



TIKKURILA

CORPORATE GOVERNANCE STATEMENT 2014



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Tikkurila Oyj (later referred to also as "Tikkurila" or "Group" both in relation to Tikkurila Oyj and the Group it forms) has prepared this corporate governance statement based on existing legislation and regulations. This corporate governance statement is issued separately from the Board of Directors' report, and is also available on the website www.tikkurilagroup.com, as well as is included in the 2014 Annual Report.

GENERAL PRINCIPLES AND FRAMEWORK

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

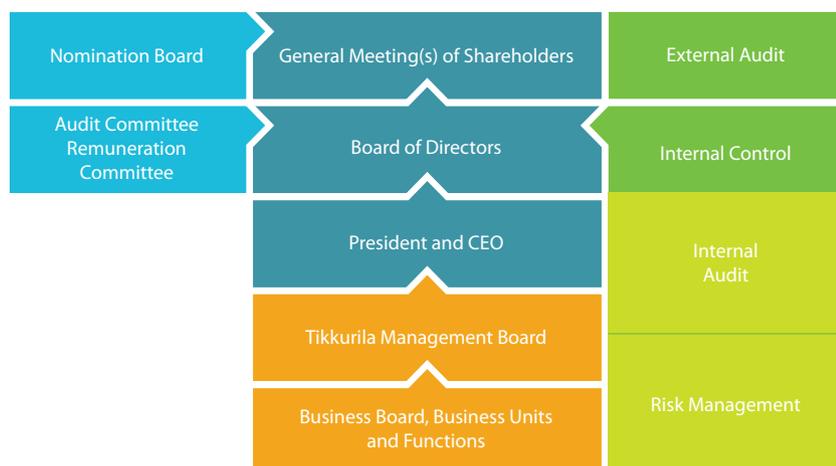
- Finnish Companies Act;
- Finnish Securities Market Act;
- Finnish Corporate Governance Code;
- Articles of Association of Tikkurila;
- standards issued by the Finnish Financial Supervision Authority;
- rules and regulations of Nasdaq Helsinki;
- Helsinki Takeover Code, issued by the Securities Market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

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

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

OVERVIEW OF TIKKURILA'S GOVERNING BODIES

The following diagram summarizes the key governing bodies of Tikkurila:



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

ANNUAL GENERAL MEETING OF SHAREHOLDERS (AGM)

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

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

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

socialion, which are available on the company's web page, www.tikkurilagroup.com/corporate_governance/articles_of_association/.

The decisions of the shareholders' meeting during 2014 are presented in the 2014 Board of Directors' report, and all the meeting materials and decisions are published on the company's web page. The Annual General Meeting in 2015 will be held on March 25, 2015.

NOMINATION BOARD

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

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

During 2014 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 until June 10, 2014 Risto Murto, Executive Vice President of Varma Mutual Pension Insurance Company, and from June 10, 2014 Reima Ryttsölä, Chief Investment Officer 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 2014, the Nomination Board met once 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 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 within its members immediately after the Annual General Meeting of the Shareholders. The Board is convened by the Chairman. The Board of Directors has a quorum when more than half of its members attend the meeting. The President and CEO, as well as the CFO, of the Group attend the Board meetings presenting the issues being discussed or decided upon, and the Group Vice President, Legal Affairs, acts as the Secretary of the Board.

During the financial year 2014, Tikkurila Oyj's Board of Directors had seven members: Jari Paasikivi (Chairman), Petteri Walldén (Vice Chairman), Eeva Ahdekivi, Riitta Mynttinen, Pia Rudengren, 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 2014, the Board of Directors concentrated on overseeing the implementation of the Group strategy and for example decided on three acquisitions to contribute to Tikkurila's profitable growth.

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

During 2014, the Board had 12 meetings, and the average attendance rate was 89 percent.

