TIKKURILA

FINANCIAL STATEMENTS 2016

COLORFUL, RESPONSIBLE LIFE

A small watermill by the river ground flaxseed in 1862. This very mill is where the story of Tikkurila began.

Today, 155 years later, the story of Tikkurila continues by the very same river in Vantaa, Finland. The scale just has multiplied. In 2017, Tikkurila is both a local and international painting industry professional. These opposite ends of the spectrum are not mutually exclusive. Quite the contrary: the proven quality of a large company intertwines with local flexibility.

Wherever we operate, our primary objective is to serve consumers, professionals and the industry, and to be as good as possible in doing it. It places high demands on our products. An ease of use, suitability, uncompromising quality, and technical efficiency are essential.

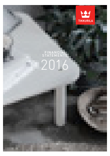
Products should be user-friendly – both for a consumer renovating their home and a professional working on a demanding surface. We also want to ensure that our products and services are safe in terms of both health and the environment, as well as sustainable throughout the entire life cycle of the object to be painted.

Tikkurila is a leading Nordic paint industry professional known for its strong brands, high-quality surface treatment products and expert services, which ensure the best possible user experience in the market.

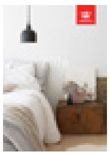
Our largest markets are Sweden, Russia, Finland, Poland and the Baltic countries. We have production in nine countries, and we are the leading decorative paint company in all our main markets. On the whole, our products are available in more than 40 countries.

In 2016, Tikkurila's revenue totaled EUR 572 million, and it had around 3,000 employees. Our headquarters is located in Vantaa, Finland. Tikkurila was established in 1862, and our shares have been listed on NASDAQ OMX Helsinki since 2010.

TIKKURILA ANNUAL REVIEW 2016



Financial Statements 2016
The report provides an overview of Tikkurila's business operations and includes Financial Statements and the Corporate Governance Statement for 2016.



Tikkurila GRI 2016
The Corporate Responsibility report introduces Tikkurila's sustainability approach and the reported Global Reporting Initiative (GRI) G4 disclosures for the reporting period 2016.

CONTENT

SUSTAINABLE BEAUTY SINCE 1862

WE OFFER AN EXTENSIVE RANGE OF PRODUCTS FOR PROTECTING AND DECORATING SURFACES FOR CONSUMERS, CONSTRUCTION AND RENOVATION PROFESSIONALS, DESIGNERS, AS WELL AS SELECTED INDUSTRIAL CUSTOMERS.

Consumers account for approximately half of our business, but the share of professionals is on the rise. Our range of services includes, among others, color and tinting services, painting advice as well as expert and training services. We support our customers in all stages of painting in order to ensure a successful result.

Our business operations are organized into two reporting segments, or Strategic Business Units (SBU). The business units, based on a geographical division, are SBU West and SBU East.

The SBU West's markets are Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia and Lithuania. Main brands in the area include Tikkurila, Beckers, Alcro and Vivacolor. Our products are distributed through building supply stores, independent paint retailers, wholesalers, Tikkurila's professional stores and directly to customers.

The SBU East's markets are Russia, Central Asian countries, Serbia, Macedonia and China; SBU East is also in charge of imports to more than 20 countries. Main brands in the area include Tikkurila and Teks. Our products are distributed through building supply stores, independent paint retailers, wholesalers and directly to customers.

Our business model puts emphasis on strong brands generated through high-quality and long-term product development and considerable marketing investments. In addition to strong brands, important factors in our operations include an effective and extensive distribution network, diverse services and an efficient supply chain. In the value chain, we operate between raw material suppliers and distribution channels, i.e. retailers.

SUSTAINABLE DEVELOPMENT

Our products have helped customers protect and decorate surfaces and spaces for over 150 years. We develop and manufacture high-quality and user-friendly solutions for surface treatment, which bring our customers added value throughout the product life cycle. For decades, the principles of our operations have been quality, durability and safety, as well as helping customers achieve successful end results.

Tikkurila's Corporate Responsibility program, "A Colorful Tomorrow", provides Tikkurila with a framework for responsible and sustainable business development. The priorities of responsibility work are user experience, resources and people.

Customer interest in environmentally sound products has grown due to the overall increase in environmental awareness and legislative changes concerning the composition and safety of paints. We guide our customers to make sustainable choices and instruct them in matters regarding the selection, use and disposal of paint. A high-quality paint selected correctly can have a crucial effect on prolonging the life of a surface and, hence, reducing the impact on the environment.

We drive sustainable beauty, and provide colorful experiences using the limited resources of nature and society in a sustainable manner. We aim to continuously minimize the environmental impact of our operations and products, for instance, by developing products that extend the service life of a painted item and allow for longer maintenance painting intervals. The environmental impact and other sustainability aspects of our products are considered throughout their life cycle – from raw material selection and product manufacture to the use of products and waste management.

OPERATING ENVIRONMENT

Paints and coatings are used for a variety of applications, including the protection and decoration of structures, buildings and different kinds of products. The paint market structure and consumption patterns vary between geographical areas. The growth in paint consumption has historically correlated with an increase in the standard of living, which has an effect on both consumption volume and quality. In Europe, consumption is stable but low. In terms of Russia, the oil price has a considerable effect on general economic development and purchasing power.

”WE PROVIDE THE BEST POSSIBLE USER EXPERIENCE IN THE MARKET.”

”SALES VOLUMES DEVELOPED FAVORABLY AND REVENUE INCREASED IN LOCAL CURRENCIES.”

YEAR 2016 HIGHLIGHTS

WITH REGARD TO THE KEY ECONOMIES OF TIKKURILA'S OPERATIONAL AREA, THE GROSS DOMESTIC PRODUCTS OF SWEDEN AND POLAND GREW CLEARLY. FINLAND'S ECONOMIC GROWTH WAS LOW AND RUSSIA'S ECONOMY DECLINED SLIGHTLY.

Euro-denominated revenue for the entire year decreased by 2 percent, but grew in local currencies. The exchange rate development and divestments exerted a negative impact on revenue, totaling approximately EUR 28 million. Sales volumes grew in all key markets with the exception of Russia, where the decline in volume nevertheless clearly leveled out.

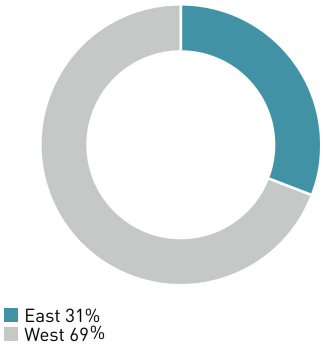
Relative profitability for the entire year deteriorated from 10.1 percent to 9.4 percent. This deterioration arose primarily as a result of our investments towards stimulating demand in the Western paint market and improving the customer experience, as well as in strengthening sales and marketing resources under harsh competitive circumstances.

Capital expenditures in the period under review were mainly related to the introduction of new IT systems in different locations of the Group. One of the most important on-going ICT investments is the deployment of enterprise resource planning system (ERP), which started in the Group phase by phase during the first half of 2016.

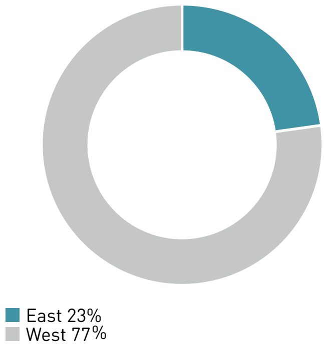
Significant investments in Sales and Marketing were continued. Professional segment resources were, for instance, strengthened during the year, the creation of mutual concepts supporting international brands was intensified, the effectiveness of utilizing digital channels was improved, and a project aiming at improving the customer experience was taken forward. The most significant events of the year included, among other things, the expansion of the shop network by over 100 sales outlets and the launch of an interior decorating application utilizing virtual reality in China; the opening of an online shop in Poland; the introduction of a new-generation, water-borne wood stain and wood oil in Finland; the initiation of Alcro Paint Foundation (Färgfonden), which is concentrated on socially useful painting projects in Sweden; and the launch of the locally produced and renewed Tikkurila Euro series in Russia.

The important projects of Tikkurila's Research, Development and Innovation (RDI) operation included the increase of local raw material procurement in Russia, the optimization of products intended for various conditions owing to the expansion of export activities, and response to the renewed Swan label (Nordic Ecolabel). The year's most significant launches include, for instance, the FonteFacade coating system for the fiber cement board industry; Fontefire WF, a fire-retardant coating for wood products; and Valtti Plus Kesto, a water-borne stain intended for wood surfaces which provides excellent weather resistance unprecedented in the series of wall surface wood stain products.

Revenue by segment



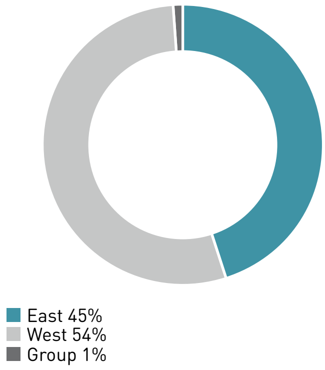
Adjusted operating profit* by segment

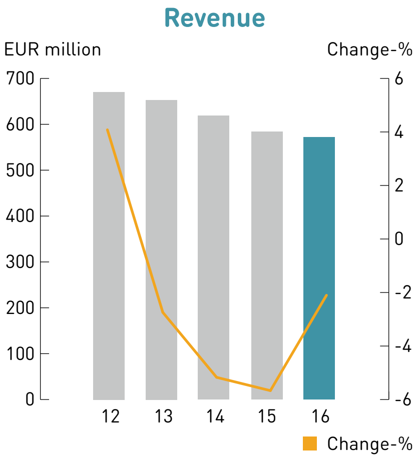


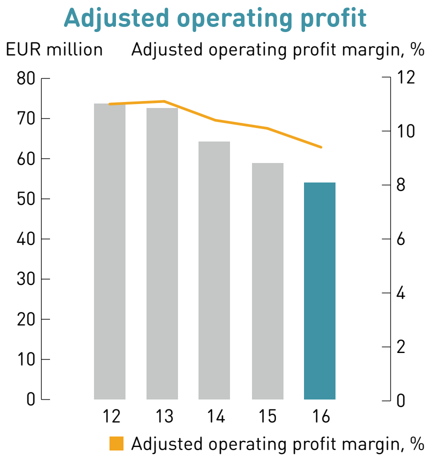
*Excl. Group items

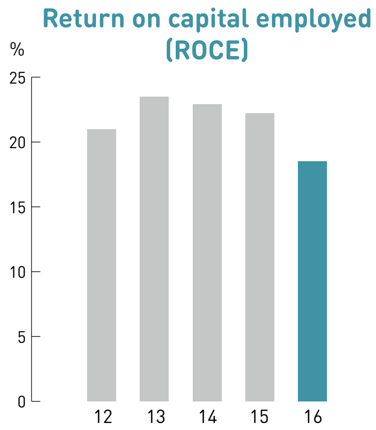
Personnel by segment

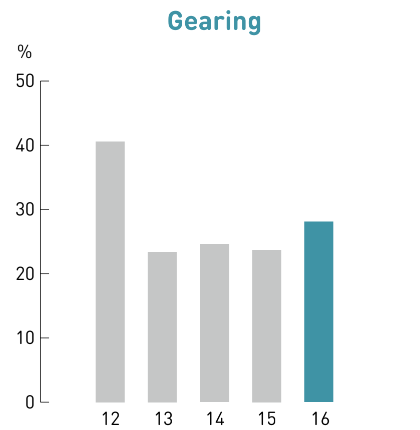
At year-end, %

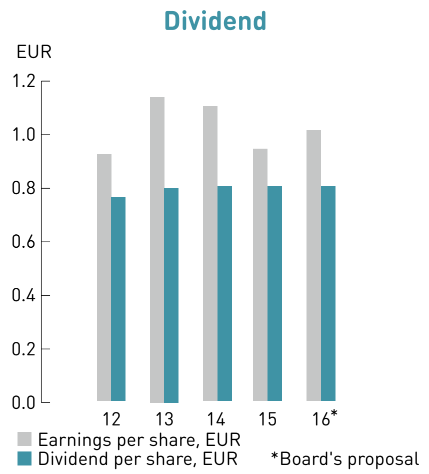


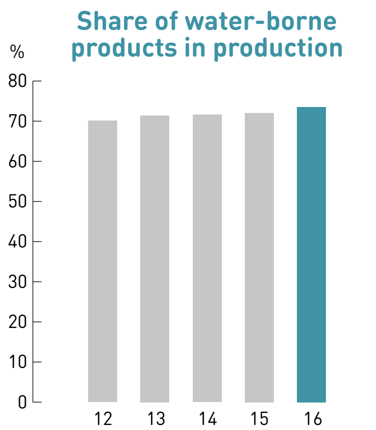












KEY FIGURES

EUR million	2016	2015
Revenue	**572.0**	584.1
Adjusted operating profit	**54.0**	58.9
Adjusted operating profit margin, %	**9.4%**	10.1%
Operating profit (EBIT)	**53.1**	61.7
Operating profit (EBIT) margin, %	**9.3%**	10.6%
Profit before tax	**57.4**	52.8
Net profit	**44.5**	41.5
Earnings per share, EUR	**1.01**	0.94
Return on capital employed (ROCE), %, rolling	**18.5%**	22.2%
Cash flow after capital expenditure	**22.7**	32.6
Net interest-bearing debt at period-end	**58.7**	46.2
Gearing, %	**28.1%**	23.7%
Equity ratio, %	**50.9%**	51.1%
Personnel at period-end	**3,033**	3,100
Lost time accidents (LTA)	**2.7**	1.9
Share of water-borne products in production	**73.8%**	73.5%

”WE HELP OUR CUSTOMERS ACHIEVE SUCCESSFUL AND DURABLE END RESULTS.”

STRATEGY

TIKKURILA IS A LEADING NORDIC PAINT INDUSTRY PROFESSIONAL KNOWN FOR ITS HIGH-QUALITY SURFACE TREATMENT PRODUCTS AND EXPERT SERVICES.

Our aim is to ensure the best possible user experience in the market. Strong brands, a culture of service, sustainable solutions and market leadership are among our most important competitive advantages. Focus and profitable, versatile growth are the cornerstones of our strategy.

Tikkurila's focus is on carefully selected customers, certain geographical areas and its own strong brands.

- Tikkurila serves consumers, painting professionals and selected industrial sectors.
- Tikkurila operates in the Nordic countries, Russia and selected Eastern European and Asian countries.
- Tikkurila invests in its own strong brands and focuses on the higher price and quality category paints.

Our objective is to grow profitably. We look for versatile growth in different product groups and geographical areas. The focus is on organic growth generated by strong brands. Furthermore, we explore actively the possibility of focused acquisitions and alliances. Improving user experience is a strong priority for all our operations. We work to strengthen our market share in our current markets of the paint business and look for growth in those markets, in particular, where our market share is still small. In the short-term, the significance of mature markets is emphasized, while, in the long term, a substantial proportion of Tikkurila's growth is expected to come from the developing markets such as Russia. In order to further improve our customer service, we are also considering expanding to product categories which will supplement our current range of products.

In volatile markets, the flexibility of production is important for both customer services and profitability. Combining high service performance and efficient production is the main objective for our production. In addition to flexible production, efficiency is also sought through other intra-Group activities, such as the harmonization of raw materials, formulas, products and packaging.

KEY SUCCESS FACTORS

- Brands
- Services
- Innovations
- Know-how
- Sustainability

= Best end-user experience

LONG-TERM FINANCIAL TARGETS

- Revenue EUR 1 billion
- Adjusted operating profit >12%
- ROCE >20%
- Gearing <70%

STRATEGIC PRIORITY AREAS

GROWTH

Growth initiatives
Other organic growth
Joint ventures and M&As

AGILITY

Efficiency and flexibility
Complexity reduction
Harmonization
LEAN

LONG-TERM GROWTH AVENUES

600

Current situation
- Revenue of some EUR 600 million

50–100

Enlarging presence
EUR 50-100 million
- Challenger position
- New export markets
- Professional and industrial business
- Functional products

100

Leveraging the strong position
EUR 100 million
- Sweden, Russia, Finland, Poland

200

Joint ventures, alliances and M&As
EUR 200 million

The progress of our strategic projects during 2016 are being highlighted in the CEO's review on pages 14-16.


”WE HAVE KEPT THE
PROFITABILITY AT A GOOD
LEVEL AND MAINTAINED OUR
ABILITY TO PAY DIVIDENDS.”

CEO'S REVIEW

THE RUSSIAN ECONOMY HAS BEEN STRUGGLING FOR A LONG TIME, DUE TO OIL PRICE AND A WEAK CURRENCY. IN RECENT YEARS, THIS HAS ALSO HAD A MAJOR IMPACT ON TIKKURILA'S BUSINESS ACTIVITIES.

Although our euro-denominated revenue has decreased due to weak currencies, we have managed to keep the group's profitability at a good level and maintained our ability to pay dividends. This has required the continuous adaptation of our operations and streamlining at a time when we have directed resources at developing the group's business operations and strategic growth projects.

Our business performance in four countries – Sweden, Russia, Finland and Poland – has a particular effect on the development of Tikkurila Group. These countries account for almost 80 percent of our revenue. Due, mainly, to the difficult situation in Russia, the western business area – whose largest markets are Sweden, Finland and Poland – rose in importance to account for around 70 percent of revenue and almost 80 percent of operating profit.

Revenue remained at the previous year's level in our western markets. Despite the generally favorable economic conditions, we did not perform as well as expected in our largest individual market, Sweden. Revenue continued to grow in Poland and remained the same in Finland, where we radically overhauled our management team and the organizational structure of our business operations. These changes were aimed at creating greater agility and developing our operations across a range of sectors.

In the east, our euro-denominated revenue fell due to divestments and weak currencies. Key measures taken in Russia included stepping up the use of local manufacturing and local raw materials. Weakening purchasing power led to lower demand for premium products made in Finland and exported to Russia, but demand for locally produced premium products clearly grew. This played a major role in Tikkurila remaining the clear market leader, in extremely challenging circumstances. Our sales structure also remained favorable due to the measures taken. We sought operational efficiency by measures such as streamlining our organization and making cost savings.

STRATEGIC GROWTH PROJECTS

We continued to invest in our strategic growth projects. We are seeking versatile growth in different product categories and geographic areas. The focus is on organic growth achieved through strong brands.

Favorable development in China continued, despite lower overall demand in the market. We opened more than 100 new sales outlets during the year. At the end of 2016, there were over 400 Tikkurila stores operated by third parties in China. Demand is expected to grow for low-emission and high-quality products, which are safer from the environmental and health perspective. Our key strengths in China include the high quality and product safety associated with the Nordic Countries, which are signaled by the allergy, asthma and environmental labels on our products.

In terms of skills, we reinforced our industrial sector resources, developed operating models and launched new products for the metal and wood industry. We embarked on projects to strengthen our project portfolio and create new concepts. At the initial stage, we are focusing on a few key markets – Poland, Russia and China. Our longer-term goals include expanding our metal industry business into new segments such as infrastructure, power generation and the oil and gas industry.

In recent years, we have invested in functional surface treatment solutions that can be used to improve the energy efficiency of buildings and address construction problems with respect to humidity and noise, for example. We invested in sales and marketing activities of our functional Drytech and

ClimateCooler products in several of the countries in which we operate. During the year, our main focus was on obtaining external certificates and customer references, as well as training our customers and other stakeholders. We also concentrated the manufacture of functional products in Lunderskov in Denmark.

As well as expanding our operations in our current export countries, we aim to find completely new markets. During the year, we enhanced our export resources, clarified our product portfolio and built marketing and service concepts to promote exports. We won new customers in areas such as the Middle East and Western Europe.

GREATER FLEXIBILITY AND EFFICIENCY

We continued with the harmonization of our raw material basket and product portfolio. In the first phase, we are harmonizing our interior products in our western business segment; we have also begun to analyze our raw material basket in exterior paints.

Last year, we engaged in a project to change our ERP system at group level, involving migration to a common system and the harmonization of practices. The system's roll-out began in the spring of 2016 and will be completed sometime this year.

We transformed our business model in Ukraine and Belarus by selling our local subsidiaries to a company established by the local management. The new company will continue to distribute our products in both countries. The transaction has the aim of streamlining and developing our operations in Ukraine and Belarus.

BACK ONTO A GROWTH TRACK

All of our operations are firmly guided by improving the user experience. This means that our products must be among the highest quality and user-friendliest on the markets, as well as being environmentally sustainable. We are committed to supporting our customers at all stages of painting, to ensure a successful result. We will continue with stakeholder training and the development of solutions facilitating the selection, sale and purchase of paint.

Tikkurila has a strong position; over two thirds of our revenue comes from countries in which we are the clear market leader in decorative paints. Tikkurila is known for quality; our premium brands account for over 70 percent of our revenue. These factors provide a good basis for returning to our growth track. The worst seems to be over in Russia, the Finnish economy is showing signs of recovery and last year's positive economic trends are continuing in Sweden and Poland. We are confident that our investment in growth projects will show as a positive trend in our revenue and profitability in the coming years.

TIKKURILA GROUP
Financial Statements and Review of Board of Directors 2016

CONTENT

Review of the Board of Directors for 2016

MARKET REVIEW

With regard to the key economies of our operational area, the gross domestic products of Sweden and Poland are expected to have grown almost 3 percent in 2016. Finland's economic growth is anticipated to have remained under one percent. Russia's GDP is expected to have declined approximately one percent.

Sweden's economic growth was comprehensive in scope in 2016. However, growth in private consumption was rather modest given the circumstances. With regard to the continuation of strong economic growth, the increase in saving reflected an uncertain approach on the part of households. Sweden's paint market is anticipated to have slightly increased in 2016. According to Tikkurila's estimate, no significant changes occurred in the market share for decorative paints (market share in value in 2015: approximately 37 percent).

The constriction of Russia's economy slowed, but the market situation continued to be fairly difficult. Private consumption shrank due to consumers' weakened purchasing power and low confidence. Competition in the paint market remained tight, and active price campaigning continued. Low purchasing power resulted in a growing relative demand for paints of lower quality and price categories.

Finland's economy turned slightly towards growth after several years of decline, but was still lower than the average value of the Eurozone. Consumer confidence strengthened at the end of the year, clearly surpassing the long-term average value, and the construction of growth centers picked up. According to Tikkurila's estimate, no significant changes occurred in the market share for decorative paints (market share in value in 2015: more than 50 percent).

Poland's economic growth continued particularly due to strong private demand, although more slowly than in recent years. Unemployment was at a record low level and consumer confidence continued to strengthen over the course of the year. Many competitors continued their aggressive campaigns targeting distributors. Price competition was fierce in industrial products as well, whose demand was negatively affected by the decrease in public infrastructure-based projects and investments, particularly at the end of the year. Tikkurila's market share in decorative paints was approximately 15 percent in 2016 (market share in volume in 2015: approximately 16 percent).

Among Tikkurila's key currencies, the Russian ruble was clearly weaker in the period under review than the year before. The Polish zloty and the Swedish krona were also at a slightly weaker level. Also the tenge of Kazakhstan and the yuan of China depreciated.

The prices of raw materials were close to the comparison period level, although there were differences in the price development of individual raw materials.

FINANCIAL PERFORMANCE IN 2016

Revenue and operating result by reporting segment in January–December are presented in the table below.

January–December (EUR million)	Revenue **1–12/2016**	1–12/2015	Adjusted operating result **1–12/2016**	1–12/2015
SBU West	**395.2**	395.3	**45.3**	50.5
SBU East	**176.8**	188.9	**13.4**	13.4
Group common and eliminations	**0.0**	-0.1	**-4.6**	-5.0
Consolidated Group	**572.0**	584.1	**54.0**	58.9

Tikkurila Group's **revenue** decreased by 2 percent in 2016. Exchange rate fluctuations reduced revenue by 4 percent. Higher sales volumes increased revenue by 2 percent. Sales price increases and changes in the sales mix increased revenue by one percent. Divestments decreased revenue by one percent.

Adjusted operating profit totaled EUR 54.0 (58.9) million, which accounts for 9.4 (10.1) percent of revenue. Profitability was weakened by higher sales and marketing costs.

Operating profit (EBIT) totaled EUR 53.1 (61.7) million, equaling 9.3 (10.6) percent of revenue.

The net financial income in January–December 2016 was EUR 3.9 (-9.3) million. The net financial income increased from the comparison period due to exchange rate differences related to the Russian ruble, in particular. Profit before taxes was EUR 57.4 (52.8) million. Taxes totaled EUR 12.9 (11.3) million, equaling an effective tax rate of 22.5 (21.4) percent. Earnings per share were EUR 1.01 (0.94) in the review period.

The Group's key performance indicators and share performance indicators for the financial year 2016 as well as for 2015 and 2014 are presented in the Group's consolidated financial statements on pages 24-25.

FINANCIAL PERFORMANCE BY REPORTING SEGMENTS

SBU WEST

EUR million	1–12/2016	1–12/2015	Change %
Revenue	**395.2**	395.3	0.0%
Adjusted operating result	**45.3**	50.5	-10.3%
Adjusted operating result margin, %	**11.5%**	12.8%	
Operating result (EBIT)	**45.1**	53.2	-15.2%
Operating result (EBIT) margin, %	**11.4%**	13.5%	
Capital expenditure excluding acquisitions	**20.1**	15.8	27.1%

FINANCIAL PERFORMANCE IN 2016

SBU West's full-year revenue was at the comparison period's level. Higher sales volumes increased revenue by 3 percent. Sales volumes grew in all key markets. Changes in sales mix and sales prices decreased revenue by 2 percent. Exchange rate fluctuations, primarily the weakened Polish zloty and Swedish krona, decreased revenue by 2 percent. In Sweden, revenue decreased to EUR 149.9 (151.7) million, while in Finland revenue remained at the comparison period's level at EUR 98.1 (98.1) million, and in Poland revenue increased to EUR 70.4 (68.4) million.

SBU West's full-year operating profit and relative profitability decreased from the comparison period. Profitability was weakened by changes in sales mix and higher fixed cost level that was mainly caused by higher sales and marketing efforts.

SBU EAST

EUR million	1–12/2016	1–12/2015	Change %
Revenue	**176.8**	188.9	-6.4%
Adjusted operating result	**13.4**	13.4	-0.3%
Adjusted operating result margin, %	**7.6%**	7.1%	
Operating result (EBIT)	**12.6**	13.6	-7.0%
Operating result (EBIT) margin, %	**7.1%**	7.2%	
Capital expenditure excluding acquisitions	**3.2**	5.1	-37.8%

FINANCIAL PERFORMANCE IN 2016

SBU East's full-year revenue decreased by 6 percent from the comparison period. Exchange rate fluctuations reduced revenue by 8 percent mainly due to the weak Russian ruble. Sales price increases, carried out in Russia at the beginning of 2016 to offset the impact of the weakening ruble, and changes in the sales mix increased SBU East's revenue by 8 percent. Lower sales volumes decreased revenue by 2 percent. Sales volumes in China increased strongly from the comparison period. Sales volumes increased clearly also in Kazakhstan. In Russia, the sales volumes decreased slightly from the comparison period. Divestments decreased revenue by 4 percent. Revenue in Russia decreased to EUR 120.2 (128.4) million.

Full-year adjusted operating profit was at the comparison period's level and relative profitability improved slightly. Profitability was improved by the increases in sales prices and changes in sales mix, increased local production and improved productivity in Russia as well as the favorable development of the Chinese business operations.

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

Tikkurila's financial position and liquidity remained at a good level during the review period.

Cash flow from operations in January–December totaled EUR 42.8 (48.5) million. Cash flow was weakened by lower profitability and changes in net working capital. At the end of the review period, net working capital totaled EUR 89.1 (78.9) million. The growth in net working capital was primarily due to the increase in trade receivables as longer payment times were granted for selected key customers. Also the timing of sales at the end of the year and the changes in exchange rates affected the receivables balance. In addition, finished goods inventories reached a slightly higher level, due to preparations for the deployment of the new enterprise resource planning system in Poland at the turn of the year. The total of non-interest bearing liabilities was on the level of the previous turn of the year. The net cash flow from the investing activities was EUR -20.1 (-15.8) million, when taking into account the acquisitions and divestments. Cash flow after capital expenditure totaled EUR 22.7 (32.6) million at the end of the review period.

Interest-bearing debt amounted to EUR 77.2 (63.0) million at the end of the review period, and net debt was EUR 58.7 (46.2) million. At the end of the review period, cash and cash equivalents amounted to EUR 18.5 (16.8) million, and short-term interest-bearing debt totaled EUR 27.1 (12.8) million, including the company's issued commercial papers for a total nominal amount of EUR 25.0 (10.0) million. Moreover, the Group had long-term interest-bearing debt totaling EUR 50.1 (50.2) million. At the end of December, the Group had a total of EUR 109.4 (111.1) million of unused committed credit facilities or credit limits.

The Group´s net financial expense was 3.9 (9.3) million positive, of which interest expenses totaled EUR -0.3 (-0.9) million and other financing expenses EUR -0.6 (-0.5) million. The average capital-weighted interest rate of interest-bearing debt was 0.8 (1.2) percent. The net profit was positively affected by a total of EUR 4.8 (-7.9) million based on the impact of realized and unrealized exchange rate differences recognized during the review period. The main positive impact was related to the Russian ruble denominated items. At the end of 2014, the Board of Directors decided to change the exchange rate risk management so that the company will not carry out forward exchange agreements as of the beginning of the 2015 financial period or apply other financial instruments to hedge risks; instead, exchange rate risk management will, involve operative measures such as the coordination of currency allocation of incoming and outgoing cash flows.

At the end of December, the equity ratio was 50.9 (51.1) percent, and gearing was 28.1 (23.7) percent.

CAPITAL EXPENDITURE

In 2016, the gross capital expenditure excluding acquisitions amounted to EUR 23.3 (20.9) million. Capital expenditures in the period under review were mainly related to the introduction of new IT systems in different locations of the Group. One of the most important on-going ICT investments is the deployment of enterprise resource planning system (ERP), which started in the Group phase by phase during the first half of 2016. On December 31, 2016, the prepayments and non-current assets under construction related to the ERP totaled EUR 14.8 million in the Group consolidated statement of financial position. The new ERP system was taken into use during 2016 in the Baltic countries, Finland, and Norway, and at the beginning of 2017 in Poland. The system will be in use in almost all Group's operating countries during the first half of 2017.

The Group's depreciation, amortization and impairment losses amounted to EUR 16.7 (17.3) million in 2016. The Group performs impairment tests in accordance with the IAS 36 standard.

SALES AND MARKETING

Tikkurila invests significant amounts of money and resources each year in marketing its products and services and strengthening its brands. Tikkurila continued to actively raise its profile and improve the user experience throughout 2016. Tikkurila Group's sales and marketing expenses, including personnel costs, were EUR 97.5 (92.6) million in 2016, which accounts for 17.0 (15.8) percent of its revenue.

In addition to its two international brands, Tikkurila and Beckers, Tikkurila has numerous local brands, of which the largest are Alcro, Teks, and Vivacolor. The emphasis of Tikkurila's operations is on premium products, but due to the demand structure of certain markets, it also supplies some medium and economy segment products. According to external surveys, Tikkurila Group's strategic brands are either the best known or among the best known paint brands in their respective market areas.

Tikkurila aims to offer the best user experience. Tikkurila develops high-quality, user-friendly and environmentally sustainable solutions, and trains its stakeholders in the durable use of the products. Tikkurila invests in developing solutions that make selecting, buying and selling of paints easier, and supports its customers through every stage of their painting work to ensure successful and durable end results. Tikkurila's range of services includes color design and tinting services, painting advice, as well as expert consultation and training services. The skilled personnel guide the customers by providing them painting advice and help with product and color selection. Through ideas and instructions offered in stores and in digital channels, Tikkurila inspires people to paint, helps them choose the right products, and gives advice on the safe use of the products.

Professional segment resources were, for instance, strengthened during the year, the creation of mutual concepts supporting international brands was intensified, the effectiveness of utilizing digital channels was improved, and a project aiming at improving the customer experience was taken forward. The most significant events of the year included, among other things, the expansion of the shop network by over 100 sales outlets and the launch of an interior decorating application utilizing virtual reality in China; the opening of an online shop in Poland; the introduction of a new-generation, water-borne wood stain and wood oil in Finland; the initiation of Alcro Paint Foundation (Färgfonden), which is concentrated on socially useful painting projects in Sweden; and the launch of the locally produced and renewed Tikkurila Euro series in Russia.

In Sweden, the focus during the year was on strengthening the positioning of brands and increasing the brand preference and willingness to recommend. In Russia, the emphasis was on product launches and renewals of the locally produced products, whereas in Finland we concentrated on enlarging the product offering to support growth. In Poland, the focus was on increasing the awareness of premium brands and developing store displays.

RESEARCH, DEVELOPMENT AND INNOVATION

In 2016, Tikkurila's research and development expenses totaled EUR 11.3 (2015: EUR 11.2 and 2014: EUR 10.7) million or 2.0 (2015: 1.9 and 2014: 1.7) percent of revenue. At the end of 2016, the unit employed 191 (184) people. Tikkurila's largest RDI units are located in Finland, Russia, Poland and Sweden.

Tikkurila's RDI operation is responsible for creating new business opportunities, maintaining and renewing the product range as well as studying and adopting alternative raw materials. RDI operations are guided by customer needs as well as environmental and safety aspects and legislation.

In 2016, the focus of the RDI operations was on product launches, product safety matters, environmental friendliness of products, harmonization of formulas and the raw material portfolio, cost savings as well as identifying potential external partners. Important projects included the increase of local raw material procurement in Russia, the optimization of products intended for various conditions owing to the expansion of export activities, and response to the renewed Swan label (Nordic Ecolabel).

The year's most significant launches include, for instance, the FonteFacade coating system for the fiber cement board industry; Fontefire WF, a fire-retardant coating for wood products; and Valtti Plus Kesto, a water-borne stain intended for wood surfaces which provides excellent weather resistance unprecedented in the series of wall surface wood stain products.

CORPORATE RESPONSIBILITY

For decades, Tikkurila has persistently developed and promoted high-quality, user-friendly surface treatment solutions that are safe for both people and the environment. The guiding principles of our operations are founded on the safety, quality, and durability of our products.

Tikkurila's Corporate Responsibility program "A Colorful Tomorrow" provides Tikkurila with a framework for responsible and sustainable business development. We aim to promote sustainable development and take environmental, financial and social aspects into account in our daily work as well as in our strategic business development. The priorities for our responsibility work are user experience, resources, and people.

Tikkurila reports the progress in its corporate responsibility matters annually. Tikkurila GRI 2016 Corporate Responsibility report describes key matters of responsibility in terms of Tikkurila's operations and outlines the progress in the different areas of corporate responsibility. The report is published in Finnish and English. The 2016 reporting applies the international GRI (Global Reporting Initiative) G4 guidelines.

Sustainable solutions

Customer interest in environmentally sound products that are also safe for health has increased due to the overall increased environmental awareness, changes in consumer habits, and legislative changes concerning the composition and safety of paints. Our customers want to choose products that have minimal environmental and health impacts in production and in use, and that are safe to use. Most of Tikkurila's paints are water-borne. In 2016, the share of water-borne products in production was 73.8 (73.5) percent.

Environmental investments and operating costs

In 2016, Tikkurila invested EUR 0.3 (0.7) million into environmental protection in its units, and environmental operating costs totaled EUR

1.6 (1.7) million. In 2016, the environmental investments reported by the sites included, for instance, measures regarding environmental safety; closing valves and lids for rain water sewers and equipment for leak prevention were acquired. Additionally, the investments included improvements in raw material warehousing, and development of building technology, related to e.g. lightning, more efficient use of water and air quality at work stations. The operating costs include, among other things, waste handling, waste water treatment and analyses as well as certification costs.

PERSONNEL

At the end of 2016, Tikkurila employed 3,033 (2015: 3,100) people in 14 countries. The average number of employees in January-December 2016 was 3,112 (3,193).

Tikkurila Group's number of employees at the end of each quarter is presented below split by SBU, starting from the first quarter of 2015.

Performance-based salaries and compensation paid in 2016 totaled EUR 81.4 (79.8) million.

Occupational health and safety

Tikkurila monitors the safety of the operations using the LTA1 accident frequency rating which indicates the number of accidents that cause absences lasting at least one day per one million working hours. In 2016, Tikkurila's accident frequency rate (LTA) was 2.7 (1.9).

SHARES AND SHAREHOLDERS

At the end of 2016, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of 2016, Tikkurila held 2,461 treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had a total of some 20,000 shareholders on December 31, 2016. A list of the largest shareholders registered in the book-entry account system is regularly updated and is available on Tikkurila's website at www.tikkurilagroup.com/investors/share_information/shareholders.

At the end of December, the closing price of Tikkurila's share was EUR 18.81. In January–December, the volume-weighted average share price was EUR 17.12, the lowest price EUR 14.29, and the highest price EUR 19.76. At the end of December, the market value of Tikkurila Oyj's shares was EUR 829.6 million. During January–December, a total of 11.9 million Tikkurila shares, corresponding to approximately 26.9 percent of the number of shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 203.3 million. Tikkurila's shares are traded also outside of NASDAQ OMX Helsinki, but the company does not have detailed statistics available on this external trading.

	Q1/2015	Q2/2015	Q3/2015	Q4/2015	**Q1/2016**	**Q2/2016**	**Q3/2016**	**Q4/2016**
SBU West	1,626	1,717	1,645	1,630	**1,605**	**1,718**	**1,673**	**1,649**
SBU East	1,558	1,553	1,515	1,441	**1,494**	**1,409**	**1,400**	**1,353**
Group functions	31	30	29	29	**30**	**30**	**30**	**31**
Total	3,215	3,300	3,189	3,100	**3,129**	**3,157**	**3,103**	**3,033**

Tikkurila Board members and their interest parties held altogether 111,228 shares on December 31, 2016, which is about 0.3 percent of the share capital and votes in Tikkurila. Furthermore, Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the President and CEO in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila Management Board members and their interest parties held altogether 102,564 shares on December 31, 2016, which is about 0.2 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at http://www.tikkurilagroup.com/corporate_governance/insiders.

Tikkurila is not aware of any valid shareholders' agreements regarding the ownership of Tikkurila shares and voting rights.

CORPORATE GOVERNANCE STATEMENT

Tikkurila will prepare a separate Corporate Governance Statement which follows the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers some other central areas of corporate governance. The statement will be included in Tikkurila's Annual Review, but it will be published separately from the Board of Directors' Report. The statement will also be available on week 9 at www.tikkurilagroup.com/investors.

DECISIONS OF THE ANNUAL GENERAL MEETING AND THE BOARD OF DIRECTORS

Matters relating to the Annual General Meeting

The Annual General Meeting of Tikkurila Oyj approved on April 6, 2016 the Financial Statements for 2015 and decided to discharge the members of the Board of Directors and the President and CEO from liability. The Annual General Meeting approved a EUR 0.80 dividend per share for the financial year 2015. The rest was retained and carried further in the company's unrestricted equity. The dividend was paid to a shareholder who was registered in the company's shareholder register maintained by Euroclear Finland Ltd on the dividend record date, April 8, 2016. The dividend was paid on April 15, 2016.

The Annual General Meeting decided that the Board of Directors consists of six members. Eeva Ahdekivi, Harri Kerminen, Jari Paasikivi, Riitta Mynttinen, Pia Rudengren and Petteri Walldén were re-elected as members of the Board of Directors until the end of the next Annual General Meeting.

The Annual General Meeting decided that the annual remuneration of the members of the Board of Directors will stay at the current level. The annual remuneration to the members of the Board of Directors will be as follows: EUR 64,000 for the Chairman, EUR 40,000 for the Vice Chairman and the Chairman of the Audit Committee, and EUR 32,000 for other members of the Board of Directors. Approximately 40 percent of the annual remuneration will be paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares will be acquired directly on behalf of the Board members within two weeks from the release of the business review for January 1 - March 31, 2016. Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) will be paid to the members of the Board of Directors as follows: EUR 600 for meetings held in the home state of a member and EUR 1,200 for meetings held outside the home state of a member. If a member participates in a meeting via telephone or video connection the remuneration will be EUR 600. Travel expenses will be paid according to the travel policy of the company.

