TIKKURILA

TIKKURILA VANTAA SITE

CORPORATE SOCIAL RESPONSIBILITY REPORT 2007

Tikkurila locations

Belarus
China
Czech Republic
Denmark
Estonia
Finland
Germany
Hungary
Kazakhstan
Norway
Latvia
Lithuania
Poland
Romania
Russia
Sweden
Ukraine

Validation statement

As an accredited environmental verifier (FIN-V-002), DNV Certification Oy/Ab has audited the updated information for 2007 in the environmental management system and EMAS statement of Tikkurila Oy operating in Vantaa, Finland. Based on this examination on 13 March 2008, the verifier confirmed that the environmental management system and EMAS statement are in compliance with the requirements of the EMAS Regulation (EC) No 761/2001.

DNV Certification Oy/Ab

EMAS
Validated information
REG.NO. FI - 000001

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About the contents of the report

This report describes activity and development at Tikkurila Oy's Vantaa site with regard to the different sections of Tikkurila's Corporate Social Responsibility Programme. Pages 22 to 26 also feature key figures and cases covering activity at the Group's units outside Finland. In future our reporting will be developed with the aim of covering the entire Tikkurila Group.

This report also includes a Vantaa site update in accordance with the Eco-Management and Audit Scheme (EMAS) for 2007. Pages 17 to 20 were verified by DNV Certification Oy/Ab and provide an update to the above-mentioned EMAS Environmental Statement. The rest of the report is based, as appropriate, on the G3 guidelines of the Global Reporting Initiative (GRI) regarding the contents and reporting principles of corporate social responsibility reports. The following environmental report for the Tikkurila site in Vantaa in compliance with the EMAS Regulation will be published by the end of May 2009.

Figures presented in this report are based on the company's internal accounting, with no financial figures presented for the Vantaa site or other individual sites of the Group. These are included in the Tikkurila Group's financial performance figures, which are reported on page 7.

The key figures related to Tikkurila's environmental responsibility can be found in the annual Environmental Report published by the Group's parent company, Kemira Oyj. The report can be downloaded at http://www.kemira.com/en/Responsibility

Development of corporate social responsibility indicators 2000–2007

Year	2000	2003	2005	2006	2007	Target 2008	Target 2012	Unit
Product safety								
Sales share of water-borne and solvent-free products (%)								
Decorative paints	72	75	76	74	79	–	85	%
Industrial coatings	22	21	23	29	26	–	35	%
Raw materials classified as hazardous	ca 470	490	500	650	550	–	–	No of items
Process eco-efficiency								
Volume of hazardous waste	28.9	19.7	22.5	26.4	22.7	< 19.5	–	g / product litre
Volume of landfill waste	7.4	4.9	3.0	3.1	3.0	*	–	g / product litre
Solvent emissions from production (VOC)	3.2	2.3	1.2	1.4	1.3	*	–	g / SB product litre
Energy consumption	0.76	0.68	0.64	0.62	0.59	*	–	kWh / product litre
Water consumption	1.0	0.84	0.75	0.70	0.69	*	–	l / product litre
Chemical oxygen demand (COD) of industrial water	–	2.1	1.6	0.9	0.4	*	–	g / WB product litre
Material wastage, total production	–	15.4	24.4	27.3	21.3	< 15.0	–	g /product litre
Direct environmental costs in production	5.9	4.1	4.1	4.9	4.0	*	3.0	c / product litre
Personnel safety								
Accident frequency, LTA1	30	19	23	22	11.8	8.0	< 2	Accidents / mill. hrs
Seriousness of accidents	13	11.0	11.8	7	7.8	*	< 3	Sick days / accident
Safety discussions	–	–	< 0.1	~ 0.15	1.2	1.5	> 2	Discussions / person
Safety reports				~ 0.05	0.9	1.5	> 2	Reports / person

WB= water-borne, SB= solvent-borne, *= under the previous year's level

Review of Group Vice President, Supply Chain

The basic task of the Tikkurila Group's Supply Chain is to create customer products from raw materials as defined by R&D. Its most important task is to keep customers happy with high-quality products as well as timely access to the correct quantities. Tikkurila's Supply Chain covers demand forecasting, raw material sourcing, production functions and logistics. The supply chain approach differs most obviously from traditional organisations in its integrated optimisation, with benefits including improved eco-efficiency.

Corporate social responsibility will become increasingly important in the future. Signs of this include growing concern for the state of the environment and increased interest in corporate operations as a whole.

Responsibility calls for genuine consideration for stakeholder needs. At Tikkurila we train our partners in responsible activity. Corporate social responsibility also calls for openness in issues that are not favourable to us.

A responsible company practices corporate social responsibility from the sourcing of raw materials to recycling. This is a highly challenging task in a global operating environment, but it can be done. We also need to comply with high ethical standards in countries where this is not a prevalent practice. Responsibility also naturally affects our cost structure, but I believe this is the only way to operate in emerging economies.

Operational efficiency is part of corporate social responsibility. Firstly, it is a sign of the company enjoying the confidence of its stakeholders. Secondly, goal-oriented and successful business creates operational continuity, which in turn secures tax income for society and employment opportunities for its members.

One of the basic ideas of a profitable business is the efficient production of goods and services. In practice this means the efficient utilisation of raw materials in the production environment and as well as optimised logistics. This way we can help reduce environmental pressures. At Tikkurila we regularly monitor productivity and raw material efficiency. We have achieved positive development in this respect over recent years, and new innovations are continuously employed. Innovation does not always mean increased automation but also a critical view of existing approaches.

Speedy inventory turnover ensures products will not become non-marketable and face being discarded. Another important point is warehousing optimisation, with benefits including energy savings in cold conditions. High-quality criteria and a critical analysis of our operations ensure that customers get high-quality products and defects are detected at the earliest possible point.

R&D also plays a major role in environmental management. Our Supply Chain manufactures its products or has them manufactured on the basis of specifications provided by R&D. Therefore we have created a joint operating model with our R&D department, with increased eco-efficiency as one of the objectives. We have been applying this policy for more than a year and achieved encouraging results.

Occupational safety is another key element in the Supply Chain. Most of Tikkurila Group employees are employed by the Supply Chain. There appears to be quite a strong correlation between a safe workplace environment and operational efficiency.

Over recent years we have invested in safety improvements at facilities including the Vantaa site. Achieving a situation where everyone understands their own personal responsibility remains our key challenge, but work in this field has also started to yield results. Accident frequency (LTA1) at the Vantaa site was 11.8 in 2007 while in 2006 it had been 22. The rate for the Tikkurila Group was 6.9 while the corresponding figure for 2006 was 8.2. We still have a long way to go to our vision of being "the safest paint plant in the world" (LTA1 < 2). This is a challenging objective but can be reached by 2012.

Despite positive development we must make efforts to recognise our responsibilities more fully. We still have a lot of work to do in eco-efficiency as well as operational development.