REMUNERATION OF THE BOARD OF DIRECTORS

The Annual General Meeting decided on March 2014 on the remuneration to be paid to the members of the Board. According to that decision, the Board remuneration in 2014 was the following:

- Chairman of the Board, EUR 57,000 per year;
- Deputy Chairman of the Board and Chairman of the Audit Committee, 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 was 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 for the amount of:

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

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

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

AUDIT COMMITTEE

In 2014, Eeva Ahdekivi was the Chairman of the Audit Committee, and the members of the Committee were Pia Rudengren and Riitta Mynttinen.

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

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

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

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

In financial year 2014, 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 2014. The Audit Committee also continued the work started in 2011 in relation to the assessment and management of risks. For example, at the end of the year, the Audit Committee discussed about and proposed a new approach to manage foreign exchange rate risks in the future, which was approved by the Board of Directors at the end of the year. Moreover, legal compliance, risk management and follow-up on internal audit reports were emphasized.

REMUNERATION COMMITTEE

In March 2012, the Board of Directors of Tikkurila Oyj established the Remuneration Committee to discuss and propose remuneration of Tikkurila's Group management. In 2014, Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén and Harri Kerminen were the other members of the Committee. During 2014, the Remuneration Committee met five times, and the average attendance rate was 93 percent.

PRESIDENT AND CEO

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

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

TIKKURILA MANAGEMENT BOARD

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

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

- Erkki Järvinen, President and CEO (Chairman)
- Jukka Havia, Chief Financial Officer
- Janne Paju, Chief Commercial Officer
- Petri Miettinen, Senior Vice President, Supply Chain Management & HSEQ
- Kenneth Sundberg, Research, Development and Innovation (RDI)

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

Tikkurila has operations in multiple countries, and hence also has a large number of legal entities in various countries. The President and CEO is the decision-maker for any major decisions, which do not require the Board of Directors' resolution, 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 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 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 2014

During the financial year 2014 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:

	2014		2013	
Fixed salary	EUR 431,225.46	91%	EUR 425,948.04	86%
Fringe benefits	EUR 13,339.29	3%	EUR 14,618.04	3%
Bonuses	EUR 30,923.55	6%	EUR 53,375.00	11%
Salaries total	EUR 475,488.30	100%	EUR 493,941.08	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 2014, the cost of the supplementary pension was EUR 63,814.00 (2013: EUR 60,775.00). The pension is based on a defined contribution pension scheme.

Moreover, he belongs to the share-based commitment and incentive plan, decided by the Board in 2012, for which for his part in 2014 an IFRS-based expense of EUR 279,450.70 (236,136.64) was recognized in Group IFRS accounts in addition to the figures in the table above. Based on this plan, in December 2014, Erkki Järvinen was granted 7,000 Tikkurila Oyj shares.

Based on the pre-set targets for 2014 financial performance, no annual cash-based bonus was accrued for 2014 performance. For financial year 2015, that annual cash-based bonus may not exceed 58.33 percent of CEO's 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 2014 annual cash-based management bonus scheme and the share-based commitment and incentive plan introduced in 2012. The content of these incentive systems is described in more detail in the "Cash-based Annual Bonus Scheme" and "Share-based Commitment and Incentive Plans 2012–2014, 2013–2013 and 2014–2016".

REMUNERATION OF THE TIKKURILA MANAGEMENT BOARD IN 2014

Tikkurila Management Board members were included in the 2014 annual cash-based management 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 "Cash-based Annual Bonus Scheme" and "Share-based Commitment and Incentive Plans 2012–2014, 2013–2013 and 2014–2016".

CASH-BASED ANNUAL BONUS SCHEME

On November 6, 2013, the Board of Directors of Tikkurila Oyj approved the principles for the annual cash-based management bonus scheme for 2014. 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 87 (2013: 103) persons for 2014.

Bonus criteria consisted of the 2014 Tikkurila Group business cash flow, revenue growth and operative EBIT as well as function, region, company or team specific targets. In addition, the criteria can include individual targets.

On February 9, 2015, the Board of Directors decided the criteria for annual management bonus scheme for the financial year 2015 for the Group top management. Bonus criteria consist of the 2015 Tikkurila Group revenue and operative EBIT. At the same time, Group management decided to change the bonus targets of other management and personnel so that local targets will be emphasized more.