The Annual General Meeting decided that the Auditor's fees will be paid against an invoice approved by the company. KPMG Oy Ab was re-elected as the company's auditor until the end of the next Annual General Meeting, with APA Toni Aaltonen nominated by KPMG as the principal auditor.

Amendment to section 3 of the Articles of Association and to the tasks for the Nomination Board
The Annual General Meeting decided to remove a statement in the company's Articles of Association on the election of the Chairman and Vice Chairman among the Board members by the Board of Directors. The purpose of the change is to enable the general meeting to elect the Chairman and Vice Chairman. In addition, the tasks of the Nomination Board will be amended so that the task of the Nomination Board will be to prepare and present a proposal for the election of Chairman, Vice Chairman and other members of the Board of Directors as well as for the remuneration of the said Board members. Previously the Nomination Board prepared the proposal concerning the members and remuneration of the Board of Directors.

Authorization to repurchase own shares and to decide on the issuance of shares
The Annual General Meeting authorized the Board of Directors to decide upon the repurchase of a maximum of 4,400,000 company's own shares. The shares may be repurchased to be used for financing or implementing possible mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the company. The repurchase authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2017.

The Annual General Meeting authorized the Board of Directors to decide to transfer company's own shares held by the company or to issue new shares limited to a maximum of 4,400,000 shares. The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or deviating from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares, to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the company. The authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2017.

Decisions by the Board of Directors
In its meeting held on April 6, 2016, the Board of Directors of Tikkurila elected from among its members Jari Paasikivi as Chairman and Petteri Walldén as Vice Chairman of the Board of Directors.

Eeva Ahdekivi was re-elected as Chairman and Riitta Mynttinen and Pia Rudengren as members of the Audit Committee. Jari Paasikivi was re-elected as Chairman and Harri Kerminen and Petteri Walldén as members of the Remuneration Committee.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT
Tikkurila Oyj's distributable equity totaled EUR 161.5 million on December 31, 2016: reserve for invested unrestricted equity totaled EUR 40.0 million and retained earnings totaled EUR 121.5 million. The Board proposes to the Annual General Meeting that a dividend of EUR 0.80 per share will be distributed for the year ended on December 31, 2016, and that the rest be retained in the unrestricted equity. The proposed dividend totals about EUR 35.3 million, which corresponds to approximately 79 percent of the Group's net profit for 2016. It is proposed that the record date for the payment of the dividend will be April 6, 2017, and that the dividend will be paid on April 13, 2017.

ANNUAL GENERAL MEETING 2017
The Annual General Meeting of Tikkurila Oyj will be held at 10:00 a.m. on Tuesday, April 4, 2017 at the Finlandia Hall (address: Mannerheimintie 13, 00100 Helsinki). The report of the Board of Directors and Financial Statements will be available on week 9 at www.tikkurilagroup.com.

NEAR-TERM RISKS AND UNCERTAINTIES
Tikkurila's business operations are affected by various strategic, operational, financial, and accident risks. Tikkurila endeavors to identify and evaluate risks and respond to them as proactively as possible and contain their possible adverse effects. The company anticipates the following to be central risks and uncertainties on the date of publishing Financial Statement Release:

Macroeconomic situation in Russia and its neighboring regions
The decline of Russia's economy flattened out last year, and the economy is anticipated to even rise slightly during the current year. Russia's economy is highly dependent on the development of oil prices. If the price of oil were to decline from the current price level of over USD 50 per barrel, this would lead to a weaker economy and development in the purchasing power of consumers than predicted during the current year, which on its part would weaken demand for Tikkurila products and shift the demand towards lower price category products.

Credit loss risks
The availability of financing has weakened and interest rates are high in the developing markets, resulting in increased credit loss risks. Even though Tikkurila has not experienced considerable credit losses, counterparty risks will increase in the future and may hinder business operations or cause losses, although Tikkurila has a broad customer base.

Exchange rate development
Due to the international nature of Tikkurila's operations, the Group's income statement, balance sheet, and cash flow are subject to currency risks. The most significant currency risks will target the Russian ruble, Swedish krona and Polish zloty, which are the reporting currencies of Tikkurila's largest subsidiaries. Some of the Group's raw material purchases are directly or indirectly priced in US dollars. The dollar strengthened significantly during last year, and if this development continues, it may increase the Group's raw material costs. Furthermore, the company's equity will be subject to currency risks when the subsidiaries' foreign currency-denominated equity items are converted to euro and the euro-denominated consolidated balance sheet assets' values change with the exchange rates.

Risks related to raw materials
Tikkurila is dependent on the ability of its suppliers to deliver the raw materials needed for the production of paints. Pressures for price increase were noted during the latter half of 2016 in certain raw materials important for Tikkurila. Tikkurila believes that the prices for raw materials will continue to rise. It is possible that the Group is unable to transfer the rise in costs to its end product prices completely or without delays. There are significant availability and price development related uncertainties linked with titanium dioxide in 2017. Uncertainties linked with raw materials may have an impact on market share development, general competition situation or product range.

Risks related to the industry and operative activities
In the paint industry, competition has become increasingly fierce and the importance of price is highlighted amidst financial difficulties. For example, some companies in the construction industry or related fields have expanded their product range to paints as well in order to

supplement their total range of services offered to professional customers, whose importance is increasing. In the future, this may impact the structure of Tikkurila's product portfolio and customer base, which in turn will affect profitability, for example.

The overall digitalization of society has accelerated, which may impact Tikkurila's logistics and product distribution channels in the future. It will also increase the opportunities available for end users of paint products to seek and select paint companies across geographical borders. Increased fluctuation in customer demand and better utilization of real-time information may also create needs to make structural changes in production technology and equipment in the future. Understanding customer needs will increase in importance in the future. Strong fluctuations in the business operations and a rapid technological change will pose additional challenges to the availability of skilled personnel and competence development. Securing and diversifying competence is essential for ensuring growth.

Tikkurila's risk management principles can be viewed on Tikkurila's website at www.tikkurilagroup.com. Additional information on the short- and long-term risks of Tikkurila's business operations will be published in the Corporate Governance Statement. More information on financial risks is provided in the Notes to the 2016 Consolidated Financial Statements.

OUTLOOK FOR 2017

Among Tikkurila's key markets in Sweden and Poland, the fairly strong economic growth is expected to continue in 2017. The economies of Finland and Russia are also anticipated to grow slightly. Demand for paint is predicted to moderately increase in Tikkurila's operational area during the current year. The importance of the professional segment is growing, which affects the sales structure of the Tikkurila Group.

Raw material prices are expected to rise, but Tikkurila will aim to compensate for this impact by intensifying its raw material procurement, increasing local purchasing in Russia, and by increasing its sales prices. Furthermore, there are risks related to the availability of titanium dioxide.

GUIDANCE FOR 2017

Tikkurila expects its revenue and adjusted operating profit for the financial year 2017 to increase from the 2016 level.

Group key figures

KEY PERFORMANCE INDICATORS

STATEMENT OF COMPREHENSIVE INCOME AND PROFITABILITY	2016	2015	2014
Revenue, EUR thousand	**571,998**	584,112	618,406
Foreign operations, EUR thousand	**473,880**	485,972	517,090
Operating profit, EUR thousand	**53,110**	61,685	63,703
% of revenue	**9.3**	10.6	10.3
Share of profit or loss of equity-accounted investees, EUR thousand	**333**	398	338
Financial expenses (net), EUR thousand	**-3,938**	9,272	754
% of revenue	**-0.7**	1.6	0.1
Interest cover	**-17.7**	8.5	112.4
Profit before tax, EUR thousand	**57,381**	52,812	63,287
% of revenue	**10.0**	9.0	10.2
Net profit for the period, EUR thousand	**44,465**	41,493	48,272
Return on investment (ROI), %	**24.2**	25.8	32.5
Return on equity (ROE), %	**22.0**	21.4	24.1
Return on capital employed (ROCE), %	**18.5**	22.2	22.9
Research and development expenses, EUR thousand	**11,260**	11,245	10,670
% of revenue	**2.0**	1.9	1.7

CASH FLOWS			
Cash flow from operations, EUR thousand	**42,778**	48,490	75,943
Disposals of businesses, PPE* and intangible assets, EUR thousand	**327**	348	2,056
Capital expenditure, EUR thousand	**21,333**	20,193	30,747
% of revenue	**3.7**	3.5	5.0
Cash flow after capital expenditure, EUR thousand	**22,714**	32,648	49,867
Cash flow return on investment (CFROI), %	**14.0**	16.3	24.4

* Property, plant and equipment

STATEMENT OF FINANCIAL POSITION AND SOLVENCY			
Non-current assets, EUR thousand	**206,784**	192,345	197,250
Shareholders' equity (attributable to the owners of the parent), EUR thousand	**208,591**	194,969	192,658
Shareholders' equity including non-controlling interest, EUR thousand	**208,591**	194,969	192,658
Liabilities, EUR thousand	**201,747**	186,472	197,151
Total assets, EUR thousand	**410,338**	381,441	389,809
Interest-bearing financial liabilities, EUR thousand	**77,204**	62,994	73,135
Interest-bearing net liabilities, EUR thousand	**58,673**	46,206	47,359
Equity ratio, %	**50.9**	51.1	49.5
Gearing %	**28.1**	23.7	24.6
Interest-bearing financial liabilities (net) / EBITDA	**0.8**	0.6	0.6

PERSONNEL			
Personnel (average)	**3,112**	3,193	3,212
of whom in Finland	**560**	607	612

EXCHANGE RATES				
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	**64.3000**	80.6763	72.3370
Swedish Krona	EUR/SEK	**9.5525**	9.1895	9.3930
Polish Zloty	EUR/PLN	**4.4103**	4.2639	4.2732

SHARE PERFORMANCE INDICATORS			
Earnings per share, EUR, basic	**1.01**	0.94	1.10
Earnings per share, EUR, diluted	**1.01**	0.94	1.09
Dividend per share, EUR [1]	**0.80**	0.80	0.80
Dividend payout ratio, % [1]	**79.4**	85.0	73.0
Dividend yield, % [1]	**4.3**	5.0	5.5
Equity attributable to owners of the parent per share, EUR	**4.73**	4.42	4.38

[1] The dividend 2016 is the Board of Directors' proposal to Annual General Meeting to be held on April 4, 2017.

	2016	2015	2014
Weighted average number of shares (1,000)	**44,106**	44,093	44,054
Number of shares at the end of period (1,000)	**44,106**	44,106	44,029
Weighted average number of shares, adjusted for dilutive effect (1,000)	**44,110**	44,106	44,177
Number of shares at the end of period, adjusted for dilutive effect (1,000)	**44,110**	44,109	44,105
Equity attributable to owners of the parent, EUR thousand	**208,591**	194,969	192,658
Price per earnings per share (P/E) ratio	**18.7**	17.1	13.2
Share price, end of period, EUR	**18.81**	16.11	14.49
Share price, year high, EUR	**19.76**	19.50	20.71
Share price, year low, EUR	**14.29**	14.15	13.73
Share price, volume-weighted year average, EUR	**17.12**	16.94	17.66
Market capitalization at the end of period, EUR million	**829.6**	710.5	638.0
Number of shares traded (1,000)	**11,878**	11,432	14,826
%, of weighted average number of shares	**26.9**	25.9	33.7

COMPONENTS FOR ALTERNATIVE KEY FIGURES

Based on the Tikkurila Management decision in financial statement release report are presented some alternative key figures in addition to commonly presented IFRS –performance measure. Benefits considered to be achieved with these are better comparability of financial performance between review periods and possibility to describe more wide-ranged the financial development of businesses.

NET DEBT	2016	2015	2014
Interest-bearing non-current liabilities	**50,091**	50,161	60,346
Interest-bearing current liabilities	**27,113**	12,832	12,789
Interest-bearing liabilities, total	**77,204**	62,994	73,135
Cash and cash equivalents	**18,531**	16,788	25,776
Interest-bearing financial liabilities (net)	**58,673**	46,206	47,359

RETURN ON CAPITAL EMPLOYED (ROCE), %			
Operating result + share of profit or loss of equity-accounted investees [1]	**53,443**	62,083	64,041
Capital employed [2]	**289,103**	279,814	279,724
Return on capital employed (ROCE), %	**18.5%**	22.2%	22.9%

[1] from a rolling 12-month period

[2] 12 months, in average

CAPITAL EMPLOYED 12 MONTHS, IN AVERAGE			
Net working capital			
Inventories	**84,158**	82,904	85,265
Trade and other non-interest-bearing receivables	**140,229**	125,833	127,361
Non-current interest-free liabilities	**-11**	-23	-392
Current interest-free liabilities	**-106,159**	-105,990	-111,740
Net working capital	**118,217**	102,724	100,494
Intangible assets ready for use	**86,297**	89,798	86,449
Property, plant and equipment ready for use	**83,671**	86,289	91,745
Equity-accounted investees	**918**	1,003	1,034
Capital employed 12 months, in average	**289,103**	279,814	279,724

CAPITAL EMPLOYED AT END OF FINANCIAL PERIOD			
New working capital			
Inventories	**80,220**	78,395	73,690
Trade and other non-interest-bearing receivables	**100,062**	89,698	85,070
Non-current interest-free liabilities	**-17**	0	-38
Current interest-free liabilities	**-91,151**	-89,169	-85,615
Net working capital	**89,114**	78,924	73,108
Intangible assets ready for use	**86,299**	86,924	90,523
Property, plant and equipment ready for use	**84,921**	86,110	86,681
Equity-accounted investees	**703**	816	812
Capital employed at end of financial period	**261,037**	252,774	251,124

Definitions of key figures

OPERATING PROFIT (EBIT)
Operating profit is the net amount that comprises of the revenue added with other operating income and deducted by purchase cost adjusted with change in inventories of finished goods and work in progress, personnel expenses, depreciation, amortization and possible impairment losses and other operating expenses.

ITEMS AFFECTING COMPARABILITY
Items affecting comparability are items related to insurance compensations, penalties, items related to business reorganizations, the strategic based changes in organization structure, impairments of non-current assets and gains or losses on disposal of assets.

ADJUSTED OPERATING PROFIT
Operating profit (EBIT) - items affecting comparability

ADJUSTED NET PROFIT
Net profit for the period - items affecting comparability, net of tax

EBITDA
Operating profit + depreciation, amortization and impairment losses

OPERATING PROFIT (LOSS), %

$$\frac{\text{Operating profit (loss)}}{\text{Revenue}} \times 100$$

INTEREST-BEARING NET LIABILITIES

Interest-bearing liabilities - cash and cash equivalents

INTEREST COVER

$$\frac{\text{Operating profit + depreciation, amortization and impairment losses}}{\text{Financial expenses (net)}}$$

GEARING, %

$$\frac{\text{Interest-bearing financial liabilities (net)}}{\text{Total equity}} \times 100$$

INTEREST-BEARING FINANCIAL LIABILITIES (NET) / EBITDA

$$\frac{\text{Interest-bearing financial liabilities (net)}}{\text{Operating profit + depreciation, amortization and impairment losses}}$$

EQUITY RATIO, %

$$\frac{\text{Total equity}}{\text{Total assets - advances received}} \times 100$$

Advances received - see note 29

CASH FLOW RETURN ON INVESTMENT (CFROI), %

$$\frac{\text{Cash flow from operations}}{\text{(Total assets - non-interest-bearing liabilities) *}} \times 100$$

RETURN ON INVESTMENT (ROI), %

$$\frac{\text{(Profit before tax + interest and other financial expenses)}}{\text{(Total equity + interest-bearing liabilities) *}} \times 100$$

RETURN ON EQUITY (ROE), %

$$\frac{\text{Net profit for the period}}{\text{Total equity*}} \times 100$$

* Average of January 1, and end of the year
** Average during the period

RETURN ON CAPITAL EMPLOYED (ROCE), %

$$\frac{\text{Operating result + share of profit or loss of equity-accounted investees}}{\text{(Net working capital + intangible assets ready for use + property, plant and equipment ready for use + equity-accounted investees) **}} \times 100$$

NET WORKING CAPITAL

Inventories + interest-free receivables, excluding current tax assets, accrued interest income and other prepaid financial items - interest-free liabilities, excluding current tax liabilities, accrued interest expenses and other accrued financial items

DIVIDEND YIELD

$$\frac{\text{Dividend per share}}{\text{Share price at end of the period}} \times 100$$

PRICE / EARNINGS RATIO (P/E)

$$\frac{\text{Share price at the end of period}}{\text{Earnings per share (EPS)}}$$

EQUITY PER SHARE

$$\frac{\text{Equity attributable to the owners of the parent at the end of the reporting period}}{\text{Number of shares at the end of the reporting period}}$$

EARNINGS PER SHARE (EPS), BASIC

$$\frac{\text{Net profit of the period attributable to the owners of the parent}}{\text{Shares on average}}$$

EARNINGS PER SHARE (EPS), DILUTED

$$\frac{\text{Net profit of the period attributable to the owners of the parent}}{\text{Weighted average number of shares, adjusted for dilutive effect}}$$

DIVIDEND PAYOUT RATIO

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

SHARE PRICE, VOLUME-WEIGHTED YEAR AVERAGE

$$\frac{\text{EUR amount traded during the period}}{\text{Number of shares traded during the period}}$$

MARKET CAPITALIZATION AT THE END OF PERIOD

Number of shares at the end of period x share price, end of period

SHARE TURNOVER, %

$$\frac{\text{Number of shares traded during the period}}{\text{Weighted average number of shares}} \times 100$$

NUMBER OF SHARES AT THE END OF PERIOD

Number of shares issued - treasury shares

Consolidated statement of comprehensive income (IFRS)

EUR thousand	Note	**Jan 1 - Dec 31, 2016**	Jan 1 - Dec 31, 2015
Revenue		**571,998**	584,112
Other operating income	7	**2,506**	4,752
Change in inventories of finished goods and work in progress		**1,778**	2,247
Materials and services		**-279,503**	-289,053
Personnel expenses	8	**-105,793**	-104,599
Depreciation, amortization and impairment losses	9	**-16,675**	-17,332
Other operating expenses	10	**-121,201**	-118,442
Operating profit		**53,110**	61,685
Financial income	12	**12,253**	5,425
Financial expenses	12	**-8,315**	-14,696
Share of profit or loss of equity-accounted investees	18	**333**	398
Profit before tax		**57,381**	52,812
Income tax	13	**-12,916**	-11,319
Net profit for the period		**44,465**	41,493
Other comprehensive income	26		
Items that will not be reclassified to profit or loss			
Remeasurements on defined benefit plans		**-448**	291
Income taxes relating to items that will not be reclassified to profit or loss		**-8**	-86
Total items that will not be reclassified to profit or loss		**-456**	205
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets		**-**	-2,350
Foreign currency translation differences for foreign operations		**5,158**	-2,111
Income taxes relating to items that may be reclassified subsequently to profit or loss		**-159**	438
Total items that may be reclassified subsequently to profit or loss		**4,999**	-4,023
Total comprehensive income for the period		**49,008**	37,675
Net profit attributable to:			
Owners of the parent		**44,465**	41,493
Non-controlling interest		**-**	-
Net profit for the period		**44,465**	41,493
Total comprehensive income attributable to:			
Owners of the parent		**49,008**	37,675
Non-controlling interest		**-**	-
Total comprehensive income for the period		**49,008**	37,675
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	14	**1.01**	0.94
Diluted earnings per share (EUR)	14	**1.01**	0.94

Consolidated statement of financial position (IFRS)

ASSETS

EUR thousand	Note	**Dec 31, 2016**	Dec 31, 2015
Non-current assets			
Goodwill	16, 17	**72,303**	71,925
Other intangible assets	16	**30,655**	19,395
Property, plant and equipment	15	**87,531**	89,397
Equity-accounted investees	18	**703**	816
Available-for-sale financial assets	20	**822**	1,095
Non-current receivables	21	**7,340**	2,924
Defined benefit pension and other long-term employee benefit assets	30	**133**	52
Deferred tax assets	25	**7,297**	6,741
Total non-current assets		**206,784**	192,345
Current assets			
Inventories	19	**80,220**	78,395
Interest-bearing current assets	22	**915**	610
Trade and other non-interest-bearing receivables	23	**98,827**	88,299
Current tax assets		**4,879**	5,004
Cash and cash equivalents	24	**18,531**	16,788
Non-current assets held for sale	6	**182**	-
Total current assets		**203,554**	189,096
Total assets		**410,338**	381,441

EQUITY AND LIABILITIES

EUR thousand	Note	**Dec 31, 2016**	Dec 31, 2015
Equity			
Share capital	26	**35,000**	35,000
Other reserves	26	**42**	42
Fair value reserve	26	**-**	-
Reserve for invested unrestricted equity	26	**40,000**	40,000
Treasury shares	26	**-42**	-42
Translation differences	26	**-36,757**	-41,756
Retained earnings		**170,348**	161,725
Equity attributable to owners of the parent		**208,591**	194,969
Non-controlling interest		**-**	-
Total equity		**208,591**	194,969
Non-current liabilities			
Interest-bearing non-current liabilities	27	**50,091**	50,161
Other non-current liabilities	29	**19**	103
Defined benefit pension and other long-term employee benefit liabilities	30	**25,504**	25,581
Provisions	31	**546**	581
Deferred tax liabilities	25	**6,245**	6,940
Total non-current liabilities		**82,405**	83,366
Current liabilities			
Interest-bearing current liabilities	28	**27,113**	12,832
Trade and other non-interest-bearing payables	29	**91,263**	89,172
Provisions	31	**278**	536
Current tax liabilities		**688**	566
Liabilities classified as held for sale	6	**-**	-
Total current liabilities		**119,342**	103,106
Total equity and liabilities		**410,338**	381,441

Consolidated statement of cash flows (IFRS)

CASH FLOW FROM OPERATING ACTIVITIES

EUR thousand	Note	**Jan 1 - Dec 31, 2016**	Jan 1 - Dec 31, 2015
Net profit for the period		**44,465**	41,493
Adjustments for:			
Non-cash transactions			
Depreciation, amortization and impairment		**16,675**	17,332
Employee pension benefits		**285**	-1,742
Change in provisions		**-293**	229
Gain on sale of PPE* and intangible assets		**-413**	-2,568
Loss on sale of PPE* and intangible assets		**517**	80
Other items		**4,216**	2,521
Dividend income		**-3**	-96
Interest expenses and other financial expenses		**1,537**	2,226
Interest income and other financial income		**-660**	-760
Share of profit or loss of equity-accounted investees		**-333**	-398
Exchange rate differences of financing		**-4,812**	7,902
Income tax for the period		**12,916**	11,319
Funds from operations before change in net working capital		**74,097**	77,538
Change in net working capital			
Change in inventories		**-4,842**	-8,464
Change in trade and other receivables		**-10,324**	-6,691
Change in trade and other payables		**-281**	4,411
Change in net working capital		**-15,447**	-10,744
Interest and other financial expenses paid		**-2,013**	-7,211
Interest and other financial income received		**272**	360
Income tax paid		**-14,131**	-11,453
Total cash flow from operations		**42,778**	48,490
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses, net of cash acquired	5	**-**	208
Acquisition of property, plant and equipment		**-8,408**	-15,513
Acquisition of intangible assets		**-12,925**	-4,888
Disposal of subsidiaries, net of cash disposed of	5	**-525**	50
Proceeds from sale of available-for-sale financial assets		**238**	2,490
Proceeds from sale of property, plant and equipment		**851**	298
Proceeds from sale of intangible assets		**1**	-
Repayments of loan receivables (+)		**308**	1,003
Dividends received		**396**	510
Net cash used in investing activities		**-20,064**	-15,842
Cash flow before financing		**22,714**	32,648

* Property, plant and equipment

CASH FLOW FROM FINANCING ACTIVITIES

EUR thousand	Note	**Jan 1 - Dec 31, 2016**	Jan 1 - Dec 31, 2015
Proceeds from non-current borrowings (+)		**-**	50,000
Repayments of non-current borrowings (-)		**-**	-60,000
Current financing, increase (+)		**196,239**	137,198
Current financing, decrease (-)		**-181,746**	-136,336
Payment of finance lease liabilities (-)		**-384**	-530
Dividends paid		**-35,285**	-35,285
Acquisition of own shares		**-**	-43
Other		**238**	3,452
Net cash used in financing activities		**-20,938**	-41,544
Net change in cash and cash equivalents		**1,776**	-8,896
Cash and cash equivalents at Jan 1	24	**16,788**	25,776
Effect of exchange rate fluctuations on cash held		**33**	92
Cash and cash equivalents at Dec 31	24	**18,531**	16,788
Net change in cash and cash equivalents		**1,776**	-8,896

* Reconciliation of cash and cash equivalents is disclosed in Note 24 Cash and cash equivalents.

Consolidated statement of changes in equity

EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

EUR thousand	Note	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestricted equity	Treasury shares	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity at Jan 1, 2015		35,000	42	1,880	40,000	-1,606	-39,613	156,955	192,658	-	192,658
Total comprehensive income for the period	26	-	-	-1,880	-	-	-2,143	41,698	37,675	-	37,675
Adjustment arising from hyperinflation		-	-	-	-	-	-	-293	-293	-	-293
Share-based compensation		-	-	-	-	1,607	-	-1,350	257	-	257
Acquisition of treasury shares		-	-	-	-	-43	-	-	-43	-	-43
Dividends paid		-	-	-	-	-	-	-35,285	-35,285	-	-35,285
Equity at Dec 31, 2015		35,000	42	-	40,000	-42	-41,756	161,725	194,969	-	194,969
Equity at Jan 1, 2016		**35,000**	**42**	**-**	**40,000**	**-42**	**-41,756**	**161,725**	**194,969**	**-**	**194,969**
Total comprehensive income for the period	26	**-**	**-**	**-**	**-**	**-**	**4,999**	**44,009**	**49,008**	**-**	**49,008**
Share-based compensation		**-**	**-**	**-**	**-**	**-**	**-**	**-102**	**-102**	**-**	**-102**
Acquisition of treasury shares		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends paid		**-**	**-**	**-**	**-**	**-**	**-**	**-35,285**	**-35,285**	**-**	**-35,285**
Equity at Dec 31, 2016		**35,000**	**42**	**-**	**40,000**	**-42**	**-36,757**	**170,348**	**208,591**	**-**	**208,591**

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)

EUR thousand	**2016**	2015
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**82,539**	76,588
Net profit for the period	**38,984**	41,236
Total	**161,523**	157,824

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION

Tikkurila Oyj is a Finnish public limited company domiciled in Vantaa and the registered address is Kuninkaalantie 1, FI-01300 Vantaa, Finland. Tikkurila Oyj is the parent company of Tikkurila Group. Tikkurila's share is listed on NASDAQ OMX Helsinki since March 26, 2010.

Tikkurila provides consumers and professionals with user-friendly and sustainable solutions for surface protection and decoration. Tikkurila is a strong regional company, whose aim is to be the leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area and Russia. Tikkurila Group has organized its business operations into two strategic business units defined geographically: SBU West and SBU East. In the 2016 financial year, Tikkurila Group's revenue amounted to EUR 572.0 million and the average number of personnel was 3,112. The Group operates in 14 countries and has production facilities in 9 countries.

The Board of Directors of Tikkurila Oyj has approved the financial statements for publication at its meeting of February 8, 2017. In accordance with the Finnish Limited Liability Companies Act, the shareholders can approve or reject the financial statements or make a decision on altering the financial statements in the Annual General Meeting arranged after its publication. A copy of the consolidated financial statements is available from the company's headquarters at Kuninkaalantie 1, 01300 Vantaa and at www.tikkurilagroup.com.

BASIS OF PREPARATION

Tikkurila Oyj's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as with the related SIC and IFRIC Interpretations, in force as at December 31, 2016. International Financial Reporting Standards are standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also comply with the Finnish Accounting Act and Ordinance and the Finnish Limited Liability Companies Act. Tikkurila Oyj prepared its first IFRS accordant financial statements for the financial year 2008.

The consolidated financial statements are prepared under the historical cost convention except for the financial liabilities and assets recognized at fair value through profit or loss, available-for-sale financial assets and assets and liabilities classified as held for sale in accordance with IFRS 5 at the closing date. In addition, the Group has applied in accordance with IAS 29, the index adjusted historical cost less accumulated depreciations of non-monetary items reported by its subsidiary in Belarus. These were adjusted by the change in general price index from the date of acquisition until the year-end 2015. The Group has sold its Belarussian subsidiary in financial year 2016.

The functional and presentation currency of the parent company, Tikkurila Oyj, is euro, which is also the presentation currency of the consolidated financial statements. All financial information presented in euros has been rounded to the nearest thousands, except when otherwise indicated. Due to rounding differences, the figures in the tables do not necessarily match the total of the table when added up. The financial year of the parent and subsidiaries is the calendar year ending December 31.

Tikkurila Group has applied the following new and revised standards and interpretations since January 1, 2016, which affect the reported data or data that will be reported in the future:

- Annual Improvements to IFRSs 2012-2014, September 2014 (effective for financial years beginning on or after January 1, 2016). The annual improvements include amendments to four standards. This did not have any material impact on the Group's forthcoming financial statements.

- Amendments to IAS 27 Equity Method in Separate Financial Statements (effective for financial years beginning on or after January 1, 2016). The amendments allow to use the equity method for accounting of subsidiaries, joint ventures and associates in separate financial statements prepared according the IFRS. This did not have any impact on the Group's financial statements.

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants (effective for financial years beginning on or after January 1, 2016). The bearer plants are to be accounted in accordance with IAS 16 and thus can be measured using either the cost model or the revaluation model, instead of measuring them at fair value. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41 e.g. measured at fair value less costs to sell. This did not have any impact on the Group's financial statements.

- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (effective for financial years beginning on or after January 1, 2016). The amendments to IAS 16 prohibit companies from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce presumption that revenue-based method of amortization is inappropriate. However, with the exception the revenue may be basis for amortization if the revenue and the consumption of the economic benefits of the intangible assets are highly correlated. This did not have any impact on the Group's financial statements.

- Amendments to IFRS 11 Joint Arrangements-Accounting for Acquisition of Interests in Joint Operations (effective for financial years beginning on or after January 1, 2016). The amendments require business combination accounting to be applied to acquisition of interest in joint operations that constitutes a business. This did not not have any impact on Group's financial statements.

- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (effective for financial years beginning on or after January 1, 2016). Amendments aim to improve the guidance for presentation and disclosure requirements. It is stated that materiality is to be considered when assessing the disclosure requirements and subtotals in statements. Presentation of items of other comprehensive income arising from equity-accounted investments e.g. associates and joint ventures should be presented in aggregate as single line items based on whether or not items will be subsequently reclassified to profit or loss. This amendment did not have material impact on Group's financial statements.

Preparation of the consolidated financial statements in accordance with IFRS standards requires the Group management to use estimates and assumptions. These affect the amount of assets and liabilities at the time the consolidated statement of financial position is prepared, the amount of revenues and expenses for the reporting period and the amount of contingent assets and liabilities. It is possible that the actual figures differ from the estimates used in the financial statements.

In addition, the Group management uses its judgment in applying the accounting principles for the consolidated financial statements and in choosing the applicable accounting policies, if IFRS allow alternative methods.

The critical accounting estimates and judgments are described in more detail in Note 2 to the consolidated financial statements.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the parent company, Tikkurila Oyj and all subsidiaries which are controlled by the Group. The goodwill of business combinations, that have taken place prior to 2003, corresponds with the book value of the accounting standards previously adopted by the Group. On the closing date, December 31, 2016, the Group consisted of 18 companies including the parent company and the Group had investment in one joint venture. The Group had not any ownership in associates in financial years 2016 or 2015.

Subsidiaries

The consolidated financial statements include the parent and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The power comprises the rights to direct the relevant activities. Companies acquired or established during the accounting period are fully consolidated from when the Group has gained control over the company until the date that such control ceases. The Group's subsidiaries are disclosed in Note 39.

All intra-group transactions, receivables, liabilities and unrealized gains and intra-group profit distribution between Group companies are eliminated. Unrealized losses are not eliminated when the loss is due to impairment.

The acquisition method is used to eliminate intra-Group shareholdings. The consideration transferred in business combination and the identifiable assets and liabilities of the acquired company are valued at fair value at the time of the acquisition. All acquisition related costs are immediately recognized as expense. If the costs related to the acquisition include costs from issuing debt instruments or equity securities these are treated in accordance with the requirements of IAS 32 and IAS 39. Any possible additional purchase price (contingent consideration) is valued at fair value at the time of acquisition and is classified either as liability or equity. Contingent consideration classified as liability is valued at fair value at the end of each reporting period and the loss or profit generated from it, is recognized through profit or loss.

Non-controlling interests in business combination are valued either at fair value or at the amount that corresponds with the non-controlling interest's proportionate share of the identifiable net assets of the acquired business. The choice of valuation principle to be adopted is made separately for each acquisition.

In business combinations carried out in stages, the previously held equity interest is valued at fair value and the resulting gain or loss is recognized through profit or loss.

The profit or loss and the total comprehensive income for that period attributable to the owners of the parent company and non-controlling interest are presented in the statement of comprehensive income. The portion of equity attributable to non-controlling interest is stated as an individual item under equity in the statement of financial position. Total comprehensive income is attributable to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interests having a negative balance.

Changes in the holding of Group subsidiaries that do not result in loss of control are accounted for as equity transactions. If the Group loses control in the subsidiary, the remaining investment is valued at fair value on the day the control is lost and the difference is recognized through profit or loss.

Associates

Associates are companies over which the Group exercises significant influence but not control, generally accompanying a shareholding of between 20-50 percent of the voting rights. Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and thereafter adjusted for the post-acquisition change in the Group's share of the company's net assets. The goodwill generated from the acquisition of associates is included in the carrying amount of the investments.

The Group's share of associates' profits or losses is recognized in proportion to the Group's holdings and is presented in the statement of comprehensive income in line "Share of profit or loss of equity-accounted investees", after operating profit and financial items. The Group's share of changes of associates' other comprehensive income items is recognized in Group's other comprehensive income. If the Group's share of losses in an associate would exceed its interest in the associate, the Group would not recognize further losses, unless it has committed to settle the obligations on behalf of the associate. Tikkurila did not have any investments in associates in financial year 2016 nor in year 2015.

Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control is contractually agreed sharing of control according to which the decisions about the relevant activities require the unanimous consent of the parties sharing contol. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each party. A joint venture is an arrangement in which the Group has rights to the net assets of the arrangement instead in joint operation the Group has rights to its assets and obligations for its liabilities. The Group is involved in one joint arrangement, which the Group has classified as a joint venture. While assessing the classification, the Group considered the structure of the arrangement, the legal form, the terms agreed by parties and other facts and circumstances.

Joint ventures

A joint venture is an arrangement where the Group has joint control with other parties and whereby parties have rights to the net assets of the arrangement. Joint ventures are accounted for using equity method. The Group's interest in joint venture, Alcro Parti AB, is initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses. The Group's share of profit or loss of joint venture is recognized in statement of consolidated comprehensive income line "Share of profit or loss of equity-accounted investees". The carrying amount of investment in joint venture is also adjusted with the Group's share of changes in joint venture's other comprehensive income. These items comprise remeasurements on defined benefit plans. No goodwill is included in this investment of joint venture.

TRANSLATION OF FOREIGN CURRENCY ITEMS

Items included in the financial statements of the Group's subsidiaries are measured in the currency of the financial environment in which each subsidiary primarily operates (functional currency). The Group's consolidated financial statements are presented in euro, which is the parent company's functional currency.

Foreign currency transactions

In their day-to-day accounting, Group companies translate foreign currency transactions into their functional currency at the exchange rates quoted on the transaction date. In preparation of financial statements monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Certain intra-group loan agreements are treated as part of the net investments because remittance has not been planned to carry out and it is not likely in the foreseeable future to receive remittance on them. Exchange rate differences related to such agreements are recognized in other comprehensive income and accumulated exchange rate differences are presented under equity in translation difference, net of tax, until the foreign subsidiary is disposed in full or part.

Exchange rate differences resulting from transactions denominated in foreign currencies and from the translation of monetary items are recognized in profit or loss. Exchange rate differences arising from operation-related items are accounted for as adjustments to sales and purchases. Foreign exchange gains and losses arising from financial items are included in financial income and expenses. Until the year-end 2014, the Group made currency forwards to hedge financing transactions and the Group's overall foreign currency position, foreign exchange rate differences associated with these are stated as well under financial income and expenses. The Group does not apply hedge accounting to manage risks related to financing transactions.

Translation of financial statements of foreign subsidiaries

In preparation of the consolidated financial statements the income and expenses as well as cash flow items of the foreign entities are translated to euro using average exchange rates for the period. Their statements of financial position are translated using the exchange rates at the end of the reporting period (closing rate). Resulting exchange differences are recognized in other comprehensive income and are included in equity in accumulated translation differences.

The exchange rate differences accumulated in equity are transferred to profit or loss as a reclassification adjustment as part of the gain or loss on disposal when the foreign entity is disposed of, totally or in part.

The fair value allocations made to the carrying amounts of the assets and liabilities of the acquired foreign entities and goodwill arising on these acquisitions are treated as assets and liabilities of the foreign entities and are translated into euros at the closing rate.

INDEX ACCOUNTING

Belarus was classified as a hyperinflationary economy since December 2011 until July 2015. In accordance with standard IAS 29 Financial Reporting in Hyperinflationary Economies, the 2015 financial statement of the Group's subsidiary located in Belarus, IP Tikkurila, was restated. IP Tikkurila's financial statements were restated by using the general price index published by the national statistic committee of Republic Belarus. Conversion factor used for 2015 was 1.11. In June 2016 Tikkurila sold its ownership in Belarussian subsidiary.

The components of the owners' equity, excluding retained earnings, were restated by applying a general price index from the dates the components were contributed or otherwise arisen. Non-monetary items were restated. This restated cost or cost less depreciations was determined by adjusting its historical cost and accumulated depreciation with the change in a general price index from the date of acquisition to the end of reporting period.

In 2015 financial statements the monetary items were not restated with index, as they were translated into euro by using the exchange rate of Belarus ruble at the end of the reporting period. Other non-monetary items in the statement of financial position were restated with the index. The index conversion factor used to items of statement of comprehensive income in year 2015 was the index value at the end of the financial year divided by the average of the monthly indexes during the year. As a result of index restated effect on net monetary position, the gain or loss is recognized in financial items.

REVENUE RECOGNITION

Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership of the goods and control have been transferred to the buyer. In general, revenue is recognized at the time of delivery of the goods in compliance with the contract terms. The Group has as well consignment stock arrangements with some selected distributors in SBU East. In these cases the revenue is recognized as goods are taken out of the stock, distributor sells goods to its customer. Revenue from the services rendered is recognized in the period when the service has been performed. There are no such long-term projects in the Group for which the revenue would be recognized using the percentage-of-completion (POC) method.

Tikkurila's revenue mainly consists of selling different types of paints, coatings and fillers to retailers, industry and professional use. Revenue is also in a small extent generated from selling paint related services and equipment. The Group has own paint shops located in Sweden, Norway and Denmark, which primary customers consist on professionals.

Revenue includes the total invoicing value of products sold and services rendered less, as adjusting items, sales tax, discounts, rebates and foreign exchange differences arising from trade receivables.

Rent income is recognized in profit or loss in a straight-line method for the leasing period.

Tikkurila's paint production and marketing are based on extensive utilization of tinting. Tikkurila delivers the tinting machines needed for this to the retailers. Retailers often either lease or buy the machines from Tikkurila. The income from the sold tinting machines is recognized in revenue. The rent income from leased tinting machines, which agreements have been classified as operating leases, is included in revenue and is recognized in a straight-line method for the leasing period.

Dividends are recognized as income when the right to dividends has developed. The Group does not have considerable dividend income.

