

NON-FINANCIAL STATEMENT

2018



TEKNOS NON-FINANCIAL STATEMENT

Teknos has written this Statement of Non-financial information (NFI) for 2018 in accordance with the requirements stated in EU Directive 2014/95/EU. This report covers all countries where Teknos operates. Due to acquisitions and as Teknos is in the process of building its unified reporting system, some data included in this report will only cover specific Teknos countries. In such cases, the data includes a detailed scope description.

This Statement includes information regarding:

1. Teknos' mission, business model and operating environment
2. Teknos' management approach
3. Materiality
4. Teknos CSR Program focus areas
5. Environmental aspects
6. Social and employee aspects
7. Human Rights
8. Anti-corruption and bribery

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1. TEKNOS' MISSION AND BUSINESS MODEL

Teknos is a 70-year-old family-owned company and one of Europe's leading provider of industrial paints. The company mission is to create longer-lasting solutions and services for its clients. Teknos offers a comprehensive range of paints and coating solutions, manufactured to fully comply with international standards, for industrial, professional and household painters. The industries and clients which Teknos serves are various.

Teknos strives, in every possible way, to help its customers find the ideal solution to suit their requirements. Utilising thorough research as well as feedback from various market areas, Teknos continuously develops its product range to ensure the best possible customer satisfaction. This, together with its extensive knowledge and history of having provided industry-leading quality for decades, Teknos is confident that its product range can solve any coating challenge, whatever the specific situation.

Teknos works in close cooperation with its clients. The company's long-lasting customer relationships are the basis for its success. Teknos' promises to its customers are: technically superior surfaces, unique technical service, reliable supply, consistent quality and local presence.

For the calendar year 2018 Teknos updated its strategy for 2019-2025 with the ambition to grow the company to EUR 1 billion net sales by the end of the strategy period. At the same time, Teknos changed its organisational model to become more customer-focused and structured its new management team.

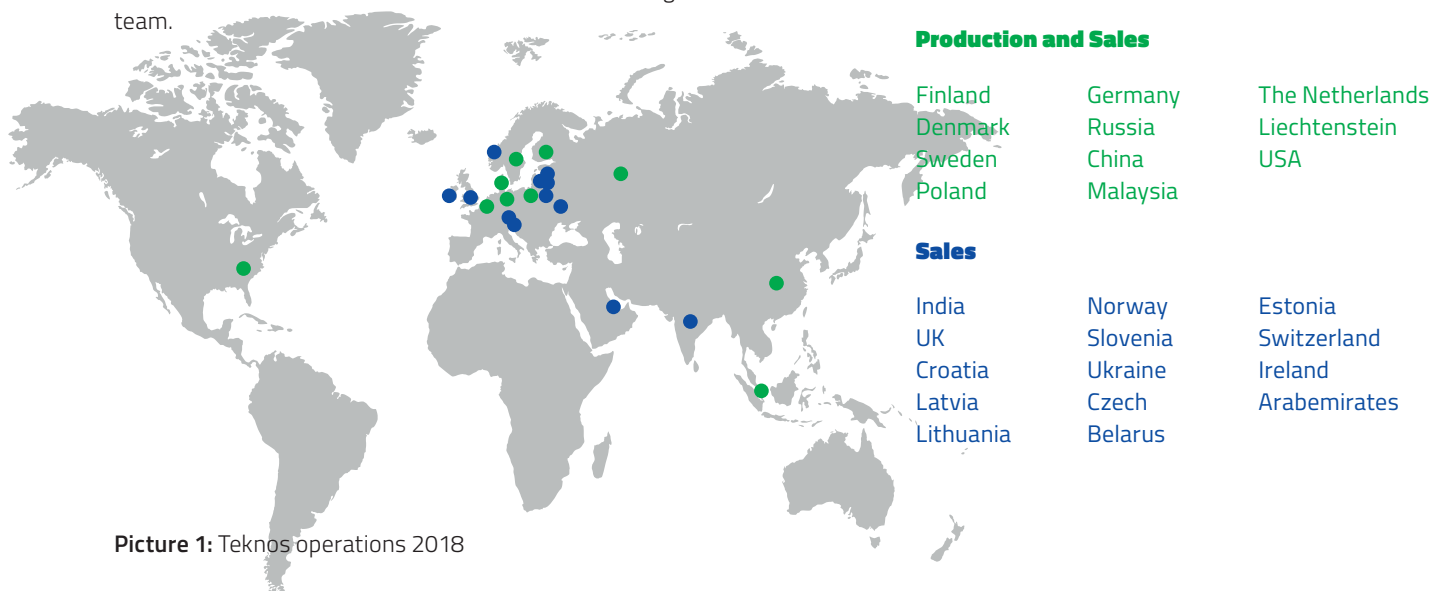
At the end of 2018, Teknos' net sales (total – all countries) were 408 MEUR with an average workforce of approximately 1,700 people employed in over 20 countries.

