TIKKURILA

COLORFUL VISIONS SINCE 1862

ANNUAL REPORT 2011

TIKKURILA IN BRIEF

Products

PRODUCTS AND SERVICES FOR CONSUMERS AND PROFESSIONALS

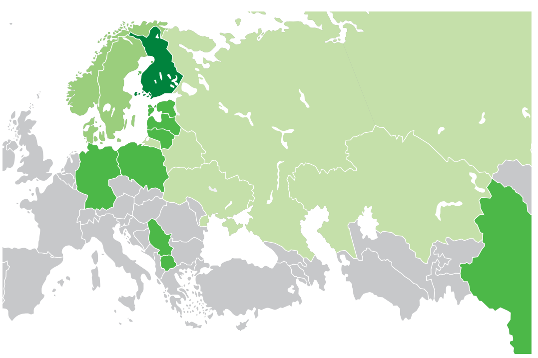
Tikkurila offers a broad range of decorative paints for consumers and professionals for surface protection and decoration. The product offering includes, among others, interior paints, lacquers, and effect products, exterior products for wood, masonry, and metal surfaces, as well as services related to painting. In addition, Tikkurila produces paints and coatings for the metal and wood industries.

Brands

WELL-KNOWN BRANDS

Tikkurila's strategic brands are among the best-known paint brands within their operating areas. A major part of Tikkurila's sales comes from the strategic brands, which are Tikkurila, Alcro, Teks, and Vivacolor. In addition, Tikkurila has some local brands. In 2011, the sales and marketing expenses accounted for some 14.1 percent of the Group revenue.

Business units



EMPHASIS ON NORTHERN AND EASTERN EUROPE

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

Tikkurila has 11 production facilities in eight countries. Half of Tikkurila's revenue is derived from the developing and half from the developed markets. The biggest single market is Russia, accounting for 30 percent of the Group revenue in 2011. The four biggest markets, Russia, Sweden, Finland, and Poland, accounted for 81 percent of the Group revenue in 2011.

Market position

TIKKURILA'S REVENUE-BASED MARKET POSITION

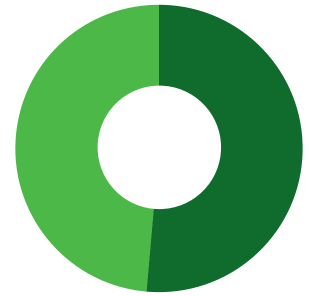
1 in Russia, Sweden, Finland, and the Baltic countries*
4 in Poland*
8 in Europe
25 in the world

* In decorative paints

TIKKURILA IN 2011

Production capacity

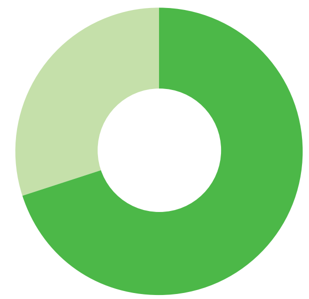
Percent



51.4	Outside EU
48.6	In EU

Share of water-borne products

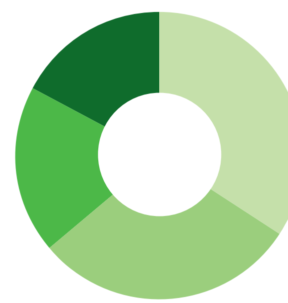
Percent of production



70.1	Water-borne paints
29.9	Solvent-borne paints

Revenue by segment

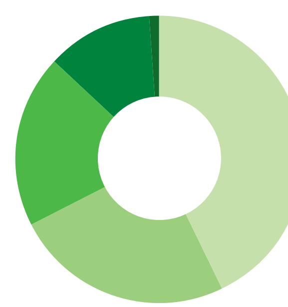
EUR million



220.0	East
192.3	Scandinavia
122.2	Central Eastern Europe
109.2	Finland

Personnel by segment

At year-end



1,527	East
877	Central Eastern Europe
688	Finland
422	Scandinavia
37	Group

REVENUE GROWTH
EUR million

2010	588.6	+9.4%
2011	643.7	

EBIT MARGIN
%

2010	10.1	-0.4
2011	9.7	

RETURN ON CAPITAL EMPLOYED
%

2010	19.2	+0.2
2011	19.4	

GEARING
%

2010	41.4	+10.5
2011	51.9	

DIVIDEND PER SHARE
EUR

2010	0.70	+4.3%
2011	0.73*	

*Board's proposal

SHARE OF WATER-BORNE PRODUCTS
% of production

2010	70.3	-0.2
2011	70.1	

ECO-EFFICIENCY OF SUPPLY CHAIN
KWh/product liter

2010	0.37	-0.3
2011	0.34	

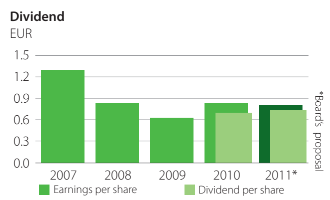
LOST TIME ACCIDENTS
Per million working hours

2010	4.8	0.0%
2011	4.8	

CONTENTS

From the CEO
Despite the conditions, Tikkurila's performance was reasonably good last year. In this market situation, we will focus on strengthening our competitiveness and improving our profitability.
🗋 Read more on pages 6–7.

Focus strategy
Tikkurila's strategy was revised in 2011. Tikkurila offers user-friendly and sustainable solutions for surface protection and decoration. Tikkurila strives to be the leading paint company in its operating area.
🗋 Read more from page 10 onwards.



Investor information
Board for Directors of Tikkurila proposes to the Annual General Meeting that a dividend of EUR 0.73 per share will be paid for 2011.
🗋 Read more about the financial objectives and dividend policy on page 33.

Inspired by colors
Tikkurila wants to influence the well-being of people by inspiring them to beautify their living environments. The new color collections are based on trends taking place around the world. By observing the world around us – art, books, magazines, architecture, life on the streets, different cultures – we create new inspiring color collections. Nature and culture guide our conceptions of which colors speak to people. Environmental awareness is a current megatrend, generating a number of narrower trends such as repainting recycled materials and preferring light, natural and earthy colors and surface treatments.

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Symbol descriptions
🖳 Read more on the Internet
✉ Email address
🗋 Further information

YEAR 2011 IN BRIEF

The revenue improved in particular due to sales price increases that were conducted during the year.

The operating profit excluding non-recurring items increased in particular due to improved revenue and cost-saving measures.

Tikkurila succeeded well in transferring the clearly increased raw material costs to the sales prices.

Tikkurila revised its strategy and started a program aiming at efficiency improvement.

Research and development focused on rationalizing the raw material portfolio and finding alternative raw material sources. Tikkurila introduced nearly 30 new products during the year.

KEY FIGURES

EUR million	2011	2010
Revenue	643.7	588.6
Operating profit (EBIT), excluding non-recurring items	62.7	59.7
Operating profit (EBIT) margin, excluding non-recurring items, %	9.7%	10.1%
Operating profit (EBIT)	61.2	60.8
Operating profit (EBIT) margin, %	9.5%	10.3%
Profit before tax	50.7	52.0
Net profit	35.5	36.5
Earnings per share*, EUR	0.80	0.83
Return on capital employed (ROCE), %, rolling	19.4%	19.2%
Cash flow after capital expenditure	13.3	51.4
Net interest-bearing debt at period-end	99.4	78.6
Gearing, %	51.9%	41.4%
Equity ratio, %	44.1%	41.1%
Personnel at period-end	3,551	3,468

* Calculated based on the number of shares issued, which is 44,108,252 shares.

150 YEARS OF DECORATION AND PROTECTION

1862 – Linseed oil and varnish. Anders Lorentz Munsterhjelm founded an oil press on the banks of the Keravanjoki River in Tikkurila, Finland, under a special license.

1919 – A paint and lacquer factory established. The manufacture of paints and lacquers began in Tikkurila. Extensive enlightment and course activities began in the 1920s.

1953 – Joker to be the first water-borne product. Tikkurila introduced its first water-borne product, the Joker paint. In 1997, Joker was the first paints in Finland to receive the EU ecolabel, and it is still one of the most popular interior paints in the country.

1958 – Tikkurila inspires you to color your life. Tikkurila launched a completely new service including color card development and color advisory service. Designer Yki Nummi led the coloring service, leaving his mark in many Finnish homes, factories and public buildings, even entire residential areas, in the 1950s to the 1970s.

1967 – Entering the Scandinavian market through Sweden. The sales company established in Stockholm with a Finnish partner was acquired by Tikkurila in full in 1976. Through the acquisition of Alcro-Beckers in 2001, Tikkurila obtained a clear leading position in Sweden.

1974 – Russia, Entering the Eastern Trade. At the time of the Moscow Olympics in 1980, Tikkurila was also known as "Firma Miranol" in Soviet Union. Tikkurila established a joint venture in 1993 and built the first western paint factory in St. Petersburg in 1995. The acquisition of Kraski Teks in 2006 made Tikkurila the leading decorative paint company in Russia.

1982 – To the Eastern European market through Poland. Tikkurila has been exporting paints to Poland since 1982, and established a company together with a local partner in 1998.

2010 – Tikkurila was listed. Tikkurila was listed on the NASDAQ OMX Helsinki on March 26, 2010, as Kemira distributed Tikkurila's shares as dividends to its shareholders.

2012 – Tikkurila 150 years. A small oil press has grown into one of the leading paint companies in the Nordic area as well as in Russia and other selected Eastern European countries. The jubilee year will be celebrated with different stakeholder groups throughout the year.

Further information on the history of Tikkurila, jubilee year and related social projects can be found on
🖳 www.tikkurilagroup.com/150.


A year filled with
unforgettable events

YEAR 2011 HIGHLIGHTS

Q1

Tikkurila divested its powder coatings business

Tikkurila divested its powder coatings business in January 2011 by selling all shares in OOO Tikkurila Powder Coatings, a Russian industrial coatings company. Tikkurila divested its industrial powder coatings business, because it is not a part of Tikkurila's core business.

Vivacolor the most well-known paint brand in the Baltic countries

Based on a brand awareness study conducted in March, Tikkurila's Vivacolor is the most well-known paint brand in the Baltic countries (the first positions in Estonia and Latvia, the second position in Lithuania). Vivacolor is one of the four strategic brands of Tikkurila.

Tikkurila's first Annual General Meeting

The first Annual General Meeting of Tikkurila Oyj as a listed company was held in Helsinki, Finland. Approximately 350 Tikkurila shareholders participated in the meeting. After the meeting, the participants were able to familiarize themselves with Tikkurila's Touching installation. The installation presents interesting surfaces and activates people to touch the painted or otherwise treated surfaces. In order for this to feel natural, life-size animals were chosen as the exhibition objects.

Q2

Tikkurila strengthened its position in the Balkan area

In April, Tikkurila entered into an agreement to acquire the business operations of Serbian paint company Zorka Color. The acquisition will strengthen Tikkurila's position, in accordance with the company's strategy, in Central Eastern Europe and in the Balkans in particular. In addition to Serbia, Zorka Color also operates in Macedonia, Bosnia-Herzegovina, Montenegro, Croatia, and Kosovo. The acquisition was completed on July 1, 2011.

Tikkurila's colors at the ARS 11 exhibition

A world-renowned artist Odili Donald Odita created a wall painting of approximately 100 square meters to the Panorama space of Kiasma. In addition to white, 68 customized shades of Tikkurila's Harmony Interior Wall Paint were used for the Time Curve installation. The color choice was affected by the April light in Helsinki together with the color of snow on the Swiss Alps.

Tikkurila launched the ProHouse concept

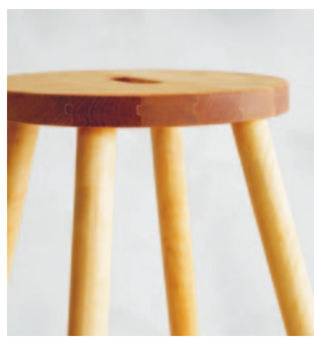
The Tikkurila brand developed a new surface treatment method for wooden surfaces in which exterior wooden panels and boards are treated twice under controlled and optimized conditions at the factory. The wooden surface, painted in the factory, is immediately weather resistant. The waterborne exterior surface products used in the ProHouse method help to achieve a maintenance interval of more than 15 years. This way there is less need for maintenance painting and, thus, less impact on the environment.

Mobile painting application for Alcro

Tikkurila introduced a free-of-charge application for mobile phones to help and inspire consumers and professionals with the Alcro paints and colors in Sweden. The customer-focused mobile application means new opportunities for both the consumers and professionals – at different stages or throughout a painting project. Customers can choose colors, test paint, create a purchase list and share it with the people who are doing the painting – all with the help of Alcro's mobile application.

Valtti turned 60 years

Tikkurila celebrated Valtti's 60th anniversary by donating EUR 0.60 on every 9-liter can of Valtti Color sold in Finland between January–June 2011, to the conservation of old-growth forests. The total of over EUR 20,000 was delivered to Luonto-Liitto at Tikkurila in August 2011.



Zen products launched in Finland

Launched on the Finnish market in spring 2011, the Zen product range combines a modern, natural approach, and Zen esthetics with the traditional Central European surface finishing competence. The Zen product range comes from Tikkurila's German subsidiary Pigrol, which has long traditions as a manufacturer of wood protection products. The entire product range is refined from natural plant oil and wax, which help preserve the good natural qualities of wood for a long time. With Zen products, wood maintains its moisture control properties and authentic look.

Tikkurila's new natural stone coatings

The Tikkurila brand launched a new Tunto Kivi range, containing genuine Finnish crushed natural stone. It is easy to create impressive interior special effect walls with the product. The applications include walls, fireplaces, and masonry walls, amongst others. Tunto Kivi supports the objectives of Tikkurila's sustainable development, and demonstrates strong and innovative local know-how. The product concept has been awarded in the Tikkurila Group's internal innovation contest.

Tikkurila awarded in Russia

In May, Tikkurila was awarded third prize in the category Supplier of the Year in the Russian DIY & Household Awards 2011 ceremony in Moscow. The awards were given out in a business forum called DIY & Household Retail Russia. The forum gathered the most influential household, DIY and garden supply industries, retailers, manufacturers and distributors in Russia.

Q3

New Swan ecolabels

Alcro and Beckers exterior and interior paints were granted five new Nordic Swan Ecolabels. Paints labeled with the Nordic Ecolabel fulfill not only the strict environmental but also tight quality requirements, which cover the entire lifecycle of the products from raw materials to the manufacturing of the products, their use, and disposal of waste. Tikkurila has more than 100 eco-labeled decorative paints in Scandinavia.

Trend colors for 2012–2013

Tikkurila published trend colors for the years 2012–2013. The new trend colors have been divided into five collections: Eco rebellion (Ekokapina), Small romance (Pikkuromanssi), Antwerp (Antwerpen), Roots (Juuret) and Open sea (Ulappa). The inspiration for creating the collection was simple life, absence of rush, and doing it yourself.

Tikkurila restructured its debt financing

Tikkurila restructured its debt financing by refinancing the EUR 180 million debt package, by entering into a bilateral EUR 25 million debt facility, and by starting a commercial paper program of EUR 100 million nominal value. The restructuring aims at a more diversified and flexible debt structure, as well as better loan terms.

Q4

Tikkurila revised its strategy

The Board of Directors of Tikkurila decided upon a revised strategy for 2012–2014. Tikkurila wants to be the leading paint company in the Nordic area as well as in Russia and other selected Eastern European countries. The strategy is based on growth, resilience, and realignment.

Tikkurila sold two retail stores in Sweden

Tikkurila sold all the shares in Färgglädje Måleributiken i Alvik AB as well as the assets of Alcro-Beckers AB's retail store in Uppsala, Sweden to Niklas Frisk, the former head of Tikkurila's SBU Scandinavia, and to other private persons. In conjunction with this, Niklas Frisk resigned from Tikkurila Group. In 2010, the revenue of the businesses to be divested totaled approximately EUR 6.5 million and the number of employees was 40.The rationale of the transactions is to develop the retail distribution network in Sweden in accordance with the revised strategy.

Changes in business models in three countries

Tikkurila agreed on selling the entire share capital of its three sales companies in Hungary, Slovakia and the Czech Republic to a Czech company established by Tikkurila's local management. The new company will continue the retail of Tikkurila's products in the three countries. The combined revenue of the three sales companies to be sold was approximately EUR 10.2 million in 2010, and the number of employees totaled approximately 70. In conjunction with the closing of the transaction, Markku Immonen, Group Vice President, Strategy & Business Development, who was also in charge of Tikkurila's operations in the Czech Republic and China, continued as an entrepreneur and resigned from his position in Tikkurila.

Tikkurila improved its position in Poland

In Poland, Tikkurila's market share in decorative paints in volume was increased to 16 percent. Previously, Tikkurila's market share was 14 percent. Tikkurila is the fourth largest paint provider in decorative paints in Poland.

Tikkurila Polska awarded by a DIY store network

Leroy Merlin Poland, a Do-It-Yourself (DIY) store network in Poland, awarded Tikkurila Polska in Poland in September 2011 in the category "The most effective new products in 2010". In this category, the company was evaluated based on its good company image and sales volumes in its new products.