Petri Miettinen
Group Vice President
Supply Chain
Tikkurila Group

Almost 150 years of beauty and protection to surfaces

Founded in 1862, Tikkurila develops, markets and manufactures paints for private consumers, professional users and industry. Our decorative paints are made in Finland, Sweden, Estonia, Russia, Poland, Germany and Ukraine while our industrial coatings production takes place in Finland as well as Poland and Russia. We also have sales companies in Sweden, Norway, Denmark, Latvia, Lithuania, Hungary, Russia, Kazakhstan, Czech Republic, Romania, Belarus and China.

The headquarters of the Tikkurila Group is located at the Vantaa facility. Our largest production units are in Vantaa, Finland, and St. Petersburg, Russia – with both boasting an annual production of more than 60 million litres.

Tikkurila is part of Kemira Oyj and responsible for its paints and coatings business under the name Kemira Coatings. Within the Tikkurila Group, the business unit responsible for the decorative paint business is Tikkurila Deco, which accounts for around 80% of our sales, while Tikkurila Industrial Coatings generates around 20% of our sales.

In 2007 Tikkurila Group's net sales increased by 11% and totalled EUR 625.2 million. Sales developed well in all markets, particularly Russia and the CIS countries. Our organic growth was 9%. Our 2007 net sales were also boosted by the April acquisition of two Russian industrial coatings manufacturers and the May launch of our Beijing sales company.

Our EBIT for the year totalled EUR 73.1 million (EUR 72.1 million in 2006). Operating profit excluding non-recurring items was up 15% and totalled EUR 64.3 million (EUR 55.7 million in 2006). Operating profit as a percentage of revenue was up from 9.9% to 10.3%.

Around 80% of Group net sales originated from outside Finland in the reporting year. For more financial information visit www.kemira.com/en/investors.

The number of Tikkurila Group employees increased during the period under review and totalled around 3,800 people at year-end. The Vantaa site has around 940 employees, so 75% of the Group's employees work outside Finland.

On 1 January 2008 Tikkurila Oy's subsidiaries Tikkurila Paints Oy and Tikkurila Coatings Oy merged with their parent. The merger will not have any impact on employees' status or terms of employment. Instead, it clarifies the Tikkurila Group's legal structure and Finnish operations.

Lifecycle analysis as an indicator of a product's total impact

One way of analysing the impacts of Tikkurila's business from a corporate social responsibility perspective is to perform product lifecycle analyses.

Lifecycle refers to a product's entire production and use history, "from cradle to grave". The lifecycle begins with raw materials and energy sourced from nature, continues with production and use and ends with the disposal of the used product or its components.

The stages in the lifecycle of paints and coatings can be categorised:

A. R&D
– design and development of products and services
B. Supply Chain
– raw material production and sourcing;
– paint production, warehousing and delivery to customers
C. Use of paints and coatings
– application of paints
– disposal of painted items.

The lifecycles of paints and coatings are linked with the lifecycles of the substrates and structures on which they are applied. Of importance for the whole in this context is prolonging the useful life of whatever our products are used for: the longer it lasts and the less often it needs to be repainted, the less resources are consumed.

Aiming at the optimal result also sets requirements for paint users because correct selection and responsible use of a product reduces the environmental impacts resulting from paints and painted objects and structures. To inform end users about the correct use of paints, in addition to labels and product and health and safety data sheets, Tikkurila publishes extensive instructions regarding product choice and use for distribution at retail outlets and on the Tikkurila website.

To identify the needs of our different stakeholders, a stakeholder analysis was performed, with key results presented in the Corporate Social Responsibility Report for 2006. The report can be downloaded at http://www.tikkurila.com/pdf/group/social_responsibility_report_2006.pdf.

The role of the Supply Chain

Part of the Supply Chain	Objective/task	Approaches
Sourcing, i.e. ensuring access to raw materials, packaging, services, etc.	Exploring the financially and ecologically/socially best alternative	Acquiring information about the supply performance, prices, process environmental impacts, product quality, etc. of different producers and comparing the alternatives
Demand Supply Planning (DSP)	Optimising purchase times and quantities	Forecasting production process needs on the basis of sales forecasts, supply performance, etc.
Procurement	Selecting the supplier that is responsible and best value for money for the whole	Selecting suppliers and agreeing on deliveries on the basis of the basic information obtained in the above sub-processes
Orders, transport and warehousing (raw materials, packaging, supplies)	Ensuring transport resource use and stock optimisation as well as safety	Optimising transport batches in cooperation with suppliers and production planners
Paint production process (manufacturing, quality control, filling and packaging)	Manufacturing and packaging our products economically, safely and eco-efficiently	Optimising production batch sizes, production sequencing, methods of machinery and equipment use, etc. and continuously developing the process to minimise resource wastage and emissions
Warehousing and delivery of products to customers (retailers, industrial and professional users, private consumers)	Ensuring that distributors and consumers get the products they need on time, safely and eco-efficiently	Optimising logistics in cooperation with the rest of the supply chain and distributors

Supply Chain as part of our corporate social responsibility

The objective of the Supply Chain is to develop Tikkurila's operations and customer services as a whole by managing all procurement, production and logistics processes more efficiently as integrated material and cash flows. Another aim is to improve opportunities to monitor our operations throughout the Supply Chain.

Raw material production and sourcing

Essential in the production of paint raw materials is the consumption of the necessary resources (materials, energy, etc.) and the direct environmental impacts of production (emissions, waste, etc.) per product litre.

Each raw material has a person responsible for it in procurement and R&D. Closer cooperation between R&D and raw material suppliers improves efficiency in raw material and supplier selection, quality and cost awareness, and logistics.

There are no alternatives available to many raw materials, but by selecting a responsible supplier we can often influence resource consumption during the product lifecycle.

Issues that are significant to assessment include the sufficiency and renewability of the starting substances in nature, emissions resulting from the utilisation of starting substances and the production and transport of paint raw material as well as the consumption of energy, water and other resources. None of the compounds used extensively in paints and coatings are, however, significant when it comes to resource sufficiency.

In 2006, procurement, production and logistics within the Tikkurila Group were united into a new function: Supply Chain. Later Demand Supply Planning was also incorporated into it.

Indeed the new Supply Chain function has proven to be the correct solution. Availability of products has improved despite increased demand, and there has been a major boost to capital turnover while at the same time cost savings and productivity improvements have been achieved.

R&D specifies the basic attributes

The qualities required from a product determine the choice of raw materials and supplies, and this choice is made by our R&D department within the constraints and challenges provided by our customers and sales department. The various sub-processes play a decisive role in the lifecycle phases that follow this one. The table above illustrates the basic principles of this.

The significance of R&D from the perspective of corporate social responsibility cannot be exaggerated: R&D can both respond to future legislative challenges and actively improve the environmental and user friendliness of products.

Production and warehousing of paints and coatings

The environmental impact of paint and coatings production is monitored using Tikkurila's Vantaa site's own indicators. The most important ones can be found in the environmental responsibility section of this report on pages 17–20.