Teknos operating environment

Teknos operates in a highly competitive landscape, which is shaped by increasing raw material costs, pressure from chemical regulatory bodies, public concerns regarding potentially hazardous substances and evolving client needs. The market is characterised by technological advancements, increasing preference for professional contractors, consolidation of market players and growth opportunities provided by rapid urbanisation, increasing spending in construction and rising consumption.

Teknos clients' and society at large have an increased interest in products and services that are less harmful for both environment and human health and for products that last longer and need less repainting and raw materials.

Teknos is committed to increasing its service portfolio for its clients to ensure that they have better understanding of the safe use of the company's products. Teknos measures its client satisfaction and keeps a track on clients' business needs through client feedback procedures and processes and conducting brand research regularly.



Picture 1: Teknos operations 2018

2.

MANAGEMENT APPROACH

Teknos strategy was renewed in 2018. At the same time, sustainability was integrated into Teknos strategy and business model and became a key strategic program in the company.

Teknos has dedicated a team of professionals (CSR team) to ensure the ongoing discussion, dialogue and development of sustainability issues. The sponsor for Teknos CSR program is the company CEO. The CSR team is led by Chief Procurement Officer and is overseen by a CSR steering group, including members of the Teknos Management Team.

Teknos risk management framework

In 2016, Teknos conducted a comprehensive risk analysis of its operations. The assessment was carried out by a third-party organisation, and in total, nine risk categories were identified. These are: business risks, business interruption risks, finance risks, hazard risks, product risks, employee risks, information risks, financial risks and contract risks.

Teknos management teams assess risks and monitor the implementation of risk management annually in management review meetings. The responsibility for risk management at Teknos is divided between the Group, country companies and production sites to ensure that risks are identified and addressed immediately. Every Teknos em-

ployee is further responsible for reporting risks in their daily work as stated in the Teknos Code of Conduct.

Due diligence

Various policies and roadmaps related to e.g. personnel, operations, production and the environment help to ensure that Teknos carries out its operations responsibly. These include e.g. Teknos Code of Conduct, Teknos Supplier Code of Conduct, Teknos CSR Program, Teknos Crisis Communication Policy and country specific environmental policies defined in different countries.

Responsibility is verified through internal and external audits, trainings, research, certifications and membership in e.g. EcoVadis as well as the Teknos own reporting process for misconduct and violations, overseen by the Teknos Code of Conduct Committee.

At the end of 2018, 9 production countries out of 11 held the ISO 9001 certification and 5 held the environmental certification (ISO 14001). In calendar year 2018 eight supplier audits and eight internal cross audits were carried out.

Teknos is committed to further develop its processes and policies for more transparent overview over its non-financial impact.

3. MATERIALITY

In 2018 Teknos carried out an extensive internal materiality analysis, including interviews with key personnel and involvement of more than 130 employees in a sustainability workshop. Teknos further mapped its sustainability impact with the United Nations Sustainability Development Goals.

The CSR program and its objectives were approved by the Teknos Management Team in December 2018 and presented in early 2019 in every Teknos country. The definition of materiality will continue during 2019 through a materiality assessment and stakeholder interviews.



4.

TEKNOS CSR PROGRAM FOCUS AREAS

Teknos CSR program has four focus areas:

- Sustainable solutions and services
- Responsible operations and supply chain
- Developing people, and
- Future generations.

1. Sustainable solutions and services – developing and offering competitive products, technologies and services that meet the needs of customers while using fewer or more sustainable resources and materials.

2. Responsible operations and supply chain – acting responsibly within the entire value chain, from the procurement of raw materials to the manufacture and delivery of the finished product to customers safely and on-time.