Tikkurila awarded the supplier of the year in Norway

Byggmakker, owned by Kesko in Finland, awarded Tikkurila the supplier of the year. The winners are chosen based on their support in the professional market, product quality, reliable supplies, know-how and competitive pricing, among others. Byggmakker is a well-known retail chain of building and home improvement stores in Norway with more than 100 stores all over Norway serving both consumers and professionals.

Profe
TIKKURILAN AMMATTILAISPALVELUT

The Profe professional services concept

Tikkurila brand launched a new Professional Services concept, the Profe, which allows Tikkurila to provide more extensive and targeted services for various operators in the trade: for painting contractors, building developers, and designers. The importance of professionals is increasing.

New tinting systems in use in Russia

The Novatint tinting system was deployed in Russia in 2011. Tikkurila's Teks paint brand products are tinted with the Novatint tinting system, the most significant benefits of which include a variety of colors, an optimal price-quality ratio and freeze-thaw stability of the colorants. Also, the change of the Avatint tinting system started in 2011 in Russia. Avatint is used to tint other Tikkurila decorative paint brand products.

Customer helpline received 75,000 calls

In 2011, Tikkurila's customer helpline, "Maalilinja", received all in all some 75,000 calls in Finland. In addition to Finland, the helpline service is in use in Sweden and Poland, answering customers' questions concerning decorative paints and provides painting ideas and color suggestions.

Tikkurila started efficiency improvement measures

In order to secure the competitiveness in an uncertain and quickly changing market environment, Tikkurila decided to start a group-wide program aiming at more flexible organization and cost structure, as well as at streamlining all operations. According to the plan, the organization structure will be revised, areas of responsibilities clarified and ways of operating changed. In addition, the roles of different production facilities will be reconsidered and reorganized where applicable. As part of the planned program, Tikkurila started co-operation negotiations in Finland.

Changes in Tikkurila Management Board

Tikkurila changed the composition of the Management Board of Tikkurila Group as of January 1, 2012. The number of Management Board members declined from eight to five. The Management Board is represented on pages 28–29 of the Annual Report.

Tikkurila awarded in Poland

Tikkurila's Polish subsidiary, Tikkurila Polska, was granted the golden Consumer Laurel 2011 award for the Be Special Decor product range. The award was given in the category of "Paints and decorative plasters", in which Tikkurila's Be Special Decor product range received more than half of the votes given by consumers. The Consumer Laurel is a national survey in Poland, which annually rewards the most popular Polish products, services and brands among consumers in more than 300 categories. The consumers evaluated the brands and products, for instance, based on brand recognition and product quality.

Alcro awarded for its advertising campaign

Tikkurila was awarded in Sweden in the international Epica Awards. The contest is to reward outstanding creativity. The award was granted to Alcro brand's colorful campaign "Color Tackle". The contest jury consisted of representatives of the trade press, who evaluated the entries based on the originality of the creative idea and the quality of its execution. Alcro is the official sponsor of the Swedish national ice hockey team.

FROM THE CEO

Despite the conditions, Tikkurila's performance was reasonably good in 2011. In 2012, Tikkurila celebrates its 150th anniversary.

DEAR READER,

In my review a year ago, I stated that the worst seemed to be over in the recession caused by the financial crisis. As I was writing that review, economic development was fairly positive and consumer confidence was clearly strengthening. However, the year 2011 turned out to be rather twofold after all. The favorable development at the beginning of the year came to a halt in the fall as the eurozone debt crisis started to spread to the real economy. Right now it seems that the strengthening of the markets and better times may still be far in the future.

Despite the conditions, Tikkurila's performance was reasonably good last year. Due to a steep increase in the raw material prices and the market situation that weakened during the last months of the year, the year was challenging. Volume growth was moderate but our strong market position and leading brands enabled us to implement price increases that helped us to compensate for the higher raw material costs. We upheld our market position well and even strengthened it in our important markets, in Russia and Poland. Our euro-denominated operating profit improved, and the relative profitability remained on previous year's level.

INCREASED STRUCTURAL FLEXIBILITY

The global economy seems to be experiencing changes that are increasingly volatile and more difficult to anticipate than before. The fluctuation has increased in mature markets as well. This creates a major challenge for Tikkurila, since our structures have clearly delayed the adjustment of operations to any given situation. I already talked about more flexible operating methods in my review last year. In our opinion, this was the right moment to start creating a more agile operating model for Tikkurila. Following the decision of the Board of Directors specifying the focus of our strategy, we launched measures to adapt our operations at the end of the year.

We are not talking about a short-term savings program but a permanent change in the company's structure – our increased agility will clearly improve our competitiveness. Of course, change or living in a state of change is never easy. However, I believe that this development will benefit all our stakeholders. For the customers, our further streamlined operations will translate into better and faster customer service. For the shareholders, we aim at being an investment that is even more profitable and at the same time also more solid. For personnel, the changes will mean more extensive and more interesting job duties, greater responsibility and better opportunities to make a difference.

FOCUS AND SERVICES

As a medium-sized paint industry player on a global scale, we have chosen a strategy of focus. We will focus on operating in such product and geographical areas where we are the market leader or close to being one. We will focus on serving consumers and paint industry professionals including selected industrial sectors. Above all, we will focus on those of our brands that generate a significant portion of our revenue.

In the medium term, we will seek to grow most of all organically and particularly in our emerging markets such as Russia, which continues to have significant potential in construction and renovation. In the east, the operating environment is different from the west but the development is advancing in the right direction. Last year, we tested our new service concept in the neighboring areas of Russia and a positive response has encouraged us to further develop the service business. We believe there is similar demand in our other market areas. In addition to utilizing services on a broader scale, we will continue to develop our product offering, taking into consideration the changing needs of our customers.

In this market situation, in addition to strengthening our competitiveness we will, above all, focus on improving our cash flow and profitability, which is also supported by the restructuring of our organization and the prioritization of our operations. We are seeking a more flexible cost structure and an ability to react faster as the growth rates of the national economies, the competitive situation in the industry and customer needs change at an increasingly rapid rate.

SUSTAINABLE OPERATIONS

Developing our operations also substantially affects areas related to responsibility. Matters concerning responsibility have an increasingly extensive effect on our operations and are an important area of leadership for us. In 2011, we concentrated, among other things, on streamlining the functioning of our supply chain, ranging from purchases to manufacturing and logistics. We optimized manufacturing processes, minimized problem areas in the supply chain and improved product quality and occupational safety.

There will also be an increased focus on social responsibility in the future. To celebrate our 150th anniversary, we introduced the Sustainable Beauty program for social responsibility to promote the well-being of people by using paint and colors to bring joy, comfort and sustainable beauty to various spaces and environments.

150 YEARS OF DECORATION AND PROTECTION

This year, on August 14, 2012 to be precise, Tikkurila will celebrate its 150th anniversary. A local linseed oil mill founded in 1862 has developed into a player with a strong focus on international operations, especially in the past couple of decades. Considering our size, our impact on the development of the industry has been significant in many ways. As a result of the committed and creative efforts of our personnel, Tikkurila has accumulated extensive intellectual capital over the decades.

Although our sights are firmly set on the future, we also honor the history of the company. As I studied our history records, I discovered philosophies formulated by my predecessors regarding customer-oriented operations – the first documented principles date back to the 1920s. Tikkurila was clearly ahead of its time. That is also what our current strong customer relationships are based on – the systematic work to build these relationships began a hundred years ago. We continue to tirelessly work to ensure that Tikkurila continues to generate results for its customers, value for its shareholders and development opportunities for its personnel – so that the next 150 years would be at least as good as the past years.

Erkki Järvinen


Working towards
the next 150 years

STRATEGY OF FOCUSING

Tikkurila's strategy was revised in October 2011. Tikkurila provides consumers and professionals with user-friendly and sustainable solutions for surface protection and decoration. Tikkurila strives to be the leading paint company in the Nordic area as well as in Russia and other selected Eastern European countries.

The company strives for the right balance of businesses in mature markets and in emerging markets. Tikkurila intends to further develop its businesses by a more focused approach and by increasing agility in all operations in order to adapt to dynamic changes in external conditions. The revised strategy is based on the following pillars:

GROWTH

Tikkurila aims to grow at least at the pace of the average market growth in all of its key market areas, with a special focus on Russia and the adjacent markets. Emphasis is on organic growth through strong brands. Well-targeted acquisitions and alliances will be carried out if and when they positively contribute to the strategy implementation either by expanding the geographic footprint or by enlarging the product and service portfolio. The Group intends to enter service business combining the current product portfolio with new bundled paint-related and decoration services. Furthermore, new distribution methods, including web and mobile platforms, will be evaluated. Customer focus will be emphasized in all operations, while targeting more efficient ways of matching customers' needs with Tikkurila's offering. Shop-in-shop concepts will be utilized, and integration forward in the value chain will be evaluated in certain areas.

RESILIENCE

Complexity reduction initiatives will be speeded up, and all cost elements will be prudently managed throughout the group. Harmonization of raw material bases, packaging solutions and production methodologies will be emphasized to create better efficiency, higher productivity, lower costs or more flexible cost structure. The production and supply chain set-up will be optimized to find the most suitable network of factories, inventories and customer service points.

REALIGNMENT

Critical reassessment will be carried out within existing product portfolio, in market segments and in those geographical locations where Tikkurila currently does not have a strong position, which might lead to new business models and restructuring activities. Resource allocation process will be speeded up and changed to be more dynamic so that resources are devoted to those business opportunities that provide best expected risk-return characteristics and that also support the overall strategy. Organization structure will be modified to optimally support the Group's business and customer needs.

Read more about the strategy implementation on pages 11–13. The financial targets of Tikkurila are presented on page 33.

Janno Paju
Janno Paju started as the Chief Commercial Officer of Tikkurila in the beginning of 2012. Prior to this, he was responsible for Tikkurila's eastern market area, SBU East. He is a member of the Management Board and joined Tikkurila in 1993. Janno is an Estonian citizen.

RUSSIAN PAINT MARKET IS GROWING

Tikkurila aims to further reinforce its strong market position in Russia.

"Our current market share of 18 percent in Russia is based on our own tinting system, our very well-known consumer brands, and on local production in our four production units. Our comprehensive brand portfolio, which consists of both premium segment paints and locally made paints in the lower price category, is an advantage in a situation where competition is continuously tightening," says Group Vice President Janno Paju, who was responsible for Tikkurila's Russian and Eastern European operations in 2011.

Today, the Russian operating environment is already reasonably safe, and Paju says it is easy for Finns to understand the Russian business culture, which is based on personal contacts.

"Home decoration has become a trendy hobby in Russia, and people keep buying bigger homes. Do-it-yourself consumption, on the other hand, is falling because although consumers still buy their own paints, they want to have their homes renovated by professionals. That is why our business is becoming more and more professionally oriented," Paju explains.

FOCUS ON THE CUSTOMER

During 2011, Tikkurila shifted the focus of its activities in SBU East to where it belongs: the customer. This resulted in better customer service, improved delivery performance, and in a strong emphasis on marketing. "We changed our tinting system to make it more user-friendly and environmentally sustainable, and we renewed our color chart in order to help our customers in choosing the right colors."

For the next couple of years, demand for paints in Russia is expected to remain lower than in Western countries, but in approximately five to ten years from now, demand will start growing. "Our potential for growth is based on a rise in consumption. During economic growth, the mid-priced paint segment usually increases when the middle class invests in decorating and renovating their homes and in building new homes. Our strategic goal is to continue increasing our market share," Paju notes.

Currency exchange rates play a big role in Russian business, and consumer buying power is affected by exchange rates, which are dependent on the price of oil. Russia is likely to join the World Trade Organization, which is a positive development according to Paju. Membership in WTO will increase trust in the reinforcement of the Russian economy, and eventually this will probably be reflected in the abolition of certain customs duties. If the customs duties are abolished, the competitivity of Tikkurila will improve.

SERVICES AND NEW DISTRIBUTION MODELS

Tikkurila aims to expand its activities into the service business, because in the future consumers will favor turnkey solutions. "We must be able to provide packaged solutions and value-added services that will give them access to a pool of good designers and reliable painting contractors. In years 2010-2011 we have been piloting service business projects in Kazakhstan in Central Asia, and we are encouraged by the promising results."

On the Russian market there are several wholesale layers between the paint manufacturer and the customers, and Tikkurila wants to take a step towards the customers by integrating itself forwards in the distribution chain. "The closer we get to customers, the better we can understand their needs. From now on, we will try to provide more direct service to paint shops."

Tikkurila will change its operational model in Slovakia, Czech Republic and Hungary. Paju says the subsidiaries in these countries will be sold, and in the future Tikkurila will operate via distributors. New product and service solutions will be deployed to bring about growth in Scandinavia, Russia, Poland, the Baltic counties, Serbia, Ukraine, and Central Asia.

Anna-Lena Högfeldt
Anna-Lena Högfeldt has been responsible for Tikkurila's brand management and marketing since 2009. Prior to this, she worked as the Scandinavian marketing manager. She joined Tikkurila in 2007. Anna-Lena is a Swedish citizen.

A STRONG BRAND IS A TRUE ASSET

We want to provide inspiration and services to consumers and professional users.

"Brands are important because they add value. A strong brand with a clear positioning is a true asset as it drives customer preference and sales, and makes it easier to sell products at a premium price," says Anna-Lena Högfeldt, Group Vice President for marketing and brand management.

"Over the years, we have acquired several companies, some of which had very strong local brands with a market leader position. Since we want to be a strong local player, we wanted to keep them. We have a wide brand portfolio covering several market segments: the premium segment, the medium segment and the economy segment," Högfeldt explains.

The majority of Tikkurila's paint is sold to consumers. There are four strategic brands – Tikkurila, Alcro, Vivacolor and Teks – covering different end-user segments. They are complemented by a number of local brands.

INSPIRATION TO CONSUMERS

The market is far from being saturated, according to Högfeldt. She is convinced there is always room for new offers, even on mature markets with high per capita consumption of paint, whether they are products or services, or products combined with services.

"We want to offer added value to our customers, and in order to be able to offer the right solutions to them, we need to understand their needs. Looking at things from the end user's perspective enables us to make their lives easier and inspire them," Högfeldt points out.

"Our marketing to consumers is to a large extent about inspiration. Inspiration is important because most consumers think painting is fun but they often find the preparatory work involved a bit cumbersome. That's why we need to inspire them enough in order to create a vision that carries them over the preparation hurdle. To some extent we are in the Feel Good business at least in indoor painting, and by inspiring people to make their homes more beautiful and more up to date we can help them to actually feel better."

A good example of this is the bank of inspirational ideas that was launched in the Finnish social media late in 2011. "We ask people on the internet to send us pictures of what they have done in their homes, and to share it with the rest of the world. With social media we have entered an era where the public are co-builders of our brands."

SERVICES TO PROFESSIONALS

When marketing to professionals, Tikkurila adds services. "Time is money for painters, and they appreciate it if we make their lives easier by providing them, for example, a mobile phone application that lets them get useful information and instructions on the go, like we did in Sweden in 2011." Another service concept launched last year in Finland was the Profe (Tikkurila professional services), which is targeted at painting contractors, building developers and designers. It involves contractor and designer pools, eLectures, technical and color service, etc. "This Finnish concept is likely to be introduced to other markets as well," Högfeldt says.

Year 2011 was packed full with various marketing activities. "In Russia we launched the first-ever media advertising for the Teks brand, as well as TV sponsorship of home decoration programmes for the Tikkurila brand. In Finland we went to a local shopping mall with an exhibition of the Visio shop concept, to meet and inspire local consumers, and in Sweden the Alcro brand created esteem for the painting trade by granting the Golden Paintbrush award to 53 promising young professional painting students, to name just a few examples. And on all markets we focus on environmental sustainability as a natural part of our marketing activities.

"In the future, we will concentrate even more on product portfolio management in order to safeguard an optimal product and service mix in the whole Group," Högfeldt concludes.

Petri Miettinen
Petri Miettinen has been responsible for Tikkurila's supply chain since 2007, when he joined Tikkurila. Since 2008, he has been responsible also for safety, environment and quality related issues. Petri is a Finnish citizen.

ENHANCING SUPPLY CHAIN MANAGEMENT EFFICIENCY

The service level of our supply chain has remained excellent, and the way the organization operates is constantly being enhanced.

"Our most important achievement during 2011 was the high service level of the supply chain. In spite of global availability challenges for certain raw materials, we were able to considerably raise our service level for the second year in a row. We enhanced our collaboration with raw and packaging material suppliers and were able to foresee possible bottleneck situations. Our very good service level is also reflected in the good customer feedback we are getting," says Petri Miettinen, Group Vice President responsible for the supply chain and HSEQ.

