



TIKKURILA ANNUAL REPORT 2012

LET US TAKE A TRIP THROUGH THE URBAN COLORS

TIKKURILA IN BRIEF

Tikkurila is a strong regional player which focuses on the Nordic countries and Eastern Europe.

The most important markets are Russia, Sweden, Finland, and Poland, which account for 80 percent of the Group's revenue. Tikkurila is the market leader in decorative paints in Russia, Sweden, Finland, and the Baltic countries. Tikkurila relies on strong brands and sustainable products that support the life cycle philosophy. A strong quality image and market leadership are the company's key competitive advantages.

Tikkurila focuses on higher price and quality grade paints, which are manufactured in 11 production units in eight countries. The highest production capacity is located in Russia, where the company has been operating since the 1970s. Russia is Tikkurila's largest single market.

Tikkurila's customers comprise consumers and professionals. A significant portion of the Group's revenue is generated by the sales of decorative paints. Furthermore, Tikkurila serves customers in the wood and metal industries. Tikkurila's operations are largely based on consumer business as well as on renovation and repair, which greatly reduces the company's sensitivity to economic fluctuations.

Tikkurila was established in 1862, and it has been listed on NASDAQ OMX Helsinki since 2010.

Tikkurila as a company

- Paints and services for protecting and beautifying surfaces
- Customers include consumers, professionals, and certain industrial sectors
- The largest markets are Russia, Sweden, Finland, and Poland
- Revenue was EUR 672 million and the number of employees 3,300

Tikkurila as an investment

- A balanced geographical presence
- Good growth outlook in Russia and its adjacent areas
- Steady, strong profitability independent of economic cycles
- A strong financial position
- A good payer of dividends

Tikkurila as a partner

- A reliable, honest, and stable partner
- Well-known brands
- A comprehensive and innovative product and services selection
- Business operations are based on added value creation and cost-effectiveness
- The central indicators always include delivery reliability and customer satisfaction

Tikkurila as an employer

- An inclusive corporate culture
- Takes care of personnel well-being
- Motivates people to try new tasks and develop their own competence
- Focuses on interaction between personnel and management
- Is flexible and takes employees' life situations into consideration

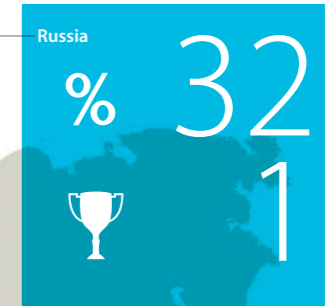
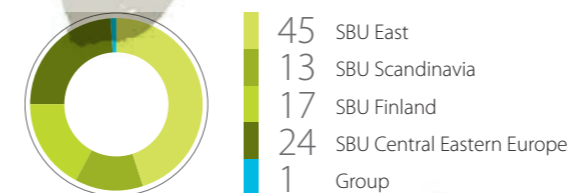
672
revenue, EUR million

3,227
personnel

Revenue by segment, %



Personnel by segment, %



% Share of Group's revenue
🏆 Market position in decorative paints

Strong brands



Tikkurila's strategic brands are among the best-known paint brands within their operating areas. A major part of Tikkurila's sales come from the strategic brands, which are Tikkurila, Alcro, Teks, and Vivacolor. In addition, Tikkurila has some local brands.

Four reporting segments

Tikkurila's business operations are organized in four reporting segments, or Strategic Business Units (SBU). Tikkurila's Strategic Business Units are divided based on geographical presence; SBU East, SBU Scandinavia, SBU Finland, and SBU Central Eastern Europe.

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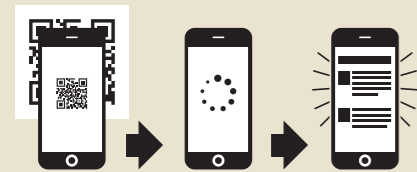
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How does the QR code work?

A QR code is a code containing information or a link to a website, which can be scanned via a mobile device.

First, you need to install software for reading codes on your mobile device. Then you can scan or photograph the QR code. Next, the software delivers the information contained in the code to you.



Symbol descriptions

- Read more on the Internet
- Email address
- Further information
- Telephone number



The Swan label indicates that the printing house is committed to minimizing its burden on the environment and covers the production of magazines and printed advertising. All production methods and chemicals used in manufacturing comply with the requirements of the Swan label.

YEAR 2012 IN BRIEF

- Tikkurila's 150th year of operation was a record-breaking year despite the challenging macroeconomic situation. Tikkurila achieved the highest revenue, operating profit and the cash flow from operations of all time.
- The weak market atmosphere and decline in consumer confidence reduced Tikkurila's sales volumes particularly in the latter half of the year. Revenue grew slightly, mainly as a result of sales price increases. Sales prices were increased in order to compensate for the higher level of raw material costs.
- Relative profitability improved. The excellent operating profitability was based, in particular, on the streamlining measures carried out in the Group.
- Improved management of net working capital clearly increased cash flow.
- Tikkurila introduced approximately 40 new products to consumers and professionals.

Tikkurila's 150th anniversary

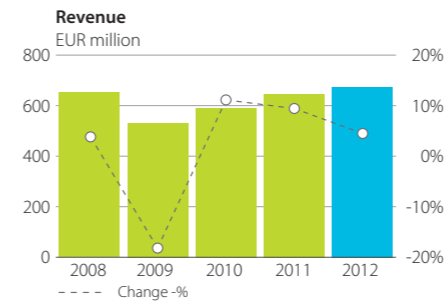
Tikkurila's anniversary was celebrated during the year in many different ways. In August 2012, Tikkurila published the "Colour Card - 150 Years of Tikkurila Stories" history. The book gives an account of the story of entrepreneurship, courage, and a strong belief in one's own competence. According to the book's author, Kirsti Manninen, Tikkurila's success is founded on the company's ability to renew itself in a changing world, the skills of the company management to delegate responsibility to competent individuals, and nearly one hundred years of committed customer guidance – paints alone are not enough; instead, what is needed is knowledge, inspiration, and continuous interaction with paint users.

As part of the anniversary year, Tikkurila also launched the Sustainable Beauty program aiming to promote well-being by participating in the projects in which paints and colors are used to create delight and beauty in various spaces and environments. Projects were carried out in ten different countries, and more information about them can be found on Tikkurila's website at www.tikkurilagroup.com/sustainablebeauty



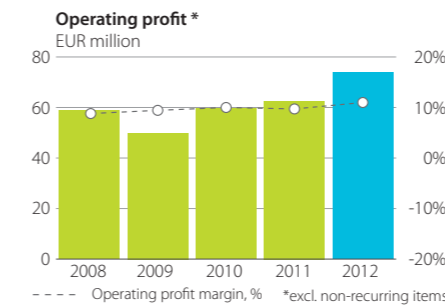
Key figures

EUR million	2012	2011
Revenue	671.8	643.7
Operating profit (EBIT), excluding non-recurring items	73.9	62.7
Operating profit (EBIT) margin, excluding non-recurring items, %	11.0 %	9.7 %
Operating profit (EBIT)	66.6	61.2
Operating profit (EBIT) margin, %	9.9 %	9.5 %
Profit before tax	59.2	50.7
Net profit	40.6	35.5
Earnings per share, EUR	0.92	0.80
Return on capital employed (ROCE), %, rolling	21.0 %	19.4 %
Cash flow after capital expenditure	50.3	13.3
Net interest-bearing debt at period-end	80.6	99.4
Gearing, %	39.1 %	51.9 %
Equity ratio, %	47.7 %	44.1 %
Personnel at period-end	3,227	3,551



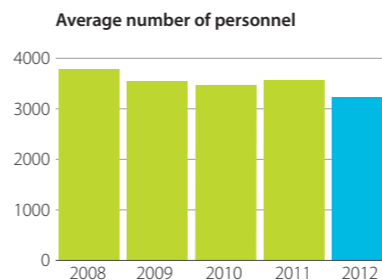
55%

Slightly more than a half of Tikkurila's revenue comes from the emerging markets.