SHARE-BASED COMMITMENT AND INCENTIVE PLAN: PERFORMANCE PERIODS 2012–2014, 2013–2015 AND 2014–2016

In order to commit and motivate key personnel, the Board of Directors of Tikkurila Oyj decided on a share-based plan on February 15, 2012. This plan includes three performance periods. The Board of Directors of the company will decide on the performance criteria of the plan and their targets at the beginning of each performance period. The prerequisite for participation in the plan and receipt of reward provides that a key employee purchases Tikkurila's shares from the market in accordance with the terms and conditions of the plan.

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

The potential reward from the performance period 2013–2015 is based on the Tikkurila Group's Operative Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Net Debt during 2013–2015. Any key employee participating in the plan has the possibility to earn a reward only in case the employment or service contract continues at least up until spring 2016 and subject to that he/her still owns the shares originally purchased at the time of reward payment. The amount of rewards depends on the number of purchased shares and the fulfillment of the performance criteria. Rewards will be paid in spring 2016 partly in the company's shares and partly in cash.

The potential reward from the performance period 2014–2016 is based on the Tikkurila Group's Operative Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Net Debt during 2014–2016. Any key employee participating in the plan has the possibility to earn a reward only in case the employment or service contract continues at least up until spring 2017 and subject to that he/her still owns the shares originally purchased at the time of reward payment. The amount of rewards depends on the number of purchased shares and the fulfillment of the performance criteria. Rewards will be paid in spring

2017 partly in the company's shares and partly in cash.

The target group of the share-based plan currently consists of nine key employees, which are members of the Group management or significant business area management. The key persons were chosen by the Board of Directors. With effect from the second quarter of 2012, Tikkurila has recorded personnel expenses into the Group in-

come statement according to the IFRS 2 standard and according to the share purchases conducted by each of the participants.

Additional information about the share-based commitment and incentive plan, and its financial impact, is available in the note 37 included in the 2014 consolidated financial statements. For this plan, during the financial year 2014 a total of about EUR 0.7 million (2013: EUR 1.1 million) was

recognized as personnel expenses in the Group income statement, and at the end of 2014 the total bookkeeping value of the plan amounted to about EUR 2.4 million (31.12.2013: EUR 3.0 million), which was in December 2014 partially paid to the participants of the plan - part of the payment in Tikkurila Oyj shares (altogether 20,500 shares for a total of nine participants) and part of the payment in cash.

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

REMUNERATION IN 2014, GROSS, IN EUR '000

accruals basis, i.e. not presented on cash basis

	Persons	Fees, Tikkurila		Total Fees
		Oyj shares	Fees, cash	
Board of Directors				
Chairman	1	22.8	41.4	64.2
Other Board members, total	6	79.1	166.3	245.4
Board of Directors, total	7	101.9	207.7	309.6

	Persons	Fixed Salary	Fringe Benefits	Subtotal, Fixed Remuneration	Annual Bonus*	Share-Based Remuneration**	Subtotal, Variable Remuneration	Additional Pension	Total Remuneration
Tikkurila Management Board									
President and CEO	1	431.2	13.3	444.6	30.9	279.5	310.4	63.8	818.8
Other management board members, total	4	663.7	36.1	699.8	38.4	351.9	390.3	0.0	1,090.2
Tikkurila Management Board, total	5	1,094.9	49.5	1,144.4	69.3	631.4	700.7	63.8	1,908.9

* related to financial year 2013; based on financial year 2014 results no annual bonuses accrued for

** IFRS 2 standard based annual personnel expense as recognized in 2014 Group income statement; partially paid in December 2014, partially to be paid in spring 2015, and potentially also in spring 2016 and/or spring 2017 subject to various conditions to be met; based on the share-based commitment and incentive Plan's 2012–2014, 2013–2015 and 2014–2016 performance periods

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 2014, KPMG Oy Ab was re-elected as an auditor.

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

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

The auditor is elected by the Annual General Meeting for one year's term of service. The audi-

tor reports to the Board of Directors at least once a year, and participates in Audit Committee meetings.