Use of products

Advice, recommendations and other guidance related to the responsible use of our products are taken care of through the provision of health and safety information and our sales, marketing communications and advice services. In practice our entire organisation performs such marketing communications through their respective stakeholder groups.

The most significant of the environmental impacts of the use of paint products is an increase in the formation of ozone in the lower atmosphere caused by volatile organic compound (VOC) emissions. These, however, are not greenhouse gases proper nor do they contribute to global warming. Except for VOC emissions, the use of paint products has a very minor impact on the eco-system, so water-borne alternatives can almost always be regarded as ecologically more recommendable than solvent-borne ones.

VOC emissions from the use of Tikkurila products account for 3–4% of total VOC emissions caused by human activity in Finland. We consider this to be so significant that one of our main R&D targets for several years has been to replace solvent-borne paints with water-borne, low-solvent and solvent-free products.

Tikkurila products usually come in metal cans, with very little plastic packaging used. Mepak-Kierrätys Oy introduced a metal packaging collection system in Finland at the start of 2000, and collection has been on target. Tikkurila is actively involved in developing the reclamation system for packaging materials.

We provide both professional users and consumers with basic instructions on how to deal with paint waste. Finland has an excellent waste management system, so waste paint does not pose any major environmental problem.

REACH ensures access to information

The European Chemicals Regulation (REACH) entered into force on 1 June 2007, with REACH provisions being phased in over 11 years.

REACH is an acronym for Registration, Evaluation and Authorisation of CHemicals. Enterprises that manufacture or import into the EU more than one tonne of a chemical substance per year must register it in a central database.

Mixtures such as paints need not be registered, but only substances registered by their manufacturer or importer may be used in paints. In the REACH context a paint manufacturer is a downstream user.

Safety information must continue to penetrate the entire chain from substance manufacturers to paint manufactures all the way to paint users in the form of safety data sheets, with new information added whenever necessary to describe the safe usage of the substance in even greater detail.

Further information: http://echa.europa.eu

Responsibility for product safety

Tikkurila's business is founded on the principle of securing the safety of customers, end users, the environment and our employees. The most important method of achieving this is to develop new products and reformulate existing ones, with examples including our water-borne, low-solvent and solvent-free options created to replace solvent-borne products. Various means are also employed to steer consumers towards such products.

Our safety operations are also affected by the new European Chemicals Regulation (REACH). In response to the requirements set by REACH, we appointed a REACH Task Force in 2007 to coordinate Tikkurila's in-house information and measures. Data collection regarding all the raw materials used by our Group is centralised at our Vantaa site.

Guiding principles and management systems related to corporate social responsibility

The Tikkurila Way

Tikkurila's business activity is in compliance with the Kemira Code of Conduct, which is in line with the OECD Guidelines for Multinational Enterprises. They aim to promote sustainable development including economic, environmental and social aspects.

At Tikkurila we are committed to conducting business ethically and in compliance with applicable laws throughout our operations and in all countries in which we operate. We also expect the same from our partners.

Every business unit and management at all levels are responsible for ensuring that our employees know and understand the requirements set by the Code of Conduct. Management must also monitor compliance with the Code of Conduct and promote it by their own example.

Our Vantaa site is also committed to the Responsible Care Programme of Finnish chemical industry. For further information about the initiative visit www.chemind.fi/home.

Tikkurila's Corporate Social Responsibility Programme must be reflected in all practical functions at every one of our facilities. Regular audits take place at the Vantaa site to monitor the realisation of the principles.

Tikkurila as an influencer

Tikkurila is a member of several organisations that, as well as performing advocacy, also monitor the sector's environmental efficiency, safety, compliance with legislation and corporate responsibility. These include Chemical Industry Federation of Finland, Association of Finnish Paint Industry and European Council of the Paint, Printing Ink and Artists' Colours Industry (CEPE). Tikkurila Group has representatives in a variety of administrative and collaboration bodies of these organisations.

Tikkurila's own corporate social responsibility policy is defined as follows:

Mission

Developing and producing products and services for use in accordance with sustainable social, ethical and environmentally aware principles throughout their life-cycles.

Vision

Being the leading paint industry company in safety, health and environmental issues.

Strategy

Our management system is based on annual action plans, objectives and analyses.

To provide practical guidelines, the following four baseline policies regarding social responsibility have been derived to guide our operations:

A. Products should be safe for people and for the environment.
B. The development of production and delivery processes seeks to improve eco-efficiency, in other words the careful use of production inputs and resources.
C. Well-managed HSE issues reflect positively on a company's financial performance.
D. The prosperity of a company depends on the wellbeing and safety of its people.

For the full Corporate Social Responsibility Programme document visit http://www.tikkurila.com/pdf/group/responsibility_programme.pdf

Our personnel

In 2007 Tikkurila's Vantaa site employed around 940 people, of whom 47.7% were blue-collar workers, 51.5% white-collar and 0.8% executives. The average age of our personnel was 41.7 years for men and 42.1 years for women. The Vantaa site is also a multicultural workplace, with 17 different nationalities in 2007.

Our employees remain with us for a long time. The average duration of service is 13.1 years (14.1 years for white-collar employees and 12.0 years for blue-collar workers).

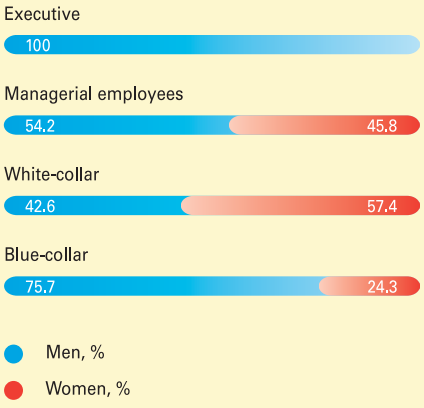
Around 69% of the Vantaa site personnel are members of trade unions. Personnel groups are also represented in the Management Team of the Vantaa site.

Our human resource policy

Tikkurila respects human rights and observes internationally-adopted legislation and agreements such as the UN's Universal Declaration of Human Rights and the International Labour Organization (ILO) Declaration of Fundamental Principles and Rights at Work.

We apply the principle of equal treatment to everyone in access to work and work conditions regardless of their race, gender, religion, political views or national or social origin. Harassment or other inappropriate conduct is not allowed in our workplaces. Professional organisation and other freedom of association is the personal right of every Tikkurila employee.

Personnel groups by gender



In accordance with our Equality Plan, we will monitor and promote equality at our Vantaa site in 2006–2007 especially in the following areas: recruitment, personnel and work development, reconciliation of work and family, and protection from sexual harassment. In addition, we will monitor and develop pay systems in the light of equal and fair pay formation.

Continuous investment in safety

The continuous improvement of employee safety is one of our key objectives. Efforts towards this are guided by Tikkurila's Vantaa site's "Safest Paint Plant by 2012" programme.

Improving the safety culture is one of the essential factors affecting occupational safety. The level and development of occupational safety in industry is commonly measured using the Lost Time Accident (LTA) 1 rate (number of accidents resulting in one day off occurring per million working hours).