CONCRETE AND CONTINUOUS IMPROVEMENT

"In 2011, we continued to develop the organizational structure that is based on competence centers. In addition, we implemented a new group-wide operational model that is based on Lean philosophy for concrete and continuous improvement of our operations. Understanding real customer needs, decreasing material waste, focusing on leadership and adopting unified working practices are essential in this new model. We are striving to actively collect new ideas and best practices, and to take them into use without delay. We are concentrating on concrete things in developing management roles and responsibilities, in promoting safety and total quality, and at the end in improving our cost efficiency and capital efficiency. The results of all this are seen in better performance, streamlined operations, and more satisfied customers," Miettinen points out.

Continuous improvement in the operations of the supply chain management is a long-term development journey. According to Miettinen, doing things right the first time is a concrete example of how production processes can be optimized while improving quality and customer satisfaction at the same time. Another example he mentions is an active dialogue between sales, research and product development and marketing in matters concerning raw materials, producibility, and the design, size and handling features of packaging.

FOCUSING ON CUSTOMER ORIENTATION AND SAFETY

The changes in organizational structure begun last year will be continued in 2012 in order to achieve an optimal production and logistics network and to maintain our very good service level. Other main themes are capital efficiency improvement and further enhancement of Tikkurila Group's operations. "An equally important thing to remember is that maintaining and continuously improving a high service level is the very foundation that all our activities are based on. To be able to meet customer needs faster, we need to understand their real needs better," Miettinen suggests.

Safety is at the core of how Tikkurila's supply chain operates, and always the first priority. Everything comes down to operating safely and responsibly, also because it enhances the company's reliability from the customers' perspective.

"By acting smartly we can also decrease waste – not only paint waste, but also general operational loss, which can occur both in production processes and in office work. An important role in decreasing paint waste is played by our own tinting system, which acts as the cornerstone of the way we work. Equally important is careful pre-planning and acting according to plans."

PAINT MARKETS ARE GROWING

Growth in the world economy weakened towards the end of the year, and consumer confidence took a downward turn particularly in the developed markets. GDP in Tikkurila's key markets grew by approximately 3–4 percent in 2011.

The growth rate of the world economy started to slow down towards the end of the year and the outlook deteriorated rapidly. Economic growth forecasts for the next few years were considerably adjusted downward. Consumer confidence declined substantially, especially in the mature markets. Construction remained at a good level in many markets during the year, but the outlook for the construction industry is weaker than before and the cubic volume of new construction permits started to decline at the end of the year.

The GDP grew by an average of approximately 3–4 percent in Tikkurila's key markets. The growth of the Russian, Swedish and Polish GDP amounted to approximately 4 percent, while the growth in Finland was less than 3 percent.

The volume of the decorative paint market is estimated to have grown by approximately 3 percent in Russia. Value growth was some 3 percent in Sweden and remained stable in Finland. The market in Poland is estimated to have grown slightly. There were no significant changes in Tikkurila's market position during the year.

Raw material prices increased considerably during the first months of the year and the rise continued in the latter half of the year, although it was slower. The prices of Tikkurila's key raw materials rose by 20 percent on average from the previous year. There were challenges related to the availability of raw materials particularly during the first months of the year, but availability improved towards the end of the year.

It is likely that Russia will become a member of the World Trade Organization (WTO) in 2012. The membership will have both direct and indirect positive effects through lower duties on raw materials and products as well as through increase of direct foreign investments. However, the uncertain situation in the world economy may delay the positive effects of Russia's membership in the WTO, but over a longer period of time, the membership is believed to minimize obstacles in the economic relations between countries and to advance the development of the business environment in Russia.

PAINT MARKET INFORMATION

The paint markets can be divided into two main categories based on the end-use of the products: decorative paints and industrial coatings. Tikkurila operates primarily in the decorative paints sector, which accounted for approximately 84 percent of the 2011 revenue. In addition, Tikkurila operates in selected industrial coating segments, including certain metal and wood industry coatings.

Over the medium term, the annual volume growth of the paint markets has been approximately four percent. The market is estimated to have been approximately EUR 70 billion in 2011. Decorative paints accounted for 44 percent of the value of the market. The share of Europe in the value of the world's paint sales is approximately 30 percent. Tikkurila is a regional player with the Nordic countries and Eastern Europe as its market area.

FACTORS INFLUENCING THE PAINT MARKETS

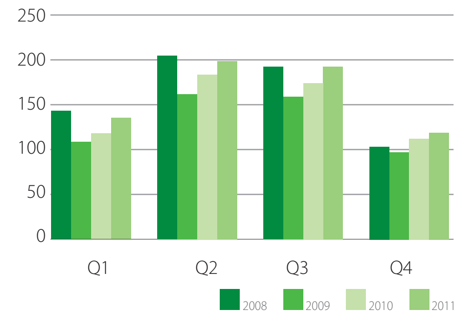
- GDP development
- Increase in the standard of living and rise of middle class
- Construction and renovation market activity
- Activity level in home sales
- Increasing environmental awareness
- Increasing interest in home interior decoration and improvement
- Increasing use of purchased and professional services
- Increased significance of large hardware stores and home improvement stores
- Legislation and regulations (for instance, the EU's REACH directive)

GROSS DOMESTIC PRODUCT AND STANDARD OF LIVING

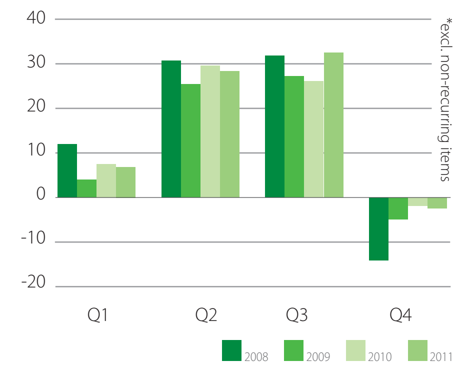
Tikkurila's business operations and their growth are linked to the development of GDP of the countries in the Group's operating area and on consumers' confidence. In developed markets, the demand for paints follows the GDP development quite closely. In emerging markets, such as Russia, the demand for Tikkurila's paints and coatings has clearly exceeded the growth of GDP in recent years. Growth has happened against the background of both higher sales volume and demand that has shifted to higher price and quality grade products. The development of the world market price of oil usually has a significant effect on the general economic development and purchasing power of Russia. Even though the rise in the oil price increases the price of certain raw materials, it basically has a positive impact on Tikkurila's business operations since the oil price increase has positively correlated with the development of Russia's GDP.

Currently, the emerging markets' share is approximately half of the world's paint demand, and the share is growing. Paint consumption is linked to the standard of living and frequency of repainting. The structure of the paint markets and paint consumption patterns vary by geographical regions. In Western Europe, the paint markets have stabilized in most countries to the annual consumption of over ten liters per capita. In these markets, the sales volumes grow moderately, and the relatively stabilized market shares are divided between certain players. In Central Eastern Europe and CIS countries, the current level of consumption of decorative paints per capita is considerably lower than in Western Europe. Nevertheless, it is believed that consumption will slowly approach the level of the developed countries, which would mean that consumption in the emerging markets would double or even triple.

Revenue
EUR million

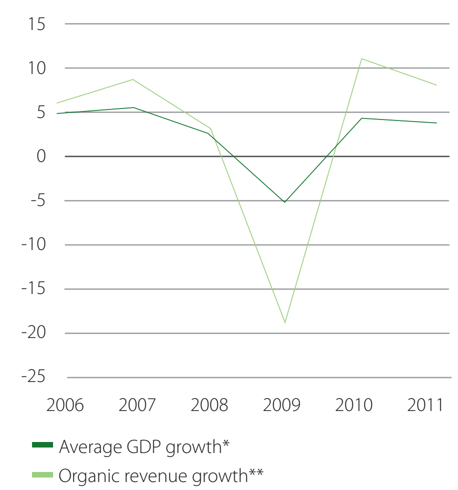


Operating profit*
EUR million



Tikkurila's business operations are seasonal so that the revenue and operating result from the second and third quarters are generally considerably higher than these from the first and fourth quarters of the financial year.

GDP and Tikkurila's revenue
%



*Average GDP growth of Tikkurila's key markets, i.e. Russia, Sweden, Finland and Poland. The figures are approximate

** Organic growth calculated based on reported revenue and reported acquisitions and divestments

CONSTRUCTION AND RENOVATION

Although the renovation and maintenance painting are the most important factors leading the consumption of paint, new construction and various structures are also important forms of end-use of paints and coatings. During slower periods in new construction, the renovation and maintenance activities are often revived since paints are used to enhance and beautify the old interior and exterior surfaces. Generally, the share of new construction is approximately a third of the overall demand for decorative paints. The renovation and surface repainting are considerably more important for Tikkurila than new construction.

RAW MATERIAL MARKETS

Tikkurila's most important raw materials are pigments (most of all, titanium dioxide), binders, solvents, additives, water and packaging materials. The prices of raw materials and packaging materials are largely dependent on the price development of oil, energy and metals.

Generally speaking, raw material prices increase during periods of economic recovery and decline during downturns as demand declines. Raw material suppliers adjusted their capacity in accordance with the market situation, which resulted in, among other things, an imbalance in the demand and supply of certain raw materials in recent years as the economy started to recover from the recession. Due to this, the prices of some of the most important raw materials used in paint production increased steeply and their availability became challenging. Tikkurila's pricing power has traditionally been fairly good, and the Group has been able to transfer the increased raw material costs reasonably well to the prices of its end products.

SEASONALITY

Tikkurila's business operations are seasonal so that the revenue and operating result from the second and third quarters are generally considerably higher than those from the first and fourth quarters of the financial year. Seasonality fluctuation is primarily due to the increase in outdoor painting activities in the second and third quarters. As the outdoor painting season approaches, Tikkurila's product inventories grow, and paints manufactured for the second and third quarters tie up working capital. Tikkurila's sales volume is also affected by weather conditions. The seasonality fluctuation of Tikkurila's business operations is greater than in the industry on average due to the company's geographical area of operation and the low relative share of industrial coatings.

Seasonality of the operations also poses challenges to the production and logistics, which is why an efficient and flexible supply chain has a key role. Tikkurila has 11 production plants in eight countries. In addition, Tikkurila had nine logistics centers and 19 distribution warehouses in 20 countries at the end of the 2011 financial year. Tikkurila's goal is to further streamline the information systems and practices related to the overall supply chain management.

DISTRIBUTION CHANNELS

Tikkurila sells decorative paints primarily to home improvement stores, paint store chains and independent paint retailers that re-sell Tikkurila's products to consumers and professionals.

Unlike in other market areas, Tikkurila also has its own paint stores in Scandinavia. In Finland, the home improvement stores have partly replaced small independent paint stores. Similar development can also be seen in other markets where Tikkurila operates. Large chains partially based on the self-service principle are becoming more common particularly in Central Eastern Europe and Russia. In Russia, the wholesalers operating between suppliers and stores multiply the distribution steps.

COMPETITION

Tikkurila is the market leader in decorative paints in Finland, Sweden, Russia and Baltic countries. In Poland, Tikkurila is one of the largest suppliers of decorative paints. The competitive situation in the decorative paint market has been fairly stable in recent years, and there have been only minor changes in market shares. Significant changes in the market shares have mainly occurred in connection with business acquisitions.

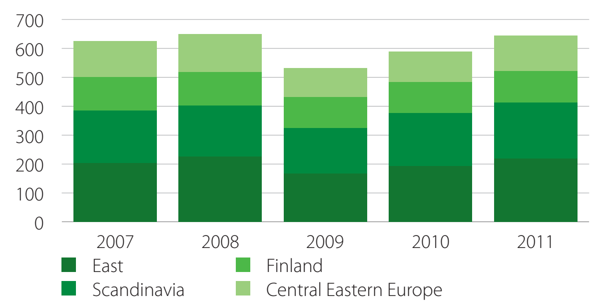
For more information on competitors, please see pages 18–19.


Sustainable beauty
and surface protection

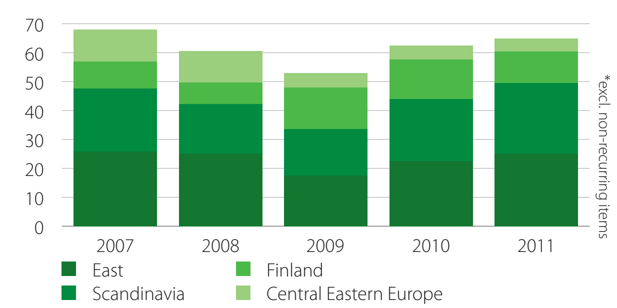
BUSINESS IN BRIEF

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

Revenue by segment
EUR million

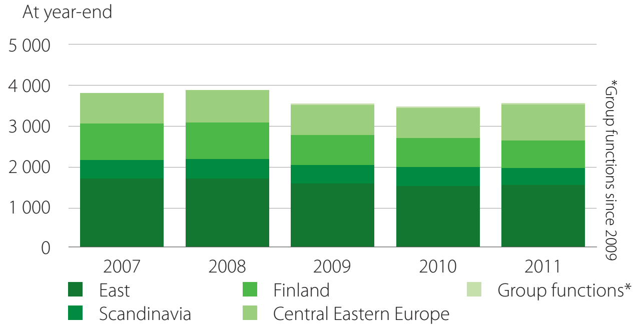


Operating profit* by segment
EUR million



*excl. non-recurring items

Personnel by segment
At year-end



*Group functions since 2009

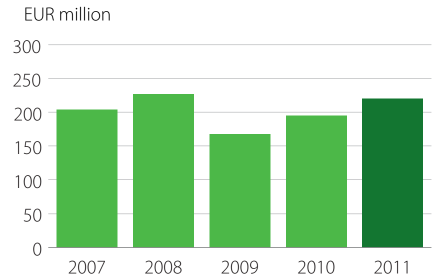
	SBU East	SBU Scandinavia	SBU Finland	SBU CEE
Operating area	• Operating area: Russia and other CIS countries, Ukraine • Production sites: St. Petersburg and Stary Oskol, Russia; Kiev, Ukraine • Largest market: Russia (revenue EUR 193.0 million, i.e. approximately 30 percent of Group total in 2011)	• Operating area: Sweden, Norway, Denmark • Production sites: Nykvarn, Sweden • Largest market: Sweden (revenue EUR 155.5 million, i.e. approximately 24 percent of Group total in 2011)	• Operating area: Finland • Production sites: Vantaa, Finland	• Operating area: Poland, Baltic countries, China, Germany as well as export to more than 20 countries • Production sites: Debica, Poland; Tallinn, Estonia; Ansbach, Germany; Sabac, Serbia • Largest market: Poland (revenue EUR 61.0 million, i.e. approximately 10 percent of Group total in 2011)
Market position	• The leading supplier of decorative paints with a market share in volume of approximately 18 percent (2010: 17%)	• The leading supplier of decorative paints with a market share of approximately 40 percent (2010: approximately 40%)	• The leading supplier of decorative paints with a market share of over 50 percent (2010: over 50%)	• No. 4 in decorative paints in Poland with a market share of approximately 16 percent (2010: approximately 14%) • According to Tikkurila's estimate, the leading supplier of decorative paints in the Baltic countries with a market share of approximately 20 percent (2010: approximately 20%)
Paint market	• The value of the Russian decorative paint market some EUR 1.5 billion • Paint consumption per capita some 4–7 liters, depending on the country • The average yearly growth of the Russian decorative paints market some 10 percent in 2004–2008 • The market decreased by over 10 percent in 2009 • According to Tikkurila's estimates the volume of the Russian decorative paint market grew by approximately 3 percent in 2011	• The value of the paint market some EUR 0.8 billion • Paint consumption per capita some 13 liters • The average yearly growth of the value of the Swedish paints market some 6 percent in 2004–2008, and the market remained stable in 2009 • According to Tikkurila's estimates, the value of the Swedish paint market grew by approximately 2–3 percent in 2010 and 2011	• The value of the paint market some EUR 0.2 billion • Paint consumption per capita some 12 liters • The average yearly growth of the Finnish paints market some 1 percent in 2004–2010 • According to preliminary estimates the Finnish paint market remained at previous year's level in 2011	• The value of the paint market some EUR 3 billion • Paint consumption per capita some 11 liters in Poland, 7–11 liters in the Baltic countries and 1.3* liters in China • The average yearly growth some 3–10 percent in recent years, more than 10 percent in China • According to Tikkurila's estimates the Polish paint grew slightly in 2011 *Decorative paints
Demand structure	• Economy price and quality segment products • Premium price and quality segment products expected to rise the fastest along with improving standards of living and higher quality standards	• Premium and medium price and quality segment products	• Premium and medium price and quality segment products	• Medium and economy price and quality segment products • Premium price and quality segment products expected to rise the fastest along with improving standards of living and higher quality standards
Brands	TIKKURILA, TEKC, FINNCOLOR, KOLORIT	ALCRO, Beckers, TIKKURILA	TIKKURILA	TIKKURILA, Jedynka, VIVACOLOR, PIGROL, ZORKACOLOR
Distribution channels	• Decorative paints: DIY retailers, independent retailers, wholesalers • Industrial coatings: direct sales, Temaspeed	• Decorative paints: DIY retailers, Alcro-Beckers professional stores, Happy Homes chain and Colorama retail chain • Industrial coatings: direct sales, Temaspeed	• Decorative paints: DIY retailers, independent retailers • Industrial coatings: direct sales, Temaspeed	• Decorative paints: DIY retailers, independent retailers, wholesalers • Industrial coatings: direct sales, Temaspeed
Competitors	• AkzoNobel, Lakra-Sintez, Empils, ABC-Farben, Meffert, Caparol, Sniezka, several local players	• AkzoNobel, Flügger, Jotun, Sherwin-Williams, Teknos, several local players	• Teknos, AkzoNobel, NorMaali, Sherwin-Williams, several local players	• AkzoNobel, PPG, Caparol, Meffert, Teknos, Jotun, Hempel, a large number of local and regional suppliers

DEVELOPMENT IN 2011

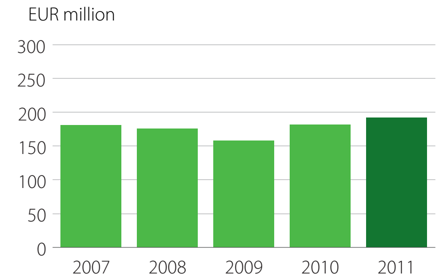
There were differences in the way various markets reacted to the weakening outlook of the world economy in the fall. In the developed markets in Scandinavia and Finland, the increasing uncertainty reflected in consumer behavior fairly quickly. In the emerging markets, in Russia in particular, the situation remained more stable and sales volumes continued to grow at the end of the year as well.