During 2014, the Group had a total of EUR 412 thousand (2013: EUR 404 thousand) auditing-related expenses and EUR 188 (83) thousand expenses for other services provided by KPMG, the Auditor of Tikkurila Oyj. The increase in the non-audit expenses was related to the acquisitions the Group carried out in 2014. During the financial year 2014, the Group companies had additional audit services from other audit companies than KPMG for a total of EUR 59 (92) thousand, and non-audit services for EUR 55 (47) thousand.

INTERNAL CONTROL

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

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

Internal control is an integral part of all Tikkurila's operations and covers all levels of the company.

The entire personnel of the company is responsible for internal control, and its effectiveness is monitored by managers as part of operational management.

The main components of internal control are:

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

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

FINANCIAL REPORTING PROCESS

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

consolidates all subsidiary reports and generates consolidated and segment reporting, which is the basis for monthly reporting to the Board of Directors and to the Group management.

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

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

INTERNAL CONTROL ACTIVITIES DURING 2014

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

As examples of the practical implementation of internal control activities during 2014, the following issues can be highlighted:

- internal control organization visited four business units carrying out analysis and enhancing dialogue and local management knowledge to implement internal control measures in day-to-day activities;
- to decrease internal process risks, the revised segregation of duties matrices and related control practices were implemented in additional four business units; and
- special attention was paid to the practical implementation of recommendations of internal audit and external audit.

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

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

INTERNAL AUDIT

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

plans are based on assessment of each topic's importance and risks for the Tikkurila Group.

The internal audit function regularly reports to the Audit Committee of the Board, 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 with the external auditors during the course of the year.

From the beginning of 2011, Tikkurila has had its own internal audit function, including an in-house internal auditor, who was, to the required extent, been helped by third-party experts to carry out the internal audit activities. Also internal resources have been utilized in carrying out certain internal audit tasks.

INTERNAL AUDIT ACTIVITIES DURING 2014

During 2014, the internal audit function carried out audits based on selected themes with the scope covering the key markets of Tikkurila's operations. Cross-country process-based audits were carried out in access rights and information security. In addition, two country-specific audits were carried out and follow-up activities were carried out on the implementation status of the previous audit recommendations. Moreover, internal audit function implemented a new application to register all audit findings and to better communicate and to ensure the implementation of its recommendations.

In 2012, a group-wide implementation of so-called whistle blowing application was carried out. Via that internet-accessible software any employee or external partner can anonymously report any suspected violations. During 2014, a few reports were received via the application, but not significant violations were found out.

PLAN FOR INTERNAL AUDIT ACTIVITIES DURING 2015

Based on the internal audit plan confirmed by the Audit Committee, internal audit function will in 2015 focus on implementation of the last years' audit recommendations, as well as on auditing the progress of Group's ERP project. Target is also to start actions to check the processes in relation to environmental issues. Furthermore, four country-specific audits are planned to cover the functions and operations relevant in these country organizations.

RISKS

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

Tikkurila has risks of various character, such as strategic risks, operational risks, financial risks and hazard risks. Risks are assessed and managed according to the type and characteristics of each risk. In Tikkurila's view the main risks are among

strategic and operational risks, but all categories present risks that may have significant impact on Tikkurila's business.

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

Based on Tikkurila's internal assessment, compared to the situation at the end of 2013, the macroeconomic situation has still worsened in many key markets of Tikkurila, which has negatively impacted Tikkurila's sales volumes and which has contributed to lower consumer confidence. In addition to the general economic uncertainty and to some extent as a consequence of the uncertainty, exchange rate risks have increased. During 2014, many currencies relevant to Tikkurila's business have depreciated against euro, which has had and which might have in the future an adverse impact on Group revenue and profitability.

Since a significant part of Tikkurila's business is in Russia and its adjacent countries, the Ukrainian crisis that escalated during the first months of 2014 and the accelerated slow-down of Russian economy combined with low oil price and high inflation did have a material adverse impact on Tikkurila's 2014 financial performance, especially during the latter half of the year. Geopolitical tension remained at the high level throughout 2014. From private consumption perspective, the real disposable income and purchasing power of Russian consumers went down, and the risk for further deterioration is high as the Russian ruble did depreciate rapidly after it was left to float freely in autumn 2014. During 2014, there also were various sanctions imposed by the USA and the EU on Russia, which deteriorated the business conditions in Russia even further. As a consequence, demand for paint products is down and there is a further risk of down-trading, i.e. the market might shift from high-quality products towards low-quality and low-price segments, which can have a negative impact on Tikkurila's future sales and profitability in Russia.