PENSION OBLIGATIONS

The Group has various pension plans in accordance with the local conditions and practices of the countries in which it operates. Pension plans are funded through contributions to insurance companies.

Pension plans are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the employees the benefits in question. All other plans not meeting the above criteria are classified as defined benefit plans. Contributions made to defined contribution pension plans are recognized in profit or loss in the periods during which services are rendered by employees.

In the Group, obligations under defined benefit plans are calculated separately for each plan. The amount recognized in the statement of financial position is the present value of the defined benefit obligation at the end of reporting period less the fair value of plan assets. Pension benefits are determined by using the Projected Unit Credit Method and resulting pension costs are recognized as expenses over the employee's service period, using actuarial calculations prepared annually by qualified actuaries. The rate used to discount the present value of post-employment benefit obligations is determined by reference to market yields on high quality corporate bonds or government bonds that have maturity dates approximating to the terms of the obligations and that are denominated in the currency in which the benefits will be paid.

Current service cost and net interest on the net defined benefit liability (asset) are recognized in profit or loss and presented in personnel expenses. Remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income in the period in which they arise. Remeasurements comprise actuarial gains and losses, the return on plan assets, excluding amounts included in net interest, and the effect of the asset ceiling, excluding amounts included in net interest. Those shall not be reclassified to profit or loss in subsequent periods.

If the plan is amended or curtailed, resulting past service cost is recognized in profit or loss at the earlier of the following dates: when the plan amendment or curtailment occurs or when the related restructuring costs or termination benefits are recognized.

OTHER LONG-TERM EMPLOYEE BENEFITS

Group's obligation related to long-service benefit plan is defined annually by applying the same method as used in calculation of defined benefit pension obligations. The service cost, net interest on net defined benefit liability and remeasurements of the net defined benefit liability are recognized in personnel expenses in profit or loss.

SHARE-BASED PAYMENTS

Based on the decisions of the Annual General Meetings, altogether 40% of the annual fixed remuneration of the members of the Board of Directors has been paid in Tikkurila Oyj shares. These shares granted for the Board members are recognized as an expense in the consolidated income statement based on the fair value of the shares at the time of the purchase of those shares.

Tikkurila Oyj's Board of Directors decided in February 2012 to establish a share-based commitment and incentive plan, in which had total of nine participants at the end of financial year 2016.

Plan includes three performance periods. The Board of Directors of Tikkurila Oyj will decide on the performance criteria of the plan and their targets at the beginning of each performance period. One precondition of the plan is that each participant acquires a certain amount of Tikkurila Oyj shares from the market at his/her own money and own risk.

The Board of Directors of Tikkurila Oyj approved in April 2016 a new share-based incentive plan for the Group key employees. The new plan consists of a Performance Share Plan 2015-2019 and a Matching Share Plan 2016-2018.

The Performance Share Plan includes three performance periods, calendar years 2015-2017, 2016-2018 and 2017-2019. Approximately 10 key employees, including the members of the Management Board, belong to the target group of the performance periods 2015-2017 and 2016-2018.

The Matching Share Plan includes one vesting period, calendar years 2016-2018. The prerequisite for receiving reward on the basis of this plan is that a person participating in the plan acquires the Company's shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of participant's employment or service upon reward payment.

A combination of shares and cash will be used for the remuneration, and the shares can be either acquired from the market or alternatively, the company can use any treasury shares it holds. The total amount of the remuneration is based on estimates of the future financial performance of the Group, and therefore, the estimated total remuneration will be updated when the forecasts will change. Moreover, the cash-settled portion will be revalued at the end of each review period to reflect the share price at that date. The valuation of the share-settled portion is based on the share price, adjusted for estimated future dividends, at the time of the acquisition of the shares each participant has made to become eligible for the plan. When estimating the deferred taxes in relation to the share-based plan, the main principle has been to take the impact of the cash-settled portion into account immediately with applying the current Finnish corporate income tax rate, whereas the potential deferred tax impact of the share-settled portion has not been recognized at the initial stage. The estimated total expense of this plan is booked as equal instalments over the period from the time of purchase of the shares of each participant until the estimate time of paying the remuneration.

A 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 the payment dates defined in the terms and conditions of the plan and subject to that he/she still owns the shares originally purchased at the time of reward payment.

More information about share-based incentive plan is disclosed in Note 37 to the consolidated financial statements.

During 2014 Tikkurila Oyj's subsidiary Tikkurila Sverige AB made an acquisition, in conjunction with which two key employees of the acquired entity were granted call options to acquire a maximum of 9% of the acquired company's all shares. For this arrangement IFRS2 standard (Share-based Payments) has been applied so that the granted call options have been value based on Black & Scholes formula. The calculated total value of the options is expensed from the grant date until the first possible exercise date as equal installments. There is no option outstanding at the year-end as options were settled in cash in September 2016.

More details of this option arrangement are found in Note 37.

CURRENT TAXES AND DEFERRED TAXES

The Group's tax expense comprises current tax of the Group companies calculated on the taxable profit for the period determined in accordance with the local tax rules, adjustments for the prior years' current tax and the change in deferred taxes. For transactions and other events recognized in profit or loss, any related tax effects are also recognized in profit or loss. For transactions and other events recognized outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognized either in other comprehensive income or directly in equity, respectively. The current tax charge in separate countries is calculated on the basis of the tax rate enacted at the reporting period.

Deferred tax assets and deferred tax liabilities are provided in the consolidated financial statements for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred taxes are neither accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction affects neither accounting result nor taxable profit or loss. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which temporary differences can be utilized. The tax rates in force on the date of the preparation of the financial statements, or adopted by the statement of the financial position date for the following financial year (substantively enacted by the end of the reporting period), are used in calculating deferred tax assets and liabilities. Deferred taxes have been recognized for undistributed earnings of foreign subsidiaries only if such distribution is probable within foreseeable future causing tax implications.

The most significant temporary differences arise from depreciations and amortizations of property, plant and equipment and intangible assets, defined benefit pension plans and from measuring the net assets at fair value in business combinations.

INTANGIBLE ASSETS

Goodwill

The goodwill generated in business combinations carried out after January 1, 2010, is recognized at the amount with which the consideration transferred, the share of non-controlling interest of the acquired entity and the previously purchased share combined exceed the fair value of the Group's share of acquired net assets.

Acquisitions carried out between January 1, 2003 and December 31, 2009 have been accounted for in accordance with previously effective IFRS 3 Business Combination -standard. In this case the difference between the cost of an acquisition over the fair value of the net assets acquired, calculated in proportion to the Group's holdings, determined at the date of acquisition is partly allocated to the identifiable assets and liabilities. Resulting excess is recorded as goodwill.

The acquisitions occurred prior to January 1, 2003 have been accounted for in accordance with regulations valid at the time. Goodwill that has been generated from acquisitions prior to January 1, 2003 has been recognized in the financial statements using the exchange rate at the time of the acquisition.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment at least annually. The test is carried out more frequently if there are indications of impairment of goodwill. Possible impairment losses are immediately recognized through profit or loss. For the testing purpose goodwill has been allocated to cash-generating units or, in case of an associate, the goodwill is included in the carrying amount of the associate in question. Tikkurila's cash-generating units (CGU) are Area East, Area Scandinavia, Area Finland, Area Central Europe ja Area South-East Europe.

Research and development costs
Tikkurila's research and development is considerably steered by environmental and safety aspects. A majority of research and development is connected with replacing solvent-borne paints with water-borne or low-solvent products. In addition, research and development is directed at new possible raw materials in paint production and researching of new and existing product formulas and product recipes. Research costs are recognized through profit or loss.

The Group's development costs fulfilling the capitalization criteria will be capitalized. There have not been such development costs during the financial year 2016 nor 2015. Development costs previously recognized as an expense are not capitalized in a subsequent period.

If the capitalization criteria are fulfilled, development costs are presented in other intangible assets and are to be amortized on a straight-line basis over their useful life of a maximum of eight years.

Salary costs and other directly attributable costs of the Group's employees working on the development of Enterprise resource planning system have been capitalized as part of the software cost in financial year 2016 and 2015.

Other intangible assets
An intangible asset is initially capitalized in the statement of financial position at cost if the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Tikkurila's other intangible assets comprise, among others, software as well as brands, product names, marketing channels and customer relationships acquired through business combinations.

Intangible assets separated from goodwill, recognized in connection with acquisitions are recognized at fair value at the time of the acquisition.

Other intangible assets that have finite useful lives are carried at historical cost less accumulated amortization and accumulated impairment losses. They are amortized on a straight-line basis over their known or estimated useful lives. The amortization periods generally applied by the Group are:

• Brands	10 - 20 years
• Customer relationships	4 - 10 years
• Marketing channels	5 years
• Software	5 - 8 years

The amortization of intangible assets ends when the asset is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Gains and losses on sales and disposals are included in other operating income and in other operating expenses, respectively.

Borrowing costs are capitalized at the acquisition cost of the intangible asset if the asset meets the conditions of IAS 23 Borrowing Costs. In 2016 and 2015, Tikkurila capitalized borrowing costs as part of the ERP costs

PROPERTY, PLANT AND EQUIPMENT
Items of property, plant and equipment are stated at historical cost less cumulative depreciation and any impairment losses. If an item of property, plant and equipment consists of parts with different useful lives, each part is accounted for as a separate asset. In those cases the cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item and any remaining carrying amount of the replaced part is derecognized. Repair and maintenance costs are recognized in profit or loss as incurred.

Items of property, plant and equipment in acquired subsidiaries are recognized at fair value on the acquisition date.
Depreciation is calculated using the straight-line method based on the assets' estimated useful lives. Land is not depreciated. The depreciation periods generally applied by the Group are:

• Buildings and constructions	10 - 40 years
• Machinery and equipment	3 - 15 years

The depreciation of property, plant and equipment ends when it is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Gains and losses on sales and disposals are included in other operating income and in other operating expenses, respectively.

Borrowing costs are capitalized at the acquisition cost of property, plant and equipment if the asset meets the conditions of IAS 23 Borrowing Costs. In year 2016 or 2015, Tikkurila did not have these types of asset items.

LEASES

The Group as lessee
Leases of property, plant and equipment in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are initially recognized in the statement of financial position at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. These assets are presented as part of the Group's property, plant and equipment and related finance lease liabilities are included in the interest-bearing financial liabilities. The finance lease rent paid, is divided into finance charge and liability repayment over the lease period. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The depreciation made on the leased assets and the finance charge related to the finance lease obligations are recognized in profit or loss. Depreciation is allocated over the shorter of the useful life of the asset and the lease term.

Leases in which the lessor retains the risks and rewards incidental to the ownership are accounted for as operating leases. Payments made under operating leases are recognized in profit and loss on a straight-line basis over the lease period.

The Group as lessor
Assets leased out by the Group under leases where substantially all the risks and rewards incidental to ownership are transferred to the lessee, are accounted for as finance leases. They are recognized as receivables at the amount equal to the Group's net investment in the leases. Finance income is recognized over the lease term so as to reflect a constant periodic rate of return on the net investment outstanding.

Assets leased under operating leases are included in the Group's property, plant and equipment. They are depreciated over their useful lives as Group' comparable property, plant and equipment in own use. Rental income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

A non-current asset (or a disposal group) as well as assets and liabilities associated with a discontinued operation are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The recognition criteria are considered to be met when: a sale is highly probable, the asset (or a disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary, the management is committed to the plan to sell the asset and the sale is expected to take place within one year from the date of classification.

As from classification date a non-current asset (or a disposal group) held for sale is generally measured at the lower of its carrying amount and fair value less costs to sell. Depreciating on these assets discontinues at the time of classification. Assets classified as held for sale, disposal groups, items recognized in other comprehensive income associated with the assets classified as held for sale as well as liabilities included in the disposal group are presented separately in the statement of financial position.

A discontinued operation is a component of the Group's business that has been disposed of or is held for sale. It represents a separate major line of business or geographical area of operations. The profit or loss of a discontinued operation is reported separately in the consolidated statement of comprehensive income.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The carrying amounts of the Group's non-current assets are reviewed at the end of each reporting period to determine whether there is any indication for impairment. If an indication for impairment exists, the recoverable amount of the asset or the cash-generating unit is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Annual impairment tests are always carried out for goodwill and intangible assets with indefinite useful lives, or intangible assets not yet available for use. Tikkurila has no intangible assets with indefinite useful lives.

An impairment loss is recognized, whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are immediately recognized in profit or loss. An impairment loss recognized in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis. If there has been a positive change in the estimates used to determine an asset's recoverable amount since the last impairment loss was recognized, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognized. An impairment loss for goodwill is never reversed.

If the recoverable amount cannot be determined for individual asset items, the impairment is tested at the cash-generating unit level that is mainly independent of other units and whose cash flows can be separated and are mainly independent from the cash flows of other similar units. When testing annually the goodwill, which Tikkurila carries out each year during the fourth quarter and on the closing date for possible acquisitions carried out after this, the test is carried out at operating area level disclosed in Note 17. Goodwill impairment is tested by comparing the unit's recoverable amount with its carrying amount. The recoverable amount is defined as its value in use, which consists of the discounted future cash flows to the unit. The discount rate used is defined as WACC (the weighted average cost of capital), determined before taxes.

Paint demand typically varies in line with gross domestic product development which means that general economic trends affect paint demand. The costs related to Tikkurila's production are caused by raw materials, packaging materials, energy and wages. Changes in raw material prices affect the Group's profitability and accumulated cash flow. Tikkurila competes with a number of local, regional and international paint manufacturers. If competition tightens as a result of new players entering the market or changes in the market structure it can affect the Group's cash flows. The company management follows general economic development, changes in markets prices and changes in the competitive situation and analyzes their affect on the business operation and the value of assets. More detailed information on impairment testing in Note 17.

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. The cost of ready purchased products consists of the purchase cost including direct transportation, processing and other costs. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct production costs and related appropriate production overheads and fixed general costs based on normal operating capacity. Cost is determined using the first-in, first-out (FIFO) method or the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The inventory acquired in connection with a business combination is valued at fair value.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset and a financial liability is recognized initially at fair value. Directly attributable transaction costs are included in the original cost, unless it is financial asset or liability recognized at fair value through profit or loss. All purchases and sales of financial assets and liabilities are recognized or derecognized using trade date accounting. Financial assets and liabilities of Tikkurila Group have been classified at initial recognition based on their purpose of use as financial assets and liabilities at fair value through profit or loss, loans and other receivables, available-for-sale financial assets and other financial liabilities (measured at amortized cost).

The Group derecognizes financial assets when it has lost its right to receive the cash flows or when it has transferred substantially all the risks and rewards to an external party. In the statement of financial position, investments with maturity over 12 months are included in non-current assets and investments with maturity date within 12 months in current assets. The Group removes a financial liability (or a part of it) from its statement of financial position only when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired. Financial liabilities are classified as current if the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

FINANCIAL ASSETS

Financial assets at fair value through profit or loss

Tikkurila classifies in this category such financial assets that are classified as held for trading. This category comprises those derivative instruments which are not guarantees and which do not meet the hedge accounting criteria. In Tikkurila Group all derivative agreements are classified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing market participants in an arm's length transaction. The fair value of derivative agreements in public trading is determined using the market prices of the day at the end of reporting period. All of Tikkurila's derivative agreements, forward exchange contracts, were subject to public trading and forward exchange contracts were measured using the forward exchange market rates at the end of reporting date.

Derivative assets were presented under current accrued income and deferred expenses in the statement of financial position. Fair value changes, both realized and unrealized, were recognized in profit or loss in financial items in the period in which they arose. The last outstanding forward exchange agreements were fully closed in the first months of 2015. Derivative agreements are disclosed in Note 33.

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not hold them for trading or designate them as available-for-sale upon initial recognition. The most important individual item of the Group under this category is trade receivables. Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

The Group has some trade receivables with maturity date greater than one year. These are discounted and the interest income of these is recognized in financial items as interest income based on the passage of time.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other category. Available-for-sale financial assets are measured at fair value if it is considered that the fair value can be determined reliably. In such cases the unrealized fair value changes are recognized in other comprehensive income, net of tax. The gains and losses accumulated in equity in fair value reserve are transferred to profit or loss as a reclassification adjustment when the instrument is disposed of or when it is determined to be impaired so that an impairment loss is to be recognized.

The available-for-sale financial assets in Tikkurila Group mainly comprise the business supportive nature unlisted shares, for which fair values cannot be measured reliably and are thus measured at cost or at cost less impairment. The measurement of the shares for which the reliable fair value information has been available in the market, the Group has recognized the change in fair value at the end of every reporting period.

Available-for-sale financial assets are included in non-current assets.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term highly liquid investments, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value, as well as bank overdrafts. Items classified as cash and cash equivalents have a maximum maturity of three months from the date of purchase. Bank overdrafts are presented in consolidated statement of financial position within current interest-bearing financial liabilities.

Impairment of financial assets

The Group assess at the end of each reporting period whether there is any objective evidence that a single financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The debtor's significant financial difficulties, payment delays and neglect can be considered as such objective evidence.

The impairment loss on trade receivables is recognized if there is objective evidence that a receivable will not be fully recovered. Objective evidence on impairment of trade and other receivables include, amongst others, significant financial difficulties of the debtor, and the neglect of payment due dates and payments. To define possible impairment of its trade receivables, the Group has group wide guidelines that are based on the overdue time of receivables. An impairment loss from trade receivables is recognized in consolidated statement of comprehensive income under other operating expenses. If a payment is later received from the impaired trade receivable, this received amount is recognized in profit or loss as a deduction other operating expense.

The impairment of the financial assets measured at amortized cost is determined by the difference in the present value between the carrying amount of the financial asset and the discounted future cash flows. Original effective interest rate is used in discounting. For items measured at fair value, the fair value determines the amount of impairment. The impairment losses on financial assets are recognized through profit or loss on financial items.

FINANCIAL LIABILITIES

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivatives not fulfilling the criteria set for hedge accounting. Financial liabilities at fair value through profit or loss are measured at fair value. Fair value changes, both realized and unrealized, are recognized in profit or loss in the period in which they arise and they are included in financial income or financial expenses. In the statement of financial position, derivative liabilities are shown under accrued expenses and deferred income. The last outstanding forward agreements of the Group were closed during the first months of the financial year 2015. According the decision made at the year-end 2014, the Group has decided not to enter into new derivative agreements. Disclosures of derivatives are stated in Note 33.

Other financial liabilities

This category includes e.g. the Group's non-current and current interest-bearing financial liabilities and trade payables. Other financial liabilities are measured fair value based on the consideration received when the loan is withdrawn including the transaction costs. Later the liabilities are measured at amortized cost using the effective interest rate method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset under IAS 23 Borrowing costs, are capitalized as part of the cost of that asset. In financial years 2016 and 2015, the development and construction of enterprise resourcing planning system qualified such asset and the borrowing costs are included as part of the cost. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that incurs in connection with the borrowing of funds.

PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be determined reliably. A restructuring provision is recognized only if a detailed and appropriate plan has been prepared for it and the plan's implementation has begun or it has been notified to those whom the restructuring concerns.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the time value of money is material, provisions will be discounted. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognized as a separate asset, but only when receipt of the compensation is virtually certain.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the entity. Existing obligation that probably does not require a settlement or which amount cannot be reliably measured, is also considered a contingent liability. Contingent liabilities are disclosed in the notes to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Tikkurila Group's related parties include the parent company to the Group, Tikkurila Oyj, subsidiaries and joint ventures. Related parties also include Tikkurila Oyj's members of the Board of Directors and Group's Board of Management, CEO and their family members and their controlled entities.

Tikkurila follows the same commercial terms in its business with joint ventures and other related parties as with third parties. The related party transactions are presented in the Note 38.

SEGMENT REPORTING

The Group uses in its internal and external reporting the geographically based business model and it has matrix organization. The geographical area based strategic business units ("SBU") of the organization structure are SBU West and SBU East.

Business operations that do not belong to the above mentioned segments and that are costs by nature and are related to the Group's and parent company's administration, are presented under the item "Tikkurila Common".

GOVERNMENT GRANTS

Tikkurila recognizes the government grants received for property, plant and equipment as deduction of the carrying amount of these assets. Grants are recognized when it is reasonable assurance that Group will comply the conditions attached to grants and it is reasonable assurance that grants will be received. The grants are recognized in profit or loss over the life of the asset as reduced depreciation expense. Individual subsidies of expense compensation type, for instance related to training that have been granted by institutions under public law or their related parties are treated as cost adjustments.

OPERATING PROFIT

IAS 1 Presentation of Financial Statements does not specify the concept of operating profit. Tikkurila Group has defined it as follows: operating profit is the net amount that comprises of the revenue added with other operating income and deducted by purchase cost adjusted with change in inventories of finished goods and work in progress, personnel expenses, depreciation, amortization and possible impairment losses and other operating expenses.

ITEMS AFFECTING COMPARABILITY

Tikkurila Group states separately items affecting comparability in its consolidated statement of comprehensive income. The following items are usually reported as items affecting comparability: significant received insurance compensations and their adjustments, received or paid penalties or their adjustments, significant gains and losses on disposal of assets as well as impairments of non-current assets. Items affecting comparability are also including items concerning business reorganizations such as items related to personnel dismissals or items related to the strategic based changes in organization structure.

EQUITY

Ordinary shares are presented as equity. The expenses relating an issue or acquisition of equity instruments are presented as a deductible item of equity. If own shares are reacquired, the acquisition cost including the direct costs related to the acquisition is deducted from equity. The dividend distribution proposal made by the Board of Directors to the AGM is not recorded in the financial statements before the company's shareholders have confirmed it at the AGM.

ADOPTING NEW AND AMENDED IFRS STANDARDS AND INTERPRETATIONS

The IASB has issued the following new standards, interpretations and their amendments that Tikkurila Group has not yet adopted. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

New standards, amendments and interpretations approved in the EU

- IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2018). The new standard replaces current standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments. The standard comprises three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through profit or loss. The classification depends on the company's business model and on the characteristics of cash flows based on agreement. The standard includes also a new expected credit loss model for calculating impairment on financial assets.

  According to the new standard, the requirements for recognition and measurement of financial liabilities remain almost intact except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The guidance for hedge accounting included in IFRS 9 continues to distinguish three types of hedge accounting: cash flow hedges, fair value and net investment hedges. The requirement and strick definition of highly effective in accordance with current IAS 39 is replaced with the requirement of economic relationship between the hedging instrument and the hedged item. According to guidance the hedge ratio should reflect the actual quantity of hedging instrument in line with risk management practices in a company.

  As assessed the impacts with the current structure of the financial assets the accounting and classification of available for sale financial assets will change. These equity instruments are long-term nature investments that the Group is not intending to sell. These all will be classified as fair value through OCI. Received dividends will be recognized in profit or loss, but possible impairment losses would not be recognized in profit or loss nor the gains or losses on disposal would be reclassified to profit or loss. Available for sale financial assets amounted to EUR 0.8 million in consolidated statement of financial position at the end of the financial year 2016.

  According the Group's assessment there will be no impacts resulting from the application of standard to financial liabilities. The Group has no such financial assets at the end of financial year 2016 that would be classified as fair value through profit or loss. The Group's trade receivables, classified and measured at amortised cost in accordance IFRS 9, consist the most of the Group's financial assets. The impairment model to recognize the lifetime expected credit loss will be applied to all trade receivables. The Group evaluates that to some extent, it is possible the impairment loss to be recognized at earlier stages as in current model used. The assessment of this is not yet finalized.

- IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after January 1, 2018). The new standard on revenue recognition replaces IAS 11 Construction contracts, IAS 18 Revenue and related interpretations. Revenue is recognized when a customer obtains control of a good or service. This may take place over time or at a point in time. The core principal is that company should recognize revenue to the manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled. There is introduced a 5-step approach to revenue recognition and measurement in the standard.

  The Group has analyzed an impact of introducing IFRS 15 and as resulting from this assessment the applying this standard will not have material impact on Group's financial statements. Some consideration paid to customers is being assessed not to be a payment for a distinct service, and thus is being accounted for as a reduction of a transaction price e.g. reduction of revenue as per applying standard. The Management estimates this will have on yearly level impact of EUR 4 – 6 million. This will have no impact on operating profit, instead the revenue will decrease and respectively other operating expenses will decrease as well.

  In addition, the Group has preliminarily analyzed the potential impact on the revenue and rent income recognition of selected support products and services, since those are related to the deliveries of paint products. These separate deliveries have in many cases been agreed in the frame sales agreements, but are not separately identifiable. This might result in revenue or rent income, and related volume based bonuses, to be accounted as combined with other promised goods, like paints. The change in transaction price recognized, resulting from the potential revised outcome, would according to the management preliminary assessment result in a decrease of operating profit for financial year 2018, when the potential change would be applied. The exact financial impact cannot yet be reliably assessed, but more information of the nature and magnitude of these potential revenue recognition changes will be provided during financial year 2017 as the analysis proceeds further.

  The Group will apply this standard retrospectively with the cumulative effect of the initial date being adjusted to opening balance of retained earnings and comparison period's information is not adjusted. The new standard will increase disclosures required.

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (effective for financial years beginning on or after January 1, 2016, endorsed by the EU in September 2016). The amendments clarify the exemption from preparing consolidated financial statements. This exemption is available to parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. It is also stated that the exemption from applying equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value. The amendments clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities, applies only to subsidiaries that are not investment entities themselves. The amendment has no impact on the Group's financial statements.

Amended standards, new standards and interpretations that have not yet been approved to be applied in the EU

- Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after January 1, 2018). The amendments include clarifications and further examples on how to apply certain aspects of the five-step recognition model.

- Amendments to IAS 12 Income taxes - Recognition of Deferred Tax Assets for Unrealized Losses (effective for financial years beginning on or after January 1, 2017, are to be applied retrospectively). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. This is not expected to have any material impact on Group's financial statements.

- IFRS 16 Leases (effective for financial years beginning on or after January 1, 2019). The new standard requires the lessees to recognize a right-of-use asset and a lease liability at lease commencement for all leases. There are two exceptions available, for short-term or low value items e.g. lease term is 12 months or less, or asset value is USD 5,000 or less. In these exceptions accounting treatment is the similar to the current accounting for operating leases. The lessor accounting remains mostly similar to current IAS 17 accounting. A lessee can apply IFRS 16 either by a full retrospectively or a modified retrospectively approach. In latter approach it is not required to restate the comparative information, the cumulative effect of applying IFRS 16 is presented as an adjustment to opening retained earnings. The assessment of the standard will be started in year 2017. Standard will have material impact on Group financial statements, increasing liabilities and assets.

- Amendments to IAS 7 Statements of Cash Flows- Disclosure Initiative (effective for financial years beginning on or after January 1, 2017). The amendments require entities to provide disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments are to be applied prospectively, not required to present comparative information for earlier period. The amendments have an impact on the disclosures of the Group.

- Amendments to IFRS 4 Insurance Contracts (effective for financial years beginning on or after January 1, 2018). The amendments relates to cases when entities are applying IFRS 9 with IFRS 4 Insurance Contracts. This has no impact on Group's financial statements.

- Annual Improvements to IFRSs 2014-2016, December 2016 (effective for financial years beginning on or after January 1, 2018). The improvements contain amendments to three standards; IFRS 12, IFRS 1 and IAS 28. These are not expected to have any material impact on Group's financial statements.

- IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration (effective for financial year beginning on or after January 1, 2018). The interpretation clarifies that transaction date is the initial date when an entity pays or receives consideration in advance and in which foreign currency transaction is recorded. This interpretation is to be applied either prospectively or retrospectively. This is not expected to have any impact on Group's financial statements.

- Amendments to IFRS 2 Share-based payments (effective for financial years beginning on or after January 1, 2018). The amendments clarify that estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and market conditions should follow the same approach as for equity-settled share-based payments. These also clarify classification of share-based payments settled net of withholding tax and accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments are to be applied prospectively. This is not expected have any material impact on Group's financial statements.

- Amendments to IAS 40 Investment Property (effective for financial year beginning on or after January 1, 2018). The amendments clarify that property is transferred to, or from investment property when and only when a change in use of property is supported by evidence. The change in management's intentions, alone, provides no enough evidence of a change in use. The amendments are to be applied either prospectively or retrospectively. This is not expected to have any impact on Group's financial statements.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be later determined by the IASB). The amendments present guidance for accounting when it is a sale of assets or contribution between a parent and its associate or joint venture. If a transaction involves a business according the definition of IFRS 3, the full gain or loss resulting from it is recognized. If a transaction involves assets that do not constitute a business, the gain or loss is recognized in the parent's profit or loss only to the extent of the unrelated investors' interest in that associate or joint venture. This is not expected to have impact on Group's financial statements.

2. CRITICAL ACCOUNTING ESTIMATES REQUIRING MANAGEMENT'S JUDGMENT

The preparation of financial statements requires management to make future estimates and assumptions. Actual results may differ from these estimates and assumptions. In addition, management uses judgment in applying the accounting principles and in choosing the applicable accounting policies, if IFRSs allow alternative methods. These estimates and assumptions and their application affect the income and expenses of the financial period and the result of the financial period, the assets and liabilities reported in the closing date and the contingent assets and liabilities presented in the notes. Revisions to accounting estimates and assumptions are recognized in the period in which the estimates and assumptions are revised and in all subsequent periods.

The estimates made in context of the preparation of financial statements are based on management's best judgment at the end of the reporting period. These judgments are made on the grounds of prior experiences and the most probable future assumptions at the end of the reporting period. Assumptions have been made for example of the effects that the economical development concerning the Group's line of business has on sale and cost level. The realization of the estimates and assumptions are continuously monitored. The categories that have either the highest estimated impact or uncertainty are presented below.

By the time of the publication of the financial statements the Group is not aware of such major sources of estimation uncertainty at the end of the reporting period nor of such key assumptions concerning the future that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

IMPAIRMENT OF ASSETS AND ESTIMATES RELATED TO VALUATION OF ASSETS

The impairment test of goodwill and other assets involves determining future cash flows which, with regard to the most significant assumptions, are based on gross margin levels, discount rates and the projected time period, as well as the growth rate assumptions for the time after the time period which affects the so-called terminal value. Major adverse developments in cash flows and individual components of discount rate, such as interest rate levels, risk premiums or financial structure, may lead to the recognition of an impairment loss. The sensitivity analysis connected to impairment testing is presented in Note 17 to the consolidated financial statements.

In financial years 2016 and 2015 impairment losses recognized on property, plant and equipment were related to land area located in Ukraine. Goodwill related to Tikkurila Drytech's business was impaired during the year 2016. The impairments have been presented in the Note 9. Depreciation, amortization and impairment losses.

In impairment testing the management has to estimate the indication of impairment using both external sources (like market reports, cost development, interest rate levels) and internal sources (like obsolete inventories, decisions on changes to the product selection). When analysing these sources and information and making conclusions, estimates are used.

Valuation of inventory requires some management assessment. Inventories are valued at the lower of cost or net realizable value. When determining the net realizable value the estimated selling price less the estimated direct costs needed to complete the sale and estimated costs required to finish the product are defined. When the carrying amount of inventory exceeds the net realization value an impairment of inventory is recognized.

Impairment is recognized for trade receivables if the management estimates that the carrying amount of the receivable does not correspond with its fair value. Indications of a possible impairment of trade receivables include the debtor's considerable financial difficulties, delayed payments and neglected payments.

The management also uses estimates when determining the useful life of property, plant and equipment and intangible assets for Tikkurila Group. If the useful life differs from the original estimate the annual amortization, depreciation is adjusted or impairment is recorded. Major part of Group's tangible non-current assets are linked to the buildings, machinery and equipment of the paint factories. In case Tikkurila would decide to close down some of the production facilities, or alternatively to refocus its production operations, the depreciation plans will be revised and potentially also the assets have to be revalued. In addition, these type of restructuring activities might lead to rehabilitation or other liabilities in the future.

Tikkurila has significant business and assets in Russia. Even though during 2016 Russian ruble has appreciated and macroeconomic situation stabilized, there are still major geopolitical and economic risks in the region, and these risks can have an adverse impact on future outlook of the business and on the values of Group's assets. When assessing the value of balance sheet items, the future cash flows of the business as well as investment needs and opportunities, both the local management and Group management have to use estimates and judgement, especially as many times reliable market-based external valuation metrics are not available. Moreover, it is often difficult to assess the counterparty risk in Russia. These aspects have an effect particularly on the valuation of assets. The revised assumptions have been based on the available information at the time of testing, but in case there would be adverse changes to underlying assumptions or to the future performance of the business or to the general business environment, then in the coming financial periods the asset values might have to be impaired. Therefore, the management will constantly monitor the situation, and will regularly analyze various scenarios and their sensitivities.

BUSINESS COMBINATIONS

In business combinations the net identifiable assets of the acquired companies are measured at fair value. Taking into account Tikkurila Group's geographical operating area and the nature of its operations, it is possible that the fair value of the acquired companies or business operations and the related assets and liabilities cannot be reliably determined and that the value determination involves a lot of estimated items. In the case of a major acquisition, the estimated fair values of property, plant and equipment and intangible assets acquired and their estimated useful lives may have a significant effect on Tikkurila's result and statement of financial position. The net assets acquired in business combinations during the current and previous financial year are disclosed in Note 4 Business combinations and disposals of businesses. In financial years 2016 and 2015 Tikkurila had no acquisitions.

When evaluating the possible contingent consideration of the business operations acquired the Tikkurila Group management has to use estimations and assumptions on the future financial performance of the business operations acquired. If the assumptions as per which the contingent consideration has been valued at fair value at the time of acquisition change, these changes are recognized in profit or loss at the time of review. The contingent consideration is discounted to the present value at time of review using the target company specific WACC (weighted average cost of capital). The components arising from the changes in discount rate factors are recognized in Group in financing items.

If the Group plans to divest a business operation or sell some asset items, the management has to use consideration in determining the timing when the criteria according IFRS 5 are fulfilled and based on that asset, assets to be classified as non-current assets held for sale. In context of classification, the Group management use its estimation in order to assess the amount of possible impairment loss to be recognized if the carrying amount is above the fair value less costs to sell.

INCOME ADJUSTMENTS OR EXPENSES THAT ARE CONTINGENT UPON FINANCIAL RESULTS OR OTHER TARGETS

Tikkurila sells its products and services, especially in decorative paint business, mainly to external companies that are specialized in wholesale or retail trade. Often there are various frame, co-operation or delivery agreements where the parties have agreed on discounts, credits or other benefits that are tied to the volume or value of the deliveries or sales of certain product groups and that are granted afterwards. At the end of the reporting period the Group does not have actual periodic information of all the agreed performance criteria of all the customers, and hence also estimates are applied in accruing the relevant discounts or expenses.

A significant part of the employees of the Tikkurila Group have as part of their remuneration package a performance-based variable salary component, which is tied to pre-set financial and operational targets. When recognizing the expenses related to these bonus and other contingent rewards, judgement and estimates have to be partially applied, since the actual data on underlying performance criteria are not fully available at the time of the closing of the accounts. Moreover, the Group has had a share-based commitment and incentive plan since 2012 for selected Group management personnel and a new share-based incentive plan since 2016. The expenses of these plans are recognized according to the IFRS 2 standard. Both the fulfillment of the share-based plan's target criteria and the development of Tikkurila's share price, which are basis for determining the final rewards, if any, will only be known after each performance period has ended; therefore estimates have to be used at the end of the reporting period to recognize expenses and other bookkeeping entries. Moreover, the final amount of share-based remuneration under the 2012 and 2016 plans is always decided by the Tikkurila Oyj's Board of Directors based on its judgment, which may cause the final remuneration to deviate from the earlier estimates.

PROVISIONS

A provision is recognized when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. A provision can be recognized when the amount of the obligation can be determined reliably. Recognizing provisions requires the management's estimates, since the precise euro amount of obligations related to provisions is not known when preparing the financial statements. If the management estimates that no probable payment obligation arises the item is presented as a contingent liability in the financial statements. On the closing date, December 31, 2016, the provisions amounted to EUR 0.8 million. The corresponding figure in the 2015 financial statements was EUR 1.1 million. Provisions have been described in Note 31.

INCOME TAXES

For the recognition of deferred tax assets on tax losses and other items, management assesses the probability of a future taxable profit against which tax assets can be utilized. The Group has subsidiaries in several countries with different types of tax regulations. Estimating the total amount of income taxes at Group level requires significant consideration. Actual profits may differ from the forecasts and, in such case, the change will affect the taxes in future periods. The amount of deferred tax assets in the 2016 financial statements was EUR 7.3 million and the amount of confirmed tax losses carried forward from prior periods for which no deferred tax asset has been recognized was EUR 5.3 million.

PENSION OBLIGATIONS

In connection with the Group's defined benefit pension plans, the management has to estimate the liability (or receivable) recognized in the statement of financial position so that several estimates have to be made in terms of the present value calculation applied and to determine actuarial items. Assumptions include the discount rates used to measure assets and liabilities related to the plans, inflation, wage increase assumptions and life expectations. Some of the estimates used in the calculation are based on information from external actuaries. The actual outcome may differ from the original estimates and assumptions and these remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income in the period in which they arise. In Note 30 there is disclosed the sensitivity analysis regarding the change in discount rate and it's effect on the Group's defined benefit obligation. In addition, sensitivity analysis regarding the change in life expectancy and inflation in relation to Swedish defined benefit pension plan, that is the Group's most significant defined benefit plan, is disclosed in corresponding note. In practise, level of pensions are linked to inflation.

3. SEGMENT INFORMATION

Tikkurila reports its business activities in two segments: SBU West and SBU East. Transactions related to the Group headquarters operations are presented in separate section called Tikkurila common.

The segment split is based on Tikkurila Group's strategy to be the leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area as well as in Russia and other selected Eastern European countries. The segment definition is based on the differences in operating environments in the geographical areas, on valid legislation and regulations, and the management systems.

The evaluation of profitability and decision making concerning resource allocation are primarily based on operating profit of each segment. Segment assets are items on the statement of financial position that the segment employs in its business activities or which can reasonably be allocated to the segments.

Segments' revenue arises from the sales of various paints and related products that are sold to retailers, industrial customers and for professional use. Insignificant revenue is received from the sales of auxiliary services related to paints. Segments' revenue is presented based on the location of the customers, whereas reportable segment assets are presented according to the location of the assets. Inter-segment pricing is based on market prices. External revenue accumulates from a large number of customers.

In Tikkurila Group the chief operating decision maker, which is responsible for allocating the resources to the operating segments, has been identified as Tikkurila Management Board.

The Group's revenue from transactions with any single external customer does not exceed 10 percent of Tikkurila Group's total revenue.

REPORTABLE SEGMENTS 2016 EUR thousand	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
External revenue	**395,178**	**176,844**	**-**	**-24**	**571,998**
Depreciation, amortization and impairment losses	**10,467**	**6,060**	**148**	**-**	**16,675**
Operating profit (loss)	**45,123**	**12,624**	**-4,639**	**2**	**53,110**
Items affecting comparable EBIT by segment	**-137**	**-759**	**-**	**-**	**-896**
Adjusted operating profit (loss) by segment	**45,260**	**13,383**	**-4,639**	**2**	**54,006**
Non-allocated items					
Financial income					**12,253**
Financial expenses					**-8,315**
Share of profit or loss of equity-accounted investees					**333**
Profit before tax					**57,381**
Segment assets	**319,944**	**107,394**	**31,292**	**-48,293**	**410,338**
Investments in equity-accounted investees					**703**
Capital expenditure	**20,143**	**3,172**	**-**	**-**	**23,315**

REPORTABLE SEGMENTS 2015 EUR thousand	SBU West	SBU East	Tikkurila common	Eliminations	Total
External revenue	395,257	188,914	-	-59	584,112
Depreciation, amortization and impairment losses	10,329	6,840	163	-	17,332
Operating profit (loss)	53,234	13,572	-5,119	-2	61,685
Items affecting comparable EBIT by segment	2,766	150	-121	-	2,795
Adjusted operating profit (loss) by segment	50,468	13,422	-4,998	-2	58,890
Non-allocated items					
Financial income					5,425
Financial expenses					-14,696
Share of profit or loss of equity-accounted investees					398
Profit before tax					52,812
Segment assets	306,446	96,715	46,285	-68,005	381,441
Investments in equity-accounted investees					816
Capital expenditure	15,842	5,101	-	-	20,944

SBU West consists of Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia and Lithuania.