3. Developing people – Committing to develop employees' competences and skills, attracting the best talents and creating an environment in which ideas and initiatives flourish, thus creating long-term success for Teknos people and the company's business. The backbone to developing people are the People Process (setting of an individual timetable for each employee which details their target setting, appraisal and development) and the Teknos Academy.

4. Future generations – Being a family-owned company, continuity is of highest importance to Teknos, affecting all company actions. Teknos wants to build a company, which the future generations will be proud to lead and be a part of, and to support entrepreneurship education and thinking in the society. To that end, Teknos invests in local communities.



5. ENVIRONMENTAL IMPACT

The main environmental impact from Teknos operations come from manufacturing processes and raw material usage, including raw material handling, waste handling, VOC-emissions and the handling of hazardous chemicals. The environmental impact in the supply chain is primarily related to the transportation of raw materials or finished goods.

Teknos aims to reduce or improve its environmental impact by developing sustainable solutions and services (CSR focus area 1) and managing responsibility within its value chain (CSR focus area 2).

Sustainable solutions

Sustainable solutions means that Teknos helps its clients to reach their sustainability targets, invests in research for renewable or bio based raw materials and reduces the amount of hazardous chemicals.

Teknos aims to have a positive environmental impact by helping its clients to reach their sustainability goals. The company develops solutions which help its clients to save energy, improve productivity, reduce risks of malfunction or prolong the lifespan of customers' products, to name a few.

Further, Teknos invests heavily in R&D to develop products from secondary raw materials and bio based raw materials to ensure its product portfolio stays relevant and innovative in today's demanding market.

For years, the company has successfully reduced the amount of VOC and SVHC in its product. Goals for reducing hazardous substances and for increasing usage of renewable and secondary raw materials have been set at a group level.

Responsible operations

In its operations Teknos aims to continuously improve its operations, seek for opportunities towards energy efficiency and waste management and to monitor its supply chain. By implementing Lean in its operations Teknos aims to minimise any non-value-added activities, increase operational efficiency and optimise the degree to which it uses its own internal transportation and resources and invests in production facilities.

Many country-specific projects are ongoing to reduce the company's environmental footprint. Examples of such initiatives include the usage of solar energy in Norway, partici-

pating in the Recompose Program in Finland, and using own waste in powder coating production in Poland.

In the supply chain Teknos wants to ensure that its suppliers meet the high-quality standard set by the company through its supplier selection process, supplier self-assessments and supplier audits. Teknos has joined the EcoVadis platform to better monitor its suppliers and their sustainability performance.

Environmental risks

Teknos' biggest environmental risks are related to potentially hazardous substances, which might harm either people, the environment or both. Environmental releases and contamination might lead to costs in terms of compliance and claims and turn into a reputational factor affecting Teknos' business.

Also, public concern over specific substances and their environmental impact could result in forced changes in product formulas, manufacturing process or the utilisation of Teknos products. Teknos sees increasing chemical regulation to be both a risk and an opportunity in terms of new sustainable business.

Environmental management and policies

Teknos has implemented processes, policies and structured its organisation to comply with the growing number of regulations including, for example, REACH and national legislations, and to manage its environmental risks and impacts.

The daily environmental management of all Teknos sites is based on national legislation and global ISO standards and is directed by the Teknos CSR Program. Teknos has certified its manufacturing and R&D operations to comply with ISO 14001 in Sweden, Finland, Denmark, Russia and Liechtenstein.

To minimise the risks in terms of reputational damage and mitigate risks, the company has implemented separate Crisis Communications guidelines in all countries.

Environmental outcomes and KPIs 2018

At the moment, Teknos is undergoing a process of unifying the way it collects and shares its environmental data at a group level.



During 2018 Teknos established its CSR Program, set environmental targets for 2019-2025 and created a Sustainability e-learning course for the whole personnel.

Teknos also revised and relaunched its Supplier Code of Conduct, joined the EcoVadis network and established a new R&D Environment team to share knowhow about hazardous chemicals and their safe use. Further a new, client-focused matrix organisation was launched to ensure that customer's sustainability needs and demands are better catered for.


Lean activities were ongoing in several countries. At a group level, approximately 100 improvement projects were initiated, some including a direct or indirect environmental aspect.

The environmental KPIs, targets and outcomes for 2018 are presented below.