We achieved a major improvement in 2007 on the year before: our LTA1 frequency went down from 22 to 11.8 – by almost half. This is the lowest rate achieved at the Vantaa site since accident frequency measurements began in the 1970s.

The most important reasons contributing to this positive development include:

- management's active approach and visible interest in safety issues;
- the considerable increase in the number of safety discussions and reports;
- open analysis of accidents and near-miss situations;
- intensified safety training;
- active and open safety communications.

The follow-on measures taken after risk analyses can also be seen in the results.

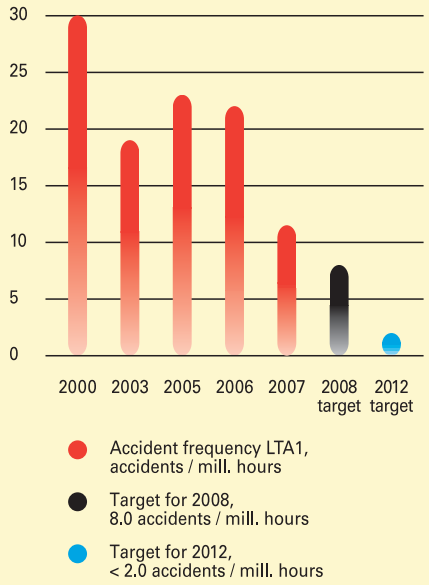
Our objective for 2008 is to take the LTA1 rate below 8, which in practice means that we may not have more than 12 accidents while in 2007 there were 18.

International standards steering us towards best practices

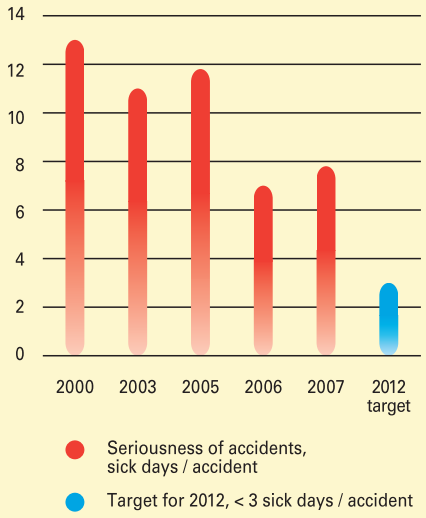
Improved safety calls for a systematic and planned approach. A variety of standardised practices have been developed to assist in this, such as the OHSAS (Occupational Health and Safety Assessment) 18001 Standard.

Tikkurila's Vantaa site was certified to OHSAS 18001 in November 2007. Compliance with the standard – incorporated into Tikkurila's Operational System – forms the basis for

Accident frequency LTA1



Seriousness of accidents



the development of safety culture and practices at the Vantaa site. This was the second OHSAS certification in the Tikkurila Group, with the occupational health and safety operation of Tikkurila Polska S.A. based in Dębica, Poland, already having been certified in autumn 2006.

Surveys to measure job satisfaction

We measure our employees' satisfaction with their own work and with the Tikkurila Group using employee surveys. The survey run in May 2007 covered all of our facilities. (The results of the survey made in May 2008 are not yet available.)

The most obvious common strengths of the Vantaa site were, in addition to employer image, the opportunities provided for training and the prerequisites of work. Managerial work and democratic decision-making also received highly positive feedback from respondents while room for improvement was found in the level of challenge and interest available in their work, personal responsibility for work, and the level of stress caused by it.

The results of the survey were processed per department, with department-specific action plans drawn up for the next reporting period. Previous department-specific measures have produced good results: 60.2% of the respondents saw positive development as a result of the measures agreed.

Tikkurila supports employee development by organising different types of training and contributing to the costs of employees' independent studies. Spring 2007 saw the launch of a development project for the entire Vantaa site. Its aim is to improve our employees' image of their own work and its significance, increase their pro-activeness in taking responsibility for their own work and draw attention to wellbeing at work. The project will end in 2008.

Employee ideas to improve performance

Wellbeing at work is also affected by everyone's opportunity to contribute to the development of their own work and the operations of the entire company. In 2007 our Vantaa site launched a campaign for ideas from employees, with the purpose of creating a bank of ideas to improve their working environment or duties. Ideas received ranged from tips to make everyday life easier to points that can be used to support our corporate image.

Kemira organised a Group-wide innovation competition to increase employee participation and help it succeed in international competition. Considerable rewards were presented to the best innovators in June 2008.

Wellbeing at work developed constantly

Tikkurila's Vantaa site has an occupational health service that constantly performs practical measures to support wellbeing at work. These include voluntary and statutory health checks, training and occupational health service cooperation with other departments and teams.

In 2007 the training focus was on ergonomics at work, with training provided for around 100 cleaning and maintenance employees.

Our occupational health service also administers rehabilitation related to workplace health promotion sourced from outside Tikkurila.

Our Vantaa site adopted a new anti-substance abuse programme at the turn of 2006/2007. This is the first written programme on the issue, although in practice such policies have been implemented for quite a while. The programme is part of our plan for the active development of wellbeing at work.

In the autumn of 2007 we followed the Kemira model and adopted a wellbeing at work tool that offers everyone information about their own ability to work and function and reviews risks related to their health. Our voluntary resource and diabetes survey was conducted in parts of the Vantaa site in late 2007, and the review continued in 2008, performed by an external consultancy.

The world's safest paint plant by 2012

Projects under the programme were actively implemented during the year – with a drop in accident frequency to almost one half the clearest indicator of the effectiveness of the measures taken. But, safety culture will not develop on its own. Instead, it calls for continuous support and commitment of all those involved.

We have agreed on the following key occupational safety projects for 2008:

- increasing the number of safety discussions and reports through encouragement, rewards and improved monitoring and feedback;
- increasing targeted small group training in the assessment of the risks of one's own work;
- improving working conditions in cooperation with experts from our HR department and our health service by performing thorough workplace assessments and occupational hygiene measurements;
- influencing through safety campaigns, with topics including lifting safety, moving around when it is dark, etc.

Case

UVITEC® 2D revolutionises the treatment of plane surfaces

In late 2005 Tikkurila launched the UVITEC® 3D method intended for three-dimensional objects where ultraviolet light (UV) curing coatings are cured in an inert atmosphere.

Our latest R&D achievement is the UVITEC® 2D method which enables UV curing for plane objects using a new type of inerting technique and UV LED light sources.

Tikkurila and US-based Phoseon Technology have designed and produced a UV-curing device based on semiconductor technology for 2D applications. Tikkurila has also developed new UV-curing coatings suitable for use with this new technology.

Oxygen-free curing considerably improves surface durability. The new method can be used with all wood-based materials and heat-sensitive plastic materials. The benefits of the method include the very long usable life and low energy consumption of UV LED light sources. The curing process does not produce any ozone.

Trial runs with customers began in early 2008, with the first tests on the UV-curing device already having proven that the method works excellently.