SBU East consists of Russia, Central Asian countries, Serbia, Macedonia, and China. Furthermore, SBU East is responsible for the exports to approximately 20 countries.

REPORTABLE SEGMENTS 2016 EUR thousand	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
Operating profit (loss) by segment	**45,123**	**12,624**	**-4,639**	**2**	**53,110**
Items affecting comparable EBIT by segment					
Divestments	**-**	**-750**	**-**	**-**	**-750**
Personnel related	**-**	**-**	**-**	**-**	**-**
Gain on sale of available-for-sale financial assets	**-**	**-**	**-**	**-**	**-**
Impairment losses	**-137**	**-9**	**-**	**-**	**-146**
Total	**-137**	**-759**	**-**	**-**	**-896**
Adjusted operating profit (loss) by segment	**45,260**	**13,383**	**-4,639**	**2**	**54,006**

REPORTABLE SEGMENTS 2015 EUR thousand	SBU West	SBU East	Tikkurila common	Eliminations	Total
Operating profit (loss) by segment	53,234	13,572	-5,119	-2	61,685
Items affecting comparable EBIT by segment					
Personnel related	326	222	-121	-	427
Gain on sale of available-for-sale financial assets	2,440	-	-	-	2,440
Impairment losses	-	-72	-	-	-72
Total	2,766	150	-121	-	2,795
Adjusted operating profit (loss) by segment	50,468	13,422	-4,998	-2	58,890

PERSONNEL BY SEGMENTS DURING THE PERIOD, AVERAGE

	2016	2015
SBU West	**1,656**	1,648
SBU East	**1,425**	1,516
Tikkurila common	**30**	30
Total	**3,112**	3,193

REVENUE BY DESTINATION

EUR thousand	**2016**	2015
Russia	**120,197**	128,448
Sweden	**149,927**	151,678
Finland	**98,117**	98,140
Poland	**70,355**	68,417
Other countries	**133,402**	137,428
Total	**571,998**	584,112

REVENUE BY PRODUCT GROUP

EUR thousand	**2016**	2015
Decorative paints	**474,912**	486,447
Industrial coatings	**97,085**	97,665
Total	**571,998**	584,112

NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION *)

EUR thousand	**2016**	2015
Russia	**32,321**	27,720
Sweden	**79,784**	84,328
Finland	**37,192**	27,068
Poland	**15,588**	15,596
Other countries	**26,306**	26,821
Total	**191,192**	181,533

*) Non-current assets consist of property, plant and equipment, intangible assets and investments in equity-accounted investees.

4. BUSINESS COMBINATIONS AND DISPOSALS OF BUSINESSES

ACQUISITIONS 2016

Tikkurila carried out no acquisitions during the financial year 2016.

ACQUISITIONS 2015

There were no acquisitions during the financial year 2015.

The purchase price of the acquisition of ISO Paint Group, acquisition carried out in October 2014, was adjusted according to the share purchase agreement. Therefore, the total consideration transferred at the acquisition date was decreased by EUR 0.2 million - as well as the amount of goodwill recognized at the acquisition. The consideration was received in cash and it is presented in consolidated statement of cash flows in line business combinations.

ADJUSTED ACQUISITION COST

TOTAL PURCHASE CONSIDERATION

EUR thousand	
Fixed consideration paid at closing in October 2014	11,600
Consideration received in May 2015	-208
Total consideration	**11,392**
Goodwill	**5,167**

DISPOSALS 2016

In June 2016, Tikkurila has concluded the divestment of its subsidiaries in Ukraine and Belarus together with receivables from these companies to OÜ FarbaHouse, a company established by Tikkurila's local management. OÛ FarbaHouse continues the retail of Tikkurila's products in both countries. The sold companies were consolidated to Group until the end of May 2016.

The aggregate consideration is EUR 6.8 million, from which EUR 0.1 million was received as cash at the closing. Remaining consideration of EUR 6.8 million, an interest-bearing vendor loan, will be received within seven years. The vendor loan fair value corresponds to EUR 4.7 million at the date of closing. Tikkurila has received as pledge the shares of OÜ FarbaHouse -company to secure this receivable.

Due to the disposal EUR 1.4 million loss was realized in the Group. In operating result, EBIT the loss was decreased by EUR 0.6 million as the accumulated exchange rate differences were reclassified from equity to profit or loss, resulting to EUR 0.8 million loss on disposal in EBIT. The total impact on disposal resulted EUR 0.1 million loss as net of taxes.

Tikkurila sold in August 2016 the shares in its Swedish, dormant subsidiary, Färdigfärgat AB. The consideration was EUR 14 thousand from which EUR 10 thousand was received in cash at the closing. Remaining amount of consideration will be received within one year.

As of disposal a minor loss was recognized which turned into EUR 0.1 million gain as accumulated exchange rate differences were reclassified from equity to profit or loss.

DISPOSALS 2015

There were no disposals during the financial period 2015.

5. SUPPLEMENTARY CASH FLOW INFORMATION FROM BUSINESS COMBINATIONS AND DISPOSAL OF BUSINESSES

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AMD BUSINESSES

EUR thousand	2016	2015
Acquisition of businesses		
Total purchase consideration	-	-
Cash and cash equivalents at acquisition date	-	-
Returned share of consideration from the previous years' acquisitions	-	-208
Cash outflow on acquisition net of cash acquired	**-**	-208
Proceeds from the disposal		
Total proceeds	4,753	-
Cash inflow from the previous years' disposals	56	50
Recognized as receivable at the date of disposal *	-4,693	-
Cash and cash equivalents in disposed companies	-641	-
Net cash effect	**-525**	50

* The value of the receivable is EUR 6,776 thousand, fair value of EUR 4,689 thousand at the date of closing. EUR 2,087 thousand is recognized as interest income based on the passage of time. In addition, EUR 4 thousand of consideration from selling the Swedish subsidiary was recognized in receivables.

Assets and liabilities disposed of	**2016**	2015
PPE** and intangible assets	886	-
Deferred tax assets	43	-
Interest-bearing receivables	16,687	-
Inventory	2,905	-
Trade receivables and other interest-free receivables	9,558	-
Cash and cash equivalents	641	-
Total assets	**30,720**	-
Deferred tax liabilities	1	-
Interest-bearing liabilities	16,723	-
Trade and other payables	7,889	-
Total liabilities	**24,613**	-
Total net assets and liabilities of disposal	**6,107**	-
Loss on disposal in equity	-1,354	-
Total	**4,753**	-

** Property, plant and equipment

6. NON-CURRENT ASSETS HELD FOR SALE

During the financial year 2016 the land area located in (Northern part of the) Finland was classified as held for sale financial assets. This land area, included in assets of SBU West, was sold in October.

Non-current assets held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

At the end of year 2016 assets held for sale comprised flats located in Balkan area. The carrying amounts of assets were compared to the sales price offers derived from the real estate markets. The sales price estimations were lower of the carrying amounts and thus impairment loss were recognized. The impairment loss is presented in financial expenses of the consolidated statement of comprehensive income.

In order to complete these sales transactions, the flats are offered to markets by local real estate brokers. These held for sale assets are recognized in assets of SBU East.

7. OTHER OPERATING INCOME

EUR thousand	**2016**	2015
Gains on sale of non-current assets	**368**	128
Gains on sale of available-for-sale financial assets	**45**	2,441
Insurance compensation	**92**	201
Rental income	**318**	311
Income on services provided to joint venture	**242**	971
Other income from operations	**1,441**	700
Total	**2,506**	4,752

Gains on sales of non-current assets in 2016 consist of gain on a disposal of land area EUR 0.1 million and gain on a sale of subsidiary EUR 0.1 million. In 2015 gains on sale of non-current assets consist mainly of sales of machinery and equipment. In financial year 2015 the gain on sale of available-for-sale financial assets EUR 2.4 million was resulted on sale of Ekokem Oyj shares. At the end of financial year 2015, the Group has no Ekokem Oyj shares in its possession.

Rental income is received mainly from leasing of premises in years 2016 and 2015.

8. PERSONNEL EXPENSES

EUR thousand	**2016**	2015
Wages and salaries	**-81,403**	-79,797
Share-based payments	**-47**	-1,005
Pension expenses for defined contribution plans	**-10,590**	-10,294
Pension expenses for defined benefit plans	**-1,311**	-1,267
Other personnel expenses	**-12,442**	-12,236
Total	**-105,793**	-104,599

Remuneration of Board of Directors and CEO of Tikkurila Oyj are disclosed in Note 38 Related parties.
Pension expenses for defined benefit plans are disclosed in Note 30 Pension obligations and other long-term employee benefits.

Personnel, average	**2016**	2015
Personnel in Finland, average	**560**	607
Personnel outside Finland, average	**2,552**	2,586
Total	**3,112**	3,193
Personnel at year-end	**3,033**	3,100

Group's personnel by segments is disclosed in Note 3 Segment information.

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

EUR thousand	2016	2015
Depreciation and amortization		
Intangible assets	**-3,152**	-3,369
Property, plant and equipment		
Buildings and constructions	**-3,056**	-3,084
Machinery and equipment	**-9,442**	-9,915
Other property, plant and equipment	**-879**	-893
Total	**-16,529**	-17,260
Impairment losses		
Intangible assets		
Goodwill	**-137**	-
Property, plant and equipment		
Land and water	**-9**	-72
Total	**-146**	-72
Total depreciation, amortization and impairment losses	**-16,675**	-17,332

Impairment of goodwill related to goodwill recognized on acquisition of Tikkurila Drytech AB (SBU West).
In financial year 2016 and 2015 impairment losses recognized on property, plant and equipment relate to land area in Ukraine (SBU East).

10. OTHER OPERATING EXPENSES

EUR thousand	2016	2015
Rents	**-11,623**	-12,738
Other voluntary personnel expenses	**-5,189**	-4,372
Sales and marketing	**-28,721**	-26,061
Repair and maintenance	**-8,677**	-8,513
IT and communication	**-5,578**	-5,044
Freights for goods sold	**-15,942**	-16,736
Professional fees	**-5,815**	-3,715
Transportation and travel	**-8,572**	-8,336
Energy, heating and water	**-4,788**	-4,804
Insurances excl. personnel insurances	**-1,034**	-1,102
Office expenses	**-1,773**	-1,891
Representation and membership fees	**-2,577**	-2,480
External services	**-15,028**	-14,581
Authority fees and environmental tax	**-1,351**	-1,381
Credit losses	**-1,426**	-1,770
Other expenses	**-3,107**	-4,918
Total	**-121,201**	-118,442
Audit fees: [1)]		
KPMG	**-448**	-431
Other audit firms	**-74**	-67
Tax advisory, KPMG	**-52**	-64
Other services, KPMG	**-34**	-61
Total	**-608**	-653

[1)] Includes possibly invoiced out-of-the-pocket fees, like travelling expenses.

ITEMS AFFECTING COMPARABILITY

EUR thousand	**2016**	2015
Expenses		
Wages and salaries	**-**	507
Other personnel expenses	**-**	-196
Defined benefit and contribution pension expenses	**-**	122
Other	**-750**	-6
Impairment losses:		
Goodwill	**-137**	-
Property, plant and equipment	**-9**	-72
Total	**-896**	355
Income		
Other operating income	**-**	2,440
Total	**-**	2,440
Items affecting comparability total	**-896**	2,795

In financial year 2016, items affecting comparability comprise EUR 0.8 million loss on divestment of subsidiaries in Ukraine and Belarus together with receivables from these companies to Oü Farbahouse. This item is presented in line Other. Impairment losses are related to goodwill recognized on acquisition of Tikkurila Drytech AB as well as land area located in Ukraine.

In financial year 2015, the items affecting comparability are related to restructuring of operations in Finland and Sweden, as well as the impairment of the value of land area in Ukraine. In addition, the adjustment of personnel expenses due to the curtailment of long-service employee benefits, is presented as reduction of these expenses. Items affecting comparability in other operating income comprises a gain on sale of available-for-sale financial assets EUR 2.4 million.

11. RESEARCH AND DEVELOPMENT EXPENSES

EUR thousand	**2016**	2015
Research and development expenses total	**-11,260**	-11,245

Research and development expenses consist mainly of wages and salaries and other employee benefits.

12. FINANCIAL INCOME AND EXPENSES

EUR thousand	**2016**	2015
Financial income		
Dividend income from available-for-sale financial assets	**3**	96
Interest income from loans and other receivables	**658**	324
Other interest income	**-**	18
Exchange rate gains		
Exchange rate gains from financial assets at fair value through profit or loss	**-**	443
Exchange rate gains from loans and other receivables	**11,403**	3,955
Exchange rate gains from financial liabilities measured at amortized cost	**187**	171
Other financial income	**2**	12
Gain on net monetary position	**-**	406
Total	**12,253**	5,425

EUR thousand	2016	2015
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	**-872**	-1,217
Interest expenses from financial liabilities at fair value through profit or loss	**-**	-144
Capitalized borrowing costs	**59**	12
Other interest expenses	**-124**	-1
Exchange rate losses		
Exchange rate losses from financial liabilities at fair value through profit or loss	**-**	-318
Exchange rate losses from loans and other receivables	**-6,215**	-11,625
Exchange rate losses from financial liabilities measured at amortized cost	**-563**	-528
Other financial expenses	**-555**	-852
Impairment loss on available-for-sale financial assets	**-45**	-24
Total	**-8,315**	-14,696
Total financial income and expenses	**3,938**	-9,272

	2016	2015
Net financial expenses as a percentage of revenue	**-0.7**	1.6
Net interests as a percentage of revenue	**0.0**	0.2

EUR thousand	2016	2015
Exchange rate gains and losses in financing items		
Realized	**-582**	-7,676
Unrealized	**5,394**	-226
Total	**4,812**	-7,902
Exchange rate gains and losses in operating profit		
Revenue	**-4**	104
Materials and services	**1,125**	-2,749
Total	**1,121**	-2,645

In financial year 2016 total net financial expenses were positive mainly due to strengthening of Russian ruble during the year. Respectively in comparison year the weakening of Russian ruble increased net financial expenses in the Group.

In comparison year other financial expenses included EUR 0.1 million the transaction costs of loan agreement recognized immediately in profit or loss. According the decision of The Board of Directors of Tikkurila, the Group has not carried out any derivative agreements in financial year 2016 nor 2015.

13. INCOME TAXES

EUR thousand	2016	2015
Current income tax charge	**-14,843**	-10,954
Adjustments for prior years	**95**	174
Deferred taxes	**1,832**	-539
Total	**-12,916**	-11,319
Income taxes recognized in other comprehensive income		
Items that will not be reclassified to profit or loss		
Deferred taxes		
Remeasurements on defined benefit plans	**-8**	-86
Total tax items that will not be reclassified to profit or loss	**-8**	-86
Items that may be reclassified subsequently to profit or loss		
Deferred taxes		
Available-for-sale financial assets, fair value changes	**-**	470
Net investment in foreign operations	**-529**	201
Current taxes		
Net investment in foreign operations	**370**	-233
Total tax items that may be reclassified subsequently to profit or loss	**-159**	438
Total income taxes recognized in other comprehensive income	**-167**	352

Reconciliation of taxes calculated according to the enacted tax rate with taxes in the statement of comprehensive income:

EUR thousand	**2016**	2015
Tax at parent's tax rate	**-11,476**	-10,563
Effect of different tax rates in foreign subsidiaries	**-288**	-333
Tax-exempt income	**161**	171
Non-deductible expenditure	**-1,139**	-1,015
Effect of changes in tax rates	**3**	27
Used tax losses, previously unrecognized	**153**	19
Current year losses for which no deferred tax asset was recognized	**-546**	-986
Taxes from previous financial years	**95**	174
Changes of deferred taxes related to previous years and current year temporary difference which no deferred taxes were recognized	**-112**	980
Effect of result of equity-accounted investees	**73**	88
Non-credited foreign withholding taxes	**-30**	-225
Other items	**190**	344
Total taxes in the statement of comprehensive income	**-12,916**	-11,319

The Norwegian corporate tax rate decreased from 25% to 24% as of January 2017. In financial statements 2016 the Norwegian deferred taxes are measured by using the substantially enacted corporate tax rate (24%).

As of January 2016, the enacted corporate tax rate is 22% in Denmark. In financial statements 2015 the tax rate of 22% is applied to measure deferred taxes. As of January 2016, the Norwegian corporate income tax rate decreased to 25%. In financial statements 2015 the Norwegian deferred taxes are measured by using the substantially enacted corporate tax rate (25%).

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the parent company and a weighted average number of ordinary shares outstanding.

Calculating the dilution effect is based on the estimated total level of new shares to be issued according the terms and conditions of the plans. The group has share-based commitment and incentive plan decided in year 2012, which consists of three performance periods 2012-2014, 2013-2015 and 2014-2016. In the first half of the year 2016, the Board of Directors of Tikkurila Oyj decided on a new share-based incentive program for the Group key employees. This program consists of three performance periods 2015-2017, 2016-2018 and 2017-2019.

When calculating the dilution effect for the number of shares, it has been assumed that all the remuneration to be paid in shares would be issued as new shares, even though it is also possible that those shares might be acquired from the markets.

Shares transferred to participants as per performance periods 2012-2014 and 2013-2015 were acquired from the markets.

	2016	2015
Profit for the period attributable to the owners of the parent, EUR thousand	**44,465**	41,493
Weighted average number of ordinary shares (1,000)	**44,106**	44,093
Basic earnings per share (EUR / share)	**1.01**	0.94
Profit for the period attributable to the owners of the parent, EUR thousand	**44,465**	41,493
Weighted average number of ordinary shares (1,000)	**44,106**	44,093
Effect of share-based incentive plan (1,000)	**4**	14
Weighted average number of ordinary shares, adjusted for dilutive effect (1,000)	**44,110**	44,106
Diluted earnings per share (EUR / share)	**1.01**	0.94

Tikkurila Oyj has one class of shares that has no nominal value. The number of registered shares was 44,108,252 at end of the reporting period 2016, at the end of year 2015 44,108,252. The Group held 2,461 treasury shares on December 31, 2016. At the end of year 2015, the Group held 2,461 treasury shares.

15. PROPERTY, PLANT AND EQUIPMENT

EUR thousand	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2016 Total
Acquisition cost at Jan 1, 2016	7,150	108,459	186,082	6,974	3,287	**311,951**
Other increases	-	543	6,964	756	1,907	**10,170**
Other decreases	-44	-3,173	-9,137	-245	-457	**-13,056**
Disposal of businesses and subsidiaries	-1,151	-	-1,776	-	-145	**-3,072**
Transfer to held for sale assets	-125	-	-	-	-	**-125**
Other changes	-	-	-31	-	5	**-26**
Reclassifications	-	967	114	1,056	-2,143	**-7**
Exchange rate differences	9	2,715	1,165	1,387	156	**5,433**
Cost at Dec 31, 2016	**5,839**	**109,511**	**183,381**	**9,928**	**2,610**	**311,269**
Accumulated depreciation and impairment losses at Jan 1, 2016	**-1,083**	**-69,013**	**-147,814**	**-4,645**	**-**	**-222,555**
Accumulated depreciation relating to decreases and transfers	-	3,160	9,200	-280	-	**12,080**
Depreciation during the financial year	-	-3,056	-9,442	-879	-	**-13,377**
Impairment losses	-9	-	-	-	-	**-9**
Disposal of businesses and subsidiaries	952	-	1,366	-	-	**2,318**
Exchange rate differences	59	-672	-671	-913	-	**-2,196**
Accumulated depreciation and impairment losses at Dec 31, 2016	**-81**	**-69,581**	**-147,360**	**-6,716**	**-**	**-223,738**
Net carrying amount at Jan 1, 2016	**6,067**	**39,446**	**38,268**	**2,329**	**3,287**	**89,397**
Net carrying amount at Dec 31, 2016	**5,758**	**39,930**	**36,020**	**3,212**	**2,610**	**87,531**

EUR thousand	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2015 Total
Acquisition cost at Jan 1, 2015	7,420	105,061	180,372	6,895	3,667	**303,414**
Other increases	233	4,138	6,704	753	3,748	**15,575**
Other decreases	-	-352	-1,781	-381	-	**-2,514**
Other changes	-	-2	83	-3	-23	**56**
Reclassifications	8	1,062	2,410	310	-3,791	**-2**
Exchange rate differences	-511	-1,448	-1,706	-600	-314	**-4,579**
Cost at Dec 31, 2015	**7,150**	**108,459**	**186,082**	**6,974**	**3,287**	**311,951**
Accumulated depreciation and impairment losses at Jan 1, 2015	-1,369	-66,670	-140,530	-4,498	**-**	**-213,067**
Accumulated depreciation relating to decreases and transfers	-	335	1,547	350	-	**2,232**
Depreciation during the financial year	-	-3,084	-9,915	-893	-	**-13,892**
Impairment losses	-72	-	-	-	-	**-72**
Exchange rate differences	358	406	1,084	396	-	**2,244**
Accumulated depreciation and impairment losses at Dec 31, 2015	**-1,083**	**-69,013**	**-147,814**	**-4,645**	**-**	**-222,555**
Net carrying amount at Jan 1, 2015	**6,051**	**38,391**	**39,842**	**2,397**	**3,667**	**90,348**
Net carrying amount at Dec 31, 2015	**6,067**	**39,446**	**38,268**	**2,329**	**3,287**	**89,397**

* Other property, plant and equipment include for example shelters, improvements on leasehold premises and pavements.

Contractual commitments for the acquisition of property, plant and equipment is disclosed in Note 36 Commitments and contingent liabilities.

In financial year 2016 the majority of the prepayments and non-current assets comprised the projects related to buildings located in Poland and Russia.

In financial year 2015 the majority comprised the projects related to buildings located in Poland, Russia and Finland.

Other projects in process related to maintenance and upgrading of buildings and production technology in year 2016 and 2015.

ASSETS LEASED UNDER FINANCE LEASES

Property, plant and equipment include assets leased under finance lease as follows:

EUR thousand	Machinery and equipment	Motor vehicles	**Total**
Dec 31, 2016			
Acquisition cost	1,369	606	**1,975**
Accumulated depreciation	914	550	**1,464**
Net carrying amount	**455**	**56**	**511**
Dec 31, 2015			
Acquisition cost	1,305	690	**1,995**
Accumulated depreciation	776	500	**1,276**
Net carrying amount	**529**	**190**	**718**

16. INTANGIBLE ASSETS

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	**2016 Total**
Acquisition cost at Jan 1, 2016	70,540	61,630	4,396	**136,566**
Other increases	-	34	12,950	**12,984**
Other decreases	-	-543	-	**-543**
Disposal of businesses and subsidiaries	-150	-3,389	-	**-3,539**
Other changes	-	-	-1	**-1**
Reclassifications	-	689	-681	**7**
Exchange rate differences	613	1,477	-5	**2,085**
Cost at Dec 31, 2016	**71,003**	**59,898**	**16,659**	**147,559**
Accumulated amortization and impairment losses at Jan 1, 2016	1,385	-46,632	-	**-45,247**
Accumulated amortization relating to decreases and transfers	32	542	-	**574**
Amortization during the financial year	-	-3,152	-	**-3,152**
Impairment losses	-137	-	-	**-137**
Disposal of businesses and subsidiaries	-	3,380	-	**3,380**
Exchange rate differences	20	-40	-	**-20**
Accumulated amortization and impairment losses at Dec 31, 2016	**1,300**	**-45,902**	**-**	**-44,602**
Net carrying amount at Jan 1, 2016	**71,925**	**14,999**	**4,396**	**91,320**
Net carrying amount at Dec 31, 2016	**72,303**	**13,996**	**16,659**	**102,958**

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	**2015 Total**
Acquisition cost at Jan 1, 2015	71,074	61,698	299	**133,071**
Acquisition through business combinations	-208	-	-	**-208**
Other increases	-	66	5,040	**5,106**
Other decreases	-	-344	-	**-344**
Other changes	-	2	-2	**-**
Reclassifications	-	937	-935	**2**
Exchange rate differences	-326	-729	-6	**-1,061**
Cost at Dec 31, 2015	**70,540**	**61,630**	**4,396**	**136,566**

Accumulated amortization and impairment losses at Jan 1, 2015	1,385	-43,635	-	**-42,250**
Accumulated amortization relating to decreases and transfers	-	344	-	**344**
Amortization during the financial year	-	-3,369	-	**-3,369**
Exchange rate differences	-	28	-	**28**
Accumulated amortization and impairment losses at Dec 31, 2015	**1,385**	**-46,632**	-	**-45,247**
Net carrying amount at Jan 1, 2015	**72,459**	**18,064**	**299**	**90,822**
Net carrying amount at Dec 31, 2015	**71,925**	**14,999**	**4,396**	**91,320**

The carrying amounts of equity-accounted investee in 2016 or 2015 did not include goodwill. The Group did not have intangible assets with indefinite useful lives in 2016 or earlier financial periods.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 9.2 million (2015: EUR 9.1 million), as well as marketing channels and customer connections acquired in business combinations in total of EUR 2.8 million (2015: EUR 2.9 million). Other intangible assets include also carrying amount of software in total of EUR 2.0 million (2015: EUR 3.0 million).

The amount of capitalized borrowing costs amounted to EUR 59 thousand in 2016 (2015: EUR 12 thousand). The average interest rate of external borrowings for each month was applied as the capitalization rate. The average rate for the capitalized borrowing costs was 1.19% in 2016 (2015: 1.03%).

In financial year 2016, prepayments and assets under construction is mostly comprised of development cost of the enterprise resource planning which accumulated capitalized amount was EUR 14.8 million. The amount in financial year 2015 was EUR 3.4 million.

17. IMPAIRMENT TEST

Goodwill is tested for impairment at least annually and always when there is an indication that goodwill or any other asset may be impaired. Impairment tests are performed by comparing the carrying amounts of those cash-generating units (CGU) that include goodwill with their expected recoverable amounts. An impairment loss is recognized if the recoverable amount of the cash-generating unit is less than its carrying amount. The recoverable amount is measured at value in use by discounting the estimated future cash flows using the Discounted Cash Flow (DCF) method.

Tikkurila reports its business activities in two segments: SBU West and SBU East. In impairment testing the cash-generating units have been determined based on geographic area and operational logic within the segments so that there are altogether five cash-generating units. At the end of financial year, goodwill has been allocated to the following cash-generating units: Scandinavia and East.

Annually, at the end of the summer season, during the strategy process, Tikkurila Management Board and the Board of Directors define the objectives for the next years. In setting the objectives the management's judgment takes a central stage. The strategic analysis takes into account information from external sources that relates to the future and past development of the macroeconomic conditions, demand of paints, clients and competitors in the geographical areas. The cash flow forecasts over a three-year period for each cash-generating unit are compiled based on this process. In case of significant changes in any operating areas after the annual strategic analysis cash flows can be re-evaluated later on near the end of the financial year. Capital expenditures for expansion investments have not been taken into account in these estimates. The terminal value is the net present value of the third year's estimate of the forecast period, and it has been extrapolated by using zero nominal growth rate.

The discount rate used in 2016 varied between 6.4% - 19.6% depending on the cash-generating unit. The discount rates are defined as WACC (weighted average cost of capital) which reflects the total cost of equity and debt while taking into consideration the specific risks related to the assets.

The cash flows and discount rates are determined before taxes.

SIGNIFICANT ASSUMPTIONS AND SENSITIVITY ANALYSIS OF THE IMPAIRMENT TESTS

The forecasted cash flows used in impairment tests reflect the Tikkurila management's perception of the development in sales, costs and net working capital during the three-year forecast period. The significant assumptions used in the impairment tests relate thus to the development of sales and profitability, measured by EBITDA (operating profit before depreciations, amortizations and impairment losses). The significant assumptions relating to the discount rate are risk-free interest, capital structure and beta coefficient, which reflects the risk levels.

The carrying amounts of the tested units and goodwill are presented below:

Cash-generating units: EUR thousand	**2016** **Carrying amount,**	**of which** **Goodwill**	2015 Carrying amount,	of which Goodwill
Finland	**46,116**	**-**	31,870	-
Scandinavia	**107,376**	**68,714**	109,663	68,938
East	**65,645**	**3,589**	59,455	2,987
Central Europe	**43,932**	**-**	39,860	-
South-East Europe	**15,507**	**-**	18,462	-

In 2016 impairment test, in the forecasting period from 2017 to 2019, the revenue is expected to grow absolutely and relatively the highest for Area South-East Europe compared to the revenue in the forecasting period for the years from 2016 to 2018. For other operating areas the relative growth is estimated to stay at around the same level as in the previous forecasting period. Estimated growth of revenue for Area East for the forecasting period from 2017 to 2019 will continue from lower revenue level compared to the previous forecasting period. Operating area East is anticipated to reach the 2015 level of revenue at the end part of the forecasting period from year 2017 to 2019. Raw material prices in 2016 were close to level in previous year. Increases in prices of some essential raw materials are, however, anticipated during the year 2017. In financial year 2016 group structure and some courses of action have been streamlined. To decrease the negative impacts of the weak currencies in operating area East, the Group increased the local production and sourcing of raw materials. These actions together with other implemented cost cuttings are expected to improve profitability in the future.

In 2015 impairment test, in the forecasting period from 2016 to 2018, the revenue was expected to significantly slow down for the operating area East compared to the revenue forecasts used in 2014 for the years from 2015 to 2017. In the forecasting for the years from 2016 to 2018, for operating area South-East Europe was estimated the highest relative revenue growth when the growth for all other operating areas was estimated only slight yearly relative growth. The raw material prices, on average, stayed in 2015 close to the level of comparison period, even though there were differences between individual raw material components. This raw material price level was expected to remain the same in 2016, if no major negative changes would occur in the macroeconomic environment. In year 2015 several actions were implemented for cutting costs and improving profitability and efficiency in the Group.

The values of the key assumptions related to discount rates are defined separately for each cash-generating unit and each testing period in order to reflect the corresponding market information. The discount rates have changed mainly due to the changes in the main assumptions of WACC, which are risk free interest rate, capital structure and Beta coefficient. The greatest decrease of discount rate from the year 2015 to year 2016 occured in the operating area South-East Europe. The decrease is mainly caused by the decrease of the risk free interest rate and Beta coefficient. The average market-based ratio between equity and liabilities of benchmark companies and the branch is considered as capital structure.

The chart below shows the estimated parameters used in testing during the three-year forecasting period and for the terminal period by the cash generating units in the year:

	Scandinavia		East		Central Europe		South-East Europe		Finland	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Estimate parameters used										
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	**11.4**	17.1	**15.1**	16.5	**8.8**	13.9	**19.5**	14.2	**12.6**	16.9
Discount rate, pre-tax, %	**6.4**	7.5	**19.1**	20.7	**12.0**	11.2	**19.6**	22.3	**6.7**	7.3
Growth post forecast period, %	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0
The amount at which the recoverable amount exceeds the carrying amount, EUR thousands	**179,273**	283,116	**17,132**	19,723	**2,560**	67,931	**40,778**	10,831	**100,624**	166,312

The sensitivity analysis was performed for growth, profitability and discount rate and its results are shown in the chart below:

	Scandinavia		East		Central Europe		South-East Europe		Finland	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Change in key assumptions										
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	**-5.4**	-10.3	**-2.4**	-2.7	**-0.3**	-6.6	**-10.8**	-4.8	**-6.2**	-11.4
Change in pre-tax discount rate, % -units	**8.7**	15.7	**3.9**	5.6	**0.5**	15.2	**37.0**	11.6	**10.9**	27.2
Change in growth post forecast period, % -units	**-12.0**	-38.5	**-5.7**	-11.6	**-0.7**	-39.0	**n/a**	-36.1	**-15.4**	-168.3

The sensitivity analysis chart above presents the changes in the key assumptions that would cause the net present value of the cash-generating unit to be equal to its carrying amount – assuming no changes in the other assumptions. For example, which amount of change in the discount rate (per percentage unit) would incur the recoverable amount of the assets to be equal to its carrying amount, assuming that other components remain unchanged. Respectively, for example, it also presents when a change in a single percentage unit relating the operating profit before depreciation, amortization and impairment or the growth post forecast period would incur the recoverable amount to be equal to the carrying amount.

18. EQUITY-ACCOUNTED INVESTEES

EUR thousand	**2016**	2015
Carrying amount at Jan 1	**816**	812
Share of profit or loss of equity-accounted investees	**333**	398
Dividends	**-393**	-414
Other comprehensive income	**-20**	-5
Exchange rate differences	**-33**	25
Carrying amount at Dec 31	**703**	816

ASSOCIATES

During year 2016 or 2015 the Group did not have ownership in any associate company.

JOINT VENTURES

Alcro Parti AB is the only joint arrangement in which the Group participates. The Group has 50 percent of ownership interest and voting rights in Alcro Parti AB. In year 2016 or 2015, there were no changes in ownership in joint arrangements.

Alcro Parti AB exercises direct sales towards construction, industrial, cleaning and handicrafts companies as well as towards municipals in Sweden in Stockholm, Gothenburg and Malmö cities. The company has complete sets of merchandise for painting, protecting and cleaning. The strategic goal is to reach those earlier mentioned customer groups.

The Group's joint arrangement is an incorporated company, a separate vehicle, in which the Group has a joint control with another investor. The Group and the other investor have as per the concluded arrangement rights to Alcro Parti AB's net assets. Therefore, the company has been classified as a joint venture and is accounted for using the equity method. The summarized financial information of Alcro Parti AB is presented, as included in its own financial statements, adjusted for differences in accounting policies between the Group and the company.

Alcro Parti AB is a private incorporated company so there is no quoted price available.

SUMMARIZED FINANCIAL INFORMATION OF JOINT VENTURE:

EUR thousand	**2016**	2015
Non-current assets	**1,266**	1,290
Current assets excluding cash and cash equivalents	**670**	691
Cash and cash equivalents	**694**	767
Total assets	**2,630**	2,748
Non-current financial liabilities	**-**	-
Other non-current liabilities	**681**	558
Current financial liabilities excluding trade payables	**-**	-
Other current liabilities including trade payables	**543**	557
Total liabilities	**1,225**	1,115
Net assets	**1,405**	1,633
Group's share of net assets (50%)	**703**	816
Revenue	**9,065**	9,125
Depreciation and amortization	**-**	-
Interest income	**-**	3
Interest expenses	**0**	-
Income taxes	**-193**	-228
Profit for the period	**667**	797
Other comprehensive income	**-40**	-10
Total comprehensive income for the period	**627**	787
Group's share of total comprehensive income for the period	**313**	393
Dividends received by Group	**393**	414
Personnel during the period, average	**9**	8

EUR thousand	**2016**	2015
Group's share of net assets at Jan 1	**816**	812
Group share of net profit	**333**	398
Dividends received	**-393**	-414
Other comprehensive income	**-20**	-5
Translation differences	**-33**	24
Carrying amount at Dec 31	**703**	816

Balances and transactions with joint venture are disclosed in Note 38 Related parties.

19. INVENTORIES

EUR thousand	**2016**	2015
Materials and supplies	**22,218**	21,913
Work in progress	**2,466**	2,570
Finished goods	**54,925**	53,045
Prepayments	**610**	868
Total	**80,220**	78,395

Inventory write-downs amounting to EUR 2.9 million (EUR 2.5 million) were recognized during the financial period. Write-down of inventory is recognized as expense if carrying amount exceeds net realizable value. The valuation of inventories at end of each review period requires to some extent management estimates. Based on Group's internal instructions and on operative information, subsidiary and Group management use judgment when assessing the need and amount of write-down, since mostly there are no explicit methods in assessing the fair value of the inventories.

The amount of write-down of inventories to net realizable value and all losses in inventories are recognized as an expense in the consolidated statement of comprehensive income under "Materials and services" and "Change in inventories of finished goods and work in progress". During the financial year 2016 also reversals of inventory write-down amounting to EUR 0.8 million were recognized (EUR 1.3 million). The amount of cost recognized as expense was EUR 277.7 million (EUR 286.8 million) and it is presented in the consolidated statement of comprehensive income, line-items "Materials and services" and "Change in inventories of finished goods and work in progress".

Carrying amount of inventory carried at net realizable value in year 2016 was EUR 1.7 million (EUR 0.5 million).

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR thousand	**2016**	2015
Carrying amount at Jan 1	**1,095**	3,240
Additions	**161**	-
Disposals	**-193**	-2,490
Change in valuation	**-45**	66
Other changes / Transfers	**-182**	278
Exchange rate differences	**-14**	1
Carrying amount at Dec 31	**822**	1,095

Available-for-sale financial assets include mainly unquoted shares that are measured at cost or at cost less impairment. These shares are of business supportive nature and related to personnel's recreational activities long-term investments that Tikkurila is not intending to sell. These shares have no quoted market price in an active market and their fair values cannot be measured reliably by using any valuation techniques. Therefore, according assessment of Tikkurila's management, the cost of shares is the best available estimate for fair value.

In financial year 2015 shares of Ekokem were quoted in OTC-list and that information was used to determine their fair value. These shares have been recognized in fair value hierarchy level 2 (Note 32). Unrealized fair value changes have been recognized in other comprehensive income, net of tax and these have been included in fair value reserve in equity. The Group has sold all shares of Ekokem during year 2015.

In financial year 2016, an impairment loss of EUR 45 (24) thousand was recognized in financial costs for available-for-sale financial assets. Impairment losses were recognized for available-for-sale financial assets during the year 2016 and 2015.

In financial year 2016 gains on sale of available-for-sale financial assets amounted to EUR 45 (2,441) thousand. Losses on sale were recognized in year 2016 EUR 44 thousand. In year 2015 no losses were recognized. Gains or losses on the sales of these assets are included in other operating income or expense.

21. NON-CURRENT RECEIVABLES

EUR thousand	**2016**	2015
Loan receivables	**5,677**	1,155
Prepayments	**138**	136
Accrued income and deferred expenses	**314**	322
Other receivables	**1,211**	1,311
Total non-current assets	**7,340**	2,924
Other receivables		
Trade receivables and hire-purchases	**1,211**	1,171
Other non-current non-interest-bearing receivables	**-**	140
Total other receivables	**1,211**	1,311

22. CURRENT INTEREST-BEARING RECEIVABLES

EUR thousand	2016	2015
Loan receivables	**915**	610
Total interest-bearing receivables	**915**	610

23. TRADE AND OTHER NON-INTEREST-BEARING RECEIVABLES

EUR thousand	2016	2015
Trade receivables	**89,178**	76,817
Accrued income and deferred expenses	**5,950**	6,474
Other receivables	**3,699**	5,008
Total current non-interest-bearing receivables	**98,827**	88,299

To define the fair value of trade receivables the management estimates as per customer specific indications the need and amount of impairment.

During the financial year 2015, the Group has sold certain trade receivables to a financing company. The credit risks and contractual rights relating these financial assets were transferred to the financing company at the time of the sale. Arrangement fees were recognized as financial expenses. At the end of year 2015, the Group ceased to use factoring arrangement.

Other receivables include VAT receivables amounting to EUR 3.2 million (EUR 3.8 million).