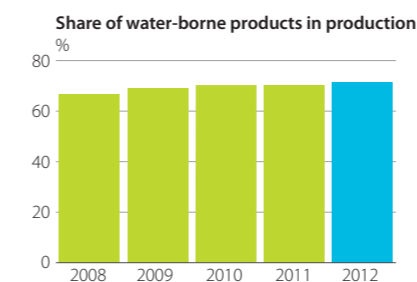
11%

Tikkurila's relative operative profitability has traditionally been good and stable.



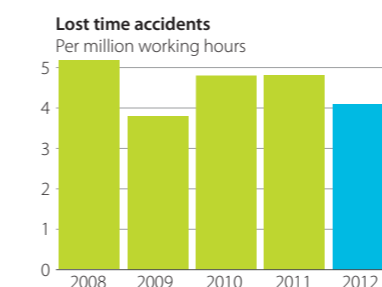
86%

A majority of Tikkurila's personnel want to participate in the development of their working community and own jobs.



71%

The majority of products manufactured by Tikkurila are water-borne.



-15%

The number of accidents at work decreased from the previous year.



URBAN COLORS

There's always something magical and uncommonly powerful about the last rays of the evening. The mind starts to wander. One feels like transforming into some nocturnal creature that is able to perceive everything more vividly, in sharper focus. The colors are vibrant, and there's a special kind of promising luminosity in the air. Somehow it feels like a good time to reflect the past – and the future.

Let us take a trip through the urban colors.



FROM THE CEO

Dear Reader,

I am happy to say that 2012 was a year of success in Tikkurila's operations. Despite the extremely challenging market environment, Tikkurila achieved record levels in revenue, operating profit, and cash flow from operations – in honor of its 150th year of operations. I would like to thank our personnel and all our partners – consumers, professionals, industrial customers and retailers alike – for this magnificent achievement.

The overall economic development did little to support us last year. The uncertainty in global economy increased month by month after the promising beginning of the year. Problems in the euro region reflected heavily in the consumer confidence and, further, in retail and paint sales in all our markets as the year went on. Slowdown in construction and home sales as well as tax deduction cuts reflected particularly in the sales to professionals. Additional challenges came from the unprecedented high prices of titanium dioxide, which is a raw material important especially for paint manufacturers. Nevertheless, we were able to compensate for them reasonably well through the increases in our sales prices.

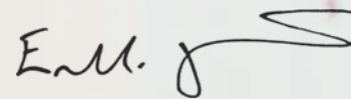
Our good operating profit level was, in particular, based on the cost savings generated by the restructuring launched at the end of 2011 and the streamlining of operations. Above all, the restructuring aimed to simplify our organization and speed up the decision-making. We also changed our operating method in markets where profitability was weak. At the same time, our cost structure became considerably lighter. These measures enabled us to maintain a good level of profitability in the challenging market conditions.

Based on our annual strategy review, we decided to continue on our chosen path. Geographically, our focus will continue to be on Northern and Eastern Europe. Our strong position in the Nordic countries creates stability in our operations – we will be seeking growth particularly in Russia and its adjacent countries, as well as in Central Eastern Europe. Our customer focus will be on serving consumers and paint industry professionals including selected industrial sector customers. In terms of products, we will focus on branded products in the higher price and quality grade, for which Tikkurila is traditionally known. We want to maintain this approach in the future as well.

The Board of Directors set new, long-term economic objectives for our operations at the end of the year, since the previous medium-term objectives determined in 2009 were met in the set time-frame. The new objectives require that our operations are both more profitable and also grow more rapidly. Since we believe that macro-economically the next few years will see fairly modest growth, it is likely that reaching the sales target of one billion euros in 2018 requires acquisitions.

These are challenging but achievable targets. In retrospect, I think that Tikkurila's story is an account of entrepreneurship, courage, and strong belief in one's own competence. These same values will also carry us in the future. Kirsti Manninen, the author of our history book, aptly pointed out that our success is, most of all, based on our company's ability to transform itself as the market situation changes. Secondly, the company has had the courage throughout our history to delegate responsibility to talented individuals, which, thankfully, Tikkurila has also had – and continues to have – in its ranks. Thirdly, Manninen also saw what has been, and absolutely continues to be, our driving force: guidance, training and various services offered in parallel to our excellent products. In the future, we want to highlight the importance of this comprehensive concept as a basis of our operations. This is demonstrated, among other things, by the increased investments into developing innovativeness.

All signs indicate that 2013 will also be a challenging year from the macro-economic point of view. Particularly growth in the developed markets will be no more than a few percentage points at best; the outlook for the emerging markets is slightly more positive. On the other hand, rapid and extensive fluctuations in demand would seem to be a permanent phenomenon. Despite all these challenges, we can enter the New Year with a peace of mind. We have a company which is one of the best in the industry, one that occupies a strong, leading position in its operating area. Our financial standing is solid and our product range is competitive. We have Finnish anchor owners who are committed to long-term development of our operations. Above all, we have profound, established customer relationships on which to build our growth strategy. And after all, the records are meant to be broken.


Erkki Järvinen



BUSINESS STRATEGY

Tikkurila's strategic objective is to be the leading provider of painting solutions aimed at consumers and professionals in the Nordic countries as well as in Russia and other selected Eastern European countries.



In 2011 and 2012, Tikkurila's special focus was on restructuring and improving profitability. In the future, Tikkurila will pursue better growth.

Strategic framework

According to the strategy defined in 2009, Tikkurila adheres to a strategy of focus:




- Tikkurila serves consumers and paint industry professionals including selected industrial sectors.
- Tikkurila operates in the Nordic countries, Russia, and other selected Eastern European and Central Asian countries.
- Tikkurila invests in its own strong brands and focuses on the higher price and quality grade paints.

Tikkurila's strategy was further specified in 2011. To improve profitability, Tikkurila launched a Group-wide program at the end of 2011 aiming at a more flexible organization and cost structure as well as streamlined operating models. The program included reforming organizational structures, clarifying areas of responsibility, and changing operating methods. The objective is also to clarify the roles of different production units and, if necessary, restructuring. The following measures were completed in 2012:

- Reducing the size of the Group Management Board
- Reducing the management levels for faster and more streamlined decisions
- Reducing and outsourcing personnel in Finland (approximately 110 people)
- Selling the subsidiaries in Hungary, Slovakia, Czech Republic, and Romania to the local management
- Streamlining the organizations in Russia, Poland, and the Baltic countries
- Improving the optimization of raw materials and formulas

Values

Our values – trustworthiness, innovation, and professionalism – steer our operations and support sustainable activities. They come alive in decision-making situations every day, on both small and large scales.

-  **We are trustworthy**
We create and offer quality brands, services and products that people can trust are safe, reliable, and environmentally sustainable.
-  **We are innovative**
We drive change in the market and offer novel solutions for our customers' needs.
-  **We are professionals**
We add value to our customers, owners, and the community – every day.

Accelerating growth

As a result of the annual strategy round, Tikkurila aims at higher growth rates in the coming years. Customer focus will be emphasized in all operations. Tikkurila targets to grow faster than the average market growth in all of its key market areas, with a special focus on Russia and the adjacent markets. Emphasis is on organic growth through strong brands. Well-targeted acquisitions and alliances will be carried out if and when they positively contribute to the strategy implementation either by expanding the geographic footprint or by enlarging the product and service portfolio. The Group intends to enter service business combining the current product portfolio with new bundled paint-related and decoration services. Furthermore, new distribution methods will be evaluated. Shop-in-shop concepts will be utilized, and integration forward in the value chain will be evaluated in certain areas.

Strategy focus areas in 2013

Accelerating profitable growth through organic growth, increased market shares of higher price and quality grades, and select acquisitions.

Developing distribution by means of a retail concept directed at professionals.

Strengthening innovations to meet the strategic objectives, such as increased sales of services. Innovation activities are driven by megatrends in the operating environment, such as aging of the population, rise of the middle-class, and a focus on individualism and a busy lifestyle.

Closer cooperation between R&D and product management for future competitiveness. The focus will be on developing sustainable solutions and anticipating future customer demands.

Continuous improvement of the supply chain functions to support profitable business through projects related to, among other things, capital management, customer service, and streamlined operations. In seeking effectiveness, the focus areas include building raw material portfolios and the Group's common formula development projects.