In June 2008 the UVITEC® 2D method was one of the two winners in Kemira's Group-wide Innovation Contest. For an innovation to be selected as the best in 2007, it must support the Group's business strategy and be unique and patentable. It must also allow for rapid commercial launch.

Case

Safety discussions to combat accidents

Many enterprises – with Finnish examples including Neste Oil and Kemira – have a long history of "safety walks" in which the essential point is executive and management commitment and visibility in the field.

Tikkurila's safety walks – or rather safety discussions – were launched on a more extensive scale in late 2006. In 2007 the number of safety discussions conducted totalled more than 900, with the objective for 2008 set at a minimum of 1,500 discussions. Members of Tikkurila's Management Board (15 persons) have made a commitment to attending a total of almost 200 safety discussions, and another 80 persons – mostly line managers and those active in safety issues – will each conduct a specific number of discussions.

A safety discussion is not an inspection round but a one-to-one exchange of opinions about health and safety issues in the workplace. At best they open new perspectives for both attendants. The main points covered during the discussions are recorded and the measures taken as a result are monitored by topic and site.

The discussions are not merely about physical safety but also cover mental safety. The short-term objective is to draw attention to safety issues while also showing that we make an effort to improve safety and care about people's wellbeing. Over the longer term the discussions improve everyone's ability to observe and be aware of risks, improving the overall level of safety and care in their activities.

For our employees the discussions provide the opportunity for a more open safety culture where everyone can influence the development of their own working environment. A safe working environment facilitates the improvement of productivity – not only in the production environment but at all levels.

In terms of accident frequency Tikkurila is clearly ahead of other Finnish paint plants, but a lot of work still needs to be done before we can reach our objective of becoming the safest paint plant in the world by 2012.

Environmental responsibility

Key events in 2007 regarding environmental responsibility

Positive:

- Direct environmental costs went down.
- The amount of hazardous waste and process materials wastage was reduced and the reduction objectives were reached.
- The conditions of the new environmental permit were met.
- The solvent content of industrial wastewater was taken below the new levels permitted.
- There were no major fire safety occurrences.

Negative:

- A fuel oil emission took place from the Finnresin Plant steam generator room.
- Odour emissions of binder production caused a complaint by local residents.
- Several minor pigment dust emissions took place in the context of bulk vehicles being emptied.

All the above incidents resulted in immediate corrective measures as well as more extensive inquiries and preventive measures.

We aim to promote the principles of sustainable development in all our operations. Consideration for environmental, health and safety issues is an important part of the entire organisation's activity. These measures are specified as follows in our Corporate Social Responsibility Programme:

- We assess the environmental impacts of paint products throughout their lifecycles and develop environmentally sound products.
- We direct purchases to environmentally aware suppliers.
- We develop our production processes to minimise emissions and waste.
- We make sure our operations and products comply with regulations and agreements.
- We encourage and guide customers to choose products that have a minimal impact on the environment.
- We maintain open communications and smooth relations with all stakeholder groups.

In 1996 Tikkurila Oy was registered in the EU Eco-Management and Audit Scheme (EMAS) – the first company in Finland and the third paint plant in Europe to do so. A list of Tikkurila plant certifications can be found on page 24 in the international section of this report.

We have created a quality and environmental management system with regular internal and external audits to ensure it works appropriately. The environmental management system is the set of written instructions and standard procedures that ensure environmental issues are taken into account in everyday operations. Essential in this is operational development with a view to continuous improvement in environmental performance.

Tikkurila's environmental management system complies with the requirements of ISO 14001:2004 and the EMAS Regulations and is part of the Operational System whose main processes are:

- customer resource management;
- product or service development;
- orders, production, deliveries;
- support functions.

Our general environmental objectives are included in the Tikkurila & Environment and Community Programme, which is available on our website at http://www.tikkurila.com. Company- and department-specific action plans define annual key projects to support the achievement of these objectives.

The key environmental responsibility information provided in this report is based on the requirements set for annual updates to EMAS reporting and the principles of GRI reporting. Some of the key figures on environmental responsibility presented for 2006 have been changed in this report due to changes in our internal accounting principles.

Vantaa production plants

Tikkurila's production facilities in Vantaa occupy a site of some 21 hectares near the centre of Tikkurila, close to a unique historical environment featuring an old factory complex and the River Keravanjoki.

Safety and environmental issues were paramount when designing the plants. The plant grounds have been paved throughout our operations, with the rainwater drainage system equipped with oil separators and alarms. The walling around the grounds was improved in summer 2007 to prevent water used to put out even a major fire from spreading to surrounding areas. This makes us prepared to protect the ground and the River Keravanjoki environment in exceptional situations.

There are two paint production units and a separate plant that manufactures binders. The site also houses the CPS Color Oy tinting colourant plant. The fully-automated Monicolor Plant (MC) started up in 1975 and manufactures base paints for decorative paints, tinted decorative paints and wood stains. The plant produces approx. 30 million litres a year.

Temacolor was completed in 1983 and Novacolor in 1988, and together these two form the NT Plant that manufactures water- and solvent-borne decorative paints plus paints, lacquers and coatings for the wood and metal industries as well as fillers and putties. This plant also produces almost 30 million litres a year.

Finnresin Plant (FR) makes alkyd binders for the Group's plants operating in Vantaa and elsewhere. Its total annual production is around 10 million litres.

Changes in legislation and permits

In autumn 2007 the Vantaa site was issued a new environmental permit with several conditions regarding activity there. The new permit conditions require more detailed documentation, especially regarding the servicing of environmental protection equipment, emissions and discharge measurements and monitoring, as well as more extensive annual reporting.

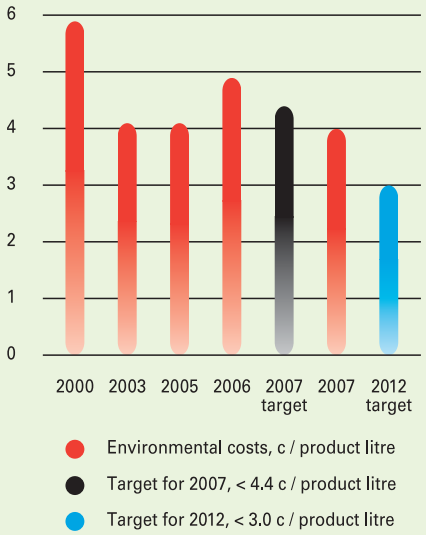
We have been through the new conditions with the persons with line responsibility and agreed on the persons responsible for the implementation of the different measures and on the appropriate procedures.