Revenue development

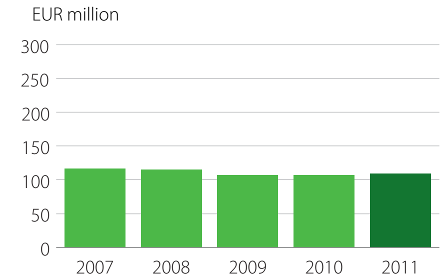
SBU East



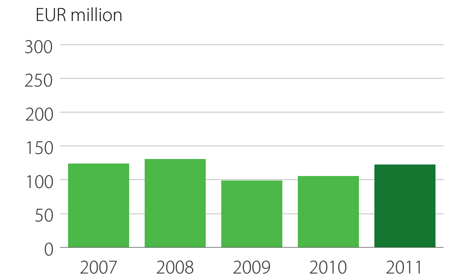
SBU Scandinavia



SBU Finland

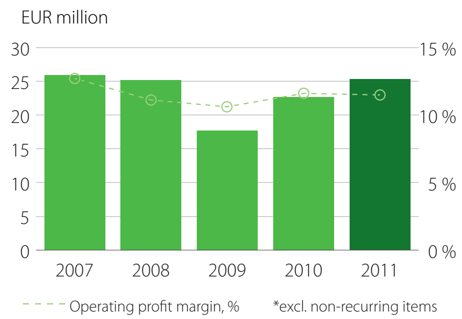


SBU CEE

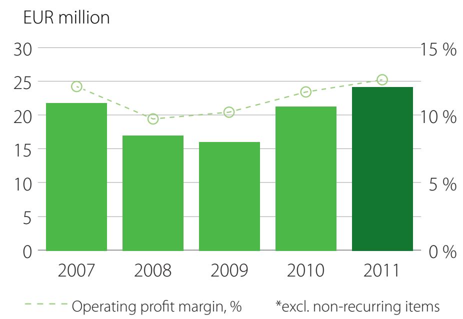


Operating profit*

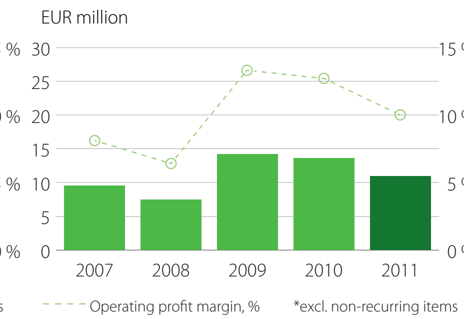
SBU East



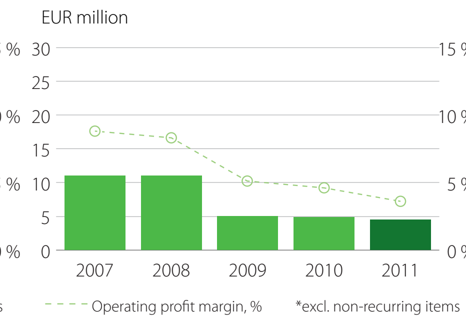
SBU Scandinavia



SBU Finland



SBU CEE



Key figures

SBU East

EUR million	2011	2010
Revenue	220.0	194.5
Operating profit*	25.3	22.7
Operating profit margin*	11.5%	11.6%
Operating profit	25.3	24.1

*excl. non-recurring items

SBU Scandinavia

EUR million	2011	2010
Revenue	192.3	181.8
Operating profit*	24.3	21.3
Operating profit margin*	12.6%	11.7%
Operating profit	24.2	21.3

*excl. non-recurring items

SBU Finland

EUR million	2011	2010
Revenue	109.2	107.2
Operating profit*	10.9	13.6
Operating profit margin*	10.0%	12.7%
Operating profit	10.8	13.6

*excl. non-recurring items

SBU CEE

EUR million	2011	2010
Revenue	122.2	105.2
Operating profit*	4.4	4.8
Operating profit margin**	3.6%	4.6%
Operating profit	3.2	4.4

*excl. non-recurring items

Review for 2011

SBU East: SBU East's revenue grew by some 13 percent from the comparison period. Revenue was increased by sales price increases, changes in the sales mix, and a higher sales volume. The impact of exchange rate fluctuations was negative. Revenue grew and the relative profitability remained at the comparison period level. Tikkurila strengthened its leading market position slightly in decorative paints in Russia.

SBU Scandinavia: SBU Scandinavia's revenue grew by some 6 percent from the comparison period, particularly due to exchange rate fluctuations. Sales price increases also improved revenue. The operating profit grew and the relative profitability improved. The operating profit was improved by sales price increases, cost savings as well as exchange rate fluctuations. Tikkurila maintained its leading market position in decorative paints in Sweden.

SBU Finland: SBU Finland's revenue increased slightly from the previous year due to sales price increases. Despite the exceptionally steep increase in raw material prices, SBU Finland's result remained at a reasonable level. Special attention was paid to the management of fixed expenses. Tikkurila maintained its leading market position in decorative paints in Finland.

SBU CEE: SBU Central Eastern Europe's revenue increased by some 16 percent from the comparison period due to the acquisition of Zorka Color, sales price increases, and a higher sales volume. The operating profit decreased from the comparison period and the relative profitability weakened. The weakening of operating profit was particularly due to the level of variable costs that was higher than in the comparison period. Tikkurila strengthened its market position slightly in decorative paints in Poland.

Important events in 2011

SBU East:

- Replacing the tinting systems in Russia
- Renewal of the Teks brand
- Reorganization of sales
- Divestment of the powder coating operations

SBU Scandinavia:

- Launch of a mobile phone application for professionals
- Tikkurila selected as the supplier of the year in Norway
- Expansion of the eco-labeled product range
- The share of water-borne decorative paints sold was 99 percent
- Divestment of two paint retail stores in Sweden

SBU Finland:

- Launch of the Profe service concept
- Introduction of Tunto Kivi and Yki Aitokivi
- Introduction of the Zen product family
- Kaunis Koti trend colors 2012–2013
- Swan eco-labels for Remontti-Ässä and Joker

SBU CEE:

- Acquisition of the Serbian Zorka Color
- Decision to change the operating model in Hungary, Slovakia and Czech Republic
- Awards received by Tikkurila's products in Poland

Development of operations in 2012

SBU East: Tikkurila will complete the deployment of the Avatint tinting system with a smaller environmental impact in Russia in 2012. Tikkurila will work to strengthen its leading market position further by, among others, focusing on marketing and brands and by strengthening the regional sales offices and service directed at professional customers.

SBU Scandinavia: Tikkurila will support and develop the retail chains Colorama and Happy Homes and their concepts. In addition, Tikkurila will focus on developing the services and products aimed at professional customers, in particular. As an environmental forerunner, Tikkurila aims at offering only water-borne products in Scandinavia.

SBU Finland: Tikkurila's goal is to introduce to the market during the year a new, an easy-open container and an extensive concept serving retail and consumers, which will promote the retail business operations and make purchasing easy, among other things. Tikkurila's anniversary year will be celebrated by offering various campaign products, among others.

SBU CEE: At the beginning of 2012, Tikkurila launched organizational streamlining measures and the merging of the legal companies in Poland and the renewal of the structure of the sales organization in the Baltic countries in order to improve the profitability of SBU Central Eastern Europe. The Zorka Color integration process will continue in 2012.

RESPONSIBLE OPERATIONS THROUGHOUT THE VALUE CHAIN

Tikkurila's corporate responsibility – economic, social and environmental responsibility – is linked to the company's values, strategy and business operations. Tikkurila creates added value for all of its stakeholders, is a safe and reliable employer and takes care of the environment in which it operates.

Tikkurila provides consumers and professionals with user-friendly and sustainable solutions for surface protection and decoration. Customers have a key role in the corporate responsibility approach. Tikkurila's goal in all of its operations is to provide customers with high-quality and eco-efficient solutions that meet their needs and are competitively priced, as well as to improve customer satisfaction.

The importance of responsibility has increased significantly in recent years. Stakeholders' expectations and increased environmental awareness as well as changed legislation have all played a part in responsibility matters focusing more extensively on the company's operations and being an important area of management. Reliable reporting promotes transparency and enables various stakeholders to evaluate Tikkurila's operations.

In 2011, the focus areas of Tikkurila's corporate responsibility included defining of responsibility themes and linking them more closely to the company's strategy and business operations as well as the development of internal processes and reporting of corporate responsibility.

Tikkurila focuses on the streamlining of the operations of the supply chain, from sourcing to production and logistics. In 2011, the Group focused on optimizing production processes, minimizing problem areas in the supply chain as well as improving product quality and occupational safety. In the medium term, these measures aim at positive effects on the Group's financial competitiveness, energy consumption and the amount of loss and paint waste.

In 2012, Tikkurila will continue to focus on developing the management and processes of corporate responsibility. Measures to improve personnel satisfaction, well-being and occupational safety will be carried out at the same time as developing business operations from the responsibility perspective as well. In addition, measures to harmonize and streamline production methods, raw material selection and packaging solutions and to optimize the delivery chain will continue in accordance with the strategy.

Tikkurila is committed to continuous improvement of its operations, and this will also have a material impact on the development of areas relating to responsibility.

REPORTING PRINCIPLES

Tikkurila's annual corporate responsibility report is a part of the Annual Report. In addition, supplemental information is published in the Responsibility section on the company's website. The report focuses on responsibility issues essential to Tikkurila and is aimed at all parties interested in corporate responsibility and Tikkurila.

Since 2010, Tikkurila has applied the international G3 guidelines issued by the Global Reporting Initiative (GRI) in its sustainability reporting. In addition, Tikkurila's sustainability reporting is based on the Group's corporate responsibility program renewed in 2009.

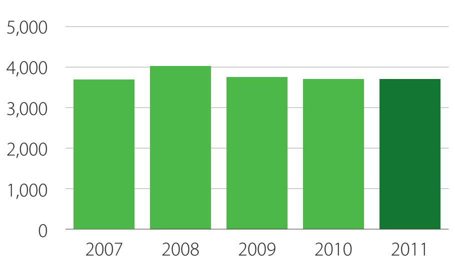
The corporate responsibility section of the Annual Report, pages 22–27, and pages in the Responsibility section of the Group's website have been assured by KPMG. The assured content on the website is marked with a statement "This page has been reviewed by KPMG as a part of its assurance of Tikkurila's Corporate Responsibility reporting for 2011. Please refer to Assurance Report for a full description of the conclusions and the scope and nature of assurance offered". The 2011 Corporate responsibility report corresponds to level C+.

For more information on sustainability at Tikkurila and reporting principles, go to www.tikkurilagroup.com/responsibility.

ENCOURAGING PERSONNEL TO DEVELOP

Tikkurila's values – trustworthiness, innovativeness and professionalism – guide the company's operations. These values come alive in decision-making situations every day, on both small and large scales. Every Tikkurila employee also has an impact on the company's corporate responsibility operations and achievement of the common objectives.

Average number of personnel



Tikkurila encourages its personnel to constantly develop their competencies and skills. Reaching the company's strategic objectives requires systematic and versatile development of required competence areas.

The 2011 focus areas in HR included personnel competence development, training of supervisors and development of feedback channels. The implementation and development of the Tikkurila Business School concept and the Tikkurila Ambassadors program, which focus on employees' competence development and competence areas important to Tikkurila, continued in 2011. In addition, the Group's HSE function actively developed measures and tools to improve occupational safety.

TIKKURILA'S PERSONNEL STRUCTURE

At the end of 2011, Tikkurila employed 3,551 (2010: 3,468) people. Approximately 43.0 percent worked in Russia and its neighboring areas, 24.7 percent in Central Eastern Europe, 20.4 percent in Finland and 11.9 percent in Scandinavia. Due to the seasonality fluctuation in the paint market, the number of personnel is highest during the outdoor painting season in the summer and lowest during the winter.

The company's own production has a significant effect on Tikkurila's personnel structure and amount. The differences between operational areas are explained, among others, by the degree of production automation and the number of own sales personnel. Half of Tikkurila's personnel work in the supply chain (production, procurement, logistics and HSEQ) and one-third in sales, marketing and technical support. The share of temporary workers at the end of 2011 was 6.0 (5.9) percent and 40.9 (43.6) percent were blue-collar workers.

Tikkurila launched a group-wide program at the end of 2011, aiming, among others, at more flexible organization and cost structure. As part of the program, a total of 62 persons, working in various functions of the company in Finland, were dismissed in January 2012. Measures to improve efficiency and facilitate structural change will be launched in all Tikkurila locations and business units during the year 2012.

INVESTMENTS IN PERSONNEL WELL-BEING

Healthy and thriving personnel are an asset to the entire company. In 2011, Tikkurila took several local measures to improve personnel well-being, such as lectures, newsflashes and exercise events. Among others, the year 2011 was named the year of health in SBU Scandinavia, with special attention to matters related to health and well-being. SBU Finland implemented a model to support well-being at work in which matters related to physical and mental well-being, motivation and the atmosphere in the work community are handled.

PREVENTIVE MEASURES TO IMPROVE OCCUPATIONAL SAFETY

Every Tikkurila employee has the right to work safely and is obligated to follow the given occupational safety instructions. Tikkurila pays attention to occupational safety and works to continuously improve them.

Tikkurila's safety efforts consist most of all of preventive measures. In 2011, local safety practices and monitoring were developed. Tikkurila's units implemented preventive measures such as safety discussions and safety reviews, organized training sessions, and conducted unit-specific risk assessments and fire and evacuation drills.

The aim is to continuously reduce the number of lost-time accidents. In 2011, the number of lost-time accidents was 4.8 (2010: 4.8) accidents per one million working hours. The number of lost working days related to accidents was 13.8 (11.4) per accident. No severe personal injuries occurred in the Group's sites in 2011.

For more information on personnel issues and occupational safety, go to www.tikkurilagroup.com/responsibility.

SYSTEMATIC WORK TO IMPROVE ECO-EFFICIENCY

From the corporate responsibility environmental perspective, Tikkurila aims to minimize the environmental impact of the company's own operations and to offer environmentally sound solutions to customers. The objective is to develop paint combinations and solutions that extend the service life of the product and allow for longer maintenance painting intervals.

Customer interest in environmentally sound products has increased due to increased environmental awareness, positive attitude towards the environment as well as legislative changes concerning the composition and safety of paints. Customers want to choose products which cause a minimal environmental impact in production and in use and are safe to use.

Minimizing the environmental impact of operations and products clearly benefits all parties, both Tikkurila and its stakeholders. The environmental impact of paint should be identified for the entire lifecycle of the product – from manufacturing products and raw materials to application and waste management.

SUSTAINABLE DEVELOPMENT PROGRESS

Progress in sustainable development is shown, among other things, moving over from solvent-borne paints to water-borne and so-called high solids products with less solvent. In 2011, the share of water-borne products in production was 70.1 (2010: 70.3) percent.

Water-borne and high solids products have been used in the Nordic countries for a long time. In Scandinavia, 99 percent of consumer paints sold by Tikkurila are water-borne.

Environmental awareness and the popularity of water-borne products have also increased in Russia. At the end of 2011, more than 50 percent of products sold in Russia were water-borne (source: Chem-Courier).

ENVIRONMENTAL IMPACT OF TIKKURILA'S OPERATIONS

The development of environmentally sound products begins at R&D which selects the raw materials and develops products for different uses. Research and development can help address future legislative challenges and also actively reduce the environmental impact and improve the safety of products.