EUR thousand	2016	2015
Accrued income and deferred expenses		
Items related to net revenue and purchases	**2,649**	2,369
Employee benefit expenses	**248**	347
Insurances	**360**	368
Leases	**1,038**	1,446
Interests	**146**	6
Other	**1,509**	2,260
Total	**5,950**	6,796

24. CASH AND CASH EQUIVALENTS

EUR thousand	2016	2015
Cash	**18,418**	16,695
Cash equivalents (bank deposits, maturity less than 3 months)	**113**	93
Total cash and cash equivalents	**18,531**	16,788

EUR thousand	2016	2015
Cash and cash equivalents according to cash flow:		
Cash	**18,418**	16,695
Cash equivalents (bank deposits, maturity less than 3 months)	**113**	93
Bank overdrafts	**-**	-
Total cash and cash equivalents	**18,531**	16,788

25. DEFERRED TAX ASSETS AND LIABILITIES

2016 EUR thousand	Net balance at Jan 1, 2016	Transla-tion differ-ences	Recog-nized in profit or loss	Recog-nized in OCI	Acqui-sitions / disposals	Transfer to held for sale	Other changes and transfers	**Balance at Dec 31, 2016** **Net**	**Deferred tax assets**	**Deferred tax liabilities**
Carry forward tax losses	157	12	54	-	-	-	-	**223**	**223**	**-**
Defined benefit pension plans	1,980	-66	27	-14	-	-	-	**1,927**	**1,927**	**-**
Provisions	216	-2	-53	-	-	-	-	**161**	**161**	**-**
Inventory profit	664	54	332	-	-43	-	-	**1,007**	**1,007**	**-**
Cumulative depreciation difference	-2,867	-47	115	-	-	-	-	**-2,799**	**433**	**-3,232**
Available-for-sale financial assets	-	-	-	-	-	-	-	**-**	**-**	**-**
Fair value measurement of PPE* and intangible asset in business combinations	-2,416	-280	421	-	1	-	-	**-2,274**	**-**	**-2,274**
Other temporary differences	2,067	333	936	-529	-	-	-	**2,807**	**3,546**	**-739**
Net tax liabilities (assets)	-200	4	1,832	-543	-42	-	-	**1,051**	**7,297**	**-6,245**

2015 EUR thousand	Net balance at Jan 1, 2016	Transla-tion differ-ences	Recog-nized in profit or loss	Recog-nized in OCI	Acqui-sitions / disposals	Transfer to held for sale	Other changes and transfers	Balance at Dec 31, 2015 Net	Deferred tax assets	Deferred tax liabilities
Carry forward tax losses	277	-65	-55	-	-	-	-	157	157	-
Defined benefit pension plans	1,982	30	56	-88	-	-	-	1,980	1,980	-
Provisions	168	-	48	-	-	-	-	216	216	-
Inventory profit	719	-36	-19	-	-	-	-	664	664	-
Cumulative depreciation difference	-3,003	7	129	-	-	-	-	-2,867	636	-3,503
Available-for-sale financial assets	-470	-	-	470	-	-	-	-	-	-
Fair value measurement of PPE* and intangible asset in business combinations	-3,081	129	536	-	-	-	-	-2,416	-	-2,416
Other temporary differences	3,058	41	-1,233	201	-	-	-	2,067	3,088	-1,021
Net tax liabilities (assets)	-350	106	-539	583	-	-	-	-200	6,741	-6,940

* Property, plant and equipment

For the recognition of deferred tax assets on tax losses and other items, management assesses the probability of a future taxable profit against which tax assets can be utilized, even though in advance no certain information is available. The Group has subsidiaries in several countries with different types of tax regulations, which can also change in the future. Estimating the total amount of income taxes at Group level requires significant consideration. Actual profits may differ from the forecasts and, in such case the change will affect the taxes in future periods.

The Group subsidiaries had tax losses carried forward of EUR 7.8 million at December 31, 2016 (EUR 19.3 million) for which no deferred tax asset was recognized. The unlimited right to carry forward the tax losses concerns 22 (47) percent of the tax losses. Tax losses with the limited right expire in 2017–2026. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which deferred tax assets can be utilized.

Deferred tax liability has been recognized on undistributed earnings of the Group's subsidiaries up to that part of which tax effect the Group estimates to be probable within foreseeable future due earnings distribution.

However, from the majority of the undistributed earnings of foreign subsidiaries no deferred tax liability has been recognized as the major part of such earnings can be transferred to the owner without any tax consequences or the timing of distribution of the earnings is in the control of the Group and such distribution is not probable within foreseeable future.

26. CAPITAL AND RESERVES

	Number registered shares (1,000)	Treasury shares (1,000)	Number of shares outstanding (1,000)
Total at January 1, 2015	44,108	-80	44,029
Acquisition of treasury shares	-	-3	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	80	-
Total at December 31, 2015	**44,108**	**-2**	**44,106**
Acquisition of treasury shares	-	-	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	-	-
Total at December 31, 2016	**44,108**	**-2**	**44,106**

Tikkurila Oyj has one class of shares, and each share entitles its holder to one vote at the General Meetings and to an equal amount of dividend. The share has no nominal value. The share capital was EUR 35 million at December 31, 2016 (EUR 35 million) and it is fully paid. On December 31, 2016, the number of shares was 44,108,252 including 2,461 treasury shares. At the end of year 2015, number of shares was 44,108,252 including 2,461 treasury shares.

Earnings per share are presented in context of the consolidated statement of comprehensive income and in Note 14 Earnings per share.

FAIR VALUE RESERVE

Fair value reserve includes accumulated fair value changes of available-for-sale financial assets until the assets are derecognized or impaired.

RESERVE FOR INVESTED UNRESTRICTED EQUITY

Reserve for invested unrestricted equity includes other investments of equity nature and that part of the subscription price that is not specifically recognized in share capital.

TREASURY SHARES

The treasury share reserve comprises the cost of the Tikkurila Oyj's shares held by the Group.

During the financial year 2016 TIkkurila did not purchase or disposed any treasury shares without any consideration. At the year-end 2016, Tikkurila Oyj held 2,461 treasury shares, equaling a total cost of EUR 42 thousand. Treasury shares represented 0.01% of the share capital and aggregate voting power of all shares.

During February 2015, Tikkurila purchased a total of 2,500 of the company's own shares through public trading, which represent 0.01% of all shares. The total purchase price paid for the shares was EUR 43 thousand.

On March 3, 2015, Tikkurila Oyj disposed of a total of 79,539 treasury shares without any consideration, according to share-based commitment and incentive plan.

At the year-end 2015, Tikkurila Oyj held 2,461 treasury shares, equaling a total cost of EUR 42 thousand. Treasury shares represented 0.01% of the share capital and aggregate voting power of all shares.

OTHER RESERVES

Other reserves include the funded portion of retained earnings.

TRANSLATION RESERVE

Translation reserve includes the foreign exchange rate differences arising from the translations of the financial statements of foreign operations.

DIVIDENDS

Dividend of EUR 0.80 per share, totaled EUR 35,285 thousand, was distributed in year 2016. In year 2015, dividend of EUR 0.80 per share, totaled EUR 35,285 thousand was distributed. After the respective reporting date, The Board of Directors proposes that a dividend of EUR 0.80 per share, totaled EUR 35,285 thousand, will be distributed of the year 2016. Total amount informed here is calculated for number of shares outstanding as end of financial year 2016.

EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	**Total**
Other comprehensive income 2016						
Items that will not be reclassified to profit or loss:						
Remeasurements on defined benefit plans	-	-	-422	-422	-	**-422**
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	-26	-26	-	**-26**
Income taxes relating to items that will not be reclassified to profit or loss	-	-	-14	-14	-	**-14**
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	6	6	-	**6**
Total items that will not be reclassified to profit and loss, net of tax	**-**	**-**	**-456**	**-456**	**-**	**-456**
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	-	5,894	-	5,894	-	**5,894**
Foreign currency translation differences for equity-accounted investees	-	-29	-	-29	-	**-29**
Income taxes on net investment to foreign subsidiary	-	92	-	92	-	**92**
Foreign currency translation differences reclassified to profit or loss on disposal of foreign operations	-	-707	-	-707	-	**-707**
Income taxes reclassified to profit or loss on disposal of foreign operations	-	-251	-	-251	-	**-251**
Total items that may be reclassified subsequently to profit or loss, net of tax	**-**	**4,999**	**-**	**4,999**	**-**	**4,999**
Other comprehensive income 2016, net of tax	**-**	**4,999**	**-456**	**4,543**	**-**	**4,543**

EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Other comprehensive income 2015						
Items that will not be reclassified to profit or loss:						
Remeasurements on defined benefit plans	-	-	298	298	-	298
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	-7	-7	-	-7
Income taxes relating to items that will not be reclassified to profit or loss	-	-	-88	-88	-	-88
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	2	2	-	2
Total items that will not be reclassified to profit and loss, net of tax	-	-	205	205	-	205

EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	-	-2,094	-	-2,094	-	-2,094
Foreign currency translation differences for equity-accounted investees	-	-17	-	-17	-	-17
Income taxes on net investment to foreign subsidiary	-	-32	-	-32	-	-32
Available-for-sale financial assets, fair value changes	90	-	-	90	-	90
Available-for-sale financial assets - fair value change reclassified to profit or loss	-2,440	-	-	-2,440	-	-2,440
Deferred taxes on fair value changes of available-for-sale financial assets	470	-	-	470	-	470
Total items that may be reclassified subsequently to profit or loss, net of tax	-1,880	-2,143	-	-4,023	-	-4,023
Other comprehensive income 2015, net of tax	-1,880	-2,143	205	-3,818	-	-3,818

27. NON-CURRENT INTEREST-BEARING LIABILITIES

EUR thousand	**2016**	2015
Loans from financial institutions	**49,867**	49,835
Finance lease liabilities	**224**	326
Total non-current interest-bearing liabilities	**50,091**	50,161
Liabilities that matures later than five years		
Loans from financial institutions	**-**	49 835

The maturity analysis and currency risk of non-current borrowings are disclosed in Note 34 Financial risk management.

EUR thousand	**2016**	2015
Finance lease liabilities - total minimum lease payments		
Within one year	**231**	367
After one year and not later than five years	**235**	357
Later than five years	**-**	-
Total	**466**	724
Finance lease liabilities - present value of the minimum lease payments		
Within one year	**217**	339
After one year and not later than five years	**224**	327
Later than five years	**-**	-
Total	**441**	666
Future finance charges	**25**	58
Total finance lease liabilities	**466**	724

The Group has leased mainly cars and other machinery and equipment under finance leases. Some of the contracts include renewal or extension options.

28. CURRENT INTEREST-BEARING LIABILITIES

EUR thousand	**2016**	2015
Loans from financial institutions	**1,916**	2,514
Commercial paper program	**24,979**	9,979
Finance lease liabilities	**217**	339
Other interest-bearing current liabilities	**-**	-
Total interest-bearing current liabilities	**27,113**	12,832

Specification of non-current and current portion of finance lease liabilities is disclosed in Note 27 Non-current interest-bearing liabilities.

AVERAGE INTEREST RATE AND CURRENCY DISTRIBUTION OF INTEREST-BEARING LIABILITIES

Average interest rate for current and non-current loans in year 2016 was 0.8% (1.2%). *)

Interest-bearing liabilities by currency (in euro):

EUR thousand	**2016**	2015
EUR	**75,231**	60,214
CNY	**1,902**	2,514
Other	**70**	265
Total	**77,204**	62,993

*) Include interest expenses of loans and transaction costs attributable to withdrawal.

29. TRADE AND OTHER NON-INTEREST-BEARING PAYABLES

EUR thousand	**2016**	2015
Non-current accrued expenses and deferred income	**17**	-
Other non-current interest-free liabilities	**-**	103
Total other non-current liabilities	**17**	103
Trade payables	**41,702**	42,160
Other non-interest-bearing payables	**5,077**	4,309
Advances received	**452**	153
Accrued expenses and deferred income	**44,032**	42,550
Total current non-interest-bearing payables	**91,263**	89,172
Accrued expenses and deferred income		
Share-based payments	**17**	668
Employee benefit expenses	**15,737**	15,904
Items related to revenue and purchases	**24,765**	23,689
Interests	**9**	2
Other	**3,521**	2,287
Total	**44,049**	42,550
Net liabilities		
Interest-bearing non-current liabilities	**50,091**	50,161
Interest-bearing current liabilities	**27,113**	12,832
Cash and cash equivalents		
Cash	**-18,418**	-16,695
Cash equivalents (bank deposits, maturity less than 3 months)	**-113**	-93
Total	**58,673**	46,206

30. PENSION OBLIGATIONS AND OTHER LONG-TERM EMPLOYEE BENEFITS

PENSION OBLIGATIONS

Tikkurila Group has various pension plans in accordance with the local conditions and practices of the countries in which it operates. These pension plans are mainly defined contribution plans.

Tikkurila Group has defined benefit pension plans in Sweden, Norway and in Germany. The most significant plan in Tikkurila is the Swedish defined benefit pension plan. The benefits of the defined benefit pension plans vary by countries - mainly the benefits are related to the pension level. The above mentioned plans, Norwegian pension plan as well as the pension plan in Germany are closed for new members.

In defined benefit pension plans the amount of pension is determined based on certain factors such as salary and years of service. Tikkurila Management is required to make estimates as defining the assumptions for calculation of defined benefit obligations. Assumptions as such are including the estimates of level of future salary increases as well as rates of employee turnover.

Tikkurila Group's Swedish subsidiaries have pension benefit plans in Swedish insurance company Alecta. The pensions funded in Alecta are determined as defined benefit pension plans according to IAS 19. However, as Alecta cannot provide the required information in order to calculate the pension obligation; the Group's pensions funded in Alecta are accounted for as defined contribution plans and those expenses are included in defined contribution pension cost in the consolidated financial statements.

The majority of the accrued pension benefits handled in Alecta is lacking the information of the distribution between employers. The entire vested pension benefit is instead recorded under the most recent employer. Therefore, Alecta is unable to make an exact allocation of assets and contributions to each employer. In case the deficit or surplus arises in the plan, there is no set of rules available how this should be handled. Currently the possible losses are covered by Alecta's collective capital.

The monthly premium paid is calculated per insured person and per type of the pension benefit. The premium is calculated with Alecta's assumptions about interest rates, longevity, operating costs and returns. The premium is calculated based on each person's current pensionable salary.

Actuarial methods and assumptions used by Alecta differ from those used in the valuation of defined benefit pensions in accordance with IAS 19.

The Swedish defined benefit pension plan is recognized in the consolidated statement of financial position to which is combined credit insurance from PRI (PRI Pensionsgaranti, ömsesidigt). The pension scheme (ITP 2) covers white-collar employees born 1978 or earlier. Within the scheme the employer pledges a predetermined pension level on lifelong basis to employees involved. The pension level is in relation to final salary. The plan does not officially include any guaranteed promise on index-linking, in practice the disbursed pensions have been linked to inflation since scheme was established. The default pension payment starts at age 65, retiring age.

The pension benefits are established by different percentages in different salary intervals. The salary intervals are established in relation of income base amount, which is determined once a year by the Swedish government.

The plan guarantees pensions to employees in case an employer does not fulfill its commitments. PRI monitors the participants in the scheme and may require additional guarantees, pledges or increased premiums in case the risks are increased for example due the insolvency of the participants.

The plan exposes the Group to various risks. The high inflation will increase the obligation as the benefits have been in practice linked to inflation. The trend of salary levels has a significant effect, the higher salary increases, would lead to increase in obligation, as the pensions are set in relation to final salary. The plan provides pensions for life of the members and therefore increase in life expectancy would result increase in defined benefit obligation. The above mentioned risk for insolvency of the participant may result an increase in obligation of the companies involved in the plan.

The following tables show the impact of defined benefit plans on the Group's consolidated statement of comprehensive income and consolidated statement of financial position.

EUR thousand	**2016**	2015
Defined benefit pension obligations (net)	**24,122**	24,349
Other long-term employee benefits including social costs	**1,249**	1,180
Pension obligations and other long-term employee benefits	**25,371**	25,529
Defined benefit pension obligations		
Items recognized in the statement of financial position:		
Present value of funded obligations	**2,023**	1,880
Present value of unfunded obligations including Swedish payroll tax liability	**24,255**	24,401
Fair value of plan assets	**-2,156**	-1,932
Net defined benefit liability	**24,122**	24,349

EUR thousand	Defined benefit obligation 2016	2015	Fair value of plan assets 2016	2015	Net defined benefit liability (asset) 2016	2015
Balance at Jan 1	**24,726**	24,696	**-1,932**	-2,209	**22,794**	22,487
Included in profit or loss: [1]						
Current service cost	**671**	600	**-**	-	**671**	600
Interest expense / (income)	**651**	663	**-54**	-52	**597**	611
Gain on settlements	**-**	-	**-3**	-	**-**	-
Administrative expenses	**-**	-	**4**	6	**4**	6
	1,322	1,263	**-53**	-46	**1,269**	1,217
Included in other comprehensive income: [2]						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from						
- Experience adjustment	**-146**	-441	**-**	-	**-146**	-441
- Demographic assumptions	**-44**	-	**-**	-	**-44**	-
- Financial assumptions	**556**	-102	**-**	-	**556**	-102
Return on plan assets, excluding amounts included in interest expense/(income)	**-**	-	**-28**	262	**-28**	262
Effect of movements in exchange rates	**-719**	318	**-112**	137	**-831**	455
	-353	-225	**-140**	399	**-493**	174
Other:						
Contributions paid by						
- Employer	**-**	-	**-128**	-137	**-128**	-137
Payments from the plans:						
- Benefits payments	**-980**	-990	**58**	61	**-922**	-929
Obligations transfers and other changes	**-58**	-18	**39**	-	**-19**	-18
Balance at Dec 31	**24,657**	24,726	**-2,156**	-1,932	**22,501**	22,794

[1] In addition, the Swedish payroll tax related defined benefit pension is included as expenses of defined benefit pensions EUR 42 thousand (EUR 50 thousand) in profit or loss.

[2] Loss of EUR 83 thousand (gain of EUR 17 thousand) on Swedish payroll tax is recognized in other comprehensive income.

In addition, actuarial loss of EUR 20 thousand (actuarial loss EUR 5 thousand), net of tax, is recognized in other comprehensive income regarding equity-accounted investees.

EUR thousand	2016	2015
Remeasurements on defined benefit plans in other comprehensive income		
Actuarial gains (-) / losses (+) on defined benefit pension obligations, including actuarial gains and losses on Swedish payroll tax	**450**	-560
Return on plan assets, excluding amounts included in interest expense/(income)	**-28**	262
Change in income taxes related to remeasurements for defined benefit plans	**14**	88
Actuarial gains / losses recognized from equity-accounted investees, net of tax	**20**	5
Total	**456**	-205
Plan assets include		
Assets in insurance companies *	**2,156**	1,932
Total	**2,156**	1,932

* Plan assets funded in insurance companies are included in the investment capital of the insurance company. The liability of the investment risk at issue is also carried by the insurance company. Individual analysis of distribution of plan assets is therefore not available.

The Group expects to pay EUR 1.1 million of contributions into the defined benefit plans during the year 2017.

The significant actuarial assumptions	2016	2015
Discount rate	1.3-2.6%	1.3-2.8%
Inflation	1.5-2.0%	1.5-2.0%
Forthcoming increases in wages and salaries	2.5%	2.5%
Forthcoming increases in pensions	0.0-2.0%	0.0-2.0%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory.

The Group's major plan is the defined benefit pension plan in Sweden. The present value of this pension obligation at the end of financial year was EUR 21,492 thousand (EUR 21,663 thousand). In addition, the value of the payroll tax related to this defined benefit obligation was EUR 1,621 thousand (EUR 1,556 thousand) at year-end 2016. The most significant actuarial assumptions regarding this plan were as following: discount rate 2.60% (2.75%), inflation 1.50% (1.50%), to which development the pension level has been in practice linked to, as well as life expectancy and forthcoming increases in salaries 2.5% (2.5%). The life expectancy for a 65-year-old woman is 25 years and for a 65-year-old man 23 years.

At December 31, 2016, the weighted-average duration of the defined benefit pension obligation was 17.1 years (2015: 15.4 years).

SENSITIVITY ANALYSIS:

Sensitivity analysis presented below is based on a change in one assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognized in the statement of financial position (projected unit credit method).

	Impact on defined benefit obligation			
Effect in thousands of euro	Dec 31, 2016		Dec 31, 2015	
Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	-2,248	2,552	-2,239	2,541

	Dec 31, 2016		Dec 31, 2015	
Sensitivity analyses on Group's most significant plan, Swedish defined benefit pension plan	Increase	Decrease	Increase	Decrease
One-year change in life expectancy	1,010	-1,005	1,006	-1,001
Inflation (0.5% movement)	1,810	-1,637	1,819	-1,645

OTHER LONG-TERM EMPLOYEE BENEFITS

The parent company of the Group, Tikkurila Oyj, has a long-service benefit plan according to which an employee has a right to a compensated absence or right to a gift given after certain years of service time. In addition, an employee has a right to a gift when retiring from the company service, in case the terms of number of years of service have been fulfilled.

Since the beginning of the year 2016 the terms of the long-service benefit plan have been changed. Curtailment of the plan is considered in actuarial calculations of the year 2015 and effect of the curtailment has been recognized as deduction of personnel expenses in profit or loss.

Benefits are determined by using the Projected Unit Credit Method according the actuarial calculations prepared annually by qualified actuaries. Possibly arising actuarial gains and losses are recognized in profit or loss, in personnel expenses.

EUR thousand	2016	2015
Other long-term employee benefits		
Items recognized in the statement of financial position:		
Present value of long-service benefit plan	1,000	944
Social costs	249	236
Liability of long-service benefit plan including social costs	1,249	1,180
Balance		
Other long-service benefit obligation at Jan 1	944	2,893
Included in profit or loss:		
Current service cost	69	217
Interest cost	12	35
Actuarial losses (gains) arising from		
- Experience adjustment	57	-42
- Demographic assumptions	-	84
- Financial assumptions	12	-27
Curtailment of the other long-service benefit plan	-	-1,891
	150	-1,624

EUR thousand	**2016**	2015
Other:		
Payments from the plans:		
- Benefits payments	**-94**	-325
Long-service benefit obligation at Dec 31	**1,000**	944

	2016	2015
Actuarial assumptions		
Discount rate	**0.9%**	1.3%
Inflation	**1.1%**	1.1%
Forthcoming increases in wages and salaries	**1.5%**	1.5%
Employee turnover	**3.0%**	3.0%

Tikkurila Oyj expects to pay EUR 107 thousand of contributions into the long-service benefit plan during the year 2017.
At December 31, 2016, the weighted-average duration of the long-service benefit obligation was 9 years (2015: 8 years).

SENSITIVITY ANALYSIS:
Sensitivity analysis presented below is based on a change in one assumption while holding all other assumptions constant. When calculating the sensitivity of the long-service benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the liability recognized within the statement of financial position (projected unit credit method).

	Impact on long-service benefit plan obligation			
Effect in thousands of euro	**Dec 31, 2016**		Dec 31, 2015	
Change in assumption	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**-38**	**41**	-35	37
Salary growth rate (0.5% movement)	**37**	**-35**	34	-32

31. PROVISIONS

EUR thousand	Restructuring	Other provisions	**2016 Total**
2016			
Non-current provisions			
Balance at Jan 1, 2016	158	423	**581**
Exchange rate differences	-	-14	**-14**
Provisions made during the period	-	35	**35**
Provisions used during the period	-	-14	**-14**
Provisions reversed during the period	-	-2	**-2**
Reclassifications	-40	-	**-40**
Non-current provisions at Dec 31, 2016	118	428	**546**
Current provisions			
Balance at Jan 1, 2016	220	316	**536**
Provisions made during the period	25	6	**31**
Provisions used during the period	-	-44	**-44**
Provisions reversed during the period	-29	-256	**-285**
Reclassifications	40	-	**40**
Current provisions at Dec 31, 2016	256	22	**278**

EUR thousand	Restructuring	Other provisions	2015 Total
2015			
Non-current provisions			
Balance at Jan 1, 2015	15	436	451
Exchange rate differences	-	1	1
Provisions made during the period	213	1	214
Provisions used during the period	-5	-15	-20
Reclassifications	-65	-	-65
Non-current provisions at Dec 31, 2015	158	423	581
Current provisions			
Balance at Jan 1, 2015	194	243	437
Provisions made during the period	-	100	100
Provisions used during the period	-25	-	-25
Provisions reversed during the period	-14	-28	-42
Reclassifications	65	-	65
Current provisions at Dec 31, 2015	220	316	536

Recognizing provisions requires the management's estimates, since the precise euro amount of obligations related to provisions is not known when preparing the financial statements. If the management estimates that no probable payment obligation arises, the item is presented as a contingent liability in the financial statements.

RESTRUCTURING PROVISIONS

As per previous years concluded co-operation negotiations related to Tikkurila's Finnish site the restructuring provisions were recognized concerning the deduction of personnel. At the end of the financial year 2016, these provisions amounted to EUR 374 thousand, from which the EUR 256 thousand is presented as current provisions. The accurate timing of realization of these provisions is uncertain.

OTHER PROVISIONS

Other provisions arise from retirement one-time payments to employees by the company at the time of retirement. Such provision is in Serbia, Macedonia and Poland. The amount of payment equals approximately two - three-month salary of the person at the time of retirement. These plans are based on legal requirements in above mentioned countries. Company has no future obligations related to these plans after payment is settled. This provision includes also jubilee provision. The jubilee provision is established by pattern of past practice.

At the end of financial year 2015, other provisions comprised a provision related to dispute of commercial agreement and a provision related to single pension obligation, which were fully reversed and some minor amount was used during financial year 2016.

32. CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORIES

EUR thousand	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	**Total carrying amounts**	Fair value level 1	Fair value level 2	Fair value level 3	**Total fair values**
2016										
Financial assets measured at fair value										
Non-current financial assets										
Available-for-sale financial assets	20	-	-	822	-	**822**	-	-	822	**822**
		-	**-**	**822**	**-**	**822**				
Financial assets not measured at fair value										
Non-current receivables	21									
Loan receivables		-	5,677	-	-	**5,677**	-	5,677	-	**5,677**
Other receivables		-	1,213	-	-	**1,213**	-	1,213	-	**1,213**
Current financial assets										
Interest-bearing receivables	22	-	915	-	-	**915**				
Cash equivalents	24	-	18,531	-	-	**18,531**				
Trade and other non-interest-bearing receivables	23	-	89,242	-	-	**89,242**				
		-	**115,578**	**-**	**-**	**115,578**				
Financial liabilities not measured at fair value										
Non-current financial liabilities										
Finance lease liabilities	27	-	-	-	224	**224**	-	224	-	**224**
Loans from financial institutions	27	-	-	-	49,867	**49,867**	-	49,999	-	**49,999**
Current financial liabilities										
Current interest-bearing liabilities	28	-	-	-	27,112	**27,112**				
Trade payables	29	-	-	-	41,702	**41,702**				
		-	**-**	**-**	**118,905**	**118,905**				

EUR thousand	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available -for-sale financial assets	Other financial liabilities	Total carrying amounts	Fair value level 1	Fair value level 2	Fair value level 3	Total fair values
2015										
Financial assets measured at fair value										
Non-current financial assets										
Available-for-sale financial assets	20	-	-	1,095	-	1,095	-	-	1,095	1,095
		-	-	1,095	-	1,095				
Financial assets not measured at fair value										
Non-current receivables	21									
Loan receivables		-	1,155	-	-	1,155	-	1,155	-	1,155
Other receivables		-	1,311	-	-	1,311	-	1,311	-	1,311
Current financial assets										
Interest-bearing receivables	22	-	610	-	-	610				
Cash equivalents	24	-	16,788	-	-	16,788				
Trade and other non-interest-bearing receivables	23	-	76,872	-	-	76,872				
		-	96,736	-	-	96,736				
Financial liabilities not measured at fair value										
Non-current financial liabilities										
Finance lease liabilities	27	-	-	-	326	326	-	326	-	326
Loans from financial institutions	27	-	-	-	49,835	49,835	-	49,916	-	49,916
Current financial liabilities										
Current interest-bearing liabilities	28	-	-	-	12,832	12,832				
Trade payables	29	-	-	-	42,160	42,160				
		-	-	-	105,153	105,153				

Fair values for non-current liabilities are based on discounted contractual cash flows. Interest rates used for discounting are the interest rates the Group would have to pay for similar loans at the end of reporting period. The interest rate is based on a risk free interest rate and a company specific credit risk premium. The discount rate used is 0.75%. In year 2015 the discount rate used was 1.08%.

Fair values for non-current assets as well as current financial assets and liabilities correspond to the carrying amount as the effect of discounting is immaterial.

Available-for-sale financial assets are mostly investments in shares with no quoted market price in an active market and their fair values cannot be measured reliably by using any valuation techniques. Therefore, according assessment of Tikkurila's management, the cost of shares or the cost less impairment, is the best available estimate for fair value.

In addition, available-for-sale financial assets has included shares that are quoted in OTC-list. These shares are measured at fair value in each reporting period. The fair value changes are recognized in other comprehensive income net of tax, and they are included in fair value reserve in equity until the assets are disposed, at which time the cumulative gain or loss is reclassified from equity in profit or loss as a reclassification item. The Group has sold these shares during the financial year 2015.

FAIR VALUE HIERARCHY LEVELS

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: is for inputs for the assets or liability that are not based on observable market data (unobservable inputs).

RECONCILIATION OF LEVEL 3 AVAILABLE-FOR-SALE FINANCIAL ASSETS AND LIABILITIES

EUR thousand	**2016**	2015
	Available-for-sale financial assets	Available-for-sale financial assets
Carrying amount at Jan 1	**1,095**	840
Translation differences in other comprehensive income	**-14**	1
Additions	**161**	-
Change in valuation	**-45**	-24
Other changes / Transfers	**-182**	278
Disposals	**-193**	0
Carrying amount at Dec 31	**822**	1,095

In year 2016, gain of EUR 45 thousand is recognized on available-for-sale financial assets in fair value hierarchy level 3 as well as loss on sale of EUR 44 thousand. In year 2015, total gain of EUR one thousand was recognized. Gains on sales of these assets are included in other operating income and loss is recognized in other operating expenses.

In financial year 2016, the impairment loss of EUR 45 thousand is recognized on real estate investment classified in level 3. Valuation is based on local real estate market price information.

In financial year 2015, the impairment loss of EUR 14 thousand is recognized on real estate investment classified in level 3. Estimated amount of impairment loss is based on the real estate market prices in that specific area. In addition, EUR 10 thousand was recognized as impairment loss of other shares due the liquidation of the company.

MEASUREMENTS OF FAIR VALUES - VALUATION TECHNIQUES USED IN MEASURING LEVEL 2 AND LEVEL 3 FAIR VALUES

AVAILABLE-FOR-SALE FINANCIAL ASSETS

During the year 2015, the Group sold all its shares of Ekokem. These shares were the only available-for sale financial assets in Group's position classified in level 2, thus Tikkurila Group held no assets classified in level 2 nor level 1 at the end of the financial year 2015 nor during the year 2016.

The measurement of fair value of these shares were based on broker quotes, quoted prices in OTC-list. Markets for these shares were not considered to be so active, that these shares could have been included in level 1.

Other available-for-sale financial assets, classified in level 3, are mainly unquoted shares that are measured at cost or at cost less impairment if value has impaired below the cost. These shares are of business supportive nature, related to personnel's recreational activities and are considered as long-term investments that Tikkurila is not intending to sell. These shares have no quoted market price in an active market and their fair values cannot be measured reliably by using any valuation techniques. Therefore, according assessment of Tikkurila's management, in most cases the cost of shares is the best available estimate for fair value.

FORWARD EXCHANGE CONTRACTS

Fair values of forward exchange contracts are based on quoted market data for similar instruments with similar maturity at the end of reporting period. Tikkurila Group had no unsettled forward exchange contracts at the end of year 2015 or 2016.

33. DERIVATIVE INSTRUMENTS

According the Board of Directors' decision, made at the end of financial year 2014, the company will not carry out forward exchange agreements or apply other financial instruments to hedge risks. Instead, exchange rate risk management will, as applicable, involve operative measures such as the coordination of currency allocation of incoming and outgoing cash flows.

In the comparison year, derivative instruments were measured at fair value and changes of fair values were recognized immediately in profit or loss under financial items. Outstanding forwarding agreements at the beginning of the comparison year were fully closed in the first months of 2015.

Valuation methods of derivative instruments are presented in the Accounting policies for the consolidated financial statement.

FAIR VALUES AND NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR thousand				
2016	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	-	-	-	-

2015	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	-	-	-	-

EUR thousand	2016	2015
Derivative instruments in the statement of comprehensive income		
Financial income	-	443
Financial expenses	-	-462
Derivative instruments in the statement of financial position		
Accrued income and deferred expenses	-	-
Accrued expenses and deferred income	-	-

34. FINANCIAL RISK MANAGEMENT

THE OBJECTIVE AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The objective of financial risk management is to secure, according to the pre-defined principles, Group's cash flow, statement of financial position and net profit from the adverse impact and fluctuations caused by financial risks as well as to increase the predictability of the business. The aim is to keep the liquidity and creditworthiness of Tikkurila Group at a good level in all market circumstances.

Tikkurila's financing and financial risk management is controlled by policies accepted by the Board of Directors. The operative organization manages financial risks based on these authorizations and policies. The Group's finance organization regularly reports the most important financial risks to the Tikkurila Management Board and to the Board of Directors of the parent company.

Tikkurila Oyj's finance department acts as an internal bank for Group companies offering both short- and long-term funding, taking deposits and being responsible for Group cash management. The finance department is responsible for executing external financial transactions and subsidiaries are conducting their financial operations with parent company's finance department unless local law or other constraints prohibit it or unless the decision is made, and it is approved by the Group's management, to deviate above mentioned general practice.

The following countries in which the Group operates, have local exchange control regulations that restrict the cash deposit abroad: China, Macedonia and Serbia. At the year-end 2016 cash and cash equivalents held by those entities amounted to EUR 3,463 thousand. At the end of financial year 2015, corresponding figure amounted to EUR 2,358 thousand. In addition to above-mentioned countries it consisted of cash and cash equivalents of Belarussian and Ukrainian subsidiaries, which were sold during the financial year 2016.The European Union and the United States have set sanctions against Russia, which is a significant market area for Tikkurila. These sanctions can have adverse effects on Tikkurila's business, or they can make it more difficult to repatriate capital from Russia to Finland or they can have a negative impact on the financial position of Tikkurila's local customers or suppliers.

FINANCIAL INSTRUMENTS AND THEIR SIGNIFICANCE AND TREATMENT

From the financial risk point of view the most significant items in Tikkurila's statement of financial position December 31, 2016 were the various components of net working capital, cash and interest-bearing liabilities. Counterparty risks related to trade receivables and cash are central, and the creditworthiness and diversification of counterparties are key elements for managing the risk.

Since the sale of paints and other products of the Group typically correlates with GDP development, changes in general economic development have an impact on Tikkurila's business. Tikkurila's sales are exposed to intra-year seasonality: usually, the second and third quarters have the most significant influence on sales volume and profitability, which also impacts the timing of operative cash flows. In addition to intra-year seasonality, construction with its related services, which is one of the essential customer segments for Tikkurila, is by nature sensitive to economic conditions.

Due to seasonality, the year-end statement of financial position is not equal to an average statement of financial position, among others in relation to net working capital and cash, which has to be taken into account when analyzing items on the consolidated statement of financial position and financial risks. The treatment of financial instruments is described in more detail in "Accounting policies for the consolidated financial statements".

FOREIGN EXCHANGE RATE RISKS

Major part of the Group's business is outside the euro area, foreign exchange rate risks have a significant impact on Tikkurila's revenue, result and statement of financial position, as well as on consolidated euro cash flows. In comparison year 2015 especially the changes of currency rates in states within SBU East had significant impact on the Group's result. The currencies of these areas are heavily correlated with the crude oil price fluctuations and thus had significant changes in their currency values. In addition, the certain states have let their currency freely float in financial year 2015. As per decision of the Board of Directors Tikkurila Group does not carry out any forward agreements. For these reasons the Group result is sensitive to the currency exchange fluctuations currently and in the future within SBU East as well in SBU West.

The fluctuation of foreign exchange rates impacts the Tikkurila Group from various angles:

- currency denominated cash flows; and
- conversion of subsidiaries' currency-denominated financial statements into euro in Group reporting, which impacts both income statement and statement of financial position; and
- value of non-euro investments.

The key methods used for managing exchange rate risks are:

- matching of consolidated cash inflows and outflows in each currency; and
- diversification, i.e. using different currencies as currency pairs do not correlate perfectly with each other; and
- use of currency clauses in both purchase and sales contracts

TRANSACTION RISKS

During 2016 and 2015 about 70% of Tikkurila's revenue was generated outside the euro area, so foreign exchange rate changes have a significant impact on Tikkurila's consolidated euro-denominated revenue. At net profit level, the foreign exchange rate risks are reduced as expenses are mostly denominated in the same currency as revenue. The major impact of foreign exchange rate risks is reflected on cash flows and statement of financial position items, which are denominated in other currencies than the functional currency of each Group company. The most important intra-group transactions that create exchange rate risks are business transactions between Group companies and loans and deposits between Group companies and Tikkurila Oyj. Transaction risks are monitored in respect of existing balance sheet items.

Transaction risks are hedged by matching currency denominated income and expenses. They also include flows resulting from currency clauses present in commercial agreements. According the financial risk management policy, approved by The Board of Directors, the Group does not use currency forwards for hedging purposes. The last of the outstanding forward agreements were fully closed in the first months of 2015.

The Group purchases raw materials and packing materials from several international suppliers in other than Tikkurila Group companies' functional currencies and thus exposes the Group to foreign exchange rate risk. Tikkurila can at least partly affect which currency is used at purchase contracts, or contracts might include currency clauses or similar conditions. In some countries, the Group has a possibility to change sales prices if exchange rates change; although these changes are partly discretionary or require negotiations with customers.

EUR thousand

Transaction risk position	KZT	SEK	NOK	DKK	PLN	RSD	RUB	MKD	CNY	Other
Dec 31, 2016										
Bank accounts	-125	-20,770	1,250	893	-2,733	-935	-915	-	-	151
Loans and deposits	3,057	-	-	-	-	8,598	27,605	2,500	-	-
Trade receivables and payables	4,010	3,201	11	1,473	4,906	275	7,067	-162	770	-56
Open position	6,942	-17,569	1,261	2,366	2,173	7,938	33,757	2,338	770	95

EUR thousand

Transaction risk position	KZT	SEK	NOK	DKK	PLN	RSD	RUB	MKD	CNY	Other
Dec 31, 2015										
Bank accounts	-247	-17,104	7	-396	-67	-900	58	-41	-5	275
Loans and deposits	777	-	413	1,715	-	15,980	20,812	2,650	-	16,958
Trade receivables and payables	2,280	4,187	-62	1,036	2,414	-73	4,706	-440	1,724	5,336
Open position	2,810	-12,917	358	2,355	2,347	15,007	25,576	2,169	1,719	22,569

Transaction risk position is a sum of currency denominated items in the statement of financial position and counter-value of these items expressed in functional currency of a subsidiary.

In Financial Statement year 2015 transaction risk positions of BYR, UAH were separately disclosed. As the Ukrainian and Belarussian subsidiaries were sold during the financial year 2016, there is no transaction risk position regarding those currencies at the end of year 2016.

When analyzing items on the consolidated statement of financial position and financial risks, it has to be taken into account, that the year-end statement of financial position is not equal to an average statement of financial position.

The impact of currency rate changes to profit before tax based on items in statement of financial position December 31, 2016:

	2016					2015				
EUR thousand	**RUB**	**SEK**	**RSD**	**KZT**	**PLN**	RUB	SEK	RSD	KZT	PLN
Impact of 10% weakening of currency	**-3,069**	**1,597**	**-721**	**-631**	**-198**	-2,325	1,174	-1,364	-255	-213
Impact of 10% strengthening of currency	**3,751**	**-1,952**	**882**	**771**	**241**	2,841	-1,435	1,667	312	261

TRANSLATION RISKS

In addition to translation risks affecting income statements when the currency denominated income statements are converted into euro, also Tikkurila's equity is exposed to foreign exchange rate risk arising from net investments made to subsidiaries outside the euro area. According to the financial management policy accepted by the Board of Directors translation risks are not hedged. Translation differences arising from converting subsidiaries' equity are recognized in equity in translation differences.