Direct environmental costs

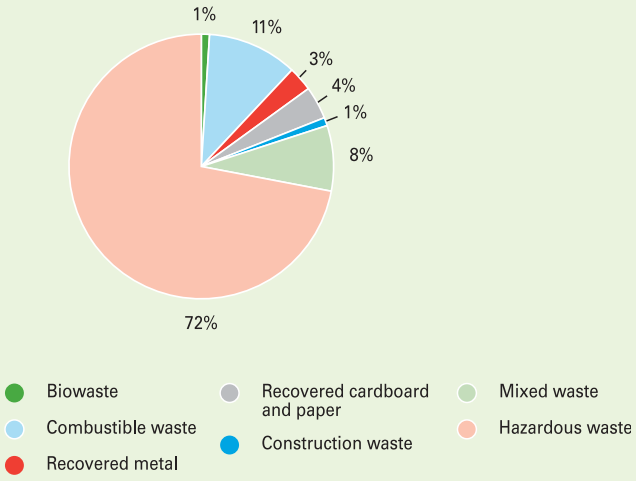
Environmental cost trends (eurocent/product litre) show the degree to which we have been able to improve the efficient use of production resources and increase eco-efficiency. Mainly due to a reduction in the amount of hazardous waste, our direct environmental costs were cut by almost 20% per litre produced and we reached our reduction target.

The following are included in direct environmental costs:

Direct environmental costs in production



Shares of waste types taken to recycling and disposal in 2007 (total volume of waste approx. 1,900 tonnes)



– waste disposal costs and the value of the raw material contained in waste;
– energy and servicing costs and emissions measurement of the catalytic incinerator;
– industrial wastewater handling costs: chemicals, servicing and monitoring, etc.;
– wastewater charges and analyses, etc.

Around two-thirds of our environmental costs are caused by the value of raw material going to waste, so reducing material wastage is vital for us to succeed in cutting environmental costs.

Hazardous waste and material wastage

There was an obvious reduction in the amount of hazardous waste and process material wastage with the targeted 10% reduction in material wastage achieved in 2007.

The following are regarded as material wastage:
– material disposed of as hazardous waste (while having been purchased as raw material);
– solvent emissions into the environment and solvents oxidised in the incinerator;
– dry matter taken into the sewage system in wastewater;
– raw material remaining in barrels and containers taken to recycling/disposal.

Part of the reduction was due to the fact that the amounts discarded in 2006 had been exceptionally large due to the discontinuation of coil coating production.

The year 2007 saw the launch of a variety of waste sorting and processing measures, particularly at the NT Plant. Other units also performed smaller-scale changes to reduce material wastage, with many improvements already affecting the 2007 figures.

Other waste

The amount of landfill waste went down a little during the reporting period. The sorting of energy waste from mixed waste in particular has increased recovery. Although there is no need for special measures, we will cut the proportion of mixed waste by further developing sorting. In reality a very small share of waste cannot be utilised in any way. Our general objective is to minimise the need to use landfills.

All waste is duly sent for recovery or disposal. Neither waste collection, processing nor transport cause any environmental impact that differs from that of normal production activity.

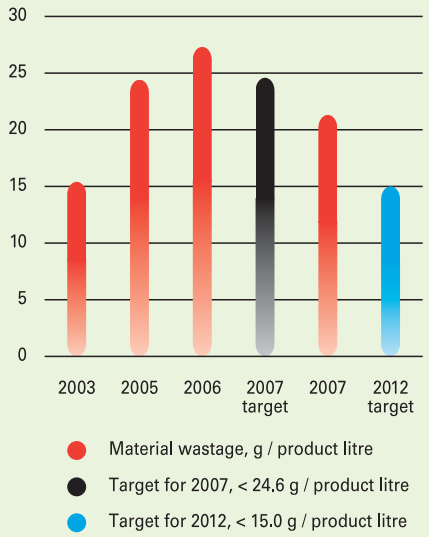
Wastewater

After pretreatment, wastewater is discharged into Vantaa's sewer network and piped to the Viikinmäki wastewater treatment plant in Helsinki for cleaning. We have managed to cut the amount of industrial wastewater to a mere 10 m^3 a day.

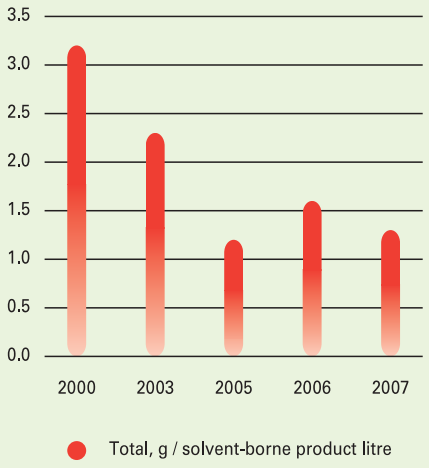
In January 2007 Tikkurila Oy entered into a new wastewater discharge agreement with Vantaan Vesi Oy (Vantaa Water), resulting in slightly stricter terms and with limits now set and measurement required for levels of aromatic compounds (BTEX).

Measurements made in spring 2007 showed cleaning water BTEX levels clearly above the threshold allowed. Otherwise the quality of water discharged into the sewer network was clearly within the limits set by our permit throughout the year. Several measures related to process technology were performed under the project launched in 2006 to prevent solvents from entering the sewerage system, including aerations, alarms, etc. The solvent content of industrial wastewater was taken below the new levels in early summer. The level permit-

Material wastage, total production



Solvent emissions from production (VOC)



ted is so low that in the average water volume just 30 g of aromatic solvents in the sewerage system results in us going over the limit.

Since 2004 we have made essential improvements to wastewater processing and managed to take sewerage emissions to a very low level.

Solvent emissions

Solvent emissions from the production process accounted for less than 0.4% of the solvents used. According to previous dispersion models, even the peak levels found in the immediate environment are so low that they do not cause any harm to local residents.

The total amount of solvent emissions remained unchanged during the reporting period. There were few incinerator bypass events and the terms of the new environmental permit regarding solvent emissions were met. Efforts are being made to time any necessary downtime for maintenance on periods with minimum production activity.

Odour emissions from the Finnresin Plant

Like the year before, a couple of external queries were made in early 2007 about odour emissions from the Finnresin Plant. The year saw many measures to reduce odour emissions: a reform of process water aeration, pipeline replacements, improved ventilation valve adjustments, etc. The situation has clearly improved and no more complaints about odour were received towards the end of the year.

Energy and water consumption

Paint production is not a very energy-intensive process. In fact most of the energy consumed is used to heat and ventilate buildings. A mild winter resulted in a slight drop in energy consumption, with water consumption also slightly down per litre produced.

Limited access to reference data

Access to reference data concerning the level of environmental protection carried out by the paint industry in other countries is very limited. In practice comparison is only possible between other Finnish paint manufacturers (VTY) and Swedish manufacturers (SVEFF, figures from 2006).

The most interesting data include:

- volume of hazardous waste (Tikkurila ca 23, VTY ca 17 and SVEFF ca 22) and
- volume of solvent emissions (Tikkurila 0.08, VTY 0.09 and SVEFF ca 0.06) calculated as grams/product litre.

Both indicators are strongly affected by product range. As a general observation it can be said that there are no significant differences between the Nordic paint manufacturers.