Moreover, the digitalization of the society has in general been accelerated, which can in the future affect for example Tikkurila's logistics operations or the sales channels of Tikkurila's products. In the short term, raw material price risks have decreased, but at the same time raw material availability risks in certain raw material categories have increased, partially due to regulatory changes and partially due to the raw material markets. Tightening regulatory framework has imposed extra costs and challenges also on production and distribution, as well as required extra work on e.g. product safety issues. The technological evolution can have a major effect in the future on the use of various construction materials, and thereby on coatings solutions, which may change the level and structure of Tikkurila's sales, and for example impact technology investment needs. To cope with increasing volatility and variances in customer demand and to better utilize real time data, also



current production technology and equipment might become subject to structural changes in the future.

Otherwise, beyond the risk factors described above, the key risks for Tikkurila have not materially changed compared to the situation at the end of 2013. There is also information about relevant risks for Tikkurila in the 2014 Board of Directors' report.

RISK MANAGEMENT

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

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

Tikkurila's Board of Directors defines the main principles of Tikkurila's risk management and approves the Group's risk management policy, and the Audit Committee assists the Board in risk management supervision. The business units and functions are responsible for identifying, reporting and monitoring the risks involved in their activities and for the related risk management.

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

ture of the risk and its perceived probability and impact.

Some risk management measures are performed centrally in order to generate cost benefits and ensure a sufficient level of protection. These include insurance cover for certain risks, such as general third party and product liability, cargo, property damage and business interruption insurance for major production sites, as well as the 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 key policies and principles of risk management processes. The Board of Directors and the Audit committee approve and follow up the reporting procedures, and monitor the adequacy, appropriateness and effectiveness of the Group's business and administrative processes.

RISK MANAGEMENT ACTIVITIES DURING 2014

During 2014, the Group continued to develop risk strategy and risk management processes. In general, the operational focus was to increase flexibility so that the Group can be profitable in fast changing market conditions. During the financial year, contingency plans were made due to sanctions implemented between the EU and Russia, and to take into account potential escalation of these implemented trade sanctions. In raw material sourcing operations numerous actions were taken to decrease the reliance on single source suppliers. During 2014, access rights man-

agement application was taken into use, which makes it easier to manage information security risks. Company carried out three acquisitions during the financial year, which provided the Group with product and technological knowhow to contribute to future growth. During the latter half of the year, new risk assessment method was piloted with certain business units with a target to further develop the processes in 2015. A materiality assessment process was carried out in Group's sustainability function, and this provided basis to decide the key focus areas for future sustainability activities, which will also affect risk management at both the Group level and the local level.

PLAN FOR RISK MANAGEMENT ACTIVITIES DURING 2015

For 2015, the target is still to develop risk assessment, reporting and management. In addition, to secure long-term value creation relevant actions will be carried out, which might require additional resources or reallocation of existing resources, and various risk scenarios will be analyzed as the basis for this work.

MANAGEMENT OF INSIDER ISSUES

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

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

President, Legal, and approved by the President and CEO of Tikkurila.

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

SILENT PERIOD

Tikkurila observes a silent period (closed window) before it publishes financial statements 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 gives guidance in the form of an official outlook statement published in 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 Helsinki stock exchange. Tikkurila will strictly adhere to all regulatory disclosure requirements for listed companies. Tikkurila complies with the Finnish Corporate Governance Code ("Corporate Governance Code") issued by the Finnish Securities Market Association. In addition, Tikkurila's internal policies, such as Corporate Responsibility and Code of Conduct, guide communication activities.