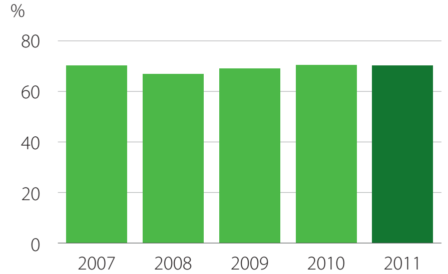
Tikkurila's supply chain consists of sourcing, production and logistics. In 2011, the company focused on developing and streamlining the supply chain operations. The goal is to optimize production processes, minimize problem areas in the supply chain and improve product quality and occupational safety as well as to reduce production and transportation costs and the amount of material waste and paint waste. These measures will decrease the environmental impact of the supply chain.

Sourcing works in close cooperation with R&D in the selection of raw materials and suppliers. One of the tasks of sourcing, among others, is to ensure the sustainability of raw material manufacturers used by Tikkurila as well as timely deliveries in the right quantities.

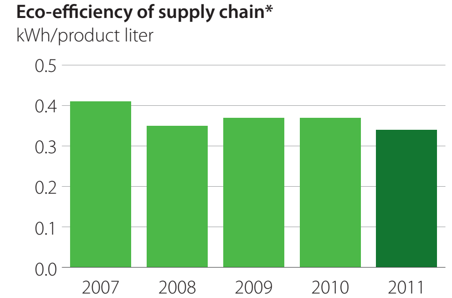
Production manufactures and packages the products in an economical, safe and eco-efficient manner. Paint production generates solid and liquid waste that is delivered for appropriate re-use or disposal. The environmental impact of waste collection, handling or transportation is similar to that in the regular production operations. The relative share of Tikkurila's hazardous waste in 2011 was 23.2 (8.3) grams per product liter, whereas the relative share of other waste was 15.1 (28.9) grams per product liter. As of 2011, national waste classifications in accordance with the GRI guidelines have been used as the waste classification basis in environmental sustainability reporting. In the previous years, classifications defined by the EU were applied. The combined volume of waste remained at the 2010 level.

Paint production in itself does not consume much energy. The majority of energy consumed is needed in the heating and ventilation of buildings. Tikkurila's goal is to improve the eco-efficiency of the supply chain, in other words, to continuously reduce energy consumption. In 2011, the energy consumption of the Group's supply chain per product liter was 0.34 (0.37) kWh.

Share of water-borne products in production



Eco-efficiency of supply chain*



*The eco-efficiency indicator includes the direct (heating oil, natural gas, diesel oil, etc.) and indirect (electricity purchased from outside suppliers, district heating, etc.) consumption of energy on Tikkurila sites.

The production process releases volatile organic solvents (VOC compounds) contained in raw materials into the air. In 2011, solvent emissions in production into the air were 0.44 (0.40) grams per product liter.

Wastewaters from the Group's sites are treated in accordance with the regulations from the local authorities.

The direct environmental costs of production were 1.0 (1.0) cents per product liter.

Transportation needs and inventory quantities are optimized in cooperation with the entire supply chain to ensure that retailers and consumers receive the products on time, safely and effectively.

In 2011, Tikkurila invested EUR 0.1 (0.2) million into environmental protection in its units, and operating costs totaled EUR 2.1 (2.1) million.

REDUCED ECOLOGICAL FOOTPRINT OF PAINTS BY TINTING

In addition to water-borne paints, the tinting of paints has changed the practices of paint industry. Tinting is an economical and ecological way to produce thousands of colors from among which customers surely find exactly the colors they need. Retailers custom-tint paints to the consumer's order. With the tinting system, the quantity of paint cans is optimal in both the company's and the retailer's warehouse. No leftover colors that must be thrown away over time remain in the warehouse and on shelves. This improves material efficiency and decreases the amount of waste.

Tinting also generates clear logistic benefits compared to Tikkurila delivering ready-made shades to retailers. Less transport is required since retailers can have a larger selection of different base paints for different purposes instead of having several ready-made shades of one paint type. The paint production process can be simplified by focusing on the production of white and clear base paints. This, in turn, reduces the amount of raw materials needed and improves the efficiency of production.

ENVIRONMENTALLY SOUND PRODUCTS AND CONCEPTS

Tikkurila continuously develops its operations in order to provide innovative and environmentally sound products and services to different customer groups and markets. In 2011, Tikkurila launched several environmentally sound products and concepts. Their properties include, among others, eco-efficient production, product quality, and as long as possible maintenance painting intervals in the paint life cycle, safety of use or, for example, a novel innovative concept that promotes sustainable development.

The Tikkurila ProHouse concept is a surface treatment method for wooden surfaces in which exterior wooden panels and boards are treated under controlled and optimized conditions in the factory, using a water-borne top coat. The method is used to manufacture surface-painted wooden materials for prefab house manufacturers, building companies, and consumers. Customers can achieve savings in painting costs and the method speeds up building. The water-borne products for exterior surfaces used in the ProHouse method do not emit any harmful solvents into the air during painting, and excess panels or boards can easily be recycled.

In Russia, the Teks paint brand launched its first interior paint that was given a recommendation about its allergy attributes by a national authority. The product meets strict requirements and does not contain fragrances or other generally irritating or sensitizing agents. The Profi interior paint is suitable for customers who look for products that do not generally irritate or sensitize the skin or cause respiratory symptoms.

ACTIVE WORK ON PRODUCT SAFETY

Product safety and quality are important aspects of the company's operations, and Tikkurila has been working determinedly for many years to achieve them. Increasingly stringent environmental and safety requirements increase Tikkurila's responsibility to communicate the safety and health impacts of its products.

Tikkurila's customers will find a great deal of information on the Group's paints, safe use of paints for high-quality and durable results as well as on the impact of paints on health in the safety data sheets, product specifications, labels and various instructions and guides on painting.

HEALTH AND ENVIRONMENTAL IMPACT OF RAW MATERIALS

Tikkurila works systematically and actively to determine the health and environmental impacts of the raw materials used in paints. Close cooperation between R&D, sourcing and raw material suppliers improves efficiency in selecting raw materials and suppliers, in quality and cost awareness as well as logistics.

When a new raw material is taken into use in paint production at Tikkurila, the company's R&D product safety specialists carefully examine its technical product description and the safety data sheet. Based on these, basic information on the composition of the raw material is entered in the company's internal information system for product hazard evaluation. If needed, the raw material supplier is contacted for further information.

Based on the raw material information and the paint formula, the hazard properties are calculated for the product that is used in compliance with instructions. The properties are indicated in the safety data sheet and the warnings section of the product label. If the user instructions and safety instructions are adhered to, the use of the paint is safe.

In 2012, the Group will implement a new system for processing raw material information and compiling safety data sheets. Among other things, the system will promote the use of existing product and raw material information and improve the efficiency of internal processes.

For more information on environmental issues, go to

www.tikkurilagroup.com/responsibility.

ACTIVE DIALOGUE WITH STAKEHOLDERS

Tikkurila creates added value for its owners, customers and other stakeholders by operating sustainably and profitably, by developing its business systematically, and by offering high-quality, eco-efficient and competitively priced solutions for protection and decoration of surfaces.

OUR WAYS OF OPERATION

Tikkurila's values, Code of Conduct and group-level operational instructions outline the foundation for the company's business operations and guide the company's administration and internal audit. Every Tikkurila employee should know what is expected of them and how they should act in their daily work.

Tikkurila's Code of Conduct outlines the fundamental requirements for how to do business. The Code of Conduct has been communicated to the entire personnel of the Group. In September 2011, the Group introduced online learning material regarding the Code of Conduct to help implement it more effectively in the daily operations. The target is that all Tikkurila employees review the Code of Conduct material and take the final test. The implementation of the material will continue in 2012 as part of the induction process.

During the reporting period, the Group introduced an internet-based reporting system that enables both personnel and other stakeholders to anonymously report misconduct of business practices, operating methods that pose risks to the company, violations of the Code of Conduct as well as other illegal or unethical business practices.

The objective of the system is to ensure that Tikkurila's daily operations appropriately comply with good governance and business principles and that any violations thereof and other illegalities are reported.

COLLABORATION AND DIALOGUE WITH STAKEHOLDERS

Tikkurila creates added value for its stakeholders by operating sustainably, by developing its business, and by offering them solutions for protection and decoration of surfaces. The company wants to promote openness and transparency, encourage networking and an open dialogue with the stakeholders.

Tikkurila's key stakeholders are customers and those influencing purchasing decisions, personnel as well as owners and investors.

A successful stakeholder dialogue and interaction, as well as meeting the stakeholder expectations, require actions from us, of which, depending on the stakeholder group, some are very local and individual.

For more information on Group's stakeholders and Tikkurila's actions, go to
www.tikkurilagroup.com/responsibility.

SUSTAINABLE BEAUTY – THE SOCIAL RESPONSIBILITY PROGRAM

Tikkurila celebrates its 150th anniversary in 2012. The anniversary will be celebrated together with various stakeholders throughout the year.

There will also be increased focus on social responsibility in 2012. Tikkurila is a responsible player that wants to promote the well-being of children, the young, adults and senior citizens by actively participating in projects that bring delight, comfort and sustainable beauty with paint and colors to various spaces and environments.

As part of the 150th anniversary year, Tikkurila introduced the "Sustainable Beauty" program for social responsibility, with the aim to further emphasize Tikkurila's responsible approach in the markets and areas where the company operates.

For more information on the anniversary year and the social projects, go to
www.tikkurilagroup.com/150.

INDEPENDENT ASSURANCE REPORT

TO THE MANAGEMENT OF TIKKURILA OYJ

We have been engaged by the Management of Tikkurila Oyj (hereafter Tikkurila) to provide limited assurance on the corporate responsibility information presented in Tikkurila's Annual Report 2011 on pages 22–27 as well as on specifically marked pages on Tikkurila's website, from the reporting period 1.1.–31.12.2011 (hereafter Corporate Responsibility Information).

The Management of Tikkurila is responsible for the preparation and presentation of the Corporate Responsibility Information in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0, as well as for the presented data, assertions and gathering of information.

Our responsibility is to carry out a limited assurance engagement and to express an independent conclusion on the information subject to the assurance based on the work performed. We have conducted the engagement in accordance with the Finnish Institute of Authorised Public Accountants' Standard 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information. Amongst others, this standard requires that the assurance team members comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence. Our assurance report is made in accordance with the terms of our engagement with Tikkurila. We do not accept or assume responsibility to anyone other than Tikkurila for our work, for this assurance report, or for the conclusions we have reached.

The evaluation criteria used for our assurance are the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3).

LIMITATIONS OF THE ENGAGEMENT

Data and information related to corporate responsibility are subject to inherent limitations applying to data accuracy and completeness, which are to be taken into account when reading our assurance report. The presented Corporate Responsibility Information is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by Tikkurila. Our assurance report is not intended for use in evaluating Tikkurila's performance in executing the corporate responsibility principles Tikkurila has defined. To assess the financial state and performance of Tikkurila, Tikkurila's audited Financial Statement for the year ended 31 December 2011 is to be consulted.

THE WORK PERFORMED IN THE ENGAGEMENT

Our assurance procedures are designed to obtain limited assurance on whether the Corporate Responsibility Information is presented in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 in all material respects. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Corporate Responsibility Information, and applying analytical and other evidence gathering procedures, as appropriate. The evidence gathering procedures mentioned above are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

In our engagement we have performed the following procedures:

- Interviews with three members of senior management to reassert our understanding of the connection between Tikkurila's corporate responsibility procedures and Tikkurila's business strategy and operations as well as corporate responsibility objectives;
- An assessment of data management processes, information systems and working methods used to gather and consolidate the presented Corporate Responsibility Information, and a review of Tikkurila's related internal documents;
- Comparison of the presented Corporate Responsibility Information to underlying rules of procedure, management and reporting systems as well as documentation;
- An assessment of the Corporate Responsibility Information's conformity with the principles of the GRI-guidelines;
- A review of the performance data and assertions presented in the Corporate Responsibility Information, and an assessment of information quality and reporting boundary definitions;
- Testing of data accuracy and completeness through samples from the Group's information systems and original numerical information received from the Group companies;
- Three detailed assessments in units selected on the basis of a risk analysis taking into account both qualitative and quantitative information.

Based on the assurance procedures performed, nothing has come to our attention that causes us to believe that the information subject to the assurance engagement is not presented in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3) in all material respects.

Helsinki, 6 March 2012

KPMG OY AB

Pekka Pajamo
Authorized Public Accountant

Nina Killström
Corporate Responsibility Advisor

Translation from the original Finnish report

MANAGEMENT BOARD

ERKKI JÄRVINEN

President and CEO
Born 1960
Chairman of the Management Board since 2009.
Finnish citizen.
M.Sc. (Econ.)
Joined Tikkurila in 2009.
Tikkurila shares on Dec 31, 2011: -

Career history
Erkki Järvinen has been the President and CEO of Tikkurila since 2009. Previously, he served as the President and CEO of Rautakirja Corporation between 2001 and 2008, and as the Senior Vice President of Kiosk Operations in Rautakirja Corporation between 1997 and 2001. Prior to joining Rautakirja, he held positions in companies that belonged to the Cultor Group, as Vice President, Marketing (Nordic) in Vaasamills Ltd between 1991 and 1996, as Managing Director of Siljans Knäcke AB between 1995 and 1996 and as Marketing Manager in Vaasamills Ltd between 1990 and 1991. He served as Product Manager and Marketing Manager in Fazer Bakeries, Oy Karl Fazer Ab between 1984 and 1990.

Positions of trust
Erkki Järvinen has been a member of the Board of Directors of Snellman Ltd. and of the East Office of Finnish Industries Ltd. since 2011, of the Chemical Industry Federation of Finland and of the Association of Finnish Paint Industry since 2010, of the Association of Finnish Advertisers and of the Helsinki Chamber of Commerce since 2009, and of the Economic Information Office since 2007. In addition, he has been a member of the regional offices of the Confederation of Finnish Industries (EK) in Helsinki since 2011.

JUKKA HAVIA

Chief Financial Officer (CFO)
Born 1968
Member of the Management Board since 2010.
Finnish citizen.
M. Sc. (Econ.)
Joined Tikkurila in 2010.
Tikkurila shares on Dec 31, 2011: -

Career history
Jukka Havia has been the Chief Financial Officer of Tikkurila since 2010. Previously, he worked for Ruukki Group Plc as the Chief Financial Officer since 2005 and the Deputy Chief Executive Officer since 2008. Prior to that, he worked as the Director of Finance at the Student Union of the Helsinki School of Economics and as a Managing Director in KY-Palvelu Oy between 2001 and 2005, as the Financial Director of RSL Com Finland Oy between 1997 and 2001 and as controller at Oy Canon Ab between 1995 and 1997.

Positions of trust
Jukka Havia is the Chairman of the Board of the Finnish Transport Safety Agency, as well as a member of the finance committee of the student union of Aalto University. He also acts as a deputy auditor of the National Union of University Students in Finland.

PETRI MIETTINEN

Group Vice President, Supply Chain & HSEQ
Born 1968
Member of the Management Board since 2007.
Finnish citizen.
M.Sc. (Econ.)
Joined Tikkurila in 2007.
Tikkurila shares on Dec 31, 2011: -

Career history
Petri Miettinen has been the Group Vice President, Supply Chain of Tikkurila since 2007. In 2008, the HSEQ (Health, Safety, Environment and Quality) was also transferred to his area of responsibility. Prior to joining Tikkurila, he served at ABB; in the ABB Marine business as the Vice President of Sourcing and Logistics between 2002 and 2007, Vice President, controlling in addition to his normal duties between 2003 and 2004 and Business Controller between 2000 and 2002 and previously in the ABB electric machine business as Controller and Project Manager between 1997 and 2000.

KENNETH SUNDBERG

Group Vice President, R&D
Born 1965
Member of the Management Board since 2010.
Finnish citizen.
M.Sc. (Eng.), Doctor of Technology
Joined Tikkurila in 2010.
Tikkurila shares on Dec 31, 2011: -

Career history
Kenneth Sundberg has been the Group Vice President, Research and Development of Tikkurila since 2010. Prior to joining Tikkurila, he was the Head of Innovation Center Paper and R&D Site Head at Ciba Finland Oy between 2007 and 2009, the Managing Director of Top Analytica Ltd. between 2006 and 2007, the Head R&D, Sizing and Starch at Ciba Specialty Chemicals Oy between 2004 and 2006 and the Research Manager for specialty group of Raisio Chemicals Oy between 2002 and 2004.

Positions of trust
Kenneth Sundberg has been a member of the Industrial Advisory Board of the Åbo Akademi Process Chemistry Center (ÅAU) since 2005.

JANNO PAJU

Chief Commercial Officer
Born 1971
Member of the Management Board since 2000.
Estonian citizen.
Degree in Economics
Joined Tikkurila in 1993.
Tikkurila shares on Dec 31, 2011: 325

Career history
Janno Paju has been the Chief Commercial Officer of Tikkurila as of January 1, 2012. Prior to that, he was the Senior Vice President of SBU East between 2009 and 2011, the Group Vice President of Tikkurila's Deco Eastern Europe business area between 2004 and 2009, the President of Tikkurila Polska S.A. between 2000 and 2004 and the Vice President of Commerce of Tikkurila-Baltcolor Sp.z.o.o. between 1998 and 2000.