NET INVESTMENTS MADE IN FOREIGN CURRENCIES

EUR thousand	RUB	SEK	PLN	Other
Dec 31, 2016				
Equity	28,294	24,468	32,001	10,895
Impact of 10% strengthening of currencies on equity	3,144	2,719	3,556	1,211
Impact of 10% weakening of currencies on equity	-2,572	-2,224	-2,909	-990

EUR thousand	RUB	SEK	PLN	Other
Dec 31, 2015				
Equity	23,071	30,743	25,883	2,834
Impact of 10% strengthening of currencies on equity	2,563	3,416	2,876	315
Impact of 10% weakening of currencies on equity	-2,097	-2,795	-2,353	-258

INTEREST RATE RISKS

Tikkurila Group had following interest-bearing assets and liabilities during 2016 and/or 2015:

Interest-bearing assets:
- cash
- time deposits
- interest-bearing receivables
- interest-bearing receivables in relation to divestments

Interest-bearing debt:
- leasing and installment funding
- committed overdraft facilities
- commercial papers issued by Tikkurila Oyj
- revolving credit facility
- term loans
- other interest-bearing debt

Tikkurila's interest-bearing net debt is exposed to cash flow risk. The business cycle of Tikkurila follows in principle the overall economic development; therefore, the business cash flow is stronger when the economic cycle is strong and typically also interest rates are higher. On the other hand, when the economic cycle weakens and interest rates are lower, the cash flow is also weaker. Therefore, the duration of interest-bearing liabilities is kept short so that the cash flow and interest rate change follow the same cycle. According the financial risk management policy, Tikkurila does not use any interest rate derivatives to hedge interest rate risks.

The share of fixed and floating rate assets and liabilities is presented in the following table. The financial instrument has been defined as a fixed when the interest rate is fixed for whole duration of the instrument regardless of whether the instrument is short- or long-term.

EUR thousand	**Dec 31, 2016**	Dec 31, 2015
Fixed rate		
Financial assets *	**1,093**	1,221
Financial liabilities	**-27,336**	-13,158
Net	**-26,243**	-11,937
Floating rate		
Financial assets	**5,499**	544
Financial liabilities	**-49,867**	-49,835
Net	**-44,368**	-49,291

* Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 58.7 (46.2) million net debt position on December 31, 2016, the impact of each one percentage point increase in interest rates to next financial year's profit before tax would be EUR -0.4 (-0.3) million. The sensitivity analysis is based on an assumption that the interest rate changes will happen at the beginning of the year and that the changes are parallel over the yield curve. In addition, it is assumed that the net debt position remains unchanged and the impact of foreign exchange rates would be zero. Current loans are assumed to be renewed at due dates. Regarding non-current loans with floating interest rates, the effect of the interest rate change is taken into account from the date of rate fixing. Net debt includes cash and cash equivalents, but the interest rates on cash are expected to remain unchanged or any changes to take place only after the next financial year. Because of the seasonality of Tikkurila's business, the year-end net debt level is not typical for entire year, so interest rate sensitivity changes during the year. If the average net debt in 2017 would be at the average level of 2016, calculated as the average of actual month-end balances, and consequently equal about EUR 87 million, then applying the abovementioned assumptions and principles one percentage point increase in interest rates would increase Group's interest expense in 2017 by about EUR 0.9 million. And interest rate decrease by one percentage point would decrease the interest expense accordingly by the same amount.

Change in interest rates in respect of impairment testing, amount of defined benefit pension obligation and in respect of acquisition as the liabilities assumed and assets acquired are measured at their acquisition-date fair value, are disclosed in respective notes.

CREDIT RISKS

Credit risk is a risk that occurs when a counterpart fails to meet its obligations, so credit risks are counterparty risks. At Tikkurila, the most significant items that are exposed to credit risk are trade receivables, short-term investments and cash. The management of credit risk of trade receivables is decentralized to business units, but the Group's finance function monitors the risk. Tikkurila's large and geographically divergent clientele reduces concentration of credit risk, although some decorative paint retail chains have a relatively large influence. Credit risks related to trade receivables are managed by customer credit limits that take the prior sales history and creditworthiness of a customer into account. New customers are credit risk rated prior to sales. Tikkurila uses advance payments and credit insurances to relevant extent to reduce credit risks.

Advance payments are used in Russia where about 5% (9%) of revenue in 2016 took place using advance payments.

Credit insurance is used in Poland where about 84% (82%) of trade receivable as of December 31, 2016 was insured. According to terms of the insurance Tikkurila is entitled to get 95% of the nominal amount, if the customer is not able to pay the invoice.

Credit risks related to short-term investments and cash are controlled by principles defined by the Board of Directors. Tikkurila manages these counterparty risks by diversifying its excess liquidity into numerous counterparties and by investing surplus liquidity in high-quality short-term interest-bearing tradeable securities and in bank deposits, as defined in the internal policy determined by the Board of Directors. Investment-related credit risk is mainly centralized to Tikkurila Oyj as subsidiaries' surplus liquidity is in possession of parent company through the multicurrency cash pool established during the year 2016. Previously subsidiaries made deposits t to the parent company. The carrying amounts of the financial assets correspond to their maximum credit risk.

The maximum credit risk relating financial assets at the end of reporting period is presented below:

EUR thousand	Note	**Dec 31, 2016**	Dec 31, 2015
Available-for-sale financial assets	20	**822**	1,095
Financial assets at fair value through profit or loss	23,33	**-**	-
Loans and other receivables	21, 22, 23, 24	**115,578**	96,736
Total		**116,400**	97,831

Loans and other receivables by currency in euros at December 31:

EUR thousand	**Dec 31, 2016**	Dec 31, 2015
EUR	**36,643**	25,219
SEK	**16,138**	19,987
RUB	**31,010**	21,319
PLN	**16,169**	13,354
DKK	**3,045**	4,233
RSD	**2,919**	2,718
CNY	**3,910**	3,083
Other	**5,744**	6,823
Total	**115,578**	96,736

The Russian ruble denominated receivables compared to previous year, presented above in the table in euros, have increased significantly. However, the majority of this increase is due to strengthening of Russian ruble, as the closing rate at the year-end 2015 was significantly weaker than at financial year-end 2016. Other component was the increase of amount of cash and cash equivalent denominated in Russian rubles compared to previous year-end. Increase of cash is related to aim to utilize more efficiently of volume-based bonuses, discounts in relation of purchase activities.

The Russian ruble denominated trade receivables have increased only slightly from the comparison year-end. According the management estimate this does not create any special risks as the receivables are diversified across various counterparties. However, the tight competition in the market can lead to changes in commercial terms that might have unfavorable impacts on business.

Movement of allowance for impairment of trade receivables

EUR thousand	**Dec 31, 2016**	Dec 31, 2015
Balance at beginning of year	**5,238**	5,944
Exchange rate differences	**281**	-408
Additions	**1,828**	1,967
Realized	**-1,102**	-1,564
Acquisition / disposal of business	**-426**	-
Decreases	**-593**	-701
Total	**5,226**	5,238

The ageing of loans and other receivables at December 31:

EUR thousand	**Carrying amount Dec 31, 2016**	Carrying amount Dec 31, 2015
Not past due	**111,262**	89,463
Past due 0 - 90 days	**2,562**	5,429
Past due 91 - 180 days	**1,107**	1,176
Past due 181 - 365 days	**443**	541
Past due over 365 days	**204**	127
Total	**115,578**	96,736

The Group recognizes impairment loss on receivables when there is objective evidence that a financial asset or group of financial assets is impaired. The debtor's significant financial difficulties, payment delays and neglect can be considered as such objective evidence. Tikkurila recognized a credit loss of EUR 1.4 (1.8) million on past due trade and other receivables during the financial year 2016.

There was no impairment loss on receivables from joint ventures during the financial year 2016 or 2015.

LIQUIDITY RISKS

Tikkurila's business is characterized by annual seasonality which varies somewhat in different geographical areas and which is the strongest in the Nordic countries due to outdoor painting season in summer. Need for working capital increases typically until the end of summer, when most of the cash flows related to outdoor paints are received. This creates challenges to liquidity management.

Tikkurila manages liquidity risk mainly by loan arrangements and committed credit facilities. The surplus liquidity is kept on bank accounts or invested to highly liquid short-term instruments.

In June 2015, Tikkurila Group signed the new EUR 150 million long-term credit facility and term loan agreement with three banks. This replaced the loan arrangement EUR 180 million signed in September 2011 as well as the EUR 25 million revolving credit facility agreed in October 2011. This debt credit facility consists of EUR 100 million five-year revolving credit facility and EUR 50 million term loan, which matures in January 2021. This EUR 100 million revolving credit facility includes an option to extend the maturity as total for additional two years at banks' consent. The loans have one financial covenant, which is based on Tikkurila Group's net gearing and it is reviewed on last day of each calendar quarter. This covenant sets the ratio of net liabilities to equity to a maximum of 1.30. If Tikkurila breaches this covenant, the loan will fall due immediately unless the lenders give a waiver.

In addition to these facilities, Tikkurila signed in October 2015 a commercial paper frame agreement with a nominal value of EUR 150 million. Based on this new program, Tikkurila Oyj can issue unsecured debt with a maturity of less than one year. This replaced the previously effective EUR 100 million commercial paper program.

At the end of 2016, Tikkurila had unused a EUR 100 (100) million revolving credit facility and EUR 9 (11) million committed credit facilities. A total of EUR 25 (10) million of commercial papers were issued at the end of the year. At the end of reporting period the amount of cash in bank accounts was EUR 19 (17) million.

The Group uses rolling cash flow estimates to manage liquidity risks. In addition, the funding is split into several different funding sources (equity, debt), different instruments, different maturities to reduce refunding risk, and if needed to several currencies and counterparties. The operative business units use various netting and pooling arrangements in order to make sure that funds are transferred efficiently and the Group has a good visibility over cash flows. This is not yet possible in all areas where the Group is operating, mainly in SBU East.

In order to increase the efficiency of transferring funds and visibility over cash flows, Tikkurila has established in year 2016 a multicurrency cross border cash pool where Group companies in Finland, Sweden, Norway, Denmark, Estonia, Latvia, Lithuania and Poland are participating at the end of financial year 2016.

This set-up decreases external limit needs since credit balances offset debit balances cross-currency by participating companies. With this pooling arrangement Tikkurila Oyj's finance department has real time full visibility and control of Group's liquidity. The internal short term loans of the companies involved have been replaced by giving internal limits within the pool.

Contractual maturities of liabilities at December 31, 2016:

EUR thousand

Dec 31, 2016	Carrying amount	Contractual cash flows	2017	2018	2019	2020	2021	>2021
Loans from financial institutions	51,783	53,493	2,321	380	380	381	50,031	-
Commercial papers	24,979	25,000	25,000	-	-	-	-	-
Other liabilities	103	103	103	-	-	-	-	-
Finance lease liabilities	441	466	231	138	59	34	4	-
Trade payables	41,702	41,702	41,701	-	1	-	-	-
Guarantees	9,675	9,675	9,675	-	-	-	-	-
Total	**128,683**	**130,439**	**79,031**	**518**	**440**	**415**	**50,035**	**-**

Dec 31, 2015	Carrying amount	Contractual cash flows	2016	2017	2018	2019	2020	>2020
Loans from financial institutions	52,349	54,928	3,023	381	381	381	381	50,381
Commercial papers	9,979	10,000	10,000	-	-	-	-	-
Other liabilities	103	103	-	103	-	-	-	-
Finance lease liabilities	666	723	367	205	84	43	23	-
Trade payables	42,160	42,160	42,160	-	-	-	-	-
Guarantees	1,971	1,971	1,971	-	-	-	-	-
Total	107,228	109,885	57,521	689	465	424	404	50,381

The figures are undiscounted.

PRICE RISK OF LONG-TERM INVESTMENTS

The Group holds a small number of unlisted shares that are measured at amortized cost. These shares are of business supportive nature, personnel's recreational activities related long-term investments that Tikkurila is not intending to sell. These shares have no quoted market price in an active market and their fair values cannot be measured reliably as the change range for reasonable measurement is significant, and the probabilities of various measurements cannot be reasonably estimated.

In year 2015 Tikkurila Oyj sold the shares of Ekokem Oyj in its possession. Shares were classified as available-for-sale and were valued at fair value at the end of each reporting period.

CAPITAL MANAGEMENT

The aim of capital management is to secure that Tikkurila has adequate capital for conducting its business both in the short-term and long-term, taking into consideration the risk factors in the operational environment, e.g. risk related to availability and price of funding. In addition, the capital management is linked to growth targets, possible changes in new businesses and in geographical split, and maintaining the flexibility to react to the changes in competitive environment. When analyzing the need for and management of capital, demands from external interest groups are taken into account, such as owners' requirements for profit distribution and requirements of authorities or restrictions related to equity ratio of Group companies.

Tikkurila's primary funding source is the cash flow generated from operations. If the cash flow from operations and existing financing facilities were not sufficient, the Group has various possibilities to obtain funding: among others, debt capital from financial institutions or by issuing interest-bearing securities, equity funding from existing and/or new owners, working capital management and sale of assets.

The Board of Directors of Tikkurila Oyj has set long-term targets for the Group's gearing and return for capital employed (ROCE-%): gearing shall be below 70% and return for capital employed shall be above 20%.

Loan agreements of Tikkurila Oyj have covenants linked to capital structure. If these covenants are breached Tikkurila has to pay back the loans immediately unless the lenders give a waiver. These covenants are explained in more detail in paragraph "Liquidity risk".

When Tikkurila Group analyzes possible investment targets one key evaluation criteria is the net present value of discounted cash flows. The interest rate used in these calculations is based on the weighted average cost of capital (WACC), which is affected among other things by the capital structure.

The Board of Directors of Tikkurila Oyj has given a guideline for dividend distribution. The targeted dividend payout should be 40% of annual net profit excluding the impact of items affecting comparability. The Board of Directors proposes to the annual general meeting, which will be held on April 4, 2017, that Tikkurila would pay EUR 0.80 per share dividend, which is about 78% of Group's 2016 net profit, excluding items affecting comparability, net of tax.

EUR thousand	**Dec 31, 2016**	Dec 31, 2015
Equity	**208,591**	194,969
Non-controlling interest	**-**	-
Total	**208,591**	194,969
Non-current interest-bearing liabilities	**50,091**	50,161
Current interest-bearing liabilities	**27,113**	12,832
Cash and cash equivalents	**18,531**	16,788
Net debt	**58,673**	46,206
Gearing, %	**28.1%**	23.7%
Equity ratio, %	**50.9%**	51.1%
EBITDA	**69,785**	79,017
Net debt/EBITDA	**0.84**	0.58
Capital employed		
Goodwill	**72,303**	71,925
Investments in equity-accounted investees	**703**	816
Property, plant and equipment ready for use and intangible assets ready for use (excluding goodwill)	**98,917**	101,109
Net working capital	**89,114**	78,924
Total capital employed	**261,037**	252,774

35. OPERATING LEASES

GROUP AS LESSEE

Lease payments are of premises, facilities, land, advertising space and warehouses. Lease payments for facilities and fixture include trucks, vehicles and equipment for transportation and lifting. Lease terms vary from one country to another and renewal options are possible.
Non-cancellable operating lease rentals are payable as follows:

EUR thousand	**2016**	2015
Within one year	**9,710**	10,361
After one year and not later than five years	**11,668**	10,447
Later than five years	**8,033**	7,546
Total	**29,411**	28,354

GROUP AS LESSOR

Lease payments are mainly received from re-leasing of own and rental premises.
Non-cancellable operating lease rentals are receivable as follows:

EUR thousand	**2016**	2015
Within one year	**476**	525
After one year and not later than five years	**494**	673
Later than five years	**503**	619
Total	**1,473**	1,817

36. COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand	**2016**	2015
Mortgages given as collateral for liabilities in the statement of financial position		
Other loans	**-**	-
Mortgages given	**102**	102
Total loans	**-**	-
Total mortgages given	**102**	102
Contingent liabilities		
Guarantees		
On behalf of own commitments	**690**	413
On behalf of others	**1,686**	1,539
Other obligations on own behalf	**7,299**	19
Rent obligations	**29,411**	28,354
Total contingent liabilities	**39,086**	30,325

Adding the new information about indirect and direct purchases to other obligations on own behalf is due to a possibility to collect the information in the new ERP system. Comparable information for the previous year is not available.

CONTRACTUAL COMMITMENTS:

Tikkurila Group had contractual commitments in relation to the purchase of property, plant and equipment total of EUR 0.6 million (EUR 0.6 million in 2015) at the end of financial year 2016. Contractual commitments for purchase of intangible assets totaled EUR 2.8 million (EUR 1.4 million) at the end of year 2016.

OTHER COMMITMENTS AND PENDING LITIGATIONS

In paint manufacturing processes hazardous materials, chemicals and numerous compounds are used. Therefore, a risk of contamination of the environment due to an accident cannot be totally excluded, even though Tikkurila complies with laws, regulations and safety standards, as well as with its own internal safety protocols, in its operations and in the construction, operation and maintenance of its production facilities.

If there would be changes in the current operational circumstances, or there would be an accident causing environmental damages, or if the company would decide to close down or transfer a production facility, this might lead to obligations to clean up or rehabilitate the land. Moreover, if any changes by authorities into environmental laws and regulations would cause more obligations to the Group these could have a material adverse effect on Group's result. Some Group's facilities are located on or are utilizing leased land or rented buildings, whose lease liabilities might change or might have to be paid in advance, in case there are external regulatory, land usage or operational permit changes or if the company itself will decide to adjust its operations. Moreover, additional investment requirements might arise in the future due to changes linked to production facilities, laboratories or warehousing facilities and equipment, or adjacent requirements like fire safety.

According to Tikkurila's management assumptions and estimates, at the end of the reporting period, there were no such changes in operational circumstances that would, due the result of a past event, have caused outflows of economic benefits from the Group. Therefore, no such obligations related to environmental obligations were recognized.

Tikkurila has granted its customers certain guarantees related to its products in connection to its supply agreements. In case based on these, it would be probable that obligation to be settled would require an outflow of economic benefits and the reliable estimate of the amount could be made, these obligations would be recognized accordingly either in Provisions or in Accrued expenses and deferred income. As the timing and amount of these potential obligations are uncertain, management estimates are applied.

The products and services of Tikkurila Group are sold to external companies specializing in wholesale or retail trade and also, especially in industrial and professional products, in certain markets direct to end-users of Tikkurila's products. Group companies have various - frame, delivery and other - agreements with its customers. At the end of financial year 2016, Tikkurila Group companies had customer agreements, which are valid beyond December 31, 2016, and which have terms and conditions creating binding commitments to Tikkurila. To major extent the commitments granted for discounts, costs or guarantees are contingent. The agreements require customers to buy Tikkurila's products and are based on the amount or value of orders made by the customers in the future. In certain cases, however, there are commitments for Tikkurila Group companies to provide certain services or to participate in customers' sales promotion activities without direct link to deliveries of Tikkurila products.

Tikkurila Oyj is defendant in a claim raised at district court of Vantaa. Counterparty requires a total of about EUR 0.3 million for damages.

In year 2006 Tikkurila divested its subsidiary Lövholmsgränd 12 AB to Skanska Nya Hem AB. The divested entity owned a land plot and buildings on Lövholmen in Stockholm. The final sales price was tied to the number of square meters (so-called BTA) for which the buyer will get permit to build on the property. In 2006 a preliminary purchase price was received and related capital gain was recognized as income. According to the original terms of the transaction, if the actual amount of BTAs will be in excess of or below the pre-agreed range, there will be an adjustment of the purchase price, either upwards or downwards. The lower limit of BTAs in the pre-agreed range was set so that currently the risk of any downward adjustment is considered to be small.

As the process of getting building permits on the land has been delayed by the City of Stockholm, the parties decided in 2013 to prolong the original agreement regarding the finalization of the transaction to 31 December 2019. According to the revised terms, if at the end of 2019 there will be no final town plan regarding BTAs for the land area in question, Skanska has the option either to finalize the transaction with the preliminary purchase price without any right to adjustment or to cancel the transaction and let Tikkurila buy the property back at the preliminary transaction price. If the transaction would be reversed, Tikkurila has also committed, subject to certain limitations, to compensate Skanska for costs related to preparing the property for further development.

37. SHARE-BASED PAYMENTS

SHARE-BASED REMUNERATION OF THE BOARD OF DIRECTORS OF TIKKURILA OYJ

Based on the resolution of the Annual General Meeting, Tikkurila Oyj acquired from the market company's shares for the members of the Board of Directors to partially (about 40% of the fixed annual remuneration) pay Board members fees as following:

during financial year 2016

shares	'000 EUR
6 280	96

during financial year 2015

shares	'000 EUR
5 080	96

In 2016 and 2015 there were altogether six Board members to whom the shares were granted.

SHARE-BASED COMMITMENT AND INCENTIVE PLAN OF MANAGEMENT

Resolution of the Board of Directors in February 2012, and basic information about the plan

In order to commit and motivate key personnel, the Board of Directors of Tikkurila Oyj decided in February 2012 on a share-based plan. In the share-based plan decided in 2012 there are three performance periods: financial years 2012-2014, 2013-2015 and 2014-2016. The Board of Directors of the company decides 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 has purchased from the market and owns Tikkurila's shares in accordance with the terms and conditions of the plan. The potential performance-based share rewards from all three performance periods are based on the Tikkurila Group's operative earnings before interest, taxes, depreciation and amortization (EBITDA) and net debt. The amount of rewards depends on the number of purchased shares, validity of the employment or service relationship and the fulfillment of the performance criteria during each performance period. Rewards will be paid after each performance period partly in the company's shares and partly in cash. No reward will be paid if a key employee's employment or service contract terminates before the reward payment. Furthermore, participants earned in December 2014 from the performance period 2012-2014 a restricted share reward, which was tied to the validity of employment or service relationship. On December 31, 2016, a total of nine key employees selected by the Board participated in the share-based plan.

KEY TERMS AND FINANCIAL TARGETS OF THE PERFORMANCE REWARDING OF THE PLAN

Maximum number of shares for each participant

The Board of Directors shall decide the maximum number of the company's shares to be purchased by each participant in order to be able to participate in the plan. Each participant acquires the Tikkurila Oyj shares from the market at his/her own money and own risk. The prerequisite for participation in the plan and for reward payment is that a participant purchases Tikkurila Oyj shares from the market prior to January 1, 2013. Reward shall be paid only to the extent the participant still owns purchased shares upon reward payment.

Restricted share reward (only applied to performance period 2012-2014)

If a participant still owns the purchased shares and a participant's employment or service is in force upon reward payment, the participant shall, as restricted share reward, receive in December 2014 the value of one share for one purchased share purchased before January 1, 2013. This reward was paid in December 2014 so that about one half was paid in shares and about one half in cash.

Performance-based share award (applies to all three performance periods: 2012-2014, 2013-2015 and 2014-2016)

A participant shall, besides restricted share reward, have a possibility to earn shares as reward from a performance period for achieving targets established for the performance criteria of the performance period. The Board of Directors decides on the performance criteria for the performance-based share reward and on targets to be established for the performance criteria separately for each performance period. Achieving the targets established for the performance criteria shall determine the proportion out of the maximum reward that shall be paid to a participant. The Board of Directors shall be entitled to adjust the targets established for the performance criteria in case of substantial extraordinary events during a performance period. The reward shall be paid so that about one half is paid in shares and about one half in cash. For each of the performance periods the financial targets are the Group operative EBITDA and net debt, in relation to a pre-set scale; these scales differ between the three performance periods.

Ownership obligation

The participant shall have to undertake not to sell shares he or she has received as reward on the basis of the plan, the value of which corresponds to at least his or her annual gross salary, until the end of his or her employment or service.

Other key terms

No reward shall be paid to a participant, if he or she has sold the purchased shares or his or her employment or service contract terminates before the reward payment. During each performance period, the maximum amount of performance-based share reward is the value of four shares for each purchased share. The maximum amount of share reward to be paid to a participant in one year shall, however, always be the participant's monthly gross salary of the month preceding the payment, multiplied by twenty-four.

SHARES PURCHASED BY PARTICIPANTS

Purchased shares by participants, holdings as of December 31, 2015 (to the extent the shareholdings are related to this share-based plan)

On December 31, 2015 the purchased shares under the commitment and incentive plan's performance periods 2013-2015 and 2014-2016 were the following:

Position	Number of persons	Shares	% of maximum
President and CEO of Tikkurila Oyj	1	14,000	100%
Other members of Tikkurila Management Board	4	16,000	100%
Other persons	4	11,000	100%
Total	**9**	**41,000**	**100%**

THE FINAL VALUE OF THE PLAN'S 2012-2014 PERFORMANCE PERIOD

Based on the abovementioned shareholdings and on the terms of the share-based commitment and incentive plan, the final total value of rewards at the end of performance period totaled EUR 3.1 million. For this tranche a total of EUR 0.8 million was booked during 2015 as personnel expenses and EUR -0.3 million as income taxes into the consolidated statement of comprehensive income, which resulted in EUR 0.5 million negative impact on 2015 net profit.

THE FINAL VALUE OF THE PLAN'S 2013-2015 PERFORMANCE PERIOD

Based on the abovementioned shareholdings and on the terms of the share-based commitment and incentive plan, the final total value of rewards at the end of performance period totaled EUR 0.1 million. For this tranche a total of EUR 0.1 million was booked during 2015 as personnel expenses and EUR 0.0 million as income taxes into the consolidated statement of comprehensive income, which resulted in EUR 0.1 million negative impact on 2015 net profit.

THE FINAL VALUE OF THE PLAN'S 2014-2016 PERFORMANCE PERIOD

Based on the abovementioned shareholdings and on the terms of the share-based commitment and incentive plan, the final total value of rewards at the end of performance period totaled EUR 0.0 million. For this tranche no personnel expenses nor related income taxes were booked into the consolidated statement of comprehensive income during 2016. This tranche had no impact on 2016 net profit.

SUMMARY OF THE BOOKKEEPING TOTAL VALUE AND PERSONNEL EXPENSES OF THE SHARE-BASED PLAN

EUR million	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	**Dec 31, 2016**	time of payment
Aggregate bookkeeping value						
Performance period 2012-2014	2.4	2.6	2.4	3.1	**3.1**	12/2014 and 3/2015
Performance period 2013-2015	-	0.5	0.0	0.1	**0.1**	Q1/2016
Performance period 2014-2016	-	-	0.0	0.0	**0.0**	
Total	2.4	3.0	2.4	3.2	**3.2**	

EUR million	2012	2013	2014	2015	**2016**	2012-2016
Personnel expenses recognized (excluding the impact of deferred taxes)						
Performance period 2012-2014	0.5	1.0	0.8	0.8	**-**	3.1
Performance period 2013-2015	-	0.1	-0.1	0.1	**-**	0.1
Performance period 2014-2016	-	-	0.0	0.0	**-**	0.0
Total	0.5	1.1	0.7	0.9	**-**	3.2

PAYMENTS BASED ON THE PLAN

Based on the performance period 2012-2014, in December 2014 participants were paid the so-called restricted share award (so-called commitment shares). About half of the total restricted share award was paid in shares, and the transferred shares were split in the following way:

2014 Position	Persons	Shares	Gross value of shares, IFRS, EUR '000	Gross value of cash remuneration, IFRS, EUR '000	Gross reward total, IFRS, EUR '000
President and CEO of Tikkurila Oyj	1	7,000	86	112	198
Other members of Tikkurila Management Board	4	8,000	99	90	189
Other persons	4	5,500	80	79	159
Total	**9**	**20,500**	**265**	**281**	**546**

Based on the performance period 2012-2014, during the first half year 2015 participants were paid according the following split based on so-called performance shares:

2015 Position	Persons	Shares	Gross value of shares, IFRS, EUR '000	Gross value of cash remuneration, IFRS, EUR '000	Gross reward total, IFRS, EUR '000
President and CEO of Tikkurila Oyj	1	25,539	314	505	819
Other members of Tikkurila Management Board	4	32,000	396	569	965
Other persons	4	22,000	323	449	772
Total	**9**	**79,539**	**1,033**	**1,524**	**2,557**

Company acquired the shares, which were transferred to the plan's participants, from the market.
Based on the performance period 2013-2015, during the first half year 2016 participants were paid according the following split based on so-called performance shares:

2016 Position	Persons	Shares	Gross value of shares, IFRS, EUR '000	Gross value of cash remuneration, IFRS, EUR '000	Gross reward total, IFRS, EUR '000
President and CEO of Tikkurila Oyj	1	-	-	29	29
Other members of Tikkurila Management Board	4	-	-	33	33
Other persons	4	-	-	23	23
Total	**9**	**-**	**-**	**85**	**85**

THE BOARD OF DIRECTORS OF TIKKURILA RESOLVED ON A NEW SHARE-BASED INCENTIVE PLAN IN APRIL

The Board of Directors of Tikkurila Oyj has approved a new share-based incentive plan for the Group key employees. The new plan consists of a Performance Share Plan 2015-2019 and a Matching Share Plan 2016-2018.

PERFORMANCE SHARE PLAN 2015-2019

The Performance Share Plan includes three performance periods, calendar years 2015-2017, 2016-2018 and 2017-2019. Approximately 10 key employees, including the members of the Management Board, belong to the target group of the performance periods 2015-2017 and 2016-2018.

The potential reward of the plan from the performance periods 2015-2017 and 2016-2018 will be based on the Tikkurila Group's average EBITDA-based intrinsic values 2015-2017 and 2016-2018, respectively. The rewards to be paid on the basis of the performance periods 2015-2017 and 2016-2018 will amount to an approximate maximum total of 250,000 Tikkurila Oyj shares. In addition, the Company will pay taxes and tax-related costs arising from the reward to the participants in connection with the reward payment. The Board of Directors will resolve on the details of the performance period 2017-2019 at the beginning of the performance period.

The potential reward from the plan will be paid partly in the Company's shares and partly in cash in 2018, 2019 and 2020. As a rule, no reward will be paid, if a participant's employment or service ends before the reward payment. The reward amounts to be earned through the plan will be capped if the limits set by the Board of Directors for the payable reward of a performance period are reached.

MATCHING SHARE PLAN 2016-2018

The Matching Share Plan includes one vesting period, calendar years 2016-2018. The prerequisite for receiving reward on the basis of this plan is that a person participating in the plan acquires the Company's shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of participant's employment or service upon reward payment. The reward from the plan will be paid partly in the Company's shares and partly in cash in 2019.

The Matching Share Plan is directed to selected key employees determined by the Board of Directors, who have not participated in the share-based plan launched in 2012.

The rewards to be paid on the basis of the vesting period 2016-2018 will amount to a maximum total of 4,000 Tikkurila Oyj shares. In addition, the Company will pay taxes and tax-related costs arising from the reward to the participants in connection with the reward payment.

SHARE BASED INCENTIVES DURING THE REPORTING PERIOD 1.1.2016 - 31.12.2016

Plan	Matching Share Plan 2016-2018	Performance Share Plan 2015-2019	
Type	Matching share, Initial	Share	
Instrument	**MSP 16-18**	**PSP 15-17**	**PSP 16-18**
Grant dates	28.4.16	28.4.16	28.4.16
Payment method	Cash & Equity	Cash & Equity	Cash & Equity
Beginning of earning period	1.1.16	1.1.15	1.1.16
End of earning period	31.3.19	31.12.17	31.12.18
Vesting conditions	Share ownership, employment until the end of the ownership period	Average Intrinsic Value	Average Intrinsic Value
		Employment until the end of the restriction period	Employment until the end of the restriction period
End of restriction/ownership period	31.3.2019	31.3.2018	31.3.2019
Maximum contractual life, years	3.25	3.25	3.25
Remaining contractual life, years	2.2	1.2	2.2
Number of persons at 31.12.2016	2	9	10

Changes during the period 2016	**MSP 16-18**	**PSP 15-17**	**PSP 16-18**
1.1.2016			
Outstanding at the beginning of the reporting period, pcs	0	0	0
Changes during the period			
Granted	4,000	104,000	112,000
Awarded	0	0	0
Forfeited	0	0	0
Expired	0	0	0
31.12.2016			
Outstanding at the end of the period	4,000	104,000	112,000

FAIR VALUE DETERMINATION

The fair value of share based incentives have been determined at grant date and the fair value is expensed until vesting. The pricing of the share based incentives granted during the period was determined by the following inputs and had the following effect:

Valuation parameters for instruments granted during period

	MSP 16-18	PSP 15-17	PSP 16-18
Share price at grant, EUR	14.92	15.71	15.71
Share price at reporting period end, EUR	18.81	18.81	18.81
Cost of equity	7.7%	Not applicable	Not applicable
Holding period, years	2.79	Not applicable	Not applicable
Interest expense (one share), EUR	0.92	Not applicable	Not applicable
Expected dividends (discounted), EUR	1.50	0.75	1.50
FMV of equity component, EUR	11.57	14.96	14.21
Fair value 31 Dec 2016, EUR '000	**118**	**0**	**0**

Effect of Share-based Incentives on the result and financial position during the period, EUR '000

Expenses for the financial year, share-based payments	23
Expenses for the financial year, share-based payments, equity-settled	9
Liabilities arising from share-based payments 31 December 2016	17

CALL OPTIONS GRANTED TO KEY EMPLOYEES OF A SWEDISH SUBSIDIARY

In November 2014, Tikkurila Oyj's Swedish subsidiary Tikkurila Sverige AB acquired all the shares of Täby Färg & Tapet AB. In conjunction with this transaction the parties also agreed on a share option arrangement, where two key employees of Täby Färg & Tapet AB were granted call options for shares in Täby Färg & Tapet AB. Key terms of this option arrangement are the following:

- with the granted call options the option holders can acquire a total maximum of 9.00% of shares of Täby Färg & Tapet AB from Tikkurila Sverige AB so that each of the option holders has the right to buy a total maximum of 4.50% of the shares in Täby Färg & Tapet AB
- call options were granted in November 2014, and they vest from March 1, 2016 until December 31, 2020 so that each year the options can be exercised during a period that starts when the Annual General Meeting deciding on previous year's financial statements ends and that ends on the last day in September
- the exercise price of the call options is depending on the time of exercise as well as the financial statements of the preceding financial year; as a basic principle the purchase price of the shares to be acquired by the call options is always tied to the EBITDA of the preceding financial year and mainly also to the development of retained earnings' total amount

When valuing the call options, Black & Scholes model has been applied, and the key underlying assumptions at the time of valuation were:

- time period starts on November 3, 2014 (grant date) and ends on September 30, 2020 (latest exercise date), which leads to total time of about 5.9 years
- volatility is at 25% p.a.
- interest rate is based on the interest of Swedish government bonds, i.e. at about 0.6% p.a.
- options' exercise price has been assumed to be determined by the estimated 2015 EBITDA applying the formulas defined in the agreement
- the fair value of underlying shares at the inception has been derived from the acquisition that Tikkurila Sverige AB made

Consequently, in financial year 2016 a total of EUR 27 (74) thousand IFRS2 based personnel expenses were recognized. The final value of this arrangement was about EUR 110 thousand and settlement was done in cash in September 2016.

38. RELATED PARTIES

Parties are considered as each other's related parties if one party is able to control or has significant influence over financial and operating decision making of another party. Tikkurila Group has related party relationships with the parent company of the Group (Tikkurila Oyj), subsidiaries and joint ventures.

Related parties include members of the Board of Directors and the Group's Board of Management, CEO, their family members and controlled entities.

The terms and conditions of related party transactions are determined on an arm's length basis. Related party companies are disclosed in Note 39 Group's ownership in shares and participations.

Related party transactions are presented below:

EUR thousand	Revenue	Other operating income	Purchases	Receivables	Liabilities
2016					
Joint ventures	**5,580**	**922**	**-**	**281**	**31**
2015					
Joint ventures	5,817	932	-	239	62

The dividends received from joint ventures amounted to EUR 393 thousand (EUR 414 thousand) during the financial year.

LOANS, GUARANTEES AND OTHER COLLATERALS GRANTED TO RELATED PARTIES

No loans, guarantees or other collaterals have been granted to the management in 2016 or 2015.

EUR thousand	2016	2015
Management employee benefits [1]		
Wages, salaries and other short-term employee benefits	**1,677**	1,832
Post-employment benefits	**269**	283
Share-based incentive plan	**-**	643
Total	**1,946**	2,758

[1] Includes remuneration paid to members of the Management Board (including CEO) and members of the Board of Directors. Post-employment benefits include both the statutory pension payments and voluntary, supplementary pension payments and are separately disclosed in following tables. Both pension plans are defined contribution plans.

Remunerations presented in this note are on accrual basis.
Share-based incentive plan is disclosed in Note 37.
The disclosures about remuneration differ between Tikkurila Group (applying IFRS) and parent company Tikkurila Oyj (applying Finnish Accounting Standards) due to differences in accounting and valuation principles especially in relation to share-based payments.

EXECUTIVE REMUNERATION

EUR thousand	**2016**	2015
CEO		
Erkki Järvinen		
Fixed salary (fringe benefits included)	**445**	445
Bonuses	**87**	145
Share-based incentive plan	**-**	351
Total	**532**	941
Voluntary, supplementary pension payments	**70**	67
Statutory pension expenses	**90**	99
Other Management Board members		
Fixed salary (fringe benefits included)	**706**	720
Bonuses	**145**	195
Share-based incentive plan	**-**	292
Total	**850**	1 207
Statutory pension expenses	**109**	117
Board compensation		
Board members *)		
Jari Paasikivi, Chairman of the Board	**70**	76
Petteri Walldén, Vice chairman of the Board	**46**	51
Eeva Ahdekivi, member of the Board	**48**	53
Pia Rudengren, member of the Board	**46**	52
Riitta Mynttinen, member of the Board	**46**	52
Harri Kerminen, member of the Board	**37**	43
Aleksey Vlasov, member of the Board until March 25, 2015	**-**	-
Total	**295**	327

*) 40 percent of the annual fee, excluding meeting fees, of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 96 (96) thousand in year 2016. This is included in figures presented above.

The CEO's period of notice is 6 months. In the event the company would give notice to the CEO, he will receive an additional remuneration equaling 12-month salary. The CEO has the right to terminate his employment with 6-month period of notice.

The age of retirement for the CEO is 63 years. CEO has the supplementary pension insurance, as defined contribution plan. The aimed level of pension remuneration for the CEO would correspond 65 percent of the salary used in pension calculation, which is the base salary of year 2009. Supplementary pension is held by insurance company. The Group has no obligations in relation to this supplementary pension after employment ends.

The retirement age of the other Management Board members is around 65 years. The Finnish legislation change of Employees Pension Act (TyEL) entered into force as of January 1, 2017 and according to this the lowest retirement age varies, is dependent on the employee's year of birth.

According the decision of Tikkurila Management, the criteria for annual management bonus scheme for the financial year 2016 for the Group top management consist of the 2016 Tikkurila Group revenue and operative EBIT. In addition to these common criteria, some of the Group functions had a set of own targets of the respective area of responsibility for the key personnel. The bonus targets for other management and personnel have been set with local emphasis.

The Board of Directors of Tikkurila Group decided on February 9, 2015 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 emphasize local bonus targets for other management and personnel.

Share holdings of Tikkurila Board of Directors and Management Board are stated in page 105, Shares and shareholders.