Environmental KPIs and outcomes of 2018

Responsible operations			
Contributing to SDGs	KPI	Group Target 2019-2025	Outcome 2018
 	% of SVHC ¹ tonnage used in products	Reduce at least 80% by 2025	Set group level targets and developed action plans
	g VOC per kg produced products	Reduce 5% annually	Set group level targets and developed action plans
	kg own added Methylisothiazolinone (MIT) to products	0% by 2025	Established a working group to work towards phasing out MIT

¹SVHC: Substances of Very High Concern that are currently identified and will be identified in 2025 according to the European REACH regulation

Responsible operations			
Contributing to SDGs	KPI	Group Target 2019-2025	Outcome ¹ 2018
	Energy consumption intensity	Reduce 5 % annually in production sites	Set group level targets
	paint waste / SKU	Reduce 5 % annually in production sites	Set group level targets
	First pass yield ²	90% by 2025	71.2%
	Number of Lean/Kaizen improvement projects ³ started	-	107

¹Outcome 2018 covers 8 out of 11 production countries: Finland, Sweden, Denmark, Germany, Poland, Russia, Netherlands and Liechtenstein.

²First pass yield calculation: the number of batches coming out of a process without adjustment/the total number of produced batches. The aim is to increase material efficiency.

³Lean/Kaizen improvement projects aim to achieve the goal of maximising value and minimising non-value adding activities.

6. SOCIAL AND EMPLOYEE IMPACTS

The knowledge, skills and engagement of Teknos' employees are vital to the company's success. Further, Teknos' ability to attract, retain and develop the right type of talent at all levels is critical for the company and one of the company's strategic goals. Teknos' global/local approach means also that Teknos plays an important social role in the countries where it operates by contributing to local employment.

Fair and just employer

Teknos aims to be a fair, just and responsible employer and has a zero tolerance for discrimination. The average age of employees is 43.4 years. 68.4% of the total headcount are male and 31.6% are female. In total, there are 38 different nationalities working for the company.

With the Teknos CSR Program the company improves the impact it has on both its employees and society in general by developing its people (CSR focus area 3) and investing in future generations (CSR focus area 4).

Social and employee risks

Teknos employees handle potentially hazardous chemicals, and the biggest employee risk is related to occupational health and safety issues. As the competition to hire a professional workforce from a limited supply increases, the company faces two employee-related issues: retaining employees and attracting talent to the company. Further, as Teknos continues to grow through acquisitions, this may increase the risk of a fractured Teknos culture and raise the need for improved internal communication.

Social and employee management and policies

Occupational health and safety are key to Teknos. The company nurtures a safety culture and implements safety walks and arranges safety training as a part on its onboarding processes for each new employee.

Teknos' Code of Conduct lays the foundation for all expected behaviour at Teknos. To ensure fair treatment of employees and to support its employees' development, Teknos has written and adapted programs and procedures that cover the People Process (setting of an individual timetable for each employee which details their target setting, appraisal and development) and offering trainings (Teknos Academy). Teknos measures employee satisfaction / treatment of employees bi-annually by conducting an Employer Opinion Survey (EOS).

Employee distribution by employment contract and gender; calendar year 2018

	Female	Male	Grand total
Permanent	523	1130	
Temporary	40	77	
Total (%)	563 (31.6%)	1207 (68.4%)	1770* (100%)

*The total number of personnel at the end of 2018

New hires, leavers and turnover rate; calendar year 2018

Number of new hires ¹	139
Number of leavers ²	138
Average number of personnel	1719
Turnover rate ³	8.03%

¹New hires: permanent and fixed-term employees. Excluding seasonal workers and trainees.

²Leavers: number of permanent employees resign at their own request or by mutual consent.

³Turnover rate calculation: (number of leavers/average number of personnel in 2018)×100

Teknos countries are encouraged to support both local communities and entrepreneurial thinking and education in accordance with Teknos values.

Social and employee KPIs and outcomes 2018

In 2018 Teknos launched a group-wide project in order to achieve the ISO 45001 standard by 2025 in all of its manufacturing sites. The standard aims to prevent work-related accidents or diseases by helping organisations to improve employee safety, reduce workplace risks and create better and safer working conditions. In 2018 Teknos conducted external ISO 45001 GAP-analysis in three countries: Finland, Poland and Denmark.