Energy and water consumption

Year	2004	2005	2006	2007
Water consumption				
Specific consumption l / product litre	0.71	0.75	0.70	0.69
Energy consumption				
– electricity & district heat				
Specific consumption kWh / product litre	0.69	0.64	0.62	0.59

Tikkurila painting the world

Tikkurila Group is a leading paints and coatings supplier in Northern and Eastern Europe. In decorative paints we boast strong local brands: in Finland, Poland and Russia **Tikkurila**, in Russia also **Teks**, in Sweden **Alcro** and **Beckers** and **Vivacolor** in the Baltic States. Our other decorative paint brands include **Polifarb Dębica** in Poland, **Finncolor** in Russia, **Kolorit** in Ukraine and **Pigrol** in Germany. Our industrial coatings clients are highly familiar with our **Tikkurila Coatings** brand, with examples of our latest industrial coatings including **Gamma** and **Ohtek** in Russia.

Customers buying our decorative paints – whether consumers or professionals – are served by a network of more than 5,000 retail outlets in almost 40 countries. The wood and metals industries are served either directly or through 260 Temaspeed distributors in 28 countries.

Tikkurila's internationalisation truly began in 1967. when our first foreign – and still operating – subsidiary was established in Sweden. In 1984 Tikkurila acquired the British Donald McPherson Group, which operated in eight countries. With industry focus and consequently paint and coatings users rapidly shifting from Western to Eastern Europe and even further, the year 2005 saw the sale of the last company still remaining from the cluster.

In the 1990s Tikkurila's business lines still included tinting technology with its geographical area expanding from Europe to other continents. In 2000 the tinting business was sold, and Tikkurila resumed its original task of manufacturing and marketing paints and coatings.

Our position in the European market was strengthened with the 2001 acquisition of the Swedish Alcro-Beckers AB, which brought us new plants including the current ones in Poland and Germany.

Our paint production in Estonia had already started in 1992 and began in Russia in 1995. In spring 2006 Tikkurila's position was further strengthened by the acquisition of the Russian OOO KRASKI TEKS.

Today the Tikkurila Group is Russia's leading supplier of decorative paints with six paint plants – with two of these manufacturing industrial coatings – and an extensive distribution network in the country. As well as the Nordic countries, the Group has a strong foothold in countries including the Baltics and Poland.

In spring 2007 we took a major step into the Asian market by establishing a sales company in China. Today Tikkurila has production companies in seven countries and sales companies in ten other countries in Europe and Asia.

This section of the report presents a summary of the key figures related to corporate social responsibility as well as cases illustrating our international operations.

Tikkurila Group's corporate social responsibility indicators 2004–2007

Year		2004	2005	2006	2007
BUSINESS PERFORMANCE					
Net sales	EUR mill.	440	458	563	625
PRODUCT ECO-FRIENDLINESS					
Production share of water-borne products	%	60	61	64	70
NATURAL RESOURCE CONSUMPTION					
Energy consuption	kWh / product litre	0.63	0.58	0.39	0.41
AIR EMISSIONS					
Solvent emissions from production	g / SB product litre	0.69	0.40	0.45	0.50
WASTE AND MATERIAL WASTAGE					
Hazardous waste	g / product litre	12.4	11.4	8.4	11.0
Other waste	g / product litre	26.4	22.8	14.4	15.7
ENVIRONMENTAL COCTS					
Environmental costs in production	c / product litre	2.9	1.8	1.4	1.3
OCCUPATIONAL SAFETY					
Accident frequency LTA1	accidents / mill. hrs	11.9	10.8	8.2	6.9

SB= solvent-borne

Case

Great Idea! promotes entrepreneurial corporate culture

Launched in spring 2007 by Kemira Oyj, the Great Idea! programme has worked better than anticipated at the Tikkurila Polska S.A sites in Poland. The company employs around 400 people in Warsaw, Łódź and Dębica, with 25% contributing ideas under the programme.

– The programme helps us promote an entrepreneurial corporate culture. Our staff had some reservations to begin with, but now Great Idea! seems to be getting more and more popular all the time, says Tapio Saarela, President of Tikkurila Polska.

– We want to develop all of our activities and are looking for improvements to health, safety and environmental issues too. Every idea is welcome and will be examined thoroughly and impartially.

By the end of 2007 more than 200 ideas were presented, with 40% receiving an award. Particularly interesting for the company are ideas that achieve a lot on relatively low cost.

– There is a lot of unused potential in our employees, and we can achieve major competitive advantage by employing it. When people know that their opinions count and the company respects them, they are willing to share their knowledge and experience. They all are masters at their own work and know best how things can be developed, Saarela summarises.

International responsibility

The majority of Tikkurila Group's employees work outside Finland. For reasons of transparency regarding the entire Group's social responsibility, it is important that we also report on key figures in our international operations. The table on page 22 contains key figures illustrating the Tikkurila Group's environmental and safety levels. There are distinct differences between the Group companies, particularly related to waste disposal and environmental costs. The main reason behind this variation is that production technologies employed differ a lot from one facility to another.

Certified operations

Tikkurila seeks to be one step ahead of others in quality and environmental issues. Steering and developing the management of these issues has been integrated into the same system, which is regularly audited to ensure it works. The ethical principles of our activity are stated in our corporate social responsibility programme entitled Tikkurila & Environment and Community.

Proof of the systematic development of our operations are the certificates issued to the different sites of the Tikkurila Group. These are presented in the table on the right. Our aim is to have all quality, environmental and safety management systems of Tikkurila Group companies certified by 2011, with most units already working towards certification.

Group employee survey

Conducted in May 2007, the Tikkurila Group employee survey response rate was 83.2%, up 4.5% points on year 2006. (The results of the May 2008 survey are not yet available.)

The results have been improving for the third consecutive year, with overall satisfaction clearly exceeding the general global norm. Respondents found their work interesting and challenging and feel their work is significant to the Group. Our employees are highly committed to their employer, although a slight downward trend can be seen in the results. Areas in need of particular development are the level of work-related stress and personal responsibility.

Networks providing support to work

Different task forces and networks help us harmonise and rationalise approaches and practices at the Group's different sites. Such networks include the Steering Group that coordinates R&D and the global Supply Chain function.

The different Tikkurila Group units have been cooperating with each other on safety issues for a long time. The Health, Safety, Environment (HSE) and Product Safety (PS) networks have been engaged in their own forms of collaboration for years. The different sites have traditionally been represented well at network meetings.

In 2007 the two networks had a joint meeting at St. Petersburg. This also involved a visit to the KRASKI TEKS production plant, where members of the HSE network performed a small-scale risk assessment.

Similar networks have also been established for our other functions, including between our IT and finance and HR and communications professionals. The Tikkurila Group HR and communications network had its first meeting in autumn 2007, with attendees getting to know each other as a key objective. With common approaches being formulated, the importance of networks will grow. In between meetings members keep in touch via tools such as shared electronic workspaces.