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

APPLICATION OF THE FINNISH CORPORATE GOVERNANCE CODE

The Finnish Corporate Governance Code, which came into force on October 1, 2010, has altogether 55 recommendations. The Code also has the so-called "comply or explain" principle. Tikkurila fully complies with the recommendations in the Code.

INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS

JARI PAASIKIVI

Born 1954, M.Sc. (Econ.)
CEO, Oras Invest Ltd, since 2006
Chairman of the Board since 2010, Member of the Board since 2008
Chairman of the Remuneration Committee since 2012
Expert member of the Nomination Board since 2011
Independent of the company, not independent of a significant shareholder
Finnish citizen
Tikkurila shares on Dec 31, 2014: 74,794 (Dec 31, 2013: 73,594)

Career history

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

Positions of trust

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

Past positions of trust

- Uponor Corporation, Chairman of the Board of Directors, 2008–2014
- Varma Mutual Pension Insurance Company, Member of the Supervisory Board, 2012–2014
- Finland Central Chamber of Commerce, Member of the Board of Directors, 2004–2011 and Deputy Chairman, 2007–2011

PETTERI WALLDÉN

Born 1948, M.Sc. (Eng.)
Vice Chairman of the Board since 2010, Member of the Board since 2008
Member of the Remuneration Committee since 2012

Independent Board member

Finnish citizen

Tikkurila shares on Dec 31, 2014: 6,125 (Dec 31, 2013: 5,346)

Career history

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

Positions of trust

- Efla Oy, Member of the Board of Directors since 2014
- Staffpoint Holding Oy, Member of the Board of Directors since 2012
- Teleste Corporation, Member of the Board of Directors since 2009
- Kuusakoski Group Oy, Member of the Board of Directors since 2007
- Nokian Tyres plc., Chairman of the Board of Directors since 2006
- SE Mäkinen Logistics Ltd, Member of the Board of Directors since 1996

Past positions of trust

- ONE Nordic Holding AB, Member of the Board of Directors, 2011–2014
- Comptel Corporation, Member of the Board of Directors, 2009–2014
- eQ Plc, Member of the Board of Directors, 2005–2011

Eeva Ahdekivi

Born 1966, M. Sc. (Econ.)
Investment Director, Solidium Oy, since 2009
Member of the Board since 2009
Chairman of the Audit Committee since 2010
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2014: 5,303 (Dec 31, 2013: 4,524)

Career history

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

Positions of trust

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

Riitta Mynttinen

Born 1960, Chemical Engineer (B.Sc.), MBA
Member of the Board since 2011
Member of the Audit Committee since 2012
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2014: 3,041 (Dec 31, 2013: 2,389)

Career history

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

Positions of trust

- Mint of Finland, Member of the Board of Directors since 2010

PIA RUDENGREN

Born 1965, M.Sc. (BA & Econ.)

Member of the Board since 2009

Member of the Audit Committee since 2010

Independent Board member

Swedish citizen

Tikkurila shares on Dec 31, 2014: 3,814 (Dec 31, 2013: 3,162)

Career history

- Executive Vice President, W Capital Management AB, 2001–2005
- Chief Financial Officer, Investor AB, 1998–2001

Positions of trust

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

Past positions of trust

- WeMind AB, Member of the Board of Directors, 2007–2014
- Valmet Oyj, Member of the Board of Directors, 12/2013–03/2014
- Metso Oyj, Member of the Board of Directors, 2009–2013
- Biophausia Ab, Member of the Board of Directors, 2006–2010

HARRI KERMINEN

Born 1951, M.Sc. (Eng.), MBA

Member of the Board since 2012

Member of the Remuneration Committee since 2012

Independent Board member

Finnish citizen

Tikkurila shares on Dec 31, 2014: 2,293 (Dec 31, 2013: 1,641)

Career history

- President and CEO, Kemira Oyj, 2008–2012
- President, Kemira Pulp & Paper business area of Kemira Oyj, 2006–2007
- President, Kemira Specialty business area, 2000–2006
- Managing Director, Kemira Pigments Oy, 2002–2003
- Vice President, Human Resources, Kemira Chemicals Oy, 1996–2000
- Manager, Oulu plant of Kemira Oyj, 1994–1996