Further, Teknos improved its employees' knowledge of safety issues through safety walks, onboarding training, safety observations, Lean implementation and safety issues addressed in the Code of Conduct.

Teknos renewed its people process, created a HR roadmap for 2019-2025 and developed its Teknos Academy Program to support professional and personal development inside the organisation. An e-learning platform, supporting the development and training of its employees was launched.

Teknos rolled out its Code of Conduct in all operating countries and integrated it as a part of the Teknos onboarding processes. Also, Teknos set a goal to train all of its managers in leadership by 2025 and continued to work on employer branding to attract talents to the company.

Issues raised in the previous bi-annual Employee Opinion Survey, such as internal and strategy communications and the lack of leadership training, were tackled with action plans. Teknos developed its digital communications tools and improved its strategy communications. Strategy roadshows were arranged in every Teknos country and these were followed up with feedback surveys to ensure alignment and understanding of the new strategy.


During the year, Teknos countries performed and delivered on various local community work and social projects and offered hundreds of opportunities for apprenticeships, traineeships, project and thesis as well as for summer workers.

Leadership position distribution by gender; calendar year 2018

	Female (%)	Male (%)	Total (%)
Line manager ¹	84 (31%)	184 (69%)	268 (100%)
Member of Teknos' Management Team	2 (25%)	6 (75%)	8 (100%)

¹Line manager: employee in leadership position that has a subordinate

Social and employee matters KPIs and outcomes 2018

Responsible operations			
Contributing to SDGs	KPI	Group Target 2019-2025	Outcome ¹ 2018
	Number of accidents ²	-	16
	Lost-time accident frequency (LTAF) ³	Reduce 10% annually	Set group level targets
	Number of safety observations	-	636
	-	Launch Safety online training in 2019	Set group level goal

¹Outcome 2018 covers 6 out of 11 production countries: Finland, Sweden, Denmark, Poland, Russia and the Netherlands

²Accidents: accidents that result in an absence of at least one workday

³LTAF calculation: number of lost-time accidents among our own employees per one million hours worked

People development			
Contributing to SDG	KPI	Group Target 2019-2025	Outcome 2018
	Average Employee Opinion Survey ¹ score for employee satisfaction, fair treatment, fair and just leader	At least 4	Employee satisfaction ² 4.06 Fair treatment ² 3.93 Fair and just leader ² 4.17
	% of managers participate in leadership training	100% by 2025	Launched Teknos Academy training concept including leadership, professional and online training Reporting to start for 2019
	% of employees have an annual appraisal discussion with line managers	100% by 2025	Re-introduced appraisal discussion concept and guidelines to all countries Reporting to start for 2019
	Number of work-days of leadership and professional training		Launched Teknos e-learning platform Reporting to start for 2019

¹Employee Opinion Survey is conducted bi-annually, score: 1=strongly disagree, 5 = strongly agree

²Results from the latest survey conducted in 2017

7. HUMAN RIGHTS IMPACTS

Teknos does its utmost to respect Human Rights. Teknos does not permit nor accept any kind of child labour, forced labour or any other kind of involuntary work in any of its own operations or in its supply chain. As an employer Teknos is committed to providing fair and equal opportunities for its employees.

Human Rights policies and due diligence

Business practice, treatment of employees and respect for Human Rights are all described in the Teknos Code of Conduct and Supplier Code of Conduct for Suppliers. Both policies are aligned with the ten principles of the UN Global Compact and ILO International labour standards. Together with the Teknos culture and values, these lay the foundation for expected behaviour in the company and the supply chain respectively. Teknos has also a specific policy on how to act when either the company or supplier notices or becomes aware of any kind of child or forced labour in its supply chain. Employee satisfaction is monitored through the bi-annual Employee Opinion Survey. Misbehavior is reported through the Code of Conduct reporting system.

Human Rights risks

As Teknos mostly operates in countries where labour conditions and working conditions are expected to be high, Teknos sees that the risk for serious Human Rights violations inside

the group itself is low. Further, Teknos culture and close collaboration between countries, the matrix organisation and regular personal visits to all sites by people from different functions and hierarchical levels ensure that breaches inside the company have a high chance of being detected. The most significant risks related to Human Rights are likely to occur in the Teknos supply chain and are typically related to working conditions or labour issues. Teknos purchases from approximately 800 suppliers, the majority of which are from Europe.