39. GROUP'S OWNERSHIP IN SHARES AND PARTICIPATIONS

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2016				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
SIA Tikkurila	Riga	Latvia	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
TOO Tikkurila	Almaty	Kazakhstan	100	100
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila d.o.o.	Sabac	Serbia	100	100
Tikkurila dooel	Skopje	Macedonia	100	100
Tikkurila Sverige AB	Stockholm	Sweden	100	100
Tikkurila Drytech AB	Flen	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	100
Tikkurila Danmark A/S	Brönby	Denmark	100	100
ISO Paint Nordic A/S	Lunderskov	Denmark	100	100
Tikkurila GmbH	Ansbach	Germany	100	100

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2015				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
SIA Tikkurila	Riga	Latvia	100	100
Färdigfärgat AB	Stockholm	Sweden	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
IP Tikkurila	Minsk	Belarus	100	100
TOO Tikkurila	Almaty	Kazakhstan	100	100
TOV Tikkurila	Kiev	Ukraine	100	99
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila d.o.o.	Sabac	Serbia	100	100
Tikkurila dooel	Skopje	Macedonia	100	100
Tikkurila Sverige AB	Stockholm	Sweden	100	100
Färgservice i Malmö AB	Malmö	Sweden	100	-
Täby Färg & Tapet AB	Täby	Sweden	100	-
Tikkurila Drytech AB	Flen	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
ISO Paint Nordic A/S	Lunderskov	Denmark	100	100
Tikkurila GmbH	Ansbach	Germany	100	100

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2016				
Alcro Parti AB	Stockholm	Sweden	50	-
2015				
Alcro Parti AB	Stockholm	Sweden	50	-

40. CHANGES IN GROUP STRUCTURE

CHANGES IN THE GROUP STRUCTURE DURING 2016

Tikkurila concluded in June 2016 a divestment of its subsidiaries in Ukraine and Belarus to company OÜ FarbaHouse.

Tikkurila Oyj sold in August its dormant subsidiary in Sweden. In addition, Tikkurila Oyj acquired the ownership of Danish subsidiary, Tikkurila Danmark A/S from Tikkurila Sverige AB in September, as well as ownership of Norwegian subsidiary in December.

In December, Swedish subsidiaries, Täby Färg & Tapet AB and Färgservice i Malmö AB, were merged into Tikkurila Sverige AB.

CHANGES IN THE GROUP STRUCTURE DURING 2015

In November, ISO Paint Holding A/S, ISO Paint Nordic A/S and Paint Factory Equipment A/S merged.
ISO Paint Nordic A/S continues after merger.

CHANGES IN COMPANY NAMES:

Former name:	New name:
Tikkurila Zorka d.o.o.	Tikkurila d.o.o.

41. EVENTS AFTER THE END OF REPORTING PERIOD

There have been no significant events after the end of reporting period.

Tikkurila Oyj Income statement (FAS)

EUR thousand	Note	Jan 1 - Dec 31, 2016	Jan 1 - Dec 31, 2015
Revenue	2	**186,826**	191,282
Change in inventories of finished goods and work in progress	4	**-983**	1,033
Other operating income	3	**17,944**	18,997
Materials and services	4	**-101,548**	-103,170
Personnel expenses	5	**-34,512**	-39,022
Depreciation, amortization and impairment losses	7	**-3,493**	-3,589
Other operating expenses	4,6	**-45,496**	-42,454
Operating profit		**18,737**	23,077
Financial income and expenses	8	**25,882**	21,996
Profit before appropriations and taxes		**44,620**	45,073
Appropriations	7,9	**407**	91
Income taxes	10	**-6,042**	-3,928
Net profit for the period		**38,984**	41,236

Tikkurila Oyj Balance sheet (FAS)

EUR thousand	Note	Dec 31, 2016	Dec 31, 2015
ASSETS			
Non-current assets	11		
Intangible assets		**18,091**	6,347
Tangible assets		**18,773**	20,347
Investments			
Holdings in Group companies		**185,834**	181,847
Other shares and holdings		**540**	540
Total investments		**186,374**	182,387
Total non-current assets		**223,238**	209,080
Current assets			
Inventories	12	**24,781**	26,053
Non-current receivables	13	**9,624**	3,279
Current receivables	13	**72,940**	70,733
Cash and cash equivalents		**7,186**	6,635
Total current assets		**114,531**	106,701
Total assets		**337,768**	315,781
EQUITY AND LIABILITIES			
Equity	14		
Share capital		**35,000**	35,000
Reserve for invested unrestricted equity		**40,000**	40,000
Retained earnings		**82,539**	76,588
Net profit for the period		**38,984**	41,236
Total equity		**196,523**	192,824
Appropriations	15	**4,537**	4,944
Provisions	16	**374**	478
Liabilities	17		
Non-current liabilities		**50,017**	50,103
Current liabilities		**86,316**	67,432
Total liabilities		**136,333**	117,535
Total equity and liabilities		**337,768**	315,781

Tikkurila Oyj Cash flow (FAS)

EUR thousand	Jan 1 - Dec 31, 2016	Jan 1 - Dec 31, 2015
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before appropriations and taxes	**44,620**	45,073
Adjustments:		
Unrealized exchange gains and losses	**-5,545**	-1,453
Depreciation, amortization and impairment losses	**3,493**	3,589
Interest income	**-6,139**	-6,553
Interest expenses	**817**	1,129
Dividend income	**-26,670**	-30,839
Other adjustments	**-339**	-2,180
Loss on disposal of group company investments and receivables	**1,612**	-
Write-down of loan and trade receivables	**9,400**	7,815
Other financial items	**643**	7,920
Funds from operating activities before change in net working capital	**21,891**	24,502
Change in net working capital		
Change in inventories	**1,272**	-1,061
Change in current receivables	**-8,589**	-6,934
Change in interest-free current liabilities	**-2,361**	3,252
Change in net working capital, total	**-9,679**	-4,743
Interest and other financial expenses paid	**-2,945**	-2,326
Interest and other financial income received	**5,806**	2,660
Income taxes paid	**-5,992**	-5,871
Dividends received	**25,032**	26,818
Total cash flow from operating activities	**34,113**	41,040
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	**-12,639**	-7,189
Investments in Group companies	**-12,993**	-842
Disposal of Group companies	**60**	-
Proceeds from sales of other shares	**-**	2,490
Change in loan receivables	**6,981**	744
Proceeds from sales of tangible and intangible assets	**248**	7
Dividends received	**-**	96
Net cash used in investing activities	**-18,343**	-4,694
Cash flow before financing	**15,770**	36,346
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in non-current loans (+)	**-**	50,000
Decrease in non-current loans (-)	**-**	-60,000
Change in current financing increase (+)	**224,471**	177,406
Change in current financing decrease (-)	**-204,406**	-177,135
Acquisition of own shares	**-**	-43
Dividends paid	**-35,285**	-35,285
Net cash used in financing activities	**-15,220**	-45,056
Net change in cash and cash equivalents	**550**	-8,710
Cash and cash equivalents at Dec 31	**7,186**	6,635
Cash and cash equivalents at Jan 1	**6,635**	15,345
Change in cash and cash equivalents	**550**	-8,710

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - TIKKURILA OYJ

Tikkurila Oyj is a Finnish public limited company which share is listed on NASDAQ OMX Helsinki since March 26, 2010. Tikkurila Oyj domiciled in Vantaa and the registered address is Kuninkaalantie 1, FI-01300 Vantaa, Finland. Tikkurila Oyj is the parent company of Tikkurila Group.

Tikkurila Oyj's financial statements are prepared in accordance with the Finnish Accounting Act and Ordinance and the Finnish Limited Liability Companies Act.

FOREIGN CURRENCY TRANSACTIONS

In the day-to-day accounting, Tikkurila Oyj translates foreign currency transactions into its functional currency at the exchange rates quoted on the transaction date.

In preparation of financial statements monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate of end of reporting period.

Exchange rate differences arising from trade receivables are accounted for as adjustments to sales and those arising from trade payables to purchases. Exchange rate differences arising from financing transactions are accounted for in financial income and expenses.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are measured at amortized cost, less any impairment losses.

SHARE-BASED INCENTIVE PLAN FOR THE PERSONNEL

The treatment of the share-based incentive plan has been described in the accounting principles for the consolidated financial statements. In the parent company, the share-based payments are recorded as an expense in the amounts of the payments to be made.

REVENUE RECOGNITION

Revenue includes the total invoicing value of products sold and services rendered less, as adjusting items, sales tax, discounts, rebates and foreign exchange differences from trade receivable.

INCOME TAXES

Tax expense in income statement comprises current tax of the company calculated on the taxable profit for the period determined in accordance with the local tax rules, final taxes from previous years and the change in deferred taxes.

DEFERRED TAXES

Deferred taxes are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred taxes are determined using tax rates that have been enacted at the balance sheet date and are expected to apply next year.

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTIZATION

Non-current assets are recognized in the balance sheet at historical acquisition cost less accumulative depreciations, amortizations and impairments.

Depreciation and amortization are calculated using the straight-line method based on the assets' estimated useful lives of the original cost.

Depreciation periods:	
buildings and constructions	8 - 25 years
machinery and equipment	3 - 15 years
intangible assets	5 - 10 years

Accumulated appropriations include accumulated depreciation difference between depreciations for tax purposes and depreciations according the plan. In balance sheet this is presented under appropriations in equity and liabilities.

INVENTORIES

The inventory of Tikkurila Oyj is stated on a weighted average costs basis at cost of replacement value or probable sales price, whichever is lowest. The acquisition cost of inventory includes direct variable costs.

Indirect costs, such as manufacturing and sourcing fixed costs, as well as depreciations and indirect variable costs has been calculated by relation to produced liters to the value of inventory.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs have been expensed. Development costs have not been capitalized as they do not fulfill the capitalization criteria. Development costs previously recognized as an expense are not capitalized in a subsequent period. If the capitalization criteria are fulfilled, development costs are presented in Intangible assets and are to be amortized on a straight-line basis over their useful life of a maximum of eight years.

LEASE

Leases have been accounted for rent expenses. Unpaid leasing payments have been stated in contingent liabilities in financial statements.

COMPARABILITY OF FINANCIAL YEAR 2016 TO FINANCIAL YEAR 2015

The share of exports to east comprises a significant amount of company's revenue. Fluctuation of Russian ruble has a significant impact on Tikkurila Oyj's revenue.

Co-operation negotiations were concluded in October 2015. As a result of the negotiations, a total of 41 persons were dismissed and EUR 1.8 million was recognized as non-recurring expenses in personnel expenses in financial year 2015.

2. REVENUE

	2016	2015
Revenue by geographical segment, % of total revenue	**%**	%
Finland	**52**	51
Other EU countries	**25**	25
Other Europe	**21**	20
Other countries	**3**	5
Revenue by geographical segment, total	**100**	100

3. OTHER OPERATING INCOME

EUR thousand	2016	2015
Gains on sale of non-current assets	**123**	7
Gains on sale of shares	**8**	2,440
Other income from operations	**17,813**	16,551
Other operating income, total	**17,944**	18,997

Other income from operations include intercompany service charges and considerations of and for the grant of the licenses to utilize business concepts as total of EUR 17.6 (EUR 16.2) million.

4. OTHER OPERATING EXPENSES

EUR thousand	2016	2015
Change in inventories of finished goods and work in progress	**-983**	1,033
Materials and services		
Materials and supplies		
Purchases during the financial year	**-100,637**	-102,314
Change in inventories of materials and supplies	**-289**	28
External services	**-623**	-883
Total materials and services	**-101,548**	-103,170
Personnel expenses	**-34,512**	-39,022
Rents	**-1,354**	-1,560
Other expenses and expense reimbursement	**-44,142**	-40,894
Total other operating expenses	**-182,539**	-183,613

5. PERSONNEL EXPENSES AND NUMBER OF PERSONNEL

EUR thousand	2016	2015
Wages and salaries	**-27,438**	-31,146
Pension expenses	**-5,223**	-5,739
Other personnel expenses	**-1,851**	-2,137
Total personnel expenses	**-34,512**	-39,022
Fringe benefits (tax value)	**-1,356**	-2,605

Amount of fringe benefits in year 2015 contains EUR 1.2 million payments settled in Tikkurila Oyj shares for CEO and other Management Board members.
In financial year 2015, personnel expenses include EUR 1.8 million non-recurring expenses as a result of the personnel reduction of the co-operation negotiations.

Management remunerations		
Members of the Board of Directors, CEO and other Management Board members	**-1,677**	-3,349

The disclosures about remuneration differ between Tikkurila Group (applying IFRS) and parent company Tikkurila Oyj (applying Finnish Accounting Standards) due to differences in accounting and valuation principles especially in relation to share-based payments. In bookkeeping of Tikkurila Oyj (FAS) the personnel expenses arisen from the share-based incentive plan paid as a part of the remuneration for CEO and other Management Board members, have been recognized in the period when the shares have been transferred to participants. Whereas in the Group according the IFRS, those expenses have been accrued for a longer period, in about a three-year period. The valuation of the shares in Tikkurila Oyj bookkeeping and in remuneration specifications is based on the share price at the time of the transfer, whereas the valuation in accordance with IFRS is based on the share price value at the beginning of the vesting period of the plan and for example the effect of the estimated future dividends is taken into account as well.

Details from share-based commitment and incentive plan of management can be found from notes to the consolidated financial statements in Note 37.

ACCRUAL BASED REMUNERATION OF CEO AND MANAGEMENT BOARD

In the following table remuneration of CEO is presented on accrual basis in year 2016 and 2015.

EUR thousand	**2016**	2015
CEO		
Fixed salary, fringe benefits included	**-445**	-445
Bonuses	**-87**	-145
Share-based incentive plan	**-**	-740
Total	**-532**	-1,330
Voluntary, supplementary pension payments	**-70**	-67
Statutory pension expenses	**-90**	-99

Amount of share-based incentive plan include payments settled in shares. The value of share-settled payments is disclosed as fair value of shares at the date of disposal.

The CEO's period of notice is 6 months. In the event the company would give notice to the CEO, he will receive an additional remuneration equaling 12 month salary.

The CEO has the right to terminate his employment with 6 month period of notice.

The age of retirement for the CEO is 63 years. CEO has a supplementary pension insurance as defined contribution plan. The aimed level of pension remuneration for the CEO would correspond 65 percent of the salary used in pension calculation, which is the base salary of year 2009. Supplementary pension is held by insurance company. Statutory pension plan is a defined contribution plan.

EUR thousand	**2016**	2015
Other Management Board members [1)]		
Fixed salary, fringe benefits included	**-706**	-720
Bonuses	**-145**	-195
Share-based incentive plan	**-**	-778
Total	**-850**	-1,692
Statutory pension expenses	**-109**	-117
Statutory pension is a defined contribution plan.		

[1)] EUR 210 thousand is not included in income statement line wages and salaries in year 2016. The comparison year EUR 218 thousand was not included in wages and salaries..

Amount of share-based incentive plan include payments settled in shares. The value of share-settled payments is disclosed as fair value of shares at the date of disposal.

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS *)

EUR thousand	**2016**	2015
Jari Paasikivi	**-70**	-76
Petteri Walldén	**-46**	-51
Harri Kerminen	**-37**	-43
Pia Rudengren	**-46**	-52
Eeva Ahdekivi	**-48**	-53
Riitta Mynttinen	**-46**	-52
Aleksey Vlasov member of the Board until March 25, 2015	**-**	-
Total	**-295**	-327

[*)] 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 96 (96) thousand in year 2016. This is included in figures presented above.

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2016 or in 2015.

Number of personnel	2016	2015
Average number of white-collar employees	**353**	373
Average number of blue-collar employees	**207**	234
Personnel (average)	**560**	607

6. AUDITOR'S FEES

EUR thousand	2016	2015
KPMG Oy Ab, Authorized Public Accountants		
Audit fees	**-222**	-161
Tax consultancy	**-6**	-35
Other auditing	**-29**	-27
Other fees	**-4**	-
Other audit firms		
Other fees	**-73**	-22
Auditing fees, total	**-333**	-245

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

EUR thousand	2016	2015
Depreciation according to plan and impairment losses		
Intangible asset		
Other intangible assets	**-721**	-688
Impairment losses of intangible assets	**-**	-3
Tangible assets		
Buildings and constructions	**-805**	-879
Machinery and equipment	**-1,959**	-1,988
Impairment losses of machinery and equipment	**-**	-17
Other tangible assets	**-7**	-5
Other investments		
Impairment losses of other shares and holdings	**-**	-10
Total depreciation, amortization and impairment losses	**-3,493**	-3,589
Change in depreciation difference		
Other intangible assets	**-6**	3
Buildings and constructions	**-72**	132
Machinery and equipment	**480**	-47
Other tangible assets	**5**	3
Total	**407**	91

8. FINANCIAL INCOME AND EXPENSES

EUR thousand	2016	2015
Financial income		
Dividend income		
Dividend income from Group companies	**26,670**	30,743
Dividend income from others	**-**	96
Total dividend income	**26,670**	30,839
Interest income		
Interest income from Group companies	**6,012**	6,522
Interest income from others	**126**	31
Total interest income	**6,139**	6,553
Other financial income		
Other financial income from Group companies	**109**	98
Total other financial income	**109**	98
Exchange gains		
Exchange gains from Group companies	**6,890**	3,553
Exchange gains from others	**1,349**	1,507
Total exchange gains	**8,239**	5,060
Total financial income	**41,157**	42,550
Financial expenses		
Interest expenses		
Interest expenses to Group companies	**-78**	-148
Interest expenses to others	**-739**	-982
Total interest expenses	**-817**	-1,129
Other financial expenses		
Other financial expenses to Group companies *)	**-9,400**	-7,800
Loss on disposal of group company investments and receivables **)	**-1,612**	-
Other financial expenses to others	**-337**	-632
Total other financial expenses	**-11,349**	-8,432
Exchange losses		
Exchange losses to Group companies	**-1,579**	-8,826
Exchange losses to others	**-1,530**	-2,167
Total exchange losses	**-3,109**	-10,993
Total financial expenses	**-15,275**	-20,554
Total financial income and expenses	**25,882**	21,996

*) A write-down of subsidiary loan receivables of EUR 9,400 (7,800) thousand.
**) Loss on disposal of group company investments and receivables was resulted from the divestment of subsidiaries in Ukraine and Belarus together with receivables from these companies to OÜ FarbaHouse, a company established by Tikkurila's local management. More information related to this is disclosed in Note 4 to the consolidated financial statements.

Interest expenses others in financial expenses contain EUR 59 (12) thousand capitalized interest expenses.

Major part of the exchange rate gains recognized in financial year 2016 was resulted from strengthening of Russian ruble. Correspondingly, in comparison year the higher financial expenses were resulted from exchange rate losses originated from depreciated Russian ruble.

At the end of year 2014 the Board of Directors of Tikkurila decided not to carry out in the future forward exchange agreements. In financial year 2015 EUR 443 thousand is recognized in exchange gains from other in financial income regarding the derivatives and EUR 318 thousand in exchange losses to others in financial expenses regarding derivatives.

In year 2016 there is no longer any derivatives.

EUR thousand	2016	2015
Exchange gains and losses		
Realized	**-414**	-7,387
Unrealized	**5,545**	1,453
Total exchange gains and losses	**5,130**	-5,933

9. CHANGE IN APPROPRIATIONS

EUR thousand	2016	2015
Change in depreciation difference	**407**	91
Total change in appropriations	**407**	91

10. INCOME TAXES

EUR thousand	2016	2015
Income tax for current year	**-6,096**	-4,412
Income tax for previous years	**83**	586
Change in deferred taxes	**-29**	-102
Total income taxes	**-6,042**	-3,928

11. NON-CURRENT ASSETS

INTANGIBLE ASSETS

EUR thousand	2016	2015
Other intangible assets		
Acquisition cost at beginning of year	**10,578**	9,930
Increase	**528**	850
Decrease	**-**	-202
Acquisition cost at year end	**11,106**	10,578
Accumulated amortization at beginning of year	**-8,506**	-8,017
Accumulated amortization related to decrease	**-**	202
Impairment loss	**-**	-3
Amortization during the financial year	**-721**	-688
Accumulated amortization and impairment losses at year end	**-9,227**	-8,506
Carrying amount at year end	**1,878**	2,072
Advance payments and assets under construction		
Acquisition cost at beginning of year	**4,275**	250
Change during the year	**11,938**	4,025
Carrying amount at year end	**16,213**	4,275
Total intangible assets	**18,091**	6,347

Advance payments and assets under construction comprise EUR 14,833 (3,370) thousand of project related expenses of the enterprise resource planning and EUR 59 (12) thousand of capitalized interest expenses related to the same ERP's acquisition value.

TANGIBLE ASSETS

EUR thousand	**2016**	2015
Land and water		
Acquisition cost at beginning of year	**1,637**	1,637
Decrease	**-125**	-
Carrying amount at year end	**1,512**	1,637
Buildings and constructions		
Acquisition cost at beginning of year	**23,023**	22,359
Increase	**914**	664
Acquisition cost at year end	**23,937**	23,023
Accumulated depreciation at beginning of year	**-16,672**	-15,793
Depreciation during the financial year	**-805**	-879
Accumulated depreciation and impairment losses at year end	**-17,477**	-16,672
Carrying amount at year end	**6,460**	6,352
Machinery and equipment		
Acquisition cost at beginning of year	**42,984**	41,676
Increase	**537**	1,332
Decrease	**-**	-24
Acquisition cost at year end	**43,521**	42,984
Accumulated depreciation at beginning of year	**-31,143**	-29,162
Accumulated depreciation related to decrease	**-**	24
Depreciation during the financial year	**-1,959**	-1,988
Impairment loss	**-**	-17
Accumulated depreciation and impairment losses at year end	**-33,102**	-31,143
Carrying amount at year end	**10,418**	11,841

The carrying amount of production machinery and equipment was EUR 9,082 thousand (EUR 10,708 thousand).
Accelerate depreciations of EUR 270 (397) thousand has been done on production investments.

EUR thousand	**2016**	2015
Other tangible assets		
Acquisition cost at beginning of year	**958**	893
Increase	**-**	65
Acquisition cost at year end	**958**	958
Accumulated depreciation at beginning of year	**-754**	-749
Depreciation during the financial year	**-7**	-5
Accumulated depreciation at year end	**-762**	-754
Carrying amount at year end	**197**	204
Advance payments and assets under construction		
Acquisition cost at beginning of year	**313**	135
Change during the year	**-128**	178
Carrying amount at year end	**185**	313
Total tangible assets	**18,773**	20,347

INVESTMENTS

EUR thousand	2016	2015
Holdings in Group companies		
Acquisition cost at beginning of year	**181,847**	181,005
Increase	**3,993**	842
Decrease	**-6**	-
Carrying amount at year end	**185,834**	181,847

In year 2016, investments in Group companies consist also EUR 9,000 thousand increase, which however, was impaired during the financial year. Correspondingly, reversal of impairment on loan receivables from subsidiaries was recognized with the same amount.

EUR thousand	2016	2015
Other shares and holdings		
Acquisition cost at beginning of year	**540**	600
Write-down	**-**	-10
Decrease	**-**	-50
Carrying amount at year end	**540**	540
Total investments	**186,374**	182,387

12. INVENTORIES

EUR thousand	2016	2015
Materials and supplies	**8,434**	8,723
Work in progress	**1,412**	1,694
Finished goods	**14,935**	15,636
Total inventories	**24,781**	26,053

13. RECEIVABLES

EUR thousand	2016	2015
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	**1,597**	1,386
Loan receivables from others	**6,437**	-
Total non-current interest-bearing receivables	**8,034**	1,386
Non-current interest-free receivables		
Trade receivables from others	**1,157**	1,267
Deferred expenses and accrued income from others	**351**	454
Other receivables from others	**-**	62
Total non-current interest-free receivables	**1,508**	1,783
Deferred tax assets	**81**	110
Total non-current receivables	**9,624**	3,279
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	**2,360**	1,924
Current interest-bearing receivables from Group companies	**36,606**	36,672
Total current interest-bearing receivables	**38,966**	38,595

EUR thousand	2016	2015
Current interest-free receivables		
Loan receivables from others	**-**	57
Other current receivables from others	**93**	27
Trade receivables		
Trade receivables from Group companies	**16,378**	17,266
Trade receivables from others	**12,670**	9,105
Total trade receivables	**29,049**	26,371
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	**1,743**	2,370
Deferred expenses and accrued income from others	**3,089**	3,313
Total deferred expenses and accrued income	**4,832**	5,683
Total current interest-free receivables	**33,974**	32,138
Total current receivables	**72,940**	70,733
Total receivables	**82,563**	74,012
Deferred expenses and accrued income		
Interest income	**1,489**	2,362
Income taxes	**952**	974
IT services	**1,140**	1,353
Others	**1,603**	1,448
Total deferred expenses and accrued income	**5,184**	6,137

Deferred expenses and accrued income ""Others"" includes withdrawal costs of a loan EUR 299 (EUR 494) thousand.
These expenses have been accrued for the period of repayment schedule.

14. EQUITY

EUR thousand	2016	2015
Share capital at January 1	**35,000**	35,000
Share capital at December 31	**35,000**	35,000
Total restricted equity	**35,000**	35,000
Reserve for invested unrestricted equity at January 1	**40,000**	40,000
Reserve for invested unrestricted equity at December 31	**40,000**	40,000
Retained earnings at January 1	**117,824**	111,915
Dividends	**-35,285**	-35,285
Share-based compensation	**-**	-1,606
Acquistion of treasury shares	**-**	-43
Transfer of treasury shares to participants of share-based incentive plan	**-**	1,606
Retained earnings at December 31	**82,539**	76,588
Net profit for the period	**38,984**	41,236
Retained earnings and net profit for the period at December 31	**121,523**	117,824
Total unrestricted equity	**161,523**	157,824
Total equity at December 31	**196,523**	192,824

EUR thousand	2016	2015
Distributable funds at December 31		
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**117,824**	111,915
Dividends	**-35,285**	-35,285
Share-based compensation	**-**	-1,606
Acquisition of treasury shares	**-**	-43
Transfer of treasury shares to participants of share-based incentive plan	**-**	1,606
Net profit for the financial year	**38,984**	41,236
Distributable funds	**161,523**	157,824

Changes in treasury shares	**EUR´000**	Number of shares
Acquisition cost / Number of pieces at January 1	**1,606**	79,500
Change	**-1,563**	-77,039
Carrying amount / Number of pieces at December 31, 2015	**42**	2,461

Changes in treasury shares	**EUR´000**	Number of shares
Acquisition cost / Number of pieces at January 1	**42**	2,461
Change	**-**	-
Carrying amount / Number of pieces at December 31, 2016	**42**	2,461

15. APPROPRIATIONS

EUR thousand	2016	2015
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and constructions	**-2,551**	-2,623
Machinery and equipment	**6,714**	7,194
Other tangible assets	**25**	30
Other intangible assets	**342**	336
Intangible rights	**7**	7
Total accumulated depreciation difference	**4,537**	4,944
Change in depreciation difference		
Depreciation difference at January 1	**4,944**	5,035
Change in depreciation difference in income statement	**-407**	-91
Depreciation difference at December 31	**4,537**	4,944

16. PROVISIONS

EUR thousand	2016	2015
Other provisions	**374**	478

17. LIABILITIES

EUR thousand	2016	2015
Non-current liabilities		
Loans from financial institutions	**50,000**	50,000
Other non-current liabilities to others	**17**	103
Total non-current liabilities	**50,017**	50 103

EUR thousand	**2016**	2015
Maturity of non-current liabilities		
Maturity		
2018 (2017)	**-**	103
2019 (2018)	**17**	-
2020 (2019)	**-**	-
2021 (2020)	**50,000**	-
2022 (2021)	**-**	50,000
Total non-current liabilities	**50,017**	50,103
Loans that will fall due after 5 years or later		
Loans from financial institutions	**-**	50,000
Total	**-**	50,000
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	**26,721**	21,656
Other interest-bearing liabilities to others	**24,979**	9,979
Total other interest-bearing liabilities	**51,700**	31,635
Total current interest-bearing liabilities	**51,700**	31,635
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	**2,555**	1,514
Trade payables to others	**11,851**	13,581
Total trade payables	**14,406**	15,094
Accrued expenses and deferred income		
Accrued expenses and deferred income to Group companies	**520**	1,176
Accrued expenses and deferred income to others	**18,637**	18,397
Total accrued expenses and deferred income	**19,156**	19,574
Advances received	**11**	-
Other interest-free liabilities to others	**1,043**	1,129
Total current interest-free liabilities	**34,616**	35,797
Total current liabilities	**86,316**	67,432
Accrued expenses and deferred income		
Personnel expenses	**6,417**	7,918
Related to sales	**8,925**	10,224
Other	**3,814**	1,429
Total accrued expenses and deferred income	**19,156**	19,574

18. CONTINGENT LIABILITIES

EUR thousand	**2016**	2015
Lease liabilities		
Maturity within one year	**986**	956
Maturity later than one year	**1,229**	1,356
Total lease liabilities	**2,215**	2,312
Other contingent liabilities		
Material contractual commitment for acquisition of tangible and intangible assets	**2,852**	1,442
Commitments for indirect and direct purchases	**7,296**	-
Total other contingent liabilities	**10,148**	1,442

The sum of material contractual commitments for acquisition of tangible and intangible assets has increased compared to the previous year due to the new ERP and the payments of its service agreement's term of notice period. Adding of new information of commitments for indirect and direct purchases is due to a possibility to collect the information in the new ERP system. Comparable information for the previous year is not available.

Guarantees		
On own behalf	**30**	165
On behalf of Group companies	**21,963**	22,711
Total guarantees	**21,993**	22,875

Mortgages
The company has mortgages EUR 89 million, which are held by Tikkurila Oyj.

Other commitments
In addition, Tikkurila Oyj has personnel's years in service related commitments, which are not mandatory but are rather established by a pattern of past practice, and share-based incentive plan commitments. These together are approximately EUR 1.3 (1.2) million.

Tikkurila Oyj is defendant in a claim raised at district court of Vantaa. Counterparty requires a total of about EUR 0.3 million for damages.

In year 2006, the subsidiary of Tikkurila Oyj, Tikkurila Sverige AB, sold its subsidiary to Skanska Nya Hem AB. The divested entity owned a land plot and buildings in Stockholm. According to the revised terms, if at the end of 2019 there will be no final town plan regarding BTAs for the land area in question, Skanska has the option either to finalize the transaction with the preliminary purchase price without any right to adjustment or to cancel the transaction and let Tikkurila Sverige AB buy the property back at the preliminary transaction price. If the transaction would be reversed, Tikkurila Sverige AB has also committed, subject to certain limitations, to compensate Skanska for costs related to preparing the property for further development. Tikkurila Oyj has given guarantee on behalf of Tikkurila Sverige AB.

Shares and Shareholders

SHARES AND SHARE CAPITAL

At the end of 2016, Tikkurila's share capital was EUR 35.0 million, from a total of 44,108,252 registered shares. Tikkurila has one share series, and each share entitles its holder to one vote at the General Meeting and to an equal amount of dividend. Tikkurila's shares are registered in the Finnish book-entry system. At the end of 2016, Tikkurila held 2,461 treasury shares.

BOARD AUTHORIZATIONS

On April 6, 2016, the Annual General Meeting authorized the Board of Directors of Tikkurila to decide on the repurchase of the company's own shares and the share issue.

AUTHORIZATION TO REPURCHASE THE COMPANY'S OWN SHARES

The Annual General Meeting authorized the Board of Directors to decide upon the repurchase of a maximum of 4,400,000 company's own shares with assets pertaining to the company's unrestricted equity in one or more tranches. The maximum amount of the authorization corresponds to approximately 10 percent of all the shares in the company.

The company's own shares will be repurchased through public trading, due to which the repurchase will take place in directed manner, i.e. not in proportion to the shareholdings of the shareholders. The shares will be repurchased in public trading on the NASDAQ OMX Helsinki Ltd at the market price quoted at the time of the repurchase. The shares will be repurchased and paid in accordance with the rules of NASDAQ OMX Helsinki Ltd and Euroclear Finland Ltd.

The consideration payable for the repurchase of the shares shall be based on the market price of the company's share in public trading. The minimum consideration of the repurchase of the company's own shares is the lowest market price of the share quoted in public trading during the authorization period and, correspondingly, the maximum price is the highest market price of the share quoted in public trading during the authorization period.

The shares may be repurchased to be used for financing or implementing possible mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the company. For the aforementioned purposes, the company may retain, transfer further or cancel the shares. The Board of Directors would decide upon other terms related to repurchase of shares.

The repurchase authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2017.

As of December 31, 2016, the Board of Directors had not exercised this authorization.

AUTHORIZATION TO ISSUE SHARES

The Annual General Meeting authorized the Board of Directors to decide to transfer the company's own shares held by the company or to issue new shares in one or more tranches limited to a maximum of 4,400,000 shares. The proposed maximum aggregate amount of the authorization corresponds to approximately 10 percent of all the shares in the company.

The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment. The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or in deviation from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares, settling the payment of the annual fees payable to the members of the Board of Directors or implementing the share-based incentive programs of the company. Upon the issuance of the new shares, the subscription price of the new shares shall be recorded to the invested unrestricted equity reserves. In case of a transfer of the company's own shares, the price payable for the shares shall be recorded to the invested unrestricted equity reserves.

The Board of Directors would decide upon other terms and conditions related to the share issues. The authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2017.

As of December 31, 2016, the Board of Directors had not exercised this authorization.

AUTHORIZATION TO DECIDE ON THE SHARE ISSUE RELATED TO THE IMPLEMENTATION OF THE SHARE-BASED COMMITMENT AND INCENTIVE PROGRAM

The Annual General Meeting on March 28, 2012, authorized the Board of Directors to decide to transfer Company's own shares held by the company or to issue new shares in one or more tranches limited to a maximum of 440,000 shares, deviating from the shareholders' pre-emptive subscription right, to the Company's key persons as part of the share-based commitment and incentive program released on February 16, 2012. The proposed maximum aggregate amount of the authorization corresponds to approximately one percent of all the existing shares in the company.

The company's own shares held by the company may be transferred and the new shares may be issued without payment to the key persons who have purchased the company's shares in accordance with the terms of the share-based commitment and incentive program decided by the Board of Directors and released by the company on February 16, 2012. The implementation of the share-based commitment and incentive program constitutes a weighty financial reason for the company to deviate from the shareholders' pre-emptive subscription right.

The Board of Directors will decide upon other terms related to share issues. The authorization will be valid for five (5) years from the decision.

During 2016, the Board of Directors did not exercise this authorization.

MARKET CAPITALIZATION AND TRADING

The trading of Tikkurila Oyj's shares began on NASDAQ OMX Helsinki on March 26, 2010.

At the end of December, the closing price of Tikkurila's share was EUR 18.81. In January–December, the volume-weighted average share price was EUR 17.12, the lowest price EUR 14.29, and the highest price EUR 19.76. At the end of December, the market value of Tikkurila Oyj's shares was EUR 829.6 million. During January–December, a total of 11.9 million Tikkurila shares, corresponding to approximately 26.9 percent of the number of shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 203.3 million. Tikkurila's shares are traded also outside of NASDAQ OMX Helsinki, but the company does not have detailed statistics available on this external trading.

HOLDINGS OF TIKKURILA'S BOARD OF DIRECTORS AND MANAGEMENT BOARD

Tikkurila Board members and their interest parties held altogether 111,228 shares on December 31, 2016, which is about 0.3 percent of the share capital and votes in Tikkurila. Furthermore, Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the President and CEO in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila Management Board members and their interest parties held altogether 102,564 shares on December 31, 2016, which is about 0.2 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at http://www.tikkurilagroup.com/corporate_governance/insiders.

Tikkurila is not aware of any valid shareholders' agreements regarding the ownership of Tikkurila shares and voting rights.

SHARE-BASED INCENTIVE PLANS

Plan of 2012

In order to commit and motivate key personnel, the Board of Directors of Tikkurila Oyj decided on a share-based plan in 2012, and it also selected key persons, each of which has a right to participate in this plan. In order to participate, each person has to buy Tikkurila Oyj's shares from the market. The maximum amount of shares under this plan has been individually defined for each participant. On December 31, 2016, a total of nine key employees selected by the Board participated in the share-based plan.

Based on the commitment and incentive plan, and stemming from the performance periods 2013–2015 and 2014–2016, no personnel expenses were recognized in financial year 2016. In the comparison period 1-12/2015, a total of EUR 0.9 million was recognized as personnel expenses in the Group income statement. The estimated total value for the performance period 2014–2016 totaled EUR 0.0 million at the end of the financial year.

Plan of 2016

On April 2016, the Board of Directors of Tikkurila Oyj decided on a new share-based incentive program for the Group key employees. This program consists of a performance share plan 2015–2019 and a matching share plan 2016–2018. On June 30, 2016, a total of ten key employees selected by the Board participated in this new incentive program.

The performance share plan has three performance periods, 2015–2017, 2016–2018 and 2017–2019. The potential reward from the plan will be paid partly in cash and partly in shares of Tikkurila Oyj.

The rewards to be paid on the basis of the performance periods 2015–2017 and 2016–2018 will amount to an approximate maximum total of 250,000 Tikkurila Oyj shares. The Board of Directors will resolve on the details of the performance period 2017-2019 at the beginning of the performance period.

The matching share plan includes one vesting period 2016–2018 and the reward from the plan will be paid partly in shares and partly in cash. The rewards to be paid on the basis of this will amount to a maximum of 4,000 Tikkurila Oyj shares.

Based on this new share-based incentive program EUR 0.0 million was recognized during the year 2016 in personnel expenses.

DIVIDEND POLICY

According to Tikkurila's dividend policy, Tikkurila aims to distribute a dividend of at least 40 percent of its annual adjusted net profit. Adjusted net profit means net profit for the period excluding items affecting comparability and adjusted for tax effects.

The Board of Directors proposes to the Annual General Meeting to be held on April 4, 2017, that a dividend of EUR 0,80 per share will be distributed for the year ended on December 31, 2016. The proposed dividend corresponds to approximately 78 percent of adjusted net profit.

SHAREHOLDERS

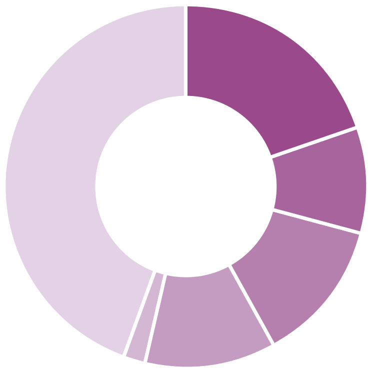
According to Euroclear Finland Oy's register, Tikkurila had approximately 20,000 shareholders on December 31, 2016, the largest single shareholder being Oras Invest Oy with 18.1 percent. A list of the largest shareholders is updated regularly on Tikkurila's website at www.tikkurilagroup.com/investors/share_information/shareholders.

DISCLOSURE OF CHANGES IN HOLDINGS

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Prudential Plc on January 14, 2016. According to the announcement, the holding of Prudential Plc and its subsidiaries (M&G Investment Management Limited, M&G Group Limited, M&G Limited) in shares of Tikkurila Oyj fell below the 1/20 (5%) threshold due to trades executed on January 13, 2016. After these transactions, the holding of Prudential Plc and its subsidiaries in Tikkurila Oyj amounts to a total of 2,122,074 shares, which corresponds to 4.81 percent of the total amount of shares in Tikkurila Oyj and to a total of 1,613,512 voting rights, which corresponds to 3.66 percent of the total amount of votes in Tikkurila Oyj.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Threadneedle Asset Management Limited on May 27, 2016. According to the announcement, the holding of Ameriprise Financial Inc's holding companies (Threadneedle Asset Management Limited, Columbia Wanger Asset Management, LLC and Columbia Management Investment Advisers, LLC) in shares of Tikkurila Oyj fell below the 1/20 (5%) threshold due to trades executed on May 27, 2016. The holding of the above mentioned company in Tikkurila Oyj has amounted to a total of 2,112,430 shares, which corresponds to 4.8 percent of the total amount of shares and votes in Tikkurila Oyj.