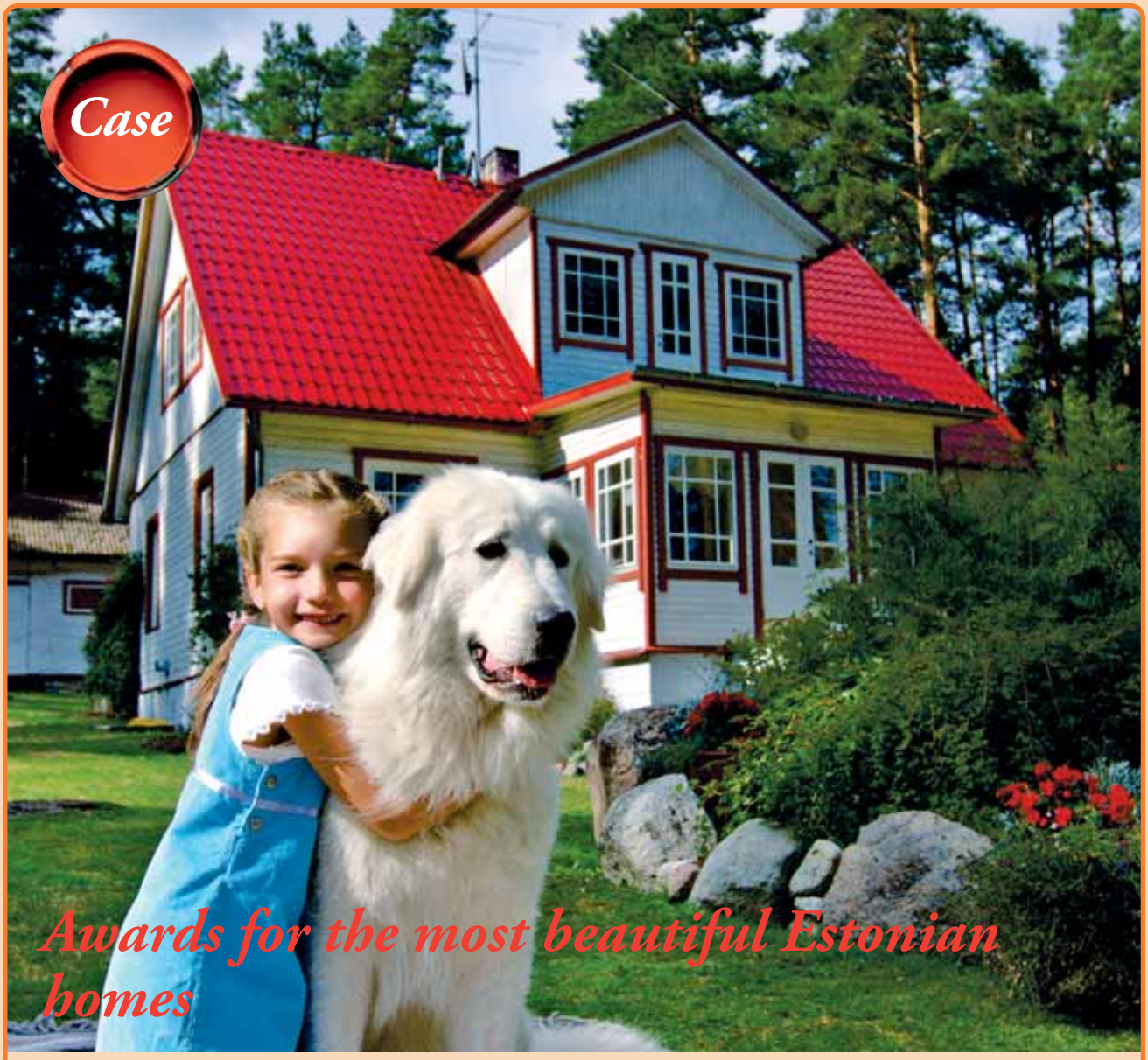
In addition to the Tikkurila Group's internal networks, our experts have also participated in Kemira's global networks.

Certificates awarded to Tikkurila Group companies (production sites)

Company/location	ISO 9001:2000 (Quality)	ISO 14001 (Environmental)	OHSAS 18001 (Health & Safety)
Tikkurila Oy, Vantaa	X	X	X
OOO Kraski Teks, St. Petersburg	X	–	–
OOO Kraski Teks, Stary Oskol	X	–	–
Alcro Beckers AB, Stockholm & Nykvarn	X	X	–
Tikkurila Polska S.A., Dębica	X	X	X
OOO Tikkurila, St. Petersburg	X	X	–
AS Tikkurila-Vivacolor, Tallinn	X	X	–
OOO Kraski Tikkurila, Ramenskoye	–	–	–
Pigrol Farben GmbH, Ansbach	–	–	–
Tikkurila LLC, Kyiv	X	–	–
OOO Gamma Industrial Coatings, St. Petersburg	X	–	–
OOO Tikkurila Powder Coatings, St. Petersburg	–	–	–

The aim is to achieve system certification for all production plants by the end of 2011.

Case



Awards for the most beautiful Estonian homes

Since 2004 Tikkurila's Tallinn-based subsidiary AS Tikkurila-Vivacolor has participated in the Kaunis Eesti kodu campaign patronised by the President of Estonia. The campaign was launched in 1997 by President Lennart Meri, and each year it selects the most beautiful homes, schools, villages, kindergartens and other sites.

The winners are selected by Eesti Kodukaunistamise Ühendus, an Estonian association for home beautification, in cooperation with local and county government and other organisations. The aim is to promote a more beautiful environment and an economical lifestyle.

In 2007 there were almost 90 winners, including both homes and public buildings. The village of Pikva küla, Harjumaa County, was selected as the most beautiful village.

Tikkurila-Vivacolor supports the campaign together with the other main sponsor, Husqvarna Eesti OÜ. The winners receive a gift voucher for Vivacolor paints or Husqvarna products. Tikkurila-Vivacolor also sponsors the annual book presenting Estonia's most beautiful homes.

www.iluskodu.ee

The Malte project provided major challenges

In spring 2006 our Swedish unit launched the Malte project, which involved the 40km move of a paint plant from Stockholm to Nykvarn and the move of the head office to Hammarby Sjöstad near the centre of Stockholm. Now that operations in the new premises are fully underway, employees feel they have received a boost to their work, although the project also brought plenty of challenges.

The Alcro-Beckers AB plant that had been making paint for 106 years in Lövholmen could obviously not be moved as it was. Instead, a totally new production plant was constructed in conjunction with an existing logistics centre.

It was clear from the beginning that the company would have to perform major cuts to its workforce as it moved from the old – to a large extent manually controlled – factory to a new automated plant. Particularly challenging during the period of transition was to continue production without disturbance in two plants simultaneously while also managing to preserve high work morale.

The layoff process commenced with negotiations with employee representatives where quite an unusual solution was proposed: the company offered its employees a voluntary severance package which included outplacement support by an external consultant and the right to remain absent during the period of notice.

The trade unions had a highly positive attitude towards the issue and the number of those accepting the offer even exceeded the number hoped for. This enabled the company to recruit precisely the right types of employees locally.

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page 26 Alcro-Beckers AB

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