Human Rights KPIs and outcomes 2018

In 2018 the company rolled out the Code of Conduct in all of the countries it operates in addressing also Human Rights issues.

To manage risks in the supply chain Teknos became a member of the EcoVadis network and started to use the supplier EcoVadis assessment. The assessment includes 21 CSR criteria covering the protection of the environment, labour and human rights, ethics and sustainable procurement. Teknos mitigated the supplier risks through internal and external audits. In 2018 eight audits were conducted. The audits covered topics such as quality management, environmental management, occupational safety and CSR related policies. In 2018 the Supplier Code of Conduct was launched and supplier-related targets set for 2025.

8. ANTI-CORRUPTION AND BRIBERY IMPACTS

Teknos' Code of Conduct and Supplier Code of Conduct create a uniformed and ethical base for all of Teknos' operations including how to act legally and ethically if faced with corruption, bribery or unfair competition. Teknos has a zero tolerance to bribery and corruption. Teknos expects all its employees and business partners to follow the company's Code of Conduct.

Risks for anticorruption and bribery

The company sees the risk of serious anti-corruption and bribery issues to be low.

Anti-corruption and bribery KPIs and outcomes 2018

The most important way of tackling anticorruption and bribery is by developing the Teknos culture through employee training and by increasing their knowledge. In calendar year 2018, the company did not receive any reports of incidents of bribery or corruption which violated its anti-corruption and bribery guidelines. Teknos had no pending or completed legal actions on anti-competitive behaviour in 2018. In 2018 81% of Teknos employees had received the Code of Conduct training which also included aspects of anti-bribery and corruption.

Human rights and anti-corruption and bribery outcomes 2018

Measures taken to prevent human rights violations, corruptions and bribery in supply chain			
Contributing to SDG	KPI	Group Target 2019-2025	Outcome 2018
	% of total raw material spend covered by Teknos Supplier Code of Conduct ¹	95% by 2025	Updated and re-launched Teknos Supplier Code of Conduct ¹ in four languages 58% of raw material spend of seven countries ² covered by Teknos Supplier Code of Conduct ¹
	Number of supplier audits ³	-	8
	% of total raw material spend assessed by EcoVadis ³	80% by 2025	Started to use EcoVadis ⁴ for supplier CSR assessment and monitoring 35% of raw material spend of seven countries ² assessed by EcoVadis ⁴
	% improvement in average score of total supplier EcoVadis assessments	5% annually starting from 2020	-

¹Teknos Supplier Code of Conduct sets requirements for suppliers related to: environmental management, health and safety, labour and human rights, business ethics and integrity, chemical legislation, and management systems and commitment.

²Raw material spend of seven countries: Finland, Sweden, Denmark, Germany, Poland, Russia, Netherlands

³Supplier audits cover topics: quality, environment, occupational safety and CSR related policies

⁴EcoVadis is a third-party CSR assessment of suppliers covering topics: environment, labour practices and human rights, fair business practices and sustainable procurement.

Measures taken to prevent human rights violations, corruptions and bribery in Teknos operations

Contributing to SDG	KPI	Group Target 2019-2025	Outcome 2018
	% of employee trained on Teknos Code of Conduct	100% by 2019	Re-launched Teknos Code of Conduct in 14 languages
			Launched Code of Conduct e-learning and training
			81% of employees received the Code of Conduct training

This statement has been reviewed and approved by the Teknos Board and is presented as a separate report from the annual report. The report has been signed by the company CEO and Owner, Paula Salastie, on behalf of the Teknos Board.

Friday 28th of June, 2019

Paula Salastie
Board member
CEO & Owner

WE MAKE THE WORLD LAST LONGER

Teknos is a global coatings company with operations in more than 20 countries in Europe, Asia, and the USA. It employs approximately 1,700 people and the net sales for 2018 was EUR 408 million. Teknos is one of the leading suppliers of industrial coatings with a strong position in retail and architectural coatings.

Teknos wants to make the world last longer by providing smart, technically advanced paint and coating solutions to protect and prolong. Teknos always works in close cooperation with its customers. It was established in 1948, and is one of Finland's largest family-owned businesses. For further information, visit www.teknos.com