New financial targets for 2018

1

Revenue
EUR 1 billion

> 12%

Profitability
Operative EBIT margin over 12 percent

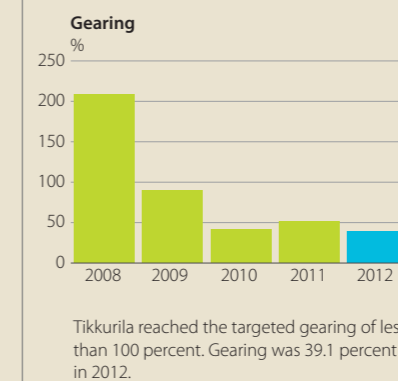
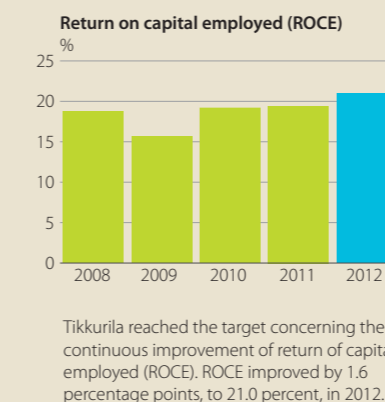
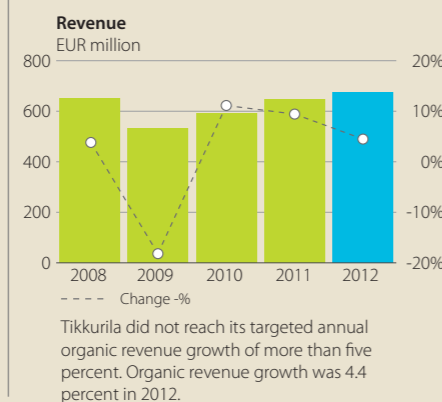
> 20%

Return on capital
Operative return on capital employed (ROCE) over 20 percent

< 70%

Balance Sheet structure
Gearing less than 70 percent

Financial targets 2010–2012



Dividend policy

Tikkurila aims to distribute a dividend of at least 40 percent of its annual operative net income. Operative net income means net profit for the period excluding non-recurring items and adjusted for tax effects.

Year	Dividend per share
2010	EUR 0.70
2011	EUR 0.73
2012	EUR 0.76

The dividends have corresponded to 72–88 percent of the operative net income.

*Board's proposal to the Annual General Meeting

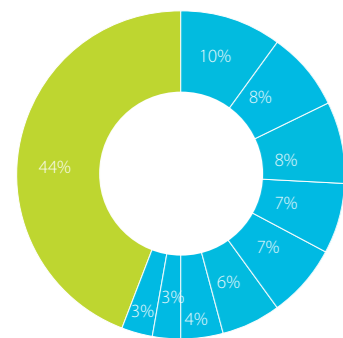
OPERATING ENVIRONMENT

Paint is manufactured by mixing several different raw materials with each other and processing them together. Paint has two primary purposes: to decorate surfaces and to protect them from, for example, the elements and corrosion. Today, practically all structures and manufactured products are finished with paints and other coatings. The combined value of the global paint and coatings market amounted to approximately EUR 76 billion in 2011. Over the medium term, the annual volume growth of the markets has been approximately three percent.

The paint markets can be divided into two main categories based on the end-use of the products: decorative paints and industrial coatings. Decorative paints account for 44 percent and industrial coatings for 56 percent of the value of the market. Geographically, the Asian market has experienced the fastest growth in recent years, and its share of the world's entire paint market volume is approximately 40 percent. In decorative paints, Asia's share is 30 percent. Europe is the second largest market, with a 30 percent share of the value of the world's paint sales. In decorative paints, Europe's share is 31 percent. Tikkurila is a regional player with the Nordic countries and Eastern Europe as its market area. Tikkurila operates primarily in the decorative paints sector, which accounts for more than 80 percent of Tikkurila's revenue.

Water-borne paints make up an increasing share of decorative paints. In 2011, their share of the global demand was more than 80 percent, and the share is expected to continue to grow. Over 90 percent of paints purchased by consumers are water-borne. Solvent-borne paints are especially used in exterior painting by professionals. Water-borne paints are becoming more common due, among other things, to their ease of application, quicker drying times as well as environmental and health aspects.

■ Industrial coatings 56%
■ Decorative paints 44%



- Metal Industrial Coatings 10% *
- Transportation 8%
- Powder Coatings 8%
- Industrial Maintenance and Protective 7% *
- Automotive Refinish 7%
- Wood Coatings 6% *
- Marine Coatings 4%
- Coil Coatings 3%
- Packaging Coating 3%
- Decorative paints 44%

Tikkurila operates in the industrial coatings sectors marked with an asterisk.
Source: IPPIC

The combined value of the global paint and coatings market amounted to approximately EUR 76 billion in 2011. Industrial coatings account for more than half of the total value of the paint market. Tikkurila focuses on decorative paints, which accounted for 84 percent of revenue in 2012.



Paint market in Russia

The volume of the decorative paint market in Russia is approximately EUR 1.5 billion. The development of the Russian economy is still fairly dependent on the price of oil. Market growth is supported by the overall economic growth, increased purchasing power of consumers, and construction. There are already 15 large cities with the population in the millions in Russia, and the country is among the largest consumer markets for Europe. Over a longer term, the increasing wealth and the rise of the middle class in Russia will result in increased demand for the higher price and quality grade paints. Thus far, the relative share of the low price and quality grade paints in the market is the highest. For the time being, consumers (Do-It-Yourself) largely do the painting themselves in Russia, but the share of professionals is growing clearly faster.

The future development of the Russian paint market will be considerably affected by consumers' increasing environmental awareness, although environmental legislation in the country is so far fairly minimal. Concern over matters relating to health, safety, and the environment is growing among Russians, which is manifested in the increased demand for water-borne and low-solvent paints. Over the course of the past ten years, the share of water-borne paints has multiplied, accounting for approximately a half of the total demand for decorative paints. However, the share is still clearly lower than in many other markets.

For the time being, the paint market in Russia is characterized by the large number of small players. The chemicals legislation may tighten requirements in Russia as well, which will impact the competitive situation in the future. Russia joining the World Trade Organization (WTO) in 2012 has increased confidence in the Russian economy and over time may also manifest as smaller duties. Among the significant events in the near future are, among other things, the 2014 Winter Olympics Russia will host in Sochi, which has resulted in a number of different construction and infrastructure projects.

FACTORS INFLUENCING PAINT PURCHASING

Decorative paints are purchased by consumers and professionals. In Europe, consumer purchases account for slightly less than a half of the paints sold. Generally speaking, the lower the labor costs are in a country, the more professionals are used in painting projects. On a global scale, the consumer share in demand for paint is approximately a quarter. The share of professionals also increases in countries with higher labor costs as the population ages and wealth increases.

The purchase decisions of professionals are affected most by service and price. Professionals value delivery reliability as well as technical support and other services related to products and painting. They value products with a good price-to-quality ratio and which are easy to use, provide an attractive finish, and support the profitability of operations.

For consumers, the most important factor influencing the purchasing decision is the available color ranges. In addition, paint qualities influence the decision. Consumers, themselves, paint reasonably infrequently, which is why a high-quality and easy-to-apply finish is an important factor. Often, price is not the key factor in the decision.

RAW MATERIAL MARKETS

Tikkurila's most important raw materials are pigments (most of all, titanium dioxide), binders, solvents, additives, water and packaging materials. The prices of raw materials and packaging materials are largely dependent on the price development of oil, energy and metals. Raw materials play a central role in paint manufacturers' operations. Raw and packaging materials account on average for half of Tikkurila's revenue.

SEASONALITY

Tikkurila's business operations are seasonal so that the revenue and operating result from the second and third quarters are generally considerably higher than those from the first and fourth quarters of the financial year. Seasonality fluctuation is primarily due to the increase in outdoor painting activities in the second and third quarters.



Tikkurila's products and services

Decorative paints

Paints, lacquers and effect products for interiors, exterior paints for wood, masonry, and metal surfaces, as well as services related to painting.

Coatings for the metal industry

Anti-corrosion paints, products for product painting, as well as special paints and coatings for concrete floors, and painting combinations for various industrial surface treatment processes.

Coatings for the wood industry

Paints and other surface treatment products for the furniture, joinery, panel and sawmill industries.