In addition, the following persons were included in the Management Board in 2011:

Niklas Frisk, Senior Vice President, SBU Scandinavia (until Dec 31, 2011)

Ilpo Jousimaa, Senior Vice President, SBU Central Eastern Europe (until Dec 2, 2011)

Arto Lehtinen, Senior Vice President, SBU Finland (until Dec 31, 2011)

BOARD OF DIRECTORS

JARI PAASIKIVI

Born 1954, M.Sc. (Econ.)
CEO, Oras Invest Ltd
Chairman of the Board since 2010 and a member since 2008.
Member of the Audit Committee since 2010.
Expert member of the Nomination Board since 2010.
Independent of the company, not independent of a significant shareholder.
Finnish citizen
Tikkurila shares on Dec 31, 2011: 34,617

Career history
Jari Paasikivi has been the Chief Executive Officer of Oras Invest since 2006. Paasikivi served in various positions at Oras Ltd between 1989 and 2007, including as the President and Chief Executive Officer between 2002 and 2007, the Managing Director between 1994 and 2001 and the Plant Director between 1989 and 1994.

Positions of trust
Jari Paasikivi has been a member of various companies' Boards of Directors. He has been a member of the Nomination Committee of Kemira Oyj since 2009, a member of the Board of Uponor Corporation since 2007 and the Chairman of the Board since 2008, a member of the Board of Directors of the Federation of Finnish Technology Industries since 2006 and the Vice Chairman of the Board since 2011, a member of the Board of Vakka-Suomi Youth Foundation since 1995 and the Chairman of the Board since 1998 and a member of the Board of Oras Ltd since 1982.

PETTERI WALLDÉN

Born 1948, M.Sc. (Eng.)
Vice Chairman of the Board since 2010 and a member since 2008.
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2011: 3,414

Career history
Petteri Walldén served as the President and Chief Executive Officer of Alteams Oy between 2007 and 2010, of Onninen Oy between 2001 and 2005 and of Ensto Ltd. between 1996 and 2001. He has also served as the President of Nokia Cables Ltd and of Sako Ltd.

Positions of trust
Petteri Walldén has been the Chairman of the Board of Directors of Puukeskus Oy and Puukeskus Holding Oy since 2011, a member of the Board of Directors of ONE Nordic Holding AB since 2011, a member of the Board of Directors of Mesera Oy since 2010, a member of the Board of Directors of Comptel Corporation and of Teleste Corporation since 2009, a member of the Board of Directors of Kuusakoski Group Oy and Alteams Oy since 2007, the Chairman of the Board of Directors of Nokian Tyres plc since 2006 and a member of the Board of Directors of SE Mäkinen Logistics Ltd since 1996.

EEVA AHDEKIVI

Born 1966, M. Sc. (Econ.)
Investment Director, Solidium Oy
Member of the Board since 2009.
Chairman of the Audit Committee since 2010.
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2011: 2,905

Career history
Eeva Ahdekivi has been the Investment Director of Solidium since 2009. Prior to that, Ahdekivi was the senior financial specialist at the Prime Minister's Office in the ownership steering department between 2007 and 2009, the Director of Pohjola Asset Management Ltd between 2004 and 2006 and the partner of Conventum Oyj between 1997 and 2003. Ahdekivi has also served as the Director of Merita Corporate Finance Oy.

Positions of trust
Eeva Ahdekivi has been a member of the Policy committee of Board Professionals Association since 2010.

RIITTA MYNTTINEN

Born 1960, Chemical Engineer (B.Sc.), MBA
Vice President, Minerals Technologies Europe NV
Member of the Board since 2011.
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2011: 770

Career history
Riitta Mynttinen has high-level international business know-how acquired in the coating, chemical and paper industries in Europe, the United States and Asia. Prior to the current position she was responsible for Specialty Minerals' European Paper PCC. Mynttinen came to Minerals Technologies Corporation from Rohm and Haas where she worked in various management positions, lastly as Sales and Marketing Director.

Positions of trust
Riitta Mynttinen has been a member of the Board of Directors at Mint of Finland since 2010.

PIA RUDENGREN

Born 1965, M.Sc. (BA & Econ.)
Board Professional
Member of the Board since 2009.
Member of the Audit Committee since 2010.
Independent Board member
Swedish citizen
Tikkurila shares on 31 Dec 31, 2011: 1,543

Career history
Pia Rudengren was Executive Vice President of W Capital Management AB between 2001 and 2005. Between 1990 and 2001, Rudengren held a variety of positions at Investor AB, ultimately serving as Chief Financial Officer and a member of the Management Group between 1998 and 2001.

Positions of trust
Pia Rudengren has been a member of the Board of Directors of Metso Corporation and of Swedbank AB since 2009, of Social Initiative AB since 2008 and of Duni AB and of WeMind Digital Psykologi AB since 2007. Since 2006, Rudengren has worked as a Board Professional, serving on the Boards of Directors of several companies in Sweden.

INVESTOR INFORMATION

INTERIM REPORTS AND ANNUAL GENERAL MEETING

March 28, 2012 Annual General Meeting
April 26, 2012 Interim report for January-March
August 2, 2012 Interim report for January-June
November 7, 2012 Interim report for January-September

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

DIVIDEND DISTRIBUTION

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.73 per share will be paid for the financial year 2011. The dividend will be paid to shareholders that are registered in the company's shareholder's register on the matching date April 2, 2011.

FINANCIAL TARGETS

The financial targets are presented on the next page.

CHANGE OF ADDRESS

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

INVESTOR RELATIONS

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

Tikkurila's disclosure policy describes the main principles on how Tikkurila communicates with the capital markets and discloses share-price sensitive information to its stakeholders. Read more at www.tikkurilagroup.com/investors/disclosure_policy.

During 2011, Tikkurila's management met nearly 520 persons interested in Tikkurila's share in 110 different events. In addition, approximately 350 shareholders participated in Tikkurila's Annual General Meeting. A majority of the events were individual investor meetings of which more than half were arranged in Finland.

BASIC SHARE INFORMATION

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

FLAGGING NOTIFICATIONS 2011

August 10, 2011 Orkla's holding in Tikkurila increased to 6.2 percent
August 5, 2011 Ilmarinen's holding in Tikkurila increased to 10.1 percent
March 31, 2011 Kemira sold all of its Tikkurila shares

More information on Tikkurila's share and shareholders can be found on pages 105–106 of the Annual Report.

You can order Annual Reports on Tikkurila website at www.tikkurilagroup.com/media/publications.

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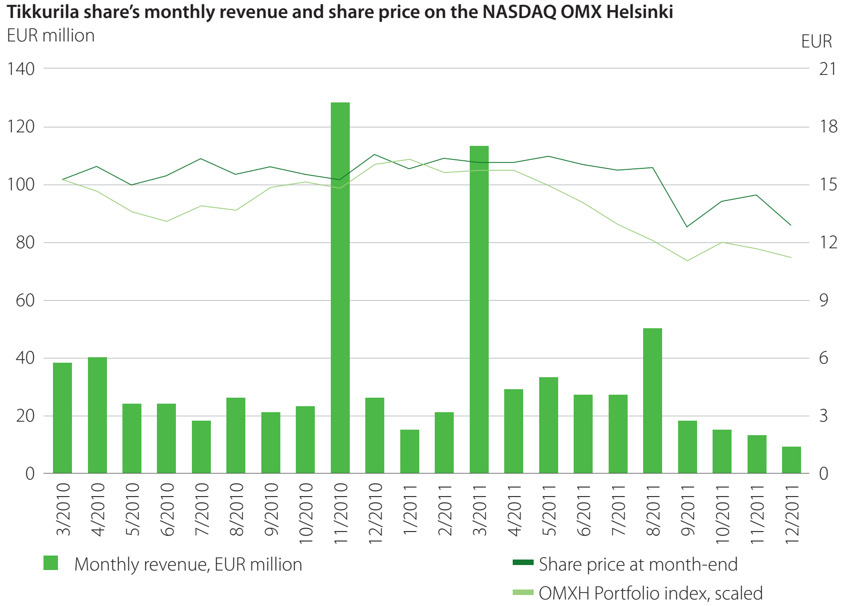
Tikkurila share's monthly revenue and share price on the NASDAQ OMX Helsinki



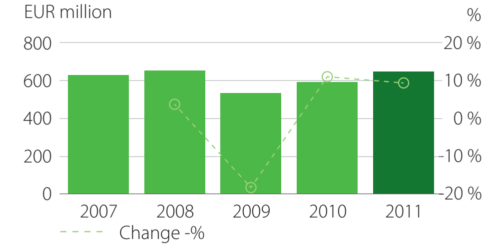
FINANCIAL OBJECTIVES

Growth

Annual organic revenue growth of over five percent

Performance in 2011
The target was reached in 2011. The organic growth of revenue was 8 percent. Sales prices were increased in all operating areas. Particularly the SBU East area experienced volume growth. Exchange rate fluctuations had a positive impact.

Revenue
EUR million



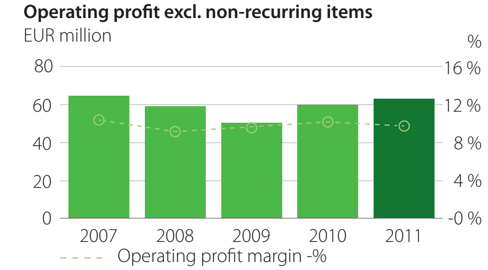
Objectives in 2012
- To grow the market share in the emerging markets in eastern and southern Europe.
- To gradually increase the sales of services.

Profitability

Operating profit (EBIT) over 10 percent of revenue

Performance in 2011
The target was not reached in 2011. The operating profit margin was 9.7 percent. Raw material prices increased sharply during the year. Fixed costs also increased due to the general inflation and marketing costs.

Operating profit excl. non-recurring items
EUR million



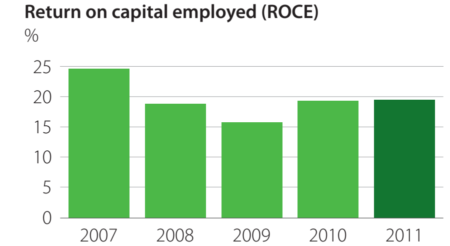
Objectives in 2012
- To change the organizational structure and reduce costs
- To improve the effectiveness of operative activities

Return on capital

Continued improvement of return on capital employed (ROCE)

Performance in 2011
The target was reached in 2011. ROCE improved by 0.2 percentage points. Fixed asset investments were moderate and the amount of working capital increased.

Return on capital employed (ROCE)
%



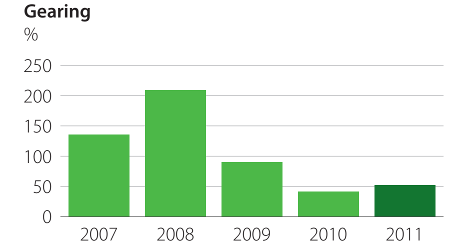
Objectives in 2012
- To improve profitability
- To reduce working capital

Solvency

Gearing under 100 percent

Performance in 2011
The target was reached in 2011. The net gearing was 51.9 percent. The amount of net debt grew slightly from the level of the end of the previous year. The amount of equity remained at the previous year's level.

Gearing
%



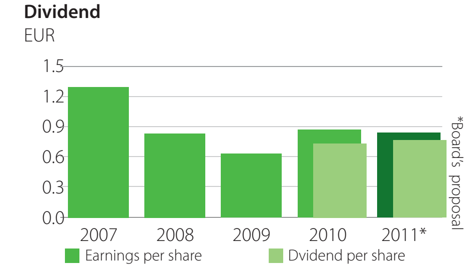
Objectives in 2012
- To improve working capital turnover and subsequently accelerate cash flow accumulation

Dividend

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

Performance in 2011
The Board of Directors proposes a dividend of EUR 0.73 per share for 2011 which accounts for approximately 88 percent of the net operating result of the 2011 financial year.

Dividend
EUR




Another strong year
for the history books

TIKKURILA GROUP FINANCIAL STATEMENTS 2011

Contents

BOARD OF DIRECTOR'S REVIEW

MARKET REVIEW

The growth rate of the world economy started to slow down towards the end of the year and the outlook deteriorated rapidly. Tikkurila's business operations and their growth are linked to the overall economic activity which has an impact on renovation and new construction activity, among others. According to preliminary estimates, the GDP grew by an average of approximately 3–4 percent in Tikkurila's key markets. Consumer confidence declined substantially during the year, especially in mature markets. Construction continued at a good level in many markets in 2011, but the outlook of the construction industry is weaker than before.

GDP in Russia is estimated to have grown by approximately 4 percent in 2011. Weakened demand in the industry slowed down the growth of investments at the end of the year. The confidence of Russian consumers continued to be strong. Decreasing unemployment and inflation that was lower than in recent years supported the consumption demand. The recovered loan markets boosted construction. The price of oil decreased, and it is estimated that the uncertainty in the world economy will reduce the price of oil in the future as well. The ruble weakened slightly during the year, primarily due to the uncertainty in the global economic situation. According to Tikkurila's estimate, the volume of decorative paints market in Russia grew by approximately 3 percent in 2011. The market share of Tikkurila's decorative paints in Russia was approximately 18 percent (in 2010: approximately 17 percent).

In Sweden, the growth of GDP was stronger than expected in the third quarter of 2011, and it is estimated that the growth for the entire year will be slightly over 4 percent. However, the strong growth experienced in the fall is believed to end soon since the debt crisis in the euro region has considerably weakened the market sentiment in Sweden as well. Consumer confidence steeply decreased from the peak levels of the beginning of the year until the fall, and at the end of the year, consumer confidence remained unchanged at a reasonably low level. Construction industry confidence that had been clearly above the long-term average declined at the end of the year, anticipating the slowing down of construction in 2012. The Swedish krona strengthened during the year. According to Tikkurila's estimate, the market value of decorative paints in Sweden grew by approximately 3 percent in 2011. The market share of Tikkurila's decorative paints in Sweden was approximately 40 percent (in 2010: approximately 40 percent).

Growth of the Finnish economy slowed down considerably in the second half of the year, and it is estimated that the growth for 2011 was approximately 2.5 percent. Consumer confidence declined steeply during the year. Construction is estimated to have grown by as much as about 4 percent during the year, but the cubic volume of new construction permits started to decline clearly at the end of the year. The new construction volume in the current year is estimated to be considerably lower than last year. According to Tikkurila's estimate, the value of Finland's decorative paints market remained at the previous year's level in 2011. The market share of Tikkurila's decorative paints in Finland remained unchanged at more than 50 percent.

Growth of Poland's GDP continued at slightly over 4 percent in the third quarter of the year, anticipating a minimum growth of 4 percent for the entire year 2011. The development of private consumption, investment demand and construction was strong in 2011 but the economic sentiment started showing signs of weakening at the end of the year. According to Tikkurila's estimate, the decorative paints market in Poland grew slightly in 2011. The market share of Tikkurila's decorative paints was approximately 16 percent in 2011 (in 2010: approximately 14 percent).

Raw material prices increased considerably during the first months of the year and the rise continued in the latter half of the year, although it was slower. The prices of Tikkurila's key raw materials rose by about 20 percent on average from the previous year. There were challenges related to the availability of raw materials particularly during the first months of the year, but availability improved towards the end of the year.

FINANCIAL PERFORMANCE IN JANUARY–DECEMBER 2011

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

January–December (EUR million)	Revenue 1–12/2011	1–12/2010	Operating profit (EBIT) excluding non-recurring items 1–12/2011	1–12/2010
SBU East	220.0	194.5	25.3	22.7
SBU Scandinavia	192.3	181.8	24.3	21.3
SBU Finland	109.2	107.2	10.9	13.6
SBU Central Eastern Europe	122.2	105.2	4.4	4.8
Group common and eliminations	0.0	0.0	-2.3	-2.7
Consolidated Group	643.7	588.6	62.7	59.7

Tikkurila Group's **revenue** in 2011 grew by 9.4 percent to EUR 643.7 (588.6) million. EUR 38.5 million of the total growth was due to the net impact of the sales price increases and changes in the sales mix. Growth of the sales volume increased revenue by EUR 6.6 million, and the net impact of business acquisitions increased it by EUR 6.0 million. The positive impact of exchange rate fluctuations was EUR 4.0 million.

The comparable revenue growth (excl. the effects of mergers and acquisitions and exchange rate fluctuations) was 7.7 percent in 2011.

The share of decorative paints in revenue in 2011 was 83.7 (83.8) percent and the share of industrial coatings was 16.3 (16.2) percent.

Operating profit excluding non-recurring items in 2011 totaled EUR 62.7 (59.7) million, which accounts for 9.7 (10.1) percent of revenue. The non-recurring items of the review period amounted to EUR -1.5 million and were related to the last quarter of the year. Non-recurring items in the comparison period amounted to EUR 1.0 million.