- Production Manager, Kemira Kemi AB, 1990
- Project Manager, plant construction projects in Finland, Sweden, Belgium and the US, Kemira Oy/Kemira Oyj, 1989–1994

Positions of trust

- Harjavalta Oy, Member of the Board of Directors since 2014
- Magsort Oy, Chairman of the Board of Directors since 2014
- Metgen Oy, Chairman of the Board of Directors since 2012
- Normet Oy, Member of the Board of Directors since 2012
- Finnair Oyj, Member of the Board of Directors since 2011, Vice Chairman of the Board of Directors since 2012

Past positions of trust

- Finpro ry, Chairman of the Board of Directors, 201–2014
- Achemos Grupe, Member of the Board of Directors, 2012–2014
- Outokumpu Oyj, Member of the Board of Directors, 2012–2014
- TT Foundation, Member of the Board of Directors, 2011–2013
- Chemical Industry Federation of Finland, Chairman of the Board of Directors, 2011–2012
- CEFIC, Member of the Board of Directors, 2009–2012

ALEKSEY VLASOV

Born 1957, Medical Doctor

First Vice President, Geotech Holding, Moscow, since 2008

Member of the Board since 2012

Independent Board member

Russian citizen

Tikkurila shares on Dec 31, 2014: 2,271 (Dec 31, 2013: 1,619)

Career history

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

Past positions of trust

- Nokian Tyres plc., Member of the Board of Directors 2006–2014

INFORMATION ON THE MEMBERS OF THE TIKKURILA MANAGEMENT BOARD

ERKKI JÄRVINEN

Born 1960, M.Sc. (Econ.)

President and CEO since 2009

Chairman of the Management Board since 2009

Finnish citizen

Joined Tikkurila in 2009

Tikkurila shares on Dec 31, 2014: 21,000 (Dec 31, 2013: 14,000)

Career history

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

Positions of trust

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

Past positions of trust

- Sannäsän Kartano Oy, Member of the Board of Directors, 2008–2010
- Luottokunta, Member of the Supervisory Board, 2006–2008
- IBA (the International Book and Press Retailers Association), Chairman of the Board of Directors, 2006–2008
- Finnish Institute of Management, member of the Board of Directors, 2005–2008
- Federation of Finnish Commerce, member of the Board of Directors, 2005–2008
- Sanoma Corporation, Member of the Executive Management Group, 2001–2008

JUKKA HAVIA

Born 1968, M. Sc. (Econ.)

Chief Financial Officer (CFO) since 2010

Member of the Management Board since 2010

Finnish citizen

Joined Tikkurila in 2010

Tikkurila shares on Dec 31, 2014: 6,000 (Dec 31, 2013: 4,000)

Career history

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

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

Positions of trust

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

JANNO PAJU

Born 1971, Degree in Economics
 Chief Commercial Officer since 2012
 Member of the Management Board since 2000
 Estonian citizen
 Joined Tikkurila in 1993
 Tikkurila shares on Dec 31, 2014: 6,025 (Dec 31, 2013: 4,000)

Career history

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

PETRI MIETTINEN

Born 1968, M.Sc. (Econ.)
 Senior Vice President, Supply Chain Management & HSEQ since 2007
 Member of the Management Board since 2007
 Finnish citizen
 Joined Tikkurila in 2007
 Tikkurila shares on Dec 31, 2014: 6,000 (Dec 31, 2013: 4,000)

Career history

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

Positions of trust

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

KENNETH SUNDBERG

Born 1965, M.Sc. (Eng.), Doctor of Technology, eMBA
 Senior Vice President, Research, Development and Innovation (RDI) since 2010
 Member of the Management Board since 2010
 Finnish citizen
 Joined Tikkurila in 2010
 Tikkurila shares on Dec 31, 2014: 6,000 (Dec 31, 2013: 4,000)

Career history

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

Positions of trust

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

Past positions of trust

- Finnish Wood Research Oy, Member of the Board of Directors, 2010–2012
- Top Analytica Oy Ab, Substitute Member of the Board of Directors 2008–2010