Customers

Consumers and professionals are the end users of Tikkurila's products and services. Consumers (mainly so-called DIY, or do-it-yourself, customers) and professionals (contractors, designers, house managers, construction companies, developers, influencers, industrial customers) are primarily served through different hardware stores or smaller paint stores. Industrial customers are served either directly or through the Temaspeed retailer network.

Distribution channels

Tikkurila sells decorative paints primarily to home improvement stores, paint store chains, and independent paint retailers that re-sell Tikkurila's products to consumers. In Scandinavia, Tikkurila also has its own paint stores.

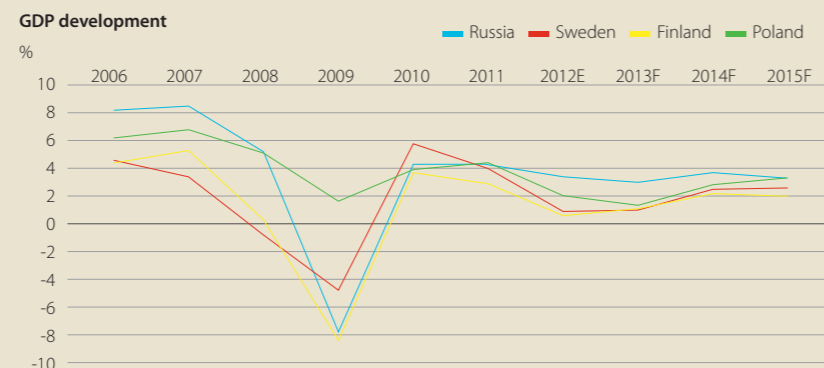
Tikkurila's industrial coatings are sold either directly to the customers or through the Temaspeed retailer network. Only authorized industrial coating retailers are allowed to use Tikkurila's Temaspeed brand.

Drivers for paint demand

	Mature markets	Emerging markets
Demand factors in long-term	<ul style="list-style-type: none"> • Construction styles • Trends in interior decoration 	<ul style="list-style-type: none"> • Economic development and improving standard of living • Potential for trading-up • Local habits, e.g. frequency of re-painting
Demand factors in medium and short-term	<ul style="list-style-type: none"> • GDP growth • Consumer confidence • Employment situation • Activity level in new construction and renovation 	<ul style="list-style-type: none"> • GDP growth • Consumer confidence • Employment situation • Activity level in new construction and renovation
Supply factors	<ul style="list-style-type: none"> • Raw material prices and availability • Changes in regulation 	<ul style="list-style-type: none"> • Raw material prices and availability • Changes in regulation

GDP growth forecasts in Tikkurila's main markets

The growth rate of the global economy has slowed down, and several lower growth years are forecast. Growth in Western Europe is expected to be rather slow in the next few years, whereas the growth outlook is slightly better for Eastern Europe.



Market shares in decorative paints in 2011

- Russia 18%
- Sweden ~40%
- Finland >50%
- Poland 15%

Market shares

Tikkurila is the market leader in decorative paints in Russia, Sweden, Finland, and the Baltic countries. In Poland, Tikkurila is the fourth largest supplier of decorative paints. Despite the tightened competitive situation, there have been only minor changes in market shares. Significant changes in the market shares have mainly occurred in connection with business acquisitions.

EVENING SHADES

It's funny, one doesn't really pay close attention to the colors of the city during the day even though they are at their brightest in the daylight. Maybe it's the busy environment and the rushing crowds that cloak the important details.

Come nightfall, though, one starts paying attention. Take a look around. The nocturnal city has a vibrant palette of colors and shades that might be partly veiled by night, but still makes buildings, blocks and parts of the city what they really are. The shapes and figures around you seem to talk their own secret language, only to quiet down come morning.



SBU EAST

SBU East's relative profitability increased to an excellent level mainly driven by the increase in revenue and favorable changes in the sales mix.

The growth was strong in Russia at the beginning of the year, but the confidence of the Russian consumers and the economic growth slowed down towards year-end as a result of the prolonged euro crisis.

SBU East's full-year revenue increased from the comparison period. Increases in sales prices and changes in the sales mix grew revenue by 12 percent and the translation effect of exchange rate fluctuations increased it by 2 percent. The sales volumes were lower than in the comparison period and weakened revenue by 4 percent.

Despite increased cost level, operating profit excluding non-recurring items clearly increased and relative profitability improved. Profitability improved mainly driven by the increase in revenue and Tikkurila brand's increased relative share of sales. The increase in costs happened against the backdrop of increased sales and marketing investments as well as general cost inflation in Russia. The non-recurring items amounted to EUR -2.6 million and were related to the streamlining of operations and the impairments recognized on a production facility, land area and certain trademarks.

According to the brand awareness study, carried out in 2012 in Russia, Tikkurila paint brand is the most well-known paint brand in Russia. The Russian consumers value Tikkurila's wide selection and quality of products as well as company's reliability, stability and innovativeness, among others. The survey was conducted in 14 cities in Russia, and approximately 45,000 people participated in the study.



Designer services in Kazakhstan

As a part of Tikkurila's strategic intent of expanding its services offering, Tikkurila has piloted a new service business concept in Kazakhstan. A Designer-Decorator department was established, offering different kinds of services, such as interior design, execution of interior paint decorating projects and furniture restoration. An important part of the services concept promotion was the creation of different types of decorative textures in Tikkurila partner stores. According to its own estimates, Tikkurila is the leading player in Kazakhstan in premium product segment.



Nation-wide coverage in Russia

Tikkurila is the leading decorative paints supplier in Russia with a market share of approximately 18 percent. Tikkurila has operated in Russia since 1970's when it started to export paints to the former Soviet Union region. Tikkurila's first production facility was opened in 1990's in St. Petersburg. In 2012, Tikkurila expanded its warehouse and sales office network in order to cover also the eastern parts of the country. Tikkurila's products are sold in more than 5,000 retail outlets in Russia.

SBU East

Operating area

- Operating area: Russia and other CIS countries, Ukraine
- Production sites: St. Petersburg and Stary Oskol, Russia; Kiev, Ukraine
- Largest market: Russia

Brands



Market position

- The leading supplier of decorative paints with a market share of approximately 18 percent

Paint market

- The value of the Russian decorative paint market some EUR 1.5 billion
- The average yearly volume growth of the Russian decorative paints market 6 percent in 2004–2012

Demand structure

- Economy price and quality segment products
- Premium price and quality segment products expected to rise the fastest along with improving standards of living and higher quality standards

Distribution channels

- Decorative paints: DIY retailers, independent retailers, wholesalers
- Industrial coatings: direct sales, Temaspeed distributors

Competitors

- AkzoNobel, Lakra-Sintez, Empils, ABC-Farben, Meffert, Caparol, several local players

More effort on training

Tikkurila provides its personnel, customers, retailers and paint professionals and students with training in its training centers, which are available in seven countries in the Group.

In 2012, a modern training center was completed to the immediate vicinity of the factory producing only water-borne products in Obukhovo, St. Petersburg in Russia. The training center is a facility for seminars, lectures, and training related to painting and paints for different customer groups and personnel. Tikkurila's products are broadly presented in the center, and its visitors inspired to paint by means of vibrant colors and painting demonstrations.

In Russia, Tikkurila also has training centers in Moscow and Novosibirsk. During 2012, approximately 5,600 customers, retailers and painting professionals were trained in Russia.



Color inspiration in Minsk



As a part of Tikkurila's "Sustainable Beauty" program, Tikkurila organized a "Color Inspiration" competition in cooperation with the Belarusian "Belyy Kvadrat" marketing and advertising festival in Minsk, Belarus. Young designers were invited to draw sketches with Tikkurila paints to provide color inspiration to children. In April 2012, the drawings of the five best designers were painted in child care centers specialized in the care of mentally disabled children.