Breakdown by shareholder category on December 31, 2016



19.9%	Private companies
9.5%	Financial and insurance institutions
12.8%	Public sector organizations
11.6%	Households
2.0%	Non-profit organizations
44.2%	Foreigners and Nominee registered

Tikkurila's largest shareholders on December 31, 2016

		Number of shares	% of share capital
1	Oras Invest Oy	7,969,552	18.1
2	Varma Mutual Pension Insurance Company	2,493,525	5.7
3	Ilmarinen Mutual Pension Insurance Company	2,458,938	5.6
4	Mandatum Life Insurance Company Ltd.	1,615,079	3.7
5	Kaleva Mutual Insurance Company	650,000	1.5
6	ODIN Finland	541,501	1.2
7	The State Pension Fund	507,000	1.2
8	Nordea Nordic Small Cap Fund	441,311	1.0
9	Evli Finnish Small Cap Fund	302,674	0.7
10	OP-Finland Small Firms Fund	232,746	0.5
	10 largest registered shareholders total	**17,212,326**	**39.0**
	Nominee registered shares	18,824,652	42.7
	Other shares	8,071,274	18.3
	Total	**44,108,252**	**100.0**

Breakdown of share ownership on December 31, 2016

Number of shares	Shareholders	% of shareholders	Total number of hares and votes	% of share capital and voting rights
1–100	10,357	51.9	484,437	1.1
101–1,000	8,693	43.6	2,715,833	6.2
1,001–10,000	826	4.1	2,011,734	4.6
10,001–100,000	68	0.3	2,075,950	4.7
100,001–1,000,000	12	0.1	3,458,552	7.8
over 1,000,000	6	0.0	33,361,746	75.6
Total	**19,962**	**100.0**	**44,108,252**	**100.0**

Board of Directors' proposal for the distribution of profits

The distributable funds of Tikkurila Oyj, the parent of Tikkurila Group, are EUR 161,523,376.09 of which EUR 38,984,447.77 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.80 per share will be distributed as dividend from the net profit for the year. The total dividend would amount to EUR 35,284,632.80. EUR 126,238,743.29 would be left in distributable funds.

The financial position of the company has not materially changed after the end of the financial year, and it is the Board of Directors' opinion, that the proposed distribution of funds does not compromise the company's liquidity.

Vantaa, February 8, 2017

Jari Paasikivi
Chairman of the Board

Petteri Walldén
Vice Chairman of the Board

Pia Rudengren
Member of the Board

Eeva Ahdekivi
Member of the Board

Riitta Mynttinen
Member of the Board

Harri Kerminen
Member of the Board

Erkki Järvinen
CEO

Auditor's Report

TO THE ANNUAL GENERAL MEETING OF TIKKURILA OYJ

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Tikkurila Oyj (business identity code 0197067-4) for the year ended December 31, 2016. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIALITY

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of goodwill (EUR 72 million) and other intangible assets (EUR 31 million) (notes 1, 2, 16 and 17)	
Valuation of goodwill and other intangible assets is a Key Audit Matter due to the following: • The goodwill and other intangible assets amount a significant part of the total assets (being 25 % of total assets); and • The valuation of goodwill and other intangible assets is complex and involves management judgement particularly in countries where there is increased uncertainty over the economic prospects and currency risks are heightened such as Russia and its adjacent countries. • The impairment test of goodwill and other assets involves determining future cash flows which, with regard to the most significant assumptions, are based on gross margin levels, discount rates and the projected time period, as well as the growth rate assumptions for the time after the time period which affects the so-called terminal value.	• The group audit team considered the valuation of goodwill and other intangible assets overall. • We also used our valuation specialist to address the valuation risk of goodwill and other intangible assets. In connection of our review we performed the following procedures: • The examination of the mathematical accuracy of the impairment testing model. • The assessment of sensitivity analyses in terms of most critical cash-generating units. • The assessment of historical accuracy of estimates. • The comparison of the assumptions used in the impairment testing of Tikkurila to externally available industry economic and financial data. • We have also considered the appropriateness of the note disclosures in respect of goodwill and other intangible.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Accuracy of revenue (EUR 572 million) (notes 1 and 2)

Revenue and revenue recognition principles are a Key Audit Matter due to the following:

- Considering the significant volume of sales transactions and variety of pricing and discounts agreements, minor errors could, in aggregate, have a materia! impact on the financial statements. Individual contracts exist with several customers, which include a variety of differing terms and conditions.
- The level of management judgement involved at the end of the reporting period in the assessment of amount of discounts, credits or other benefits thai are tied to the volume or value of the sale of certain product groups and that are granted afterwards.

- Our group audit instructions highlighted revenue as a focus area. Auditors of significant components were instructed to carry out appropriate controls testing and substantive procedures.
- Our audit procedures have included test of controls within the sales process a.m. controls over recording of sales transactions and approval of price chances.
- On a sample basis, we checked that customer-specific prices are set up in a system in accordance with the agreement with the customer.
- We assessed the appropriateness of the principles applied in light of contractual terms and transfer of risks and rewards of ownership.
- On a sample basis, we assessed that the IFRS revenue recognition criteria have been met for the deliveries occurring near 31 the year-end.
- Concerning discounts, credits and other benefits:
  - We evaluated the processes and controls in place for recognition of customer discounts.
  - On a sample basis, we tested the nature of discount arrangements and amounts to the contracts or to other supporting documents.

Valuation of lnventory (EUR 80 million) (notes 1, 2 and 19)

Valuation of inventory is a Key Audit Matter due to the following:

- The inventory amounts a significant part of the total assets (being 20 % of total assets)
- There is management judgement involved in assessing the level of inventory provision required in respect of slow moving and obsolete inventory, therefore, there is a risk that slow moving and obsolete inventory has not been adequately provided for.

- Our group audit instructions highlighted inventory valuation as a focus area. Auditors of significant components were instructed to carry out appropriate controls testing and substantive procedures.
- We have assessed a provisioning policy for obsolete and slow-moving items established by the management.
- We have inquired about the methods used for identifying slow moving and obsolete inventory.
- We have reviewed the calculation of inventory provision for slow moving and obsolete inventory made by the management and evaluated the compliance with the Group accounting principles.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki February 8, 2017 KPMG OY AB

Toni Aaltonen
Authorized Public Accountant, KHT

CORPORATE GOVERNANCE STATEMENT 2016

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 in the 2016 Annual Review.

GENERAL PRINCIPLES AND FRAMEWORK

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

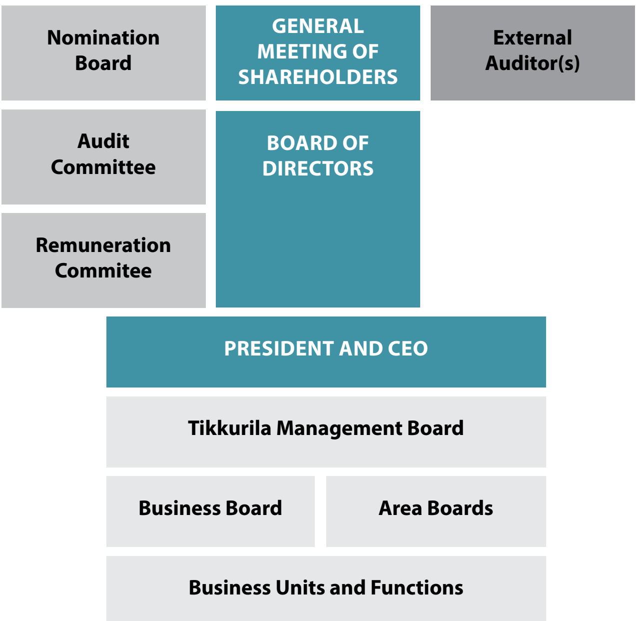
- Finnish Companies Act;
- Finnish Securities Market Act;
- Finnish Corporate Governance Code;
- Articles of Association of Tikkurila;
- standards issued by the Finnish Financial Supervision Authority;
- rules and regulations of Nasdaq Helsinki;
- Helsinki Takeover Code, issued by the Securities Market 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 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.:

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

Tikkurila Oyj has one class of shares; therefore, all shares have equal voting rights at the General Meetings of shareholders. More detailed information on the process of the Annual General Meetings can be found in the Tikkurila's Articles of Association, which are available on the company's web page, http://www.tikkurilagroup.com/corporate_governance/articles_of_association/.

The decisions of the shareholders' meeting in 2016 are presented in the 2016 Board of Directors' report, and all of the meeting materials and decisions are published on the company's website. The Annual General Meeting in 2017 will be held on April 4, 2017.

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 chairman, vice chairman and members of the Board of Directors, as well as their remuneration. 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.

During 2016 the members of the Nomination Board were: Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension

Insurance Company; and Reima Rytsölä, Executive Vice President, Investments, 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 2016, the Nomination Board met three times (2015: twice), and the attendance rate was 89 (100) percent.

PREPARATION PROCESS FOR BOARD NOMINATION AND THE DIVERSITY OF THE BOARD OF DIRECTORS

The Nomination Board, consisting of shareholders or their representatives, annually prepares proposals for Board composition and Board member remuneration for the Annual General Meeting. Proposals take into account both the articles of association of the Company, as well as all relevant legislation. When designing the composition of the Board of Directors, the Nomination Board of Tikkurila assesses the composition from the viewpoint of the company's current and future business needs, while taking into account the diversity of the Board.

The diversity of the Board of Directors will be assessed from various viewpoints. Tikkurila's Board of Directors shall have sufficient and complementary experience and expertise in the key industries and markets relevant to Tikkurila's business. In addition, an essential element is the personal characteristics of the members and their diversity.

The following key factors are considered and taken into account when electing Board members:

Professional expertise
- Knowledge of the company's value creation drivers
- Industry
- Relevant markets
- Accounting and finance
- Governance

Personal characteristics
- Education
- Gender
- Age
- Personality
- Culture

The company's aim is that the Board of Directors represents expertise in different industries and markets, diverse professional and educational background, diverse age distribution and both genders. The objective regarding gender diversity is for each gender to be represented on the Board by at least two members.

The realization of the diversity principles is monitored and reported in the company's Corporate Governance Statement and Corporate Responsibility Report.

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 are to:

- approve the strategy of the Group;
- decide on long-term financial and operational goals;
- approve business plans;
- decide on any major corporate restructuring, merger, acquisition or divestment;
- decide on major investments as well as major expenses, commitments and internal policies;
- decide on key funding and risk management issues and related pledges and commitments;
- approve or confirm the appointment and remuneration of the Group management;
- appoint and dismiss the Group President and CEO, and to confirm the appointment of the members of the Tikkurila Management Board;
- monitor and evaluate the performance of the Group President and CEO;
- ensure the adequacy of planning, information and control systems, as well as the handling of financial reporting and risk management;
- make proposals for, including but not limited to proposing the dividend payout, and to convene the Annual General Meeting;
- oversee that the Group's policies are applied; and
- 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 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 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 2016, Tikkurila Oyj's Board of Directors had the following six members for the full year:
- Eeva Ahdekivi, member of the Board continuously from 2009
- Harri Kerminen, member of the Board continuously from 2012
- Riitta Mynttinen, member of the Board continuously from 2011
- Pia Rudengren, member of the Board continuously from 2009
- Jari Paasikivi (Chairman), member of the Board continuously from 2008, Chairman from 2010
- Petteri Walldén (Vice Chairman) member of the Board continuously from 2008, Vice Chairman from 2010

All of the Board members are independent of the company, and other members than Jari Paasikivi 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 approximately 18 percent of Tikkurila Oyj's shares.

During 2016, the Board of Directors continued to restructure the Group's operations in difficult market conditions, e.g. in Russia, to ensure profitability and to find new sources of 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 cooperation between the Board and the President and CEO.

During 2016, the Board had 10 (2015: 9) meetings, and the average attendance rate was 98 (98) percent.

REMUNERATION OF THE BOARD OF DIRECTORS

The Annual General Meeting decided in April 2016 on the remuneration to be paid to the members of the Board. According to that decision, the Board remuneration in 2016 was the following:

- Chairman of the Board, EUR 64,000 per year;
- Deputy Chairman of the Board and Chairman of the Audit Committee, EUR 40,000 per year; and
- other members of the Board, EUR 32,000 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 decided to be 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 to members' bank accounts.

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

AUDIT COMMITTEE

In 2016, Eeva Ahdekivi was the Chairman of the Audit Committee, and the other 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 as well as other internal policies.

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

- assessing and overseeing the preparation of financial statements, business reviews and half year financial report, and reviewing the results of impairment testing of assets;
- assessing risks and reviewing risk management policies and actions;
- evaluating Tikkurila's compliance with laws, regulations and Tikkurila's internal Code of Conduct financial reporting principles as well as corporate social responsibility initiatives;
- confirming audit plans for both external and internal audit;
- preparing the election of auditors;
- pre-approving the non-audit services of the external audit firm; and
- reviewing the corporate governance statement.

During 2016, the Audit Committee met five (2015: 5) times. The attendance rate was 100 (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 Audit Committee. In addition, Tikkurila's internal auditor reported audit findings to the Audit Committee.

In financial year 2016, the Audit Committee oversaw and edited the Group business reviews and half year financial report before Board

SUMMARY OF THE ATTENDANCE AND REMUNERATION OF THE BOARD OF DIRECTORS

		Board of Directors						Audit Committee		Remuneration Committee		
		# of meetings	EUR	EUR	EUR	EUR	EUR	# of meetings	EUR	# of meetings	EUR	EUR
Name	**Position**	**attendance**	**annual fees, shares**	**annual fees, cash**	**annual fees, total**	**meeting fees, cash**	**fees, total**	**attendance**	**fees, cash**	**attendance**	**fees, cash**	**all fees total**
Eeva Ahdekivi	Member and Chairman of Audit Committee	10/10	15,993	24,007	40,000	5,400	45,400	5/5	3,000			48,400
Harri Kerminen	Member	9/10	12,786	19,214	32,000	4,800	36,800			1/1	600	37,400
Riitta Mynttinen	Member	10/10	12,786	19,214	32,000	9,000	41,000	5/5	5,400			46,400
Jari Paasikivi	Chairman and Chairman of Remuneration Committee	10/10	25,586	38,414	64,000	5,400	69,400			1/1	600	70,000
Pia Rudengren	Member	10/10	12,786	19,214	32,000	9,000	41,000	5/5	5,400			46,400
Petteri Walldén	Vice Chairman	10/10	15,993	24,007	40,000	5,400	45,400			1/1	600	46,000
	TOTAL		**95,930**	**144,070**	**240,000**	**39,000**	**279,000**		**13,800**		**1,800**	**294,600**

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 the Auditor, presented to the Annual General Meeting 2016. Moreover, the new set-up for internal audit, including a dedicated third-party service provider, was launched and followed up, and certain further development actions were taken during the year.

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 2016 Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén and Harri Kerminen were the other members of the Committee. During 2016 the Remuneration Committee met once (3 times), and the average attendance rate was 100 (100) 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, and 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.

The composition of the Tikkurila Management Board is the following:

- Erkki Järvinen, President and CEO (Chairman)
- Jukka Havia, Chief Financial Officer, also acting as Chairman of the Nordic Area Board (Finland and Sweden)
- Janno Paju, Chief Commercial Officer, also acting as Chairman of the Business Board and Chairman of Area Boards for Denmark and Norway
- Petri Miettinen, Group Vice President, Supply Chain & HSEQ, also acting as Chairman of the Area Boards for Russia, Central Asia and China
- Kenneth Sundberg, Group Vice President, RD&I, also acting as Chairman of the Area Boards for Poland, the Baltics and Germany

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. The members of the Tikkurila Management Board have remained the same since 2012.

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, that do not require a Board of Directors' resolution.

The heads of regional business units have from summer 2015 reported to internal operative decision making units, so-called Area Boards, where the Group management has both direct participation and decision making authority in key strategic decisions up until preset limits. The Business Board prepares commercial issues at the Group level for the Tikkurila Management Board in relation to sales, marketing, product portfolio management and brand management.

REMUNERATION OF MANAGEMENT MEMBERS REPORTING DIRECTLY TO THE PRESIDENT AND CEO

The Board of Directors decides on the remuneration as well as key employment terms for all group management members that directly report to the President and CEO.

REMUNERATION OF THE PRESIDENT AND CEO IN 2016

During financial years 2016 and 2015 gross salary expenses, presented in the chart at the bottom of this page, were recognized, on an accrual basis, in the group accounting in relation to the remuneration of Erkki Järvinen, the President and CEO of Tikkurila Oyj.

For financial year 2017, the annual cash-based bonus may not exceed 58.33 percent of the CEO's annual salary.

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 2016, the cost of the supplementary pension was EUR 70,355.00 (2015: EUR 67,005.00). The pension is based on a defined contribution scheme.

Moreover, he belongs to the share-based commitment and incentive plan, decided by the Board in 2012, for which for his part in 2016 an IFRS-based expense of EUR 0.00 (350,956.19) was recognized in Group IFRS accounts in addition to the figures in the table

Gross salary expenses of the President and CEO	**2016**		**2015**	
Fixed salary	**EUR 429,445.35**	**81%**	EUR 430,877.65	73%
Fringe benefits	**EUR 15,100.80**	**3%**	EUR 13,735.17	2%
Bonuses	**EUR 87,285.06**	**16%**	EUR 145,388.39	25%
Salaries total	**EUR 531,831.21**	**100%**	EUR 590,001.21	100%

above. Based on this plan, in December 2014 Erkki Järvinen was granted 7,000 Tikkurila Oyj shares and in March 2015 altogether 25,539 shares. In total during years 2012 – 2016 Erkki Järvinen was granted 32,539 shares and paid EUR 648,449.88 in cash-based compensation via the share-based plan. At the end 2016, based on the plan's conditions, it is assumed that further share-based and cash-based compensations in coming financial years will total EUR 0.00.

The President and CEO was a member of the 2016 annual cash-based management bonus scheme and the share-based commitment and incentive plans introduced in 2012 and in 2016. 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".

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.

REMUNERATION OF THE TIKKURILA MANAGEMENT BOARD IN 2016

Tikkurila Management Board members were included in the 2016 annual cash-based management bonus scheme, and in the share-based commitment and incentive plans, which were established in 2012 and in 2016. 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".

Summary of Remuneration of the Tikkurila Management Board is presented in the chart at the bottom of this page.

CASH-BASED ANNUAL BONUS SCHEME

On April 6, 2016, the Board of Directors of Tikkurila Oyj approved the principles for the annual cash-based bonus scheme for 2016 for the members of the Tikkurila Management Board. Bonus criteria consisted of the 2016 Tikkurila Group revenue growth and operative EBIT. Furthermore, bonus schemes were implemented in 2016 for other management personnel and for local key employees based on locally agreed targets.

SHARE-BASED COMMITMENT AND INCENTIVE PLANS:

2012 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 included three performance periods. The Board of Directors of the company decided 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 purchased Tikkurila's shares from the market in accordance with the terms and conditions of the plan.

The potential reward for performance period 2012-2014 was based on 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 had the possibility to earn a reward if their employment or service contract continued at least until spring 2015 and if he/she still owned the shares originally purchased at the time of reward payment. The amount of the reward depended on the number of purchased shares and fulfillment of the performance criteria. Rewards were partially paid in December 2014 and partially in spring 2015. Roughly half of the compensation was paid in company shares and half in cash.

The potential reward for performance period 2013-2015 was based on 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 had the possibility to earn a reward if their employment or service contract continued at least until spring 2016 and if he/she still owned the shares originally purchased at the time of reward payment. The amount of the reward depended on the number of purchased shares and fulfillment of the performance criteria. Rewards were paid in spring 2016 fully in cash to participants' bank accounts.

The potential reward for performance period 2014-2016 was based on 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 had the possibility to earn a reward if the employment or service contract continued at least until spring and if he/she still owns the shares originally purchased at the time of reward payment. The amount of the reward depended on the number of purchased shares and fulfillment of the performance criteria. No rewards were paid based on this tranche as the pre-set targets were not reached.

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

MANAGEMENT REMUNERATION IN 2016, GROSS, IN EUR MILLION

accruals basis, i.e. not presented on cash basis • figures rounded to 0.1 million

	persons	Fixed Salary	Fringe Benefitst	**Subtotal, Fixed Remuneration**	Annual Bonus	Share-Based Remuneration*	**Subtotal, Variable Remuneration**	Additional Pension	**Total Remuneration**
President and CEO	1	0.4	0.0	**0.4**	0.1	0.0	**0.1**	0.1	**0.6**
Other management board members, total	4	0.7	0.0	**0.8**	0.1	0.0	**0.1**	0.0	**0.9**
Tikkurila Management Board, total	**5**	**1.1**	**0.1**	**1.2**	**0.2**	**0.0**	**0.2**	**0.1**	**1.5**

* IFRS 2 standard based annual personnel expense as recognized in 2016 Group income statement

Additional information on the share-based commitment and incentive plan, and its financial impact, is available in note 37 included in the 2016 consolidated financial statements. For this plan, during the financial year 2016 a total of EUR 0.0 million (2015: EUR 0.9 million) was recognized as personnel expenses in the Group income statement, and at the end of 2016 the total cumulative bookkeeping value of the plan amounted to about EUR 3.2 million (31.12.2015: EUR 3.2 million).

Based on this share-based plan, in December 2014 a total of 20,500 Tikkurila Oyj shares were paid to the nine participants of the plan and in March 2015 a total of 79,539 shares were paid. In addition to the shares, cash compensation was also paid to the participants.

2016 Incentive Program: Performance Share Plan 2015-2019 and Matching Share Plan 2016-2018
In April 2016, the Board of Directors of Tikkurila Oyj approved a new share-based incentive program for Group key employees. The new program consists of a Performance Share Plan 2015-2019 and a Matching Share Plan 2016-2018. The aim of the new program is to combine the objectives of the shareholders and the key employees in order to increase the value of the company in the long-term, to bind the key employees to the company, and to offer them competitive reward plans based on earning and accumulating the company's shares.

For this program, during the financial year 2016 a total of EUR 0.03 million was recognized as personnel expenses in the Group income statement, and at the end of 2016 the total cumulative bookkeeping value of the program amounted to about EUR 0.1 million.

Performance Share Plan 2015-2019
The performance share plan includes three performance periods, calendar years 2015-2017, 2016-2018 and 2017-2019. Approximately 10 key employees, including the members of the Tikkurila Management Board, belong to the target group of the performance periods 2015-2017 and 2016-2018.

The potential reward of the plan for performance periods 2015-2017 and 2016-2018 will be based on Tikkurila Group's average EBITDA-based intrinsic values for 2015-2017 and 2016-2018, respectively. The rewards to be paid on the basis of the performance periods 2015-2017 and 2016-2018 will amount to an approximate maximum total of 250,000 Tikkurila Oyj shares. In addition, the company will pay taxes and tax-related costs arising from the reward to the participants in connection with the reward payment. The Board of Directors will resolve on the details of the performance period 2017-2019 at the beginning of the performance period.

The potential reward from the plan will be paid partly in the company's shares and partly in cash in 2018, 2019 and 2020. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participants. As a rule, no reward will be paid, if a participant's employment or service ends before the reward payment. The reward amounts to be earned through the plan will be capped if the limits set by the Board of Directors for the payable reward of a performance period are reached.

Matching Share Plan 2016-2018
The matching share plan includes one vesting period, calendar years 2016-2018. Eligibility for the reward requires the participant in the plan to acquire the company's shares up to the number determined by the Board of Directors and to be under an employment or service contract with the Company at the time of payment of the reward. The reward from the plan will be paid partly in the Company's shares and partly in cash in 2019.

The matching share plan is intended for selected key employees determined by the Board of Directors, who have not participated in the share-based plan launched in 2012. The rewards to be paid on the basis of the vesting period 2016-2018 will amount to a maximum total of 4,000 Tikkurila Oyj shares. In addition, the company will pay taxes and tax-related costs arising from the reward to the participants in connection with the reward payment.

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 2016, KPMG Oy Ab was re-elected as 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 served as principal auditor since 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 a one-year term of service. The auditor reports to the Board of Directors at least once a year and participates in Audit Committee meetings.

During 2016, the Group incurred a total of EUR 448 thousand (2015: EUR 431 thousand) audit related expenses and EUR 86 (125) thousand in expenses for other services provided by KPMG, the Auditor of Tikkurila. During the financial year 2016, the Group companies employed additional audit services from audit companies other than KPMG to a total value of EUR 74 (67) 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.

In 2016, the following internal control themes were emphasized: the implementation process of the new ERP focusing on changes in business processes and related process controls, the development of risk management process and actions, and enhancing business unit management and support via Area Boards.

FINANCIAL REPORTING PROCESS

Every Tikkurila Group subsidiary reports on a monthly basis an income statement, balance sheet, cash flow statement and future forecast in accordance with IFRS principles and based on a pre-set reporting model, Group finance manual and timetable. Moreover, at the end of each quarter each subsidiary reports additional notes to the income statement and balance sheet, as well as their off-balance sheet liabilities. 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 timetables are followed on a daily basis and local and group controllers are responsible for ensuring that reporting is timely and correct. In addition, the 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 visit the business units. The financial reporting of each Group company is part of top management reporting and is hence subject to regular monitoring.

INTERNAL AUDIT

The internal audit ensures the independent appraisal and assurance 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. The internal audit focuses on both regular business unit auditing as well as business process audits. Annual internal audit plans are based on assessment of the materiality of risks to the Tikkurila Group.

The internal audit function regularly reports to the Audit Committee of the Board. 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 assisted, to the required extent, by third-party experts to carry out internal audit activities. Internal resources have also been utilized in carrying out certain internal audit tasks. At the end of 2015 the Board of Directors decided to change the internal audit so that an external expert organization was selected to carry out the major part of internal audit activities as an outsourced service. However, the Group will still maintain an internal resource responsible for internal audit actions.

INTERNAL AUDIT ACTIVITIES DURING 2016

During 2016, the internal audit function assessed the current situation and earlier audits in relation to environmental and site risks, and initiated audits to gain further insight into selected areas of potential environmental risk. In addition, product portfolio management practices were audited. In one business unit sales processes were evaluated. Furthermore, cyber security risks in relation to industrial internet and user awareness were studied, and one country-specific audit was finalized. Finally, group's risk management policy and current risk management practices were audited.

From 2012, Tikkurila has implemented a group-wide whistle-blowing application enabling any employee or external partner to anonymously report online any suspected violations. During 2016 a few reports were received via the application and duly settled, but no significant violations were reported via the system.

PLAN FOR INTERNAL AUDIT ACTIVITIES DURING 2017

Based on the internal audit plan confirmed by the Audit Committee, in 2017 the target is to audit business development and project management related themes, RDI projects, the implementation process of the new Group ERP solution, as well as to continue the audit process actions started in 2016 in relation to environmental issues. Furthermore, audits are planned for evaluating the effectiveness and practices of the Group's marketing and sales promotion activities, and for the raw material and packaging material sourcing process. The internal audit function will also continue to monitor the implementation of the recent years' audit recommendations.

RISKS

Tikkurila's business involves a number of risks, some of a potentially 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

TIKKURILA RISK CHART

ESTIMATED PROBABILITY	SHORT-TERM	LONG-TERM
HIGH	• Macroeconomic and foreign exchange rate development • Intensifying competition from lower price segments • Stability of development in Russia and adjacent areas • Raw material prices and availability	• Innovations in material technology, and their impact on various surfaces • Value chain integration, and changes in distribution structure and channels • New entrants into the industry • Digitalization of customer services
LOW	• Financial markets development and credit risks • The impact of lower sales volumes on productivity and efficiency	• Adverse changes in product mix, and potential increase of the share of private labels • Refinancing

TIME HORIZON

business, financial position or results of operations.

The Group's risks are various in nature and include 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 strategic and operational, but all categories present risks that may have a significant impact on Tikkurila's business.

The key risks relevant to Tikkurila identified by the Board of Directors are presented in the chart above based on certain simplified assumptions and on the situation prevailing at the end of 2016. The risks are divided according to their most relevant time horizon, although most have both short- and long-term implications. A rough probability assessment is also included in the table.

Risks related to the general economic situation
The macroeconomic situation in Finland, Russia and the countries adjacent to Russia has remained challenging in recent years, which has led to decreasing demand for Tikkurila's products. Consumer purchasing power has also declined and demand, especially in Russia, is switching towards lower priced products.

Although the Russian ruble strengthened somewhat during 2016 compared to the situation at the beginning of that year, currencies relevant to Tikkurila's business areas have fluctuated significantly and depreciated against the euro, which has had, and still might have, an adverse impact on Group revenue, profitability and cash flows. On the other hand, the relative share of Group revenue held by Russia and SBU East has decreased.

Furthermore, both the United States and the European Union have issued various sanctions against Russia, which have further deteriorated the business environment. Although these sanctions have so far not had any considerable direct impact on Tikkurila's business, they may force Tikkurila to change its production and logistics set-up to ensure competitiveness. The sanctions also affect financing terms.

In the eastern markets the availability of financing has in general become tighter and interest rates have remained high, which has increased credit risks. Tikkurila has not experienced any major bad debt losses, but in future counterparty risks might be enhanced and cause losses, even though Tikkurila has a diversified customer base.

In the short term, the prices of certain key raw materials and packaging materials for Tikkurila's products have started to trend up from the second half of 2016. Tikkurila believes that prices for raw materials will rise as time goes on. It is possible that the Group will be unable to transfer the rise in costs to its end product prices completely or without delays. There are significant availability and price development related uncertainties linked with titanium dioxide in 2017. Uncertainties linked to raw materials may have an impact on market share development, the general competition situation or the product range.

Risks linked to the industry and Tikkurila's operational activities
Digitalization has accelerated, which can in the future affect Tikkurila's production and customer service structures. Moreover, it will provide additional opportunities for the end-users of paint products to purchase competitively across geographical borders.

Technological advances may potentially have a considerable impact on the use of construction materials and thereby coatings solutions; hence, paint demand may decline, the magnitude and structure of Tikkurila's sales may change, and there might be consequences for Tikkurila's technology investments.

Increasing customer demand volatility combined with real-time data utilization might force the need for structural changes to Tikkurila's production technology and equipment. Better understanding of end customer needs is crucial now and for the future.

Competition in the paint industry has intensified and in the present challenging economic climate, the importance of sales price is emphasized. Furthermore, private label products launched by retailers are competing for the same end customers as traditional paint manufacturers' brands.

Certain companies operating in construction-related industries have expanded into paint products in order to provide a more extensive offering to professional customers, whose role is increasing. These aspects could affect Tikkurila's product and customer portfolio, and hence have an adverse impact on profitability.

Due to both the general market situation and intensified competition, Tikkurila's sales volumes have been in decline in recent years, especially in SBU East and within the lower price categories, which has had a negative impact on revenue and profitability, and which, in addition, may in future further deteriorate the development of operational efficiency and productivity.

High volatility and fast technological change also create additional challenges in recruiting competent personnel and developing know-how within the Group. Relevant competencies and diversified talent base are essential safeguards for future growth.

Details on risks relevant to Tikkurila are presented in the 2016 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 manage risks systematically and proactively. Tikkurila's objective is to reach its 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. In accordance with the Three Lines of Defense model, the first line of defense implementing risk management activities is operative management: Tikkurila's business units and functions are responsible for identifying, reporting and monitoring the risks involved in their activities and for related risk management. The second line of defense comprises centralized group-level risk management, compliance and internal control of resources. The internal audit function acts as the third line of defense: the internal audit checks how the internal control is functioning and uses a risk-based approach to offer assurance services to the Board of Directors in relation to how the first and second lines of defense function.

Tikkurila's business units and functions perform overall risk management in conformity with a risk self-assessment methodology, in which risk registers are employed. Third-party advisors are used to the relevant extent in risk assessment or risk management development. 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 nature 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 management of financial risks. Major investment and acquisition risks are assessed by the Management Board and Tikkurila Oyj's Board.

Responsibility for implementation of the Group's risk management activities lies with the President and CEO as well as the Tikkurila Management Board. The Board of Directors is responsible for approving the key policies and principles of the risk management processes. The Board of Directors and the Audit committee approve and monitor the reporting procedures, and monitor the adequacy, appropriateness and effectiveness of the Group's business and administrative processes.

RISK MANAGEMENT ACTIVITIES DURING 2016

In 2016, the Group continued its risk management activities based on previous years' decisions. Difficult market conditions were met particularly in the SBU East area; for example the volatility of foreign exchange rates was very high. To manage these risks the group has, for example, decreased the share of imports and made contingency plans to mitigate potential consequences of the sanctions imposed against Russia. At the Group level, numerous actions have also been carried out to increase efficiency and to adjust operations in order to have better flexibility and lower reliance on single counterparties. In addition, the group managementsystem has been fine-tuned to speed up decision making.

PLAN FOR RISK MANAGEMENT ACTIVITIES DURING 2017

The starting point for the risk management in 2017 is to implement, in a feasible way, the findings and recommendations of the 2016 internal audit report on risk management. At the same time, it will be considered whether risk management should be more tightly linked to a broader governance, risk management and compliance (GRC) framework, also from the points of view of organizing the work and allocating responsibilities. Moreover, group management will assess key strategic and operational risks, and seek to prioritize the risks and related mitigation actions – with respect to opportunities as well as threaths.

MANAGEMENT OF INSIDER ISSUES

Upon entry into force of the Market Abuse Regulation (EU) N:o 596/2014 (MAR) on 3 July 2016 Tikkurila has amended the instructions and procedures in relation to its insider administration in order to comply with the requirements of the new regulation. The new instructions and procedures relate, for example, to disclosure requirements, management and supervision of insider information, notification and disclosure of transactions of Managers and persons closely associated with them, as well as maintenance of insider lists. The Company establishes and maintains project-specific insider lists as the need arises. The Company does not currently hold a list of permanent insiders. Upon entry into force of the Market Abuse Regulation Tikkurila has updated its Disclosure Policy.

Managers in Tikkurila and persons closely associated with them have the obligation to notify the Company and the Finnish Financial Supervisory Authority ("FIN-FSA") of transactions with Tikkurila's financial instruments.

Tikkurila has determined the following persons as Managers:

- Members of the Board of Directors;
- CEO
- CFO

Closely associated persons include, in respect of each Manager, a spouse or a registered partner or a common-law spouse, a dependent child, a relative who has shared the same household for at least one year on the date of the transaction concerned and a legal person, trust or partnership, the managerial responsibilities of which are discharged by a Manager or by a closely association person mentioned above, which is directly or indirectly controlled by such a person, which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

CLOSED PERIOD

Tikkurila applies a closed period of 30 days before the announcement of financial reports. During this period, persons discharging managerial responsibilities within Tikkurila are prohibited to trade on the company's share on own account or for the account of a third party, directly or indirectly.

SILENT PERIOD

Tikkurila observes a silent period (closed window) before it publishes financial statement release, half-year financial report and business reviews. From the beginning of July 2016, based on the new regulations of the EU's Market Abuse Directive, the silent period begins at the latest thirty days before financial statement release or half-year financial report or business reviews for quarterly performance for the period in question have 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 its financial statement release, half-year financial report and the review of the Board of Directors. Tikkurila will provide outlook statements only for a period for which the company has reasonable visibility. The outlook includes the management's descriptive estimate of revenue and profitability. The estimate may also include other elements. No other forward-looking statements or answers to questions concerning future performance are given unless the company decides to update the guidance and publish a stock exchange release regarding the update. Any such updates will be published without undue delay.

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

APPLICATION OF THE FINNISH CORPORATE GOVERNANCE CODE

The Finnish Corporate Governance Code, which came into force on October 1, 2010, includes 55 recommendations. The Code also follows the "comply or explain" principle. Tikkurila fully complies with the recommendations of the Code. On October 1, 2015, a revised Governance Code was accepted by the Finnish Securities Market Association. This revised code came into force for the financial year 2016, and Tikkurila applied the revised recommendations for the first time in its 2016 corporate governance statement.

DETAILED INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS AND OF THE TIKKURILA MANAGEMENT BOARD

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, 2016: 77,356 (Dec 31, 2015: 76,149)

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, Vice Chairman of the Board of Directors 2012-2014, Chairman of the Board of Directors since 2014
- Kemira Oyj, Expert Member of the Nomination Committee since 2014
- Oras Ltd, Member of the Board of Directors since 1982, Chairman of the Board of Directors since 2013
- Varma Mutual Pension Insurance Company, Vice Chairman of the Board of Directors since 2014

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, 2016: 8,019 (Dec 31, 2015: 6,972)

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
- Savonlinna Opera Festival Patrons' Association, Chairman of the Board of Directors since 2015
- Savonlinna Opera Festival Ltd., Chairman of the Board of Directors since 2015
- Efla Oy, Member of the Board of Directors since 2014
- Staffpoint Holding Oy, Member of the Board of Directors since 2012
- Kuusakoski Group Oy, Member of the Board of Directors since 2007
- Nokian Tyres plc., Chairman of the Board of Directors since 2006
- Ledil Oy, Chairman of the Board of Directors 2015-2016
- Teleste Corporation, Member of the Board of Directors 2009-2016
- SE Mäkinen Logistics Ltd, Member of the Board of Directors 1996-2016

Eeva Ahdekivi
Born 1966, M. Sc. (Econ.), DBA
Managing Director, Hartwall Capital Oy Ab, since 2015

Member of the Board since 2009
Chairman of the Audit Committee since 2010
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2016: 6,835 (Dec 31, 2015: 6,150)

- Career history
- Investment Director, Solidium Ltd, 2009-2015
- 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, 2016: 4,555 (Dec 31, 2015: 3,718)

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
- Boreal Plant Breeding Ltd, Chairman of the Board since 2016
- Mint of Finland, Member of the Board of Directors since 2010
- Okmetic Oyj, Member of the Board of Directors, 2015-2016

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, 2016: 5,328 (Dec 31, 2015: 4,491)

Career history
- Executive Vice President, W Capital Management AB, 2001-2005
- Chief Financial Officer, Member of the Management Group, 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

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, 2016: 3,807 (Dec 31, 2015: 2,970)

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

The members of the Board of Directors from left to right: Petter Walldén, Pia Rudengren, Riitta Mynttinen, Jari Paasikivi, Harri Kerminen and Eeva Ahdekivi

Positions of trust

- Spinverse Group, Chairman of the Board of Directors since 2015
- SK Spice Holdings S.A.R.L, Member of the Board of Directors since 2015
- LUT, Lappeenranta University of Technology, Member of the Advisory Board since 2015
- 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 2011-2016, Vice Chairman of the Board of Directors 2012-2016

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, 2016: 46,539 (Dec 31, 2015: 46,539)

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 of the Board of Directors since 2011, Vice Chairman of the Board since 2013
- East Office of Finnish Industries Ltd, Member of the Board of Directors since 2011
- Association of Finnish Paint Industry, Member of the Board of Directors since 2009, Chairman of the Board since 2016
- 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 2013
- Helsinki Chamber of Commerce, Vantaa Regional Office, Member of the Board of Directors since 2010, Chairman of the Board of Directors since 2013
- 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
- Finnish-Russian Chamber of Commerce (FRCC), Member of the Board of Directors since 2013

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, 2016: 14,000 (Dec 31, 2015: 14,000)

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 of Directors since 2014
- Student Union of Aalto University, Member of the Finance Committee since 2010, Chairman since 2016

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, 2016: 14,300 (Dec 31, 2015: 14,025)

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, 2016: 14,000 (Dec 31, 2015: 14,000)

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

- Katu-Karhu Oy, Member of the Board since 2016
- Finnish Association of Purchasing and Logistics (LOGY), Member of the Board 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, 2016: 14,000 (Dec 31, 2015: 14,000)

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

- Johan Gadolin Process Chemistry Centre – PCC at Åbo Akademi University, Member of Forum of Society since 2015

The Members of the Tikkurila Management Board from left to right: Jukka Havia, Petri Miettinen, Erkki Järvinen, Janno Paju and Kenneth Sundberg

Tikkurila Oyj
P.O. Box 53, Kuninkaalantie 1
FI-01301 Vantaa
Finland
Tel. +358 20 191 2000
www.tikkurilagroup.com

Investors online
www.tikkurilagroup.com/investors

Investor relations contacts
Minna Avellan, Director, Investor Relations and Brand Concept Development
Mobile +358 40 533 7932

Format of e-mail addresses: firstname.lastname@tikkurila.com

Tikkurila Oyj • P.O. Box 53 • Kuninkaalantie 1 • FI-01301 Vantaa • Tel. +358 20 191 2000 • www.tikkurilagroup.com