The comparable operating profit excluding non-recurring items, when the effects of 2010 and 2011 acquisitions and divestments as well as 2011 exchange rate changes have been eliminated, was EUR 63.7 (59.5) million, i.e. 10.1 (10.1) percent of revenue.

Operating profit (EBIT) in 2011 was EUR 61.2 (60.8) million. The level of both variable costs and fixed expenses increased considerably from the previous year. Tikkurila succeeded well in compensating for the increased level of raw material costs by increasing its sales prices. The increase in revenue improved operating profit. The positive impact of exchange rate fluctuations was EUR 0.9 million.

The comparable EBIT, when the effects of 2010 and 2011 acquisitions and divestments as well as 2011 exchange rate changes have been eliminated, was EUR 62.2 (60.6) million, i.e. 9.9 (10.3) percent of revenue.

The net financial expenses for 2011 were EUR 10.8 (8.7) million. The increase in the financial expenses compared to the corresponding period in the previous year is due, in particular, to the impact of the exchange rates, and a major part of this impact results from the heavy devaluation of the Belarusian ruble. Profit before taxes was EUR 50.7 (52.0) million. Taxes totaled EUR 15.2 (15.5) million, equaling an effective tax rate of 30.0 (29.8) percent. Earnings per share in the review period were EUR 0.80 (0.83).

FINANCIAL PERFORMANCE BY REPORTING SEGMENTS

SBU EAST

(EUR million)	1–12/2011	1–12/2010	Change %
Revenue	220.0	194.5	13.1%
Operating profit (EBIT), excluding non-recurring items	25.3	22.7	11.8%
Operating profit (EBIT) margin, excluding non-recurring items, %	11.5%	11.6%	
Operating profit (EBIT)	25.3	24.1	5.0%
Operating profit (EBIT) margin, %	11.5%	12.4%	
Capital expenditure excl. acquisitions	3.9	4.5	-13.2%

FINANCIAL PERFORMANCE IN 2011

SBU East's revenue in 2011 grew by 13.1 percent from the comparison period. EUR 25.7 million of the revenue growth was due to the sales price increases and changes in the sales mix. The growth in the sales volume increased revenue by EUR 5.7 million. The negative impact of exchange rate fluctuations was EUR 3.9 million, due to the weakening of the ruble, in particular, in the fall of 2011.

Revenue of Tikkurila's Russian subsidiary OOO Tikkurila Powder Coatings, sold in January 2011, was EUR 2.1 million in 2010.

The share of decorative paints in SBU East's revenue in 2011 was 89.8 (88.2) percent and the share of industrial coatings was 10.2 (11.8) percent.

SBU East's operating profit excluding non-recurring items in 2011 grew by 11.8 percent from the comparison period and totaled EUR 25.3 (22.7) million. The relative profitability remained at the comparison period level. There were no non-recurring items in 2011. Non-recurring items in the comparison period were related to the insurance compensation received in Russia that had a positive impact of EUR 1.5 million on SBU East's operating profit.

SBU SCANDINAVIA

(EUR million)	1–12/2011	1–12/2010	Change %
Revenue	192.3	181.8	5.8%
Operating profit (EBIT), excluding non-recurring items	24.3	21.3	14.0%
Operating profit (EBIT) margin, excluding non-recurring items, %	12.6%	11.7%	
Operating profit (EBIT)	24.2	21.3	13.8%
Operating profit (EBIT) margin, %	12.6%	11.7%	
Capital expenditure excl. acquisitions	3.5	2.3	54.3%

FINANCIAL PERFORMANCE IN 2011

SBU Scandinavia's revenue in 2011 grew by 5.8 percent from the comparison period. EUR 9.7 million of the total growth was due to the exchange rate fluctuations and EUR 1.7 million was due to the sales price increases. Sales volumes lower than in the previous year reduced revenue by EUR 0.9 million.

The share of decorative paints in SBU Scandinavia's revenue in 2011 was 87.7 (87.8) percent and the share of industrial coatings was 12.3 (12.2) percent.

SBU Scandinavia's operating profit excluding non-recurring items in 2011 grew by 14.0 percent from the comparison period and the relative profitability improved. Non-recurring items in 2011 totaled EUR 0.1 million and were related to the divestment of Tikkurila's paint stores in Sweden at the end of 2011. There were no non-recurring items in the comparison period. Operating profit was improved by the sales price increases implemented in the region, cost savings as well as exchange rate fluctuations.

SBU FINLAND

(EUR million)	1–12/2011	1–12/2010	Change %
Revenue	109.2	107.2	1.9%
Operating profit (EBIT), excluding non-recurring items	10.9	13.6	-19.9%
Operating profit (EBIT) margin, excluding non-recurring items, %	10.0%	12.7%	
Operating profit (EBIT)	10.8	13.6	-20.8%
Operating profit (EBIT) margin, %	9.9%	12.7%	
Capital expenditure excl. acquisitions	4.1	2.2	91.7%

FINANCIAL PERFORMANCE IN 2011

SBU Finland's revenue in 2011 was at the comparison period level. The net impact of the sales price increases and changes in the sales mix increased revenue by EUR 3.7 million. A sales volume that was lower than in the previous year reduced revenue by EUR 1.7 million.

The share of decorative paints in SBU Finland's revenue in 2011 was 80.6 (81.4) percent and the share of industrial coatings was 19.4 (18.6) percent.

SBU Finland's operating profit excluding non-recurring items in 2011 decreased by 19.9 percent from the comparison period and the relative profitability weakened. The decrease in operating profit was due to the increased cost level and a sales volume that was lower than in the previous year.

SBU CENTRAL EASTERN EUROPE (CEE)

(EUR million)	1–12/2011	1–12/2010	Change %
Revenue	122.2	105.2	16.2%
Operating profit (EBIT), excluding non-recurring items	4.4	4.8	-8.3%
Operating profit (EBIT) margin, excluding non-recurring items, %	3.6%	4.6%	
Operating profit (EBIT)	3.2	4.4	-27.8%
Operating profit (EBIT) margin, %	2.6%	4.2%	
Capital expenditure excl. acquisitions	3.3	2.2	54.1%

FINANCIAL PERFORMANCE IN 2011

SBU Central Eastern Europe's revenue in 2011 grew by 16.2 percent from the comparison period. EUR 7.3 million of the total growth was due to the net impact of the sales price increases and changes in the sales mix. The sales volume higher than in the comparison period improved revenue by EUR 3.5 million. The negative impact of exchange rate fluctuations was EUR 1.9 million. EUR 8.1 million of growth was due to the acquisition of Zorka Color.

The share of decorative paints in SBU Central Eastern Europe's revenue in 2011 was 69.1 (71.4) percent and the share of industrial coatings was 30.9 (28.6) percent.

SBU Central Eastern Europe's operating profit excluding non-recurring items in 2011 decreased by 8.3 percent from the comparison period and the relative profitability weakened. The weakening of operating profit was particularly due to the level of variable costs that was higher than in the comparison period.

At the beginning of 2012, Tikkurila launched organizational streamlining measures in Poland in order to improve the profitability of SBU Central Eastern Europe. In addition, the target is to change the business model in Czech Republic, Hungary and Slovakia by the end of the first quarter according to the letter of intent signed in late 2011.

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

Tikkurila's financial position and liquidity remained at a good level during 2011.

Cash flow from operations in January–December totaled EUR 37.1 (63.9) million. The decline in the cash flow from operations, compared to 2010, was mainly caused by the higher level of net working capital at the end of the year, when in particular the value of inventories increased due to increasing raw material prices. Net working capital totaled EUR 96.2 (73.0) million at the end of the year. Gross investments stayed at the previous year's level excluding the impact of corporate restructuring. The net cash flow from the investing activities was EUR -23.8 (-12.4) million, when taking into account the acquisitions and divestments. Cash flow after capital expenditure totaled EUR 13.3 (51.4) million during the financial year.

Interest-bearing debt amounted to EUR 109.8 (148.0) at the end of the year. The average capital-weighted interest rate of interest-bearing debt was 5.2 (5.2) percent in the financial year. The Group's net financial expenses were EUR 10.8 (8.7) million, of which net interest expenses and other financing expenses accounted for EUR 10.0 (8.2) million. The net profit was negatively affected by a total of EUR 1.0 (0.5) million during the financial year due to the impact of realized and unrealized exchange rate differences recognized in net finance expenses. The significant devaluation of the Belarusian ruble during 2011 had a negative impact of EUR 2.6 million on the exchange rate differences recorded in the finance expenses.

Cash and cash equivalents amounted to EUR 10.4 (69.4) million at the end of the review period. The Group's net debt was EUR 99.4 (78.6) million at the end of the review period. A total of EUR 49.5 million of Tikkurila Group's interest-bearing debt will mature during 2012, as the short-term debt is to main extent based on either commercial papers issued by Tikkurila (with EUR 11.0 million nominal value at the end of 2011) or revolving credit facility. The gross amount of cash and interest-bearing debt was lower at the end of 2011 than it was at the end of 2010 as the new debt facilities signed during the second half of 2011 enable the Group to better and more flexibly to arrange the debt and optimize cash positions. At the end of December 2011, the Group had a total of EUR 125 million of unused committed credit facilities and bank overdraft facilities.

During 2011, Tikkurila Oyj restructured its debt financing. The long-term pension (TyEL) loan, with a nominal value of EUR 40.0 million, was fully repaid in advance, and the related guarantees amounting to EUR 53.0 million were released in the fourth quarter after a qualifying period. Tikkurila still has the option open to reutilize the TyEL loan later if needed. Due to the restructuring of Tikkurila's debt financing during the second half of 2011, in September 2011 a total of approximately EUR 1.0 million financing expenses were recognized, as the expenses originally accrued for the full loan tenure of the EUR 180.0 million debt package were realized. In September, Tikkurila Oyj signed an unsecured facility agreement of EUR 180 million with three banks, which replaced an earlier equal-sized arrangement. The new facility consists of a EUR 60 million five-year term loan and a EUR 120 million revolving credit facility, which has a three-year maturity and in which there is an option at banks' discretion to extend the maturity for additional two years. The new facility has covenants linked to the Group's gearing and ratio of EBITDA to net debt. Furthermore, in October 2011 Tikkurila signed a bilateral unsecured revolving credit facility of EUR 25.0 million, which has five-year maturity and the same covenants as in the new EUR 180 million arrangement. In addition to these facilities, Tikkurila Oyj signed a commercial paper frame agreement, which has a EUR 100 million nominal capacity and under which the Company can issue short-term commercial papers of Tikkurila Oyj with maturities between 1 to 364 days. On the balance sheet date December 31, 2011, the company had issued commercial papers for a total nominal amount of EUR 11.0 million.

At the end of December, the equity ratio was 44.1 (41.1) percent, and gearing was 51.9 (41.4) percent.

At the end of the year, the nominal value of Tikkurila's foreign exchange rate forward agreements was EUR 96.2 (119.8) million and the corresponding market value was EUR 0.4 (-0.7) million. Foreign exchange rate hedging is based on the forecasted net cash flow exposure in each currency for the next 12 months, part of which is hedged in accordance with the principles confirmed by the Board of Directors. On December 31, 2011 the average nominal hedge ratio was about 49%. The Group's most significant foreign exchange rate risks were related to the Swedish krona, Russian ruble and Polish zloty. Based on the new internal financial risk management policy taken into use in December 2011, in the future Tikkurila does not apply interest rate derivatives to hedge interest rate risks. Based on this change Tikkurila Oyj closed interest rate swaps for a total nominal value of EUR 40 million. As a consequence, EUR 0.7 million financing expense was recognized. At the end of 2010, the nominal value of interest rate swaps was EUR 20.0 million and market value EUR 0.0 million.

CAPITAL EXPENDITURES

In 2011, the gross capital expenditures excluding acquisitions amounted to EUR 14.9 (11.1) million. No major single investments were carried out during the review period. Capital expenditures in the period under review are related to, among others, the deployment of the Avatint and Novatint tinting systems, the automatization investments in the industrial coatings factory in Vantaa, and the production process streamlining measures in Serbia.

Tikkurila estimates that the 2012 capital expenditure level will rise from 2011 to be around the annual depreciation and amortization level. Tinting system investments will continue in Sweden and Russia, among others, and replacement investments will be carried out and automation and streamlining measures will continue in production facilities. Moreover, there are IT application projects ongoing in relation to e.g. enterprise resource planning and product data management.

The Group's depreciation, amortization and impairments totaled EUR 21.7 (20.7) million in

2011. The Group performs impairment tests in accordance with the IAS 36 standard.

SALES AND MARKETING

In 2011, the Tikkurila Group's sales and marketing expenses, including personnel expenses, totaled EUR 90.6 (88.0) million, corresponding to 14.1 (14.9) percent of revenue.

Tikkurila continued to actively market its products and services to consumers and professionals. Tikkurila has four strategic brands – Tikkurila, Alcro, Vivacolor, and Teks – and several local brands covering all market segments: the premium segment, the medium segment and the economy segment. According to external studies, the strategic brands of Tikkurila Group are the best-known paint brands or among them in their respective market areas. Tikkurila will continue its brand segmentation to enable competitive offering of its products in all major price and quality categories.

In 2011, Tikkurila launched new service concepts for professionals, such as a mobile phone application in Scandinavia, providing useful information and instructions on the go, and in Finland, a so-called Profe professional services concept, providing e.g. contractor and designer pools, eLectures and other training, as well as technical and color service. Because selling of paints is consultative, Tikkurila focuses on customer trainings, guidance and other services. In 2011, Tikkurila launched nearly 30 new products for the needs of consumers and professionals.

Tikkurila's strategic target is to expand its activities into the service business. Comprehensive painting solutions have been piloted during the past couple of years in Tikkurila's markets in Central Asia, and the aim is to utilize the concept also in other operating areas of the Group. In addition, Tikkurila will have a greater emphasis on product portfolio management.

RESEARCH AND DEVELOPMENT

In 2011, Tikkurila's research and development expenses totaled EUR 9.9 (2010: EUR 10.2 and 2009: EUR 10.1) million or 1.5 (2010: 1.7 and 2009: 1.9) percent of revenue. At the end of 2011, the unit employed 173 (172) people. Tikkurila's largest R&D units are located in Finland, Russia, Poland and Sweden.

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

Important events in 2011 included, among others, launching of the ProHouse industrial surface treatment method for wooden surfaces in Finland as well as expanding the eco-labeled product range in Scandinavia and Finland. The company worked to minimize the impact of the price increases in certain raw materials by introducing alternative raw materials, which required extensive testing within the entire Group.

CORPORATE RESPONSIBILITY AND ENVIRONMENT

The core objective of Tikkurila's corporate responsibility approach is not only to improve the company's own operations, but to also minimize the environmental effects and to provide environmentally friendly solutions for customers.

Tikkurila's annual corporate responsibility report is a part of the Annual Report. Supplementary information is published on the company website. In 2010, Tikkurila started to apply the international G3 guidelines issued by the Global Reporting Initiative (GRI) in its corporate responsibility reporting. Tikkurila's objective is to create independently audited and certified quality, environmental and security systems for each of its units.

Regulation of the paint production, product safety as well as handling and marketing of paints and coatings is intensified with implementation of the new safety and environmental laws. The EU's regulation regarding chemicals (REACH) obligates manufacturers and importers of chemicals to assess the risks related to the use of product and to provide end users with instructions on the safe use of chemicals. Paints themselves are not among the substances specified in the regulation but paint manufacturers must ensure that the raw materials they use in paints comply with REACH. Tikkurila has ensured that all raw materials used in the EU region have been or will be registered in accordance with REACH by the year 2018.

Other significant regulations associated with paints relate, among others, to the quantities of volatile solvent compounds evaporating from paints in the atmosphere (the VOC Solvents Emissions Directive) and classification, labeling and packaging of substances and mixtures (the CLP directive).

In 2011, Tikkurila invested EUR 0.1 (0.2) million into environmental protection in its units, and operating costs totaled EUR 2.1 (2.1) million.

HUMAN RESOURCES

At the end of 2011, Tikkurila Group employed 3,551 (3,468) people. The average number of employees was 3,676 (3,703).

The number of Tikkurila Group's employees at quarter-end by SBU is presented below, starting from the beginning of 2010.

	Q1/2010	Q2/2010	Q3/2010	Q4/2010	Q1/2011	Q2/2011	Q3/2011	Q4/2011
SBU East	1,702	1,794	1,657	1,508	1,558	1,642	1,576	1,527
SBU Scandinavia	464	485	464	465	468	514	464	422
SBU Finland	749	857	762	720	743	825	705	688
SBU CEE	746	774	757	740	750	777	940	877
Group	34	36	37	35	36	36	36	37
Total	3,695	3,946	3,677	3,468	3,555	3,794	3,721	3,551

Approximately half of the Tikkurila's employees work in supply chain operations (production, procurement, logistics and HSEQ) and a third in sales, marketing and technical support. In 2011, 63.5 (63.0) percent of personnel were men and 36.5 (37.0) percent were women. The average age of personnel was 39.2 (38.5) years.

Salaries and compensation paid in 2011 totaled EUR 88.8 (88.1) million.