Russia quick facts 2012

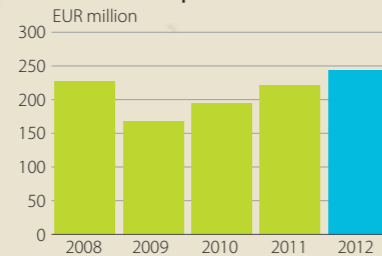
- 142.5 million Population
- 3.4% GDP growth
- \$ 17,000 GDP per capita
- 6 liters Paint consumption per capita
- Apartment Most popular way of living
- 53 m² Average size of home
- Bright and pastel colors Most popular interior paint color

Key figures

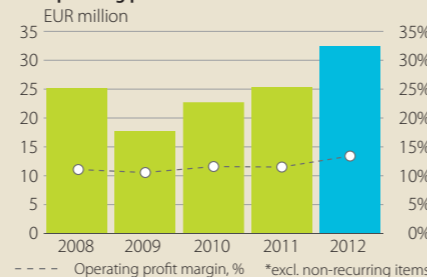
EUR million	2012	2011
Revenue	242.8	220.0
Operating profit*	32.5	25.3
Operating profit margin*	13.4%	11.5%
Operating profit	29.9	25.3
Personnel	1,437	1,527

*excl. non-recurring items

Revenue development



Operating profit*

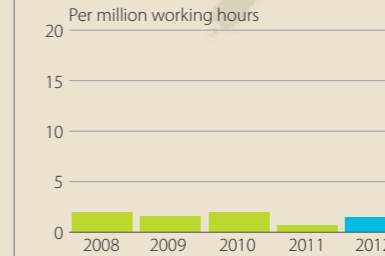


--- Operating profit margin, % *excl. non-recurring items

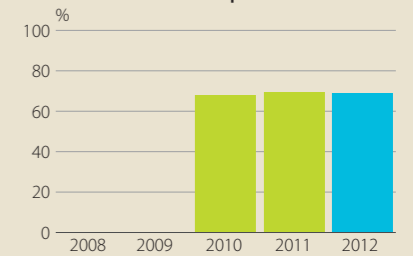
Average number of personnel



Lost time accidents



Share of water-borne products*



*Sales in Russia

SBU SCANDINAVIA

During the year, the overall economic uncertainty was reflected in the Swedish consumer confidence, which was lower than average.

In Sweden, competition was tight and market sentiment weak. SBU Scandinavia's full-year revenue increased slightly from the comparison period. The positive impact of the increased sales prices was 5 percent and the positive impact of exchange rate changes was 4 percent. Lower sales volumes reduced revenue by 4 percent. The negative impact of the divestment of retail stores was 3 percent.

Operating profit excluding non-recurring items and relative profitability remained at the comparison period level. The relative profitability of the Scandinavian operations has traditionally been on an excellent level.

Tikkurila has been working actively and consistently for years in order to develop and offer environmentally sustainable and easy-to-use products particularly in Scandinavia where Tikkurila has the highest number of eco-labeled decorative paints. In 2012, several products in Scandinavia were awarded the EU Ecolabel. More than 60 products of the Alcro and Beckers paint brands sold in Scandinavia have been awarded the EU Ecolabel. In 2009, Tikkurila's subsidiary Tikkurila Sverige AB was the first company to receive the Swan Ecolabel for its exterior paints. In 2012, several products in Scandinavia were awarded the Swan Ecolabel, and currently more than hundred exterior and interior paints of Alcro and Beckers carry the Swan label.



Inspiration from Alcro

With color, imagination and careful work, an old, worn out piece of furniture can be made attractive once again. Alcro wants to show this with ad.retur – an inspiration collection in which students at Beckmans College of Design have given ten worn out pieces of furniture a new chance. They were exhibited at the Stockholm Furniture Fair in February 2012.

The first Alcro Designers (ad) collection was introduced in 1999 with the aim of making it easier to choose paint by offering expertise and inspiration. Since then, Alcro has produced twelve color collections in collaboration with the leading designers, architects and interior decorators.



50% less CO₂ emissions

In 2011, Tikkurila reached its previous environmental target in Scandinavia. The target was that 99 percent of sold paints are water-borne. Now for the years 2012–2020, Tikkurila has set a new environmental target for the Scandinavian business operations. According to the target, the company will reduce its direct and indirect carbon dioxide (CO₂) emissions by 50 percent in its operations in Sweden, Norway and Denmark by 2020. Emissions will be reduced, among others, through transportation, business travel, purchased electricity and electricity consumption, as well as through waste management.

Consulting services for a hospital project

In Sweden, Tikkurila started to cooperate with Skanska in construction of the New Karolinska Solna University Hospital. Tikkurila Sverige AB provides Skanska with consulting services for the painting work on the university hospital outside Stockholm, Sweden. The five-year agreement contributes to both major efficiency improvements in wall painting work and better environmental compliance documentation.

Tikkurila provides technical support and draws up painting work and material specifications for the entire project. Hospital construction projects place special demands on wall paints compared to other new construction projects. For instance, the surfaces must be easy to keep clean and highly durable. Moreover, the New Karolinska Solna University Hospital is an extremely large construction project. The construction work began in the summer of 2010 and will continue until 2017. In addition to its comprehensive expertise in colors and professional painting jobs, Tikkurila Sverige's ambitious environmental work was also a major factor in Skanska's choice of partner.



Long-awaited matt paint

In addition to colors, decorating trends are increasingly focusing on the surface. Many people would like to paint all of their indoor walls matt, but they are often forced to refrain from this for practical reasons: completely matte surfaces are usually easily damaged. In 2012, Alcro launched Pashmina, a completely matt and yet scratch-resistant paint. The surface painted with Pashmina can be washed without the surface becoming shiny. This means it functions even in exposed environments such as a hall or a kitchen.

Alcro Pashmina gives a velvety surface where the colors have a beautiful depth. A completely matte wall gives an exclusive impression with a more truthful experience of the color without irritating light reflections.

SBU Scandinavia

Operating area

- Operating area: Sweden, Norway, Denmark
- Production sites: Nykvarn, Sweden
- Largest market: Sweden

Brands



Market position

- The leading supplier of decorative paints with a market share of approximately 40 percent

Paint market

- The value of the paint market some EUR 830 million
- The average yearly growth of the value of the Swedish paint market some 3 percent in 2004–2012

Demand structure

- Premium and medium price and quality segment products

Distribution channels

- Decorative paints: DIY retailers, in Sweden also Tikkurila Sverige's professional stores, Happy Homes chain and Colorama retail chain
- Industrial coatings: direct sales, Temaspeed distributors

Competitors

- AkzoNobel, Flügger, Jotun, Sherwin-Williams, Teknos, several local players

Sweden quick facts 2012

9.1 million Population

1.2% GDP growth

\$ 41,700 GDP per capita

13 liters Paint consumption per capita

One-family house Most popular way of living

96 m² Average size of home

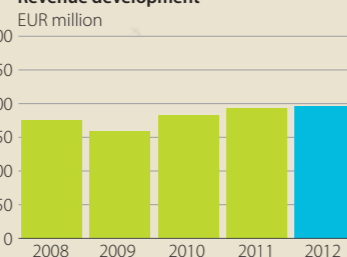
White and off-white Most popular interior paint color

Key figures

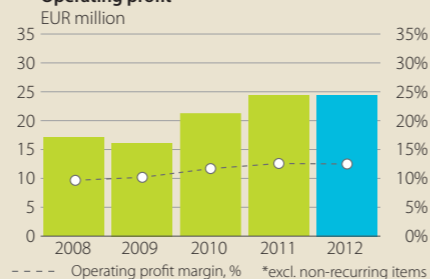
EUR million	2012	2011
Revenue	195.6	192.3
Operating profit*	24.4	24.3
Operating profit margin*	12.5%	12.6%
Operating profit	23.7	24.2
Personnel	408	422

*excl. non-recurring items

Revenue development



Operating profit*

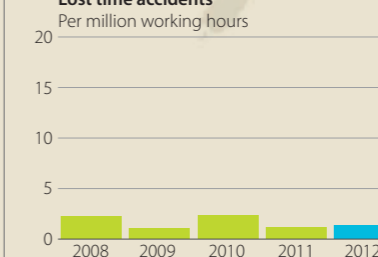


--- Operating profit margin, % *excl. non-recurring items

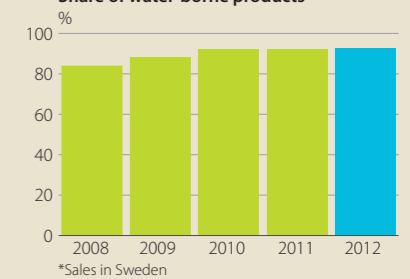
Average number of personnel



Lost time accidents



Share of water-borne products*



*Sales in Sweden

SBU FINLAND

Tikkurila's anniversary year was celebrated, among other things, by offering various campaign products.

