levels in comparable companies.

The Board of Directors decides on the remuneration of the CEO. The CEO is not a member of any of these bodies and is not in any way involved in the decision-making process regarding his or her remuneration.

In order to promote alignment of interests shareholders, and alignment of pay and performance, a part of the CEO's total compensation may consist of Tikkurila shares or share-linked instruments. The General Meeting or the Board of Directors authorized by the General Meeting decides on the issue of shares, stock options or other special rights entitling to shares to the CEO in accordance with the applicable laws and regulations. The Board of Directors decides on such payouts.

The Remuneration Policy is applicable until 2024. In order to allow the practical implementation of the Remuneration Policy over its lifetime, the Remuneration Policy contains some flexibility. The Board of Directors may use its discretion in e.g. deciding on incentive plan performance measures and their weightings, as well as earning opportunities in order to make sure that the incentive plans remain relevant and aligned with the Tikkurila strategy.

## 3. PRINCIPLES FOR REMUNERATION OF THE BOARD OF DIRECTORS

The General Meeting determines the remuneration of the Board of Directors. The proposal for the General Meeting is prepared by the Shareholders' Nomination Board.

The basis for determination of the Board of Directors' remuneration is to ensure that the remuneration is competitive in relation to the market and that the remuneration reflects the competencies and efforts required from the members of the Board of Directors in order to fulfill their duties.

## 4. PRINCIPLES FOR REMUNERATION OF THE CEO

### 4.1. Board Guidelines on the CEO's annual total remuneration mix

The CEO's remuneration consists of fixed base salary (including fringe benefits), variable pay, and potential other elements, in line with the Remuneration Policy. Variable pay may include one or several share-based or cash-based incentive plans in the short-term and/or in the long term.

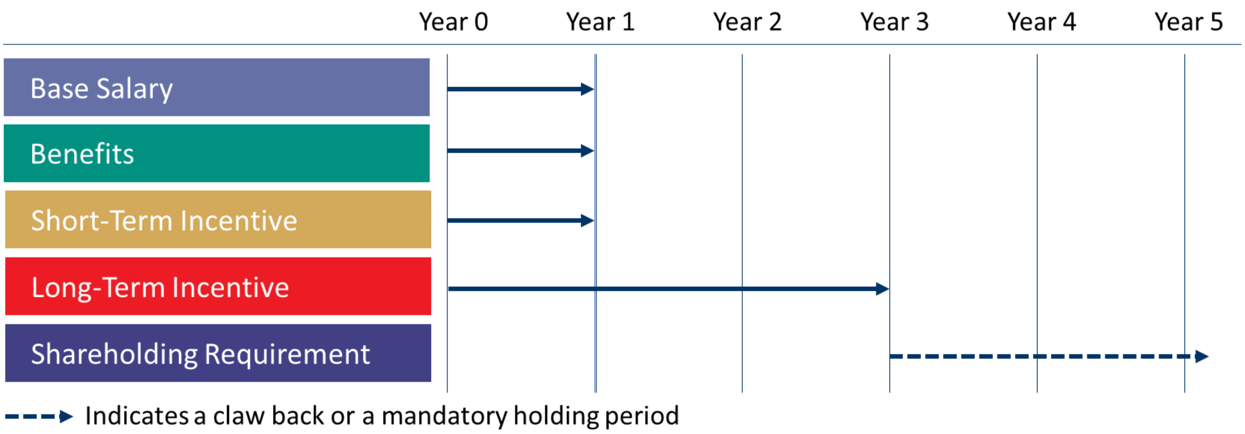
Performance-based incentive plans shall form a significant portion of the annual target remuneration opportunity provided to the CEO. The long-term share-based incentives shall form the majority of the CEO's total variable pay opportunity, in order to ensure strong long-term alignment with shareholders.

The exact proportion of fixed remuneration in relation to variable remuneration, as well as the exact proportion of short-term remuneration in relation to long-term remuneration is set depending on the business stage of the Company at each time, ensuring that the remuneration mix stays optimal. The Board of Directors carefully considers Tikkurila strategy and long-term targets as well as typical market practices when annually defining the remuneration elements and their weightings and performance targets.

The Board of Directors shall set a target and a maximum level for both the short-term and long-term remuneration, as an amount of cash or a number of shares. For share-based plans, the value of the remuneration opportunity shall at any time be calculated by applying the prevailing Tikkurila share price at the commencement of the plan period.

### 4.2. Board Guidelines on the CEO pay timeline

**Timeline for an annually commencing plan cycle**




In order to promote the alignment of Tikkurila remuneration with the Company's strategy and shareholder value in the long term, the total vesting period of the performance-based long-term remuneration shall be minimum 3 years. Within each vesting period, there may be one or several measurement periods of one to three years, depending on what the Board of Directors sees appropriate in the respective strategic phase.

As a main rule, any Tikkurila shares that are earned based on the long-term incentive plan are at the CEO's disposal after the vesting period. However, the CEO is expected to accumulate a shareholding in Tikkurila that corresponds to the value of the CEO's annual fixed salary. The Board of Directors may set transfer restrictions to rewarded shares as it sees appropriate in pursuit of this objective.