The focus areas in Tikkurila's HR operations in 2011 included personnel competence development, supervisor training and feedback channel development.

SHARES AND SHAREHOLDERS

At the end of December 2011, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of December 2011, Tikkurila held no treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had a total of some 23,000 shareholders on December 31, 2011. 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.

At the end of 2011, the closing price for the Tikkurila share was EUR 12.89. The volume-weighted average share price for January–December was EUR 15.26, the highest price being EUR 16.92, and the lowest EUR 12.13. At the end of 2011, the market value of Tikkurila's shares, valued at the closing price, was EUR 568.6 million. During January–December 2011, a total of 24.1 million Tikkurila shares, corresponding to about 54.7 percent of the registered amount of shares, were traded on NASDAQ OMX Helsinki, and the value of the traded volume was EUR 368.4 million.

Tikkurila Board members and their interest parties held altogether 43,249 shares on December 31, 2011, which is about 0.1 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 4,825 shares on December 31, 2011, which is about 0.01 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at
www.tikkurilagroup.com/corporate_governance/insiders/.

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

DISCLOSURE OF CHANGES IN HOLDINGS IN 2011

Kemira Oyj announced on March 31, 2011, that its holding in Tikkurila shares fell below 1/10 (10%) and 1/20 (5%) threshold, and that its current holding in Tikkurila shares is 0 percent. Prior to the trades, the holding of Kemira amounted to 6,175,155 Tikkurila shares, which corresponded to 14.0 percent of the total amount of shares and votes in Tikkurila.

Ilmarinen Mutual Pension Insurance Company announced on August 5, 2011, that its holding in shares of Tikkurila Oyj exceeded the 1/10 (10%) threshold. The holding of Ilmarinen Mutual Pension Insurance Company in Tikkurila amounted to 4,461,823 shares, which corresponds to 10.1 percent of the total amount of shares and votes in Tikkurila.

Orkla ASA announced on August 10, 2011, that its holding in shares of Tikkurila exceeded the 1/20 (5%) threshold. The holding of Orkla ASA in Tikkurila amounted to 2,722,404 shares, which corresponds to 6.2 percent of the total amount of shares and votes in Tikkurila.

MERGERS AND ACQUISITIONS IN 2011

The sale of the entire share capital of Tikkurila's Russian subsidiary, OOO Tikkurila Powder Coatings, was completed in January 2011. The revenue of OOO Tikkurila Powder Coatings totaled EUR 2.4 million in 2010, and the company employed approximately 50 people. The divestment did not have a significant impact on the result.

On July 1, 2011 Tikkurila completed the acquisition of the business operations of Serbian paint company Zorka Color. The acquired business was transferred to Tikkurila on July 1, 2011. The compensation paid at the time of the closing of the deal was approximately EUR 11.9 million. In addition, Tikkurila will pay a possible additional purchase price during the next four years, which will be based on the future financial performance of the business operations acquired. Tikkurila Zorka has been consolidated in the Group figures as of July 1, 2011.

CORPORATE RESTRUCTURING ACTIVITIES WITH RELATED PARTIES IN 2011

At the end of December, Tikkurila executed transaction where it sold all the shares in Färgglädje Måleributiken i Alvik AB as well as the business of Alcro-Beckers AB's retail store in Uppsala, Sweden to Niklas Frisk, previously the head of Tikkurila's SBU Scandinavia, and to other private persons. In 2010, the revenue of the divested businesses totaled approximately EUR 6.5 million and the number of employees was 40. The total purchasing price was SEK 25.0 million (about EUR 2.8 million), of which 60 percent was paid at the time of closing. The transactions did not have a significant impact on Tikkurila's fourth quarter results in 2011.

In November 2011, Tikkurila signed a letter of intent to sell the entire share capital of its three sales companies in Hungary, Slovakia and the Czech Republic. The intention is to sell the companies to a Czech company to be established by Tikkurila's local management. The new company will continue the retail of Tikkurila's products in all three countries. In accordance with its strategy, Tikkurila is developing its business in Hungary, Slovakia and the Czech Republic with a target to serve its customers even better and in a more effective way. The combined revenue of the three sales companies to be sold was approximately EUR 10.2 million in 2010, and the number of employees totaled approximately 70. On the balance sheet date, December 31, 2011, these assets have been classified in accordance to IFRS 5 standard into assets held for sales and liabilities related to these assets. Even though the contemplated transaction has not been closed and no final agreements have been signed, it is estimated that the transaction is probable. Furthermore, it is estimated that the transaction will be closed during the first quarter of 2012.

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 Report, but it will be published separately from the Board of Directors' Report. The statement will also be available at
www.tikkurilagroup.com/investors.

FINANCIAL TARGETS AND DIVIDEND POLICY

Tikkurila's mid-term financial targets and dividend policy were kept unchanged in 2011 in connection with the annual strategy round. According to Tikkurila's dividend policy, Tikkurila aims to distribute a dividend of at least 40 percent of its annual operative net income. Operative net income means net profit for the period excluding nonrecurring items and adjusted for tax effects. Any dividends to be paid in future years, their amount and the time of payment will depend on the company's future earnings, financial condition, cash flows, investments, solvency, business cycle and other factors, which the company's Board of Directors considers relevant.

Further information on financial targets and dividend policy is available on Tikkurila's website on www.tikkurilagroup.com/investors.

DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of Tikkurila Oyj held on March 31, 2011, approved the Board proposal of a EUR 0.70 dividend per share for the financial year 2010. The Annual General Meeting re-elected Eeva Ahdekivi, Jari Paasikivi, Pia Rudengren and Petteri Walldén to the Board of Directors and elected Riitta Mynttinen as a new member. The AGM approved all Board proposals. The detailed proposals are available at
www.tikkurilagroup.com

The Annual General Meeting decided to pay a dividend of EUR 0.70 per share to a shareholder who was registered in the company's Shareholder Register maintained by Euroclear Finland Ltd on the dividend record date, April 5, 2011. The dividend was paid on April 12, 2011.

The Annual General Meeting decided that the remuneration to the members of the Board of Directors is as follows: EUR 57,000 for the Chairman, EUR 37,000 for the Vice Chairman and EUR 31,000 for other members of the Board of Directors. 40 percent of the annual remuneration was paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares were acquired directly on behalf of the Board members within two weeks from the release of the interim report for January 1–March 31, 2011. Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) was paid to the members of the Board of Directors as follows: EUR 600 to members residing in Finland, EUR 1,200 to members residing in rest of Europe and EUR 2,400 to members residing outside Europe. The remuneration paid for telephone meetings was EUR 600. Travel expenses were paid according to the travel policy of the company.

The auditor's fees were paid against an invoice approved by the company. KPMG Oy Ab was re-elected as the company's auditor APA Pekka Pajamo acting as the principal auditor.

The Annual General Meeting authorized the Board of Directors to decide upon 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 Annual General Meeting authorized the Board of Directors to decide to transfer a maximum of 4,400,000 company's own shares held by the company and to issue a maximum of 4,400,000 new 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 implementing the share-based incentive programs of the company. A directed share issue may be carried out without payment only in connection with 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.

The Annual General Meeting decided to establish a Nomination Board consisting of shareholders or representatives of shareholders to prepare and present a proposal for the next Annual General Meeting concerning the composition and remuneration of the Board of Directors. The

Nomination Board was convened so that each of the company's three largest shareholders registered on August 31, 2011, as shareholders in the shareholders' register maintained by Euroclear Finland Ltd and having the most voting rights were requested to appoint one member to the Nomination Board. In addition, the Chairman of the Board of Directors of Tikkurila acted as an expert member of the Nomination Board.

The Annual General Meeting approved the Annual Accounts for 2010 and decided to discharge the members of the Board of Directors and the President and CEO from liability.

The Annual General Meeting authorized the Board of Directors to donate a maximum amount of EUR 150,000 to the Aalto University Foundation to be used for the Aalto University Foundation's basic capital.

DECISIONS OF THE BOARD OF DIRECTORS AND COMMITTEES

In its constitutive meeting held right after the Annual General Meeting, the Board of Directors of Tikkurila elected Jari Paasikivi as Chairman and Petteri Walldén as Vice Chairman of the Board of Directors.

Eeva Ahdekivi was elected as Chairman and Pia Rudengren and Jari Paasikivi as members of the Audit Committee.

In September 2011, Tikkurila Oyj's three largest registered shareholders on August 31, 2011, named their representatives for Tikkurila's Nomination Board. The members of the Nomination Board are Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy; Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company; and Risto Murto, Executive Vice President of Varma Mutual Pension Insurance Company. The fourth member of the Nomination Board is Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj, who acts as an expert member.

EVENTS AFTER THE REVIEW PERIOD

Tikkurila launched a group-wide program at the end of 2011, aiming at more flexible organization and cost structure, as well as at streamlining all operations in the prevailing uncertain and quickly changing market environment. According to the plan, the organization structure will be revised, areas of responsibilities clarified and ways of operating changed. In addition, the roles of Group's production facilities will be reconsidered and reorganized where applicable. As a part of the planned program, Tikkurila started co-operation negotiations in Finland. As a result of the negotiations, a total of 62 persons, working in various functions of the company in Finland, were dismissed in January 2012. The personnel reductions and related support activities are estimated to result in non-recurring expenses of EUR 1.5–2.0 million during the financial year 2012. In addition, Tikkurila decided to outsource the canteen, cleaning services, facility management and office services at its Vantaa site in Finland to ISS Palvelut Oy as of January 31, 2012. Measures to improve efficiency and facilitate structural change will be launched in all Tikkurila locations and business units during the next few months.

Tikkurila changed the composition of the Management Board of Tikkurila Group as of January 1, 2012. The number of Management Board members declined from eight to five. Since the beginning of the year, Tikkurila Management Board has comprised of the following persons: Erkki Järvinen, President and Chief Executive Officer, Chairman of Tikkurila Management Board; Janno Paju, Chief Commercial Officer; Jukka Havia, Chief Financial Officer; Petri Miettinen, Group Vice President, Supply Chain Management and HSEQ, and Kenneth Sundberg, Group Vice President, Research and Development.

The Nomination Board of Tikkurila proposed to the Annual General Meeting, which is planned to be held on March 28, 2012, that all present members of the Board of Directors Jari Paasikivi, Petteri Walldén, Eeva Ahdekivi, Pia Rudengren and Riitta Mynttinen would be re-elected and that Aleksey Vlasov and Harri Kerminen would be elected as new members. Aleksey Vlasov, Medical Doctor, born in 1957, is the first Vice President of Geotech Holding, which is a Russian oilfield service company. He is currently a member of the Board of Directors of Nokian Tyres plc. He is a Russian citizen and resides in Russia. Harri Kerminen, M.Sc. (Eng.), MBA, born in 1951, is the President and CEO of Kemira Oyj. He is to retire as of April 1, 2012. He serves currently, among others, on the Boards of Finnair Oyj and the Confederation of Finnish Industries EK, and as the Chairman of the Board of Chemical Industry Federation of Finland. He is a Finnish citizen and resides in Finland.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

Tikkurila Oyj's retained earnings totaled EUR 80.0 million on December 31, 2011. The Board proposes to the Annual General Meeting that a dividend of EUR 0.73 per share will be distributed for the year ended on December 31, 2011, and that the rest be retained in the unrestricted equity. The proposed dividend totals EUR 32.2 million, which corresponds to approximately 90.7 percent of the Group's net profit for 2011. It is proposed that the record date for the payment of the dividend will be April 2, 2012, and that the dividend will be paid on April 11, 2012.

ANNUAL GENERAL MEETING 2012

The Annual General Meeting of Tikkurila Oyj will be held at 1:00 p.m. on Wednesday, March 28, 2012 at the Finlandia hall (address: Mannerheimintie 13, 00100 Helsinki). The report of the Board of Directors and Financial Statements will be available on week 10 at www.tikkurilagroup.com.

SHORT-TERM BUSINESS RISKS AND UNCERTAINTIES

Tikkurila's business involves a number of strategic, operational, financial and hazard risks. Tikkurila strives to recognize, assess and react to risks as proactively as possible, and restrict their possible adverse effects. The main short-term risks and uncertainties are the following:

RISKS RELATED TO ECONOMIC GROWTH AND TIKKURILA'S KEY MARKET AREAS

The global economic outlook weakened during the latter half of 2011, and hence the economic forecasts for 2012 have been clearly adjusted downward. In 2012, the forecast growth of Tikkurila's most important developed markets is modest at most, which can affect both the level and structure of the demand for Group's products and services in all Tikkurila's key market areas, and hence potentially have an adverse impact on the average relative profitability of the Group. Therefore, as the general economic development affects the demand drivers, like construction or renovation activity, for Tikkurila's products and services, any halt or turnaround in the macro-economic development within Tikkurila's operating area can have a negative effect on Group's business, financial position and result.

Political and geographical risks exist in many of Tikkurila's operating countries. These include the possibility of hyper-inflation, political unrest, deterioration of infrastructure, war or other disruptive conditions to the business.

RISKS RELATED TO THE IMPLEMENTATION OF THE REVISED STRATEGY

Tikkurila announced revisions to its strategy in October 2011. The revised strategy includes possible entrance to service business, new distribution structures and other structural changes. Horizontal and vertical integration may be considered to achieve the set objectives. New strategic steps present risks in form of ramp-up investments, learning curve costs, cost for reaching targeted scale and increased management focus. In addition, the implementation may be delayed or it may cause higher than expected costs.

RISKS RELATED TO THE CHANGES IN THE PRODUCT AND CUSTOMER MIX, CUSTOMER DEMAND AND DISTRIBUTION CHANNELS

Changes in Tikkurila's sales mix may have an adverse impact on the profitability or increase the risk related to e.g. product warranties. In several operating countries of Tikkurila, the relative share of sales to the professional customers has been increasing, which may affect the relative profitability of the Group or change the resource allocation of Tikkurila. Furthermore, consumers and professionals are increasingly exploiting the social media, internet and mobile channels, which may require new operating models or know-how, and increase the expenses and investment needs of Tikkurila. In addition, possible alterations of the distribution channels can cause pressure on prices or results.

Tikkurila's risk management principles are available on Tikkurila's website at www.tikkurilagroup.com. Additional information on risks is available for example in the corporate governance statement in relation to risks applicable and relevant to Tikkurila's business in both short term and long term. Moreover, additional information on financial risks can be found in the Notes to the 2011 Financial Statements.

OUTLOOK FOR 2012

In 2012, the GDP is expected to remain close to the 2011 levels or GDP growth is expected to be low in the key market areas of Tikkurila. Further raw material cost increases are predicted, even though it is assumed that the raw material and packaging material cost inflation will be clearly lower than in 2011.

In 2012, Tikkurila expects the revenue growth to exceed the average GDP growth in Tikkurila's main market areas. As far as the profitability is concerned, Tikkurila expects EBIT in euro to stay at the same level as in 2011.

The estimates presented above are based on internal assessment reflecting management's most recent forecasts for full-year 2012 financial performance. These estimates are based on the assumption that foreign exchange rates would stay at the same level as the actual exchange rates on December 31, 2011. The estimates are also based on Tikkurila's current distribution network and business structure. The main market areas referred above include Russia, Sweden, Finland and Poland. Moreover, as announced during the fourth quarter of 2011, a group-wide efficiency program aiming at increasing competitiveness was launched in 2011 and it will be continued in 2012, and therefore the impact of the non-recurring expenses linked to the implementation of the efficiency program or of any potential major restructuring actions, regardless of their timing, are not taken into account in the guidance.

GROUP KEY FIGURES

KEY PERFORMANCE INDICATORS (EUR thousand)	2011	2010	2009
STATEMENT OF COMPREHENSIVE INCOME AND PROFITABILITY			
Revenue	643,729	588,647	530,166
Foreign operations	534,534	481,462	423,357
Operating profit	61,211	60,757	47,715
% of revenue	9.5	10.3	9.0
Share of profit or loss of associates	294	-87	75
Financial expenses (net)	10,832	8,675	12,048
% of revenue	1.7	1.5	2.3
Interest cover	7.7	9.4	5.5
Profit before tax	50,673	51,995	35,742
% of revenue	7.9	8.8	6.7
Net profit for the period	35,487	36,524	27,790
Return on investment (ROI), %	23.1	21.8	16.4
Return on equity (ROE), %	18.6	21.9	24.1
Return on capital employed (ROCE), %	19.4	19.2	15.7
Research and development expenses	9,926	10,155	10,058
% of revenue	1.5	1.7	1.9

CASH FLOWS	2011	2010	2009
Cash flow from operations	37,100	63,855	62,454
Disposals of businesses, PPE* and intangible assets	3,317	385	418
Capital expenditure	27,530	11,267	17,191
% of revenue	4.3	1.9	3.2
Cash flow after capital expenditure	13,288	51,415	45,329
Cash flow return on capital invested (CFROI), %	10.5	18.5	19.4

STATEMENT OF FINANCIAL POSITION AND SOLVENCY	2011	2010	2009
Non-current assets	228,407	228,258	227,201
Shareholders' equity (attributable to the owners