In Finland, the economic uncertainty decreased consumer confidence and was reflected in construction material sales and consumers' spending. SBU Finland's full-year revenue decreased slightly from the comparison period. Lower sales volumes reduced revenue by 6 percent. The positive impact of the sales price increases was 5 percent.

Operating profit excluding non-recurring items and relative profitability improved as a result of the streamlining of operations. The non-recurring items of the period under review were EUR -2.0 million and were related to the streamlining program under way in the Group.

In addition to several product launches, Tikkurila introduced to the market during the year a new concept serving retail and consumers, which will promote the retail business operations and make purchasing easy. Tikkurila's anniversary year was celebrated, among other things, by offering various campaign products.

Tikkurila extended its number of eco-labels in 2012, when Tikkurila's renewed and expanded Ultra exterior paint family was granted the right to use the Swan Ecolabel.



Surface treatment pays off

Treating surfaces regularly helps maintain and increase the value of a building. Surface treatment performed correctly and at the right time is important in both new construction and renovation. Building maintenance requires more systematic planning, frequent inspections, and increased knowledge. Tikkurila addresses this need, for example, by means of the Profe services aimed at professionals.

In 2012, Tikkurila introduced the water-borne Kilpi Tiilikattomaali Roof Tile Paint for maintenance painting of the concrete block roofs and the water-borne Unica Akva paint for doors and windows.



Unique design floors

Tikkurila addresses the need for personalized solutions through, among others, design floors, for which demand is increasing strongly. During the year, Temafloor products were used, for example, for coating the floors at the Seaplane Harbour in Tallinn, Estonia.

Design floors express the painter's creativity. In a free pattern technique, large, simple patterns create the most impressive results. The selection of color tones offers either magnificent contrasts or more peaceful designs – a floor resistant to wear does not need to be boring!

Making paint buying easier

In the autumn of 2012, Tikkurila released its new Retail concept in Finland. Its idea is to help paint retailers succeed, make paint buying a pleasant experience and increase the popularity of painting among people interested in interior design.

The planning of the Retail concept is based on a number of common trends. It highlights the individualism of customers, in other words, the offering should match the individual needs of each customer. Buying should be made easy – customers need ready-made solutions and ideas. Focus is also on effective sales.

Developing the concept is based on extensive research. Consumers' paint buying process was also surveyed as a part of the research. The research helped map extensively the aspects involved in purchasing paint, the customers' needs and values as well as the essential target groups for paint retailers. The research results were viewed against the RISC Monitor research on the attitudes of Finnish people, and based on this, three main target groups of Finns were defined in the Retail concept: Home Renovator, Home Builder and Trendsetter.

Three Retail entities of different size were designed for the main target groups. They all include the same basic elements: presentation, product range, tinting and in-store activities. When creating the product range, we took into consideration, among other things, the inventory turnover and seasonal fluctuations. The store receives detailed shelf maps for the product selection as well as precise recommendations on product volumes and packaging options. Presentation also includes a number of solutions which facilitate sales.



Tikkurila makes painting easier

Paint purchasing is often preceded by planning, selection of color and searching for tips and instructions. With Tikkurila's solutions, consumers are able to transform their enthusiasm into success. The company's website offers an extensive selection of painting ideas, work instructions and videos as well as information on colors and paints. Consumers can also use the services of the Designer and Contractor Pools, which contain hundreds of interior designers and painting contractors.

Tikkurila's Maalilinja customer hotline offers assistance, advice and ideas for painting to Finnish consumers and professionals. Our experts provide technical consultation, advice on selecting colors and paints as well as tips and work instructions. In 2012, the hotline received more than 75,000 contacts.

SBU Finland

Operating area

- Operating area: Finland
- Production sites: Vantaa, Finland

Brands



Market position

- The leading supplier of decorative paints with a market share of over 50 percent

Paint market

- The value of the paint market some EUR 240 million
- The average yearly value growth of the Finnish paints market some 3 percent in 2004–2012

Demand structure

- Premium and medium price and quality segment products

Distribution channels

- Decorative paints: DIY retailers, independent retailers
- Industrial coatings: direct sales, Temaspeed distributors

Competitors

- Teknos, AkzoNobel, NorMaali, Sherwin-Williams, several local players

Finland quick facts 2012

5.3 million Population

0.3% GDP growth

\$ 36,500 GDP per capita

12 liters Paint consumption per capita

Apartment and house Most popular way of living

80 m² Average size of home

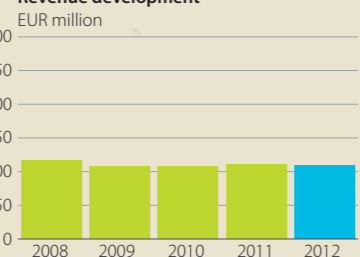
Painter's white Most popular interior paint color

Key figures

EUR million	2012	2011
Revenue	107.9	109.2
Operating profit*	12.7	10.9
Operating profit margin*	11.8%	10.0%
Operating profit	10.7	10.8
Personnel	558	688

*excl. non-recurring items

Revenue development



Operating profit*



--- Operating profit margin, % *excl. non-recurring items

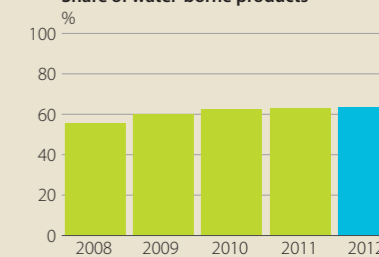
Average number of personnel



Lost time accidents



Share of water-borne products*



*Sales in Finland

SBU CENTRAL EASTERN EUROPE

Profitability of SBU Central Eastern Europe improved due to restructuring and streamlining measures.

Full-year revenue of SBU Central Eastern Europe (SBU CEE) increased slightly from the comparison period. The sales volumes in the area decreased, excluding the impact of the acquisition of Tikkurila Zorka. The sales volumes were lower than in the comparison period and reduced revenue by 6 percent. The increase was due to sales price increases, which had an impact of 5 percent. The negative impact of the changes in exchange rate was 1 percent. The positive net impact of the acquisition of Tikkurila Zorka and the divestment of the subsidiaries in Central Eastern Europe was 4 percent.

Operating profit excluding non-recurring items increased clearly from the comparison period. Profitability improved against the backdrop of revenue growth as well as the restructuring measures in the area and streamlining of operations. However, the profitability of SBU CEE is still clearly lower than the Group average. The non-recurring items of the review period amounted to EUR -1.9 million and were related to the restructuring measures and streamlining of operations.

In 2012, the quantity of eco-labeled products increased when Tikkurila's Optiva product range was granted the EU Ecolabel in Poland.



Tikkurila in the Balkan

Year 2012 was the first full operating year for Tikkurila in the Balkan area, where Tikkurila expanded its operations in 2011 by acquiring the business of Zorka Color, a Serbian paint company. In 2012, the focus was on increasing the production volumes, boosting efficiency, quality control and expanding the distribution network. In addition, Tikkurila introduced the Tikkurila brand to the Serbian market.

The Serbian paint market is dominated by decorative paints, which are sold via traditional paint stores. Water-borne paints account for some 60 percent of the paint market. Low category paints make up nearly half of the market demand.

SBU CEE

Operating area

- Operating area: Poland, Baltic countries, China, Germany, Serbia, Macedonia as well as export to more than 25 countries
- Production sites: Dębica, Poland; Tallinn, Estonia; Ansbach, Germany; Sabac, Serbia
- Largest market: Poland

Brands



Market position

- No. 4 in decorative paints in Poland with a market share of approximately 15 percent
- The leading supplier of decorative paints in the Baltic countries with a market share of approximately 20 percent (according to Tikkurila's estimates)

Paint market

- The value of the Polish decorative paint market some EUR 560 million
- The average yearly growth of the value of the Polish decorative paint market some 6 percent in 2006–2012

Demand structure

- Medium and economy price and quality segment products
- Premium price and quality segment products expected to rise the fastest along with improving standards of living and higher quality standards

Distribution channels

- Decorative paints: DIY retailers, independent retailers
- Industrial coatings: direct sales, Temaspeed distributors

Competitors

- AkzoNobel, PPG, Sniezka, Caparol, Meffert, Teknos, Jotun, Hempel, a large number of local and regional suppliers

Swan labels to the Baltics



The Swan Ecolabel was granted to the majority of the interior products of Tikkurila's Vivacolor brand, which makes Vivacolor the first locally produced mainstream Baltic paint brand that has obtained the right to use the Swan Ecolabel on paints produced at the Tallinn production unit.