### 4.3. Board Guidelines on the CEO's performance metrics and target setting

The Board of Directors shall annually select optimal performance metrics for each incentive plan. Variable pay is used to reward for contributing to both the Company's financial success and shareholder value creation. Variable pay performance targets and measurement principles for each performance metric shall be clearly defined by the Board of Directors when the targets are set.

Performance targets shall be based on one or several of the following metric groups:

- Financial and operative metrics – focus on profitable growth, operational efficiency, and the Company's development

- Total shareholder return and other shareholder value-based metrics – focus on long-term shareholder value creation
- Strategic metrics – focus on strategic development and renewal, and corporate responsibility

## 4.4. Main Components of Remuneration

| ELEMENT | PURPOSE AND LINK TO STRATEGY | DESCRIPTION |
|---|---|---|
| **Fixed Salary and Benefits** | To provide fixed remuneration that is sufficiently competitive with the external market and reflects Tikkurila business scale and complexity. | Fixed salary includes taxable fringe benefits. Fixed salary is set based on the market level, the individual's skills and experience, and other relevant factors. Fixed salary is reviewed annually. |
| **Supplementary Pension Arrangements** | To provide a level of retirement income that is in line with local market practices. | Currently, there is no supplementary pension scheme in place for the CEO. The Board of Directors shall continuously assess the situation and make decisions as deemed appropriate based on business needs and market practices. Potential supplementary pension plans shall be based on defined contribution. |
| **Short-Term Incentive** | To steer towards and reward for the achievement of short-term financial and operational performance in line with Tikkurila business strategy. | Performance is measured for one year and the reward is paid after the year end, based on achieved performance. There shall be no payout based on a metric, if the threshold for the metric in question is not reached. |

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| **Long-Term Incentive** | To reward for long-term shareholder value creation and achievement of set strategic and financial targets.<br><br>To align the CEO's interests with Tikkurila shareholders' interests.<br>To accumulate the CEO's share ownership in Tikkurila, according to the share ownership guidelines. | The CEO may have share-based incentive plans, which reward for the Company's performance, and/or are used in order to encourage to invest in Tikkurila shares and/or for retention purposes.<br><br>Current Tikkurila long-term incentive mechanism is a Performance Share Plan, which offers the CEO the opportunity of earning a predetermined number of Tikkurila shares as a reward.<br><br>Payment of the reward is dependent on the achievement of performance targets set by the Board of Directors and continued service.<br><br>If seen imperative in the prevailing situation, the Board of Directors may exceptionally set a minor portion of shares in a single grant to be earned only based on continued service in Tikkurila to enhance retention. The Board of Directors decides the maximum number of shares that can be earned. In addition, the reward shall be capped based on e.g. a multiple of annual fixed salary.<br><br>Long-term incentive awards are normally delivered partly in Tikkurila shares and partly in cash. The cash portion is intended to cover taxes and tax-related costs in connection with the reward payment. |

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| **Share Ownership Guidelines** | To promote share ownership and to align the CEO's interests with Tikkurila shareholders' interests. | The aim is that over time the CEO's shareholding in Tikkurila accumulates to a value corresponding to the value of the CEO's annual fixed salary. The Board of Directors may set transfer restrictions to shares paid as reward, as it sees appropriate. |

### 4.5. Clawback and Malus

The Board of Directors has the right to reduce incentive plan rewards or defer payments to a time that is more favorable to the Company, if changes in circumstances beyond the Company's control would result in materially adverse or unacceptable result for the Company of for the CEO.

The Board of Directors shall have the right to cancel remuneration in whole or in part if it deems necessary to amend the financial statements of the Company and such amendments would have affected the amount of the remuneration. Furthermore, the Board of Directors has the right to cancel the remuneration if the CEO has acted in violation of law or the Company's ethical guidelines.

### 4.6. Term of Notice and Severance Pay

In the event of a termination of service, any payable compensation is determined in line with contractual obligations and the rules of the applicable incentive plans.

Either party may terminate the director contract made with the CEO with the notice period of six months. Should the Company terminate the CEO's contract, additional severance pay corresponding to six month's salary shall be paid.

The Board of Directors may exercise its discretion in leaver situations, as to whether granted short-term and/or long-term incentive rewards shall be paid (in full or partly) during the year of departure or later. In addition, Board of Directors may set conditions for reward payout. The CEO's retirement age follows the Finnish Employee's Pension Act.

## 5. EXCEPTIONAL CIRCUMSTANCES

It is beneficial for Tikkurila and its shareholders that the Board of Directors is able to react to an unforeseen situation by temporarily deviating from certain principles defined in the Remuneration Policy. Thus, the Board of Directors may, after a careful consideration, deviate from the Remuneration Policy in the following situations:

- Recruitment of a new CEO,
- Significant merger, acquisition, demerger or another corporate restructuring event,
- Significant change in Tikkurila's strategy
- Immediate retention needs arising from external factors,
- Changes in legislation, regulation, taxation or equivalent.
- Other important reason, such as significant changes in the operating conditions of the company after consideration of the remuneration policy at the general meeting

Changes may apply to remuneration components, key terms applicable to the service contract and incentive plan structures, instruments and mechanisms, as well as incentive plan timelines, metrics and earning opportunities, as seen compulsory in order to ensure the development of Tikkurila long-term shareholder value. Any deviation from the Remuneration Policy are communicated transparently to Tikkurila shareholders.