The Swan is the official eco-label in the Nordic countries. It directs consumers to select products that are kinder to the environment and encourages manufacturers and service providers to produce such products. Paints labeled with the Nordic Ecolabel fulfill not only the strict environmental requirements but also tight quality requirements, which cover the entire lifecycle of the products, from raw materials to the manufacturing of the products, their use, and disposal of waste.

Tikkurila products awarded in Poland

Tikkurila's Polish subsidiary, Tikkurila Polska S.A., was granted the golden Consumer Laurel 2012 award for the Be Special Decor product range for the second year in a row. The award was given in the category of "Paints and decorative plasters". The Consumer Laurel is a national survey in Poland, which annually rewards the most popular Polish products and brands among consumers in more than 300 categories. The consumers evaluated the brands and products, for instance, based on the brand recognition and product quality.

Tikkurila's Polish subsidiary, Tikkurila Polska S.A., was granted the silver Consumer Quality Leader 2012 award for the Jedylnka Ogród Barw product range. The award was given in the "Latex paints" category. According to the Polish consumers, the price-quality ratio of the Jedylnka products is excellent, the selection of colors is wide, and the products are user-friendly. The Consumer Quality Leader is a national survey in Poland. The consumers evaluate the most popular brands and companies on the Polish market. The survey was arranged by one of the largest Polish newspapers, and more than 4,000 consumers gave their opinions in the survey.



Beauty in Belgrad

Tikkurila Zorka, together with the University of Arts in Belgrade, realized the painting and renovation project "Beauty of sport" in the elementary school "Branislav Nušić" in Belgrade, Serbia. Thanks to new colors that were given to the playground and school façade next to the playground, the school environment is more pleasant and gives inspiration.

After the project, the school façade is a colorful puzzle. The wall painting is designed by the students of the University of Arts. Along with the students, also children from the school and young actors from a local popular TV show participated in the painting work. New figures were painted to the asphalt of the playground to motivate children to play and exercise, and to improve the facilities for the school sports.

Poland quick facts 2012

- 38.4 million Population
- 2.4% GDP growth
- \$ 21,000 GDP per capita
- 10 liters Paint consumption per capita

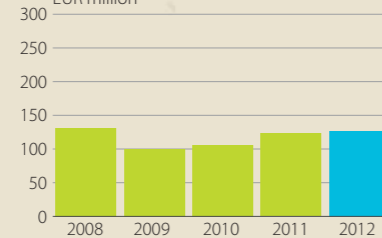
Key figures

EUR million	2012	2011
Revenue	125.5	122.2
Operating profit*	7.3	4.4
Operating profit margin*	5.8%	3.6%
Operating profit	5.4	3.2
Personnel	788	877

*excl. non-recurring items

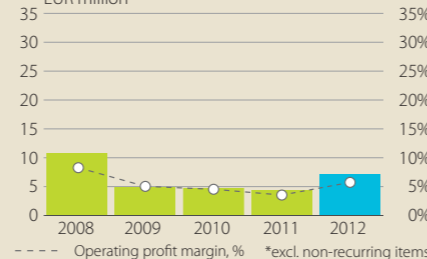
Revenue

EUR million



Operating profit*

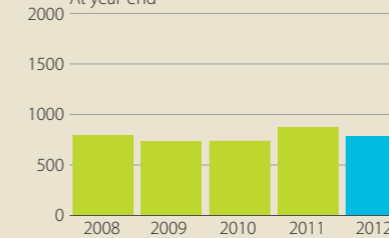
EUR million



--- Operating profit margin, % *excl. non-recurring items

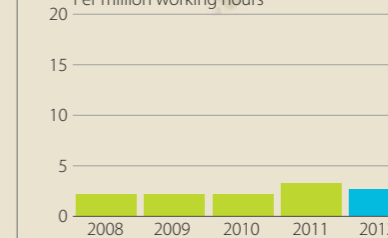
Average number of personnel

At year-end



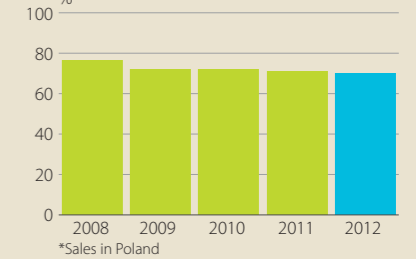
Lost time accidents

Per million working hours



Share of water-borne products*

%



*Sales in Poland



MORNING GLORY

Everyone should, at least once, experience the sunrise in the city, in a place where they don't usually go. The slowly revealed colours are exceptional, and the gradual transformation from the pitch black into the luminous hues all around is downright mesmerizing.

Only after experiencing a night without color, it dawns upon the urban wanderer that it's the colors that truly make the city what it is. The morning sun paints the city with reborn colors almost forgotten during the night. The city becomes alive.



MANAGEMENT BOARD

TIKKURILA

Kenneth Sundberg Erkki Järvinen

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.

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 Rautakirja, 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.



Kenneth



Janno



Erkki



Petri



Jukka

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.

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 Outo-kumpu 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.

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;

- 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 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 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 24–25.

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.

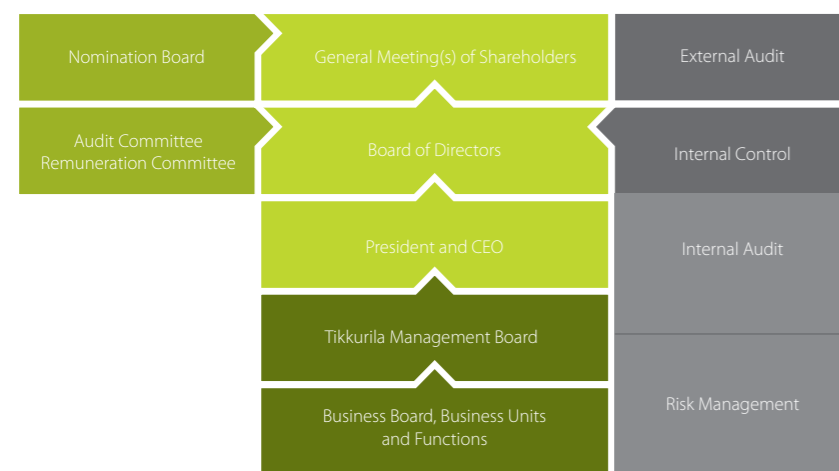
In 2012, the Tikkurila Management Board comprised of the following persons:

- 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

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.

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%

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.

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-

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
Board of Directors				
Chairman	1	22.8	42.6	65.4
Other Board members, total	6	76.8	172.8	249.6
Board of Directors, total	7	99.6	215.4	315.0

	Persons	Fixed Salary	Fringe Benefits	Subtotal, Fixed Remuneration	Annual Bonus	Share-Based Remuneration*	Subtotal, Variable Remuneration	Supplementary Pension	Total Remuneration
Tikkurila Management Board									
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
Tikkurila Management board, total	5	979.7	72.1	1,051.8	446.1	344.9	791.1	213.1	2,056.0

* 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

nancial 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

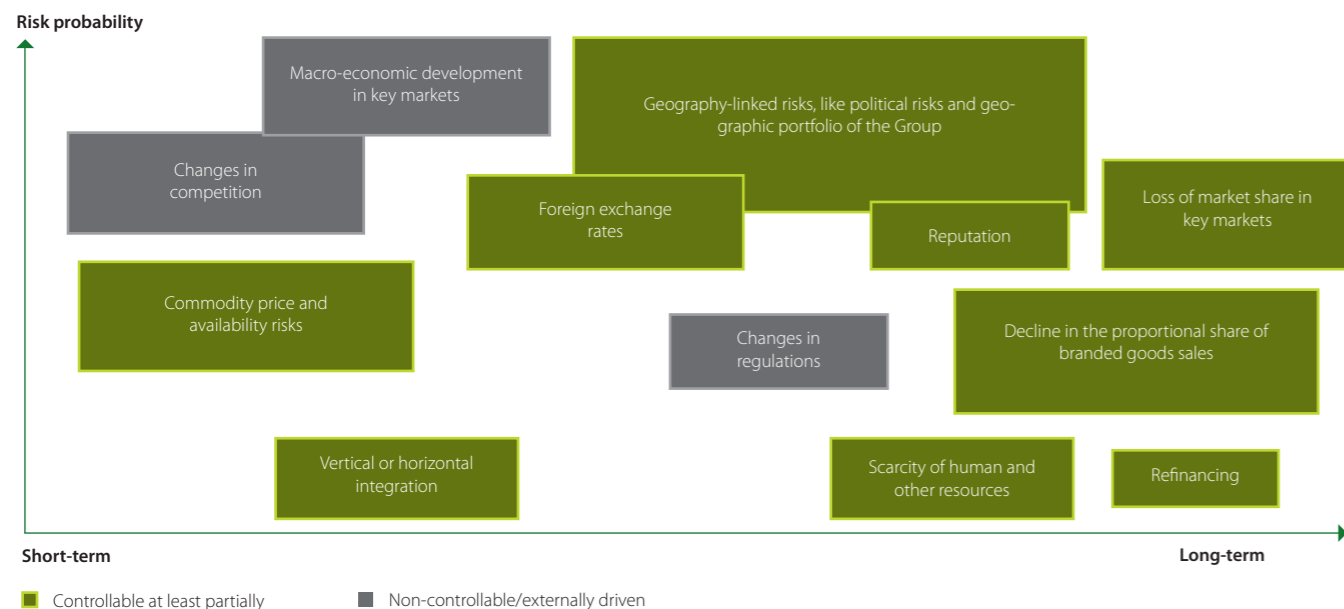
Tikkurila is committed to transparency, which means that we communicate in a proactive, open, credible, consistent, unbiased and timely manner.

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).



INVESTOR INFORMATION

INTERIM REPORTS AND ANNUAL GENERAL MEETING

April 10, 2013 Annual General Meeting
 April 24, 2013 Interim report for January-March
 July 25, 2013 Interim report for January-June
 November 7, 2013 Interim report for January-September

The material related to the Annual General Meeting and financial reports, as well as the dates for the investor meetings can be found at
www.tikkurilagroup.com/investors/

The Annual General Meeting of Tikkurila Oyj will be held on Wednesday April 10, 2013, starting at 1 p.m. at Lasipalatsi's Bio Rex (address: Mannerheimintie 22–24, Helsinki, Finland). Shareholders registered no later than March 27, 2013 in the company's shareholder register, which is maintained by Euroclear Finland Oy are entitled to attend the Annual General Meeting. Shareholders who wish to attend must register by April 5, 2013 e.g. via Internet at
www.tikkurilagroup.com/agm

DIVIDEND DISTRIBUTION

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.76 per share will be paid for the financial year 2012. The dividend will be paid to shareholders that are registered in the company's shareholder's register on the matching date on April 15, 2013.

FINANCIAL TARGETS

The financial targets are presented on pages 6–7 of the Annual Report.

CHANGE OF ADDRESS

Shareholders are kindly requested to report any change of address to the bank in which they have their book-entry account. If the account manager is Euroclear Finland Oy, the address change is to be reported to Euroclear Finland.

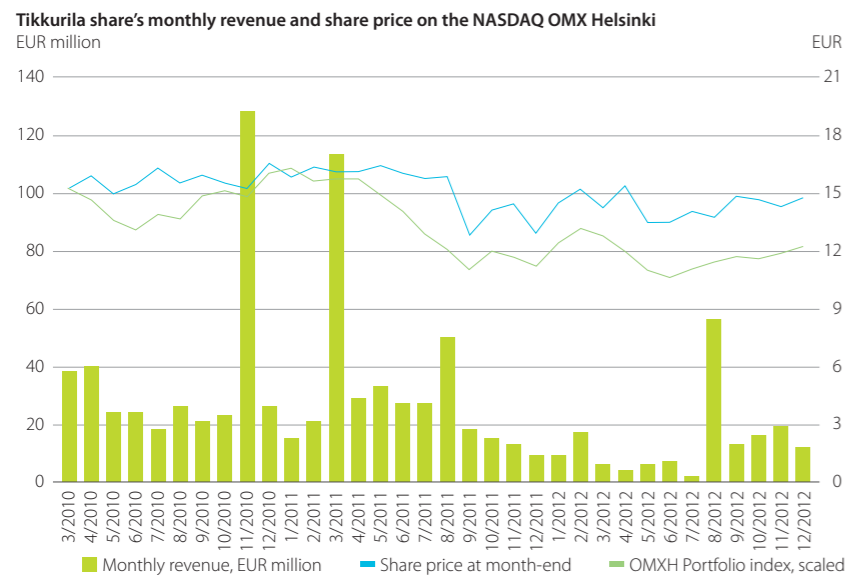
INVESTOR RELATIONS

The objective of Tikkurila's investor relations activity is to support the creation of fair valuation of Tikkurila's share through the timely communication of relevant, understandable, reliable and comparable information in order for capital market participants to be able to form a well-justified picture of Tikkurila as an investment.

The management of Tikkurila strongly participates in the Tikkurila's investor relations activities and is available for the capital market participants on a regular basis.

Tikkurila observes a silent period before it publishes financial statements and interim reports. The silent period begins when the reporting period ends and continues until the financial statements or interim report for the period in question has been published.

During 2012, Tikkurila met more than 300 persons interested in Tikkurila's share. Tikkurila organized its first Capital Markets Day in St. Petersburg in June and participated in Sijoitus Invest exhibition in November in Helsinki. In addition, approximately 200 shareholders participated in Tikkurila's Annual General Meeting.



Basic share information

Listed on: NASDAQ OMX Helsinki, Finland
 Trading code: TIK1V
 Field of business: Construction & Materials
 Number of shares: 44,108,252
 Date of listing: 26 March 2010

More information on Tikkurila's share and shareholders can be found on the Tikkurila Financial Statements.

You can order annual reports on Tikkurila web-site at
www.tikkurilagroup.com/media/publications

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Disclaimer: All forward looking statements on this Annual Report are based on the management's current expectations and beliefs about future events and actual results may differ from the expectations and beliefs such statements contain.

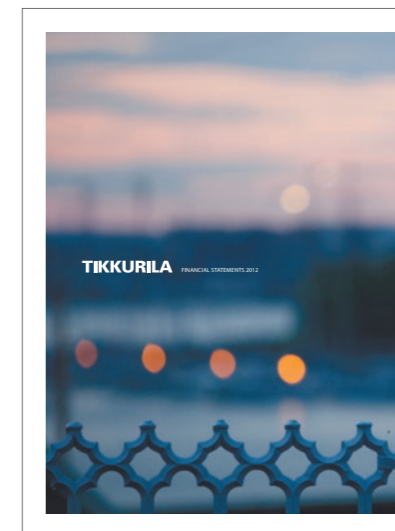


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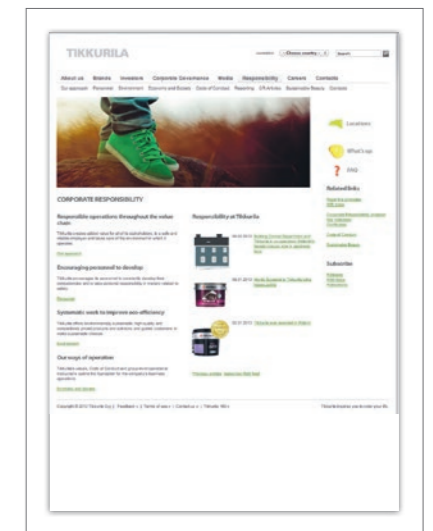
Annual Report



Financial Statements



Web pages



Tikkurila's reporting for 2012 consists of three elements: annual report, financial statements and assured corporate responsibility report. Printed copies of the annual report and financial statements can be ordered via Tikkurila's website. The corporate responsibility report can be read online at
www.tikkurilagroup.com/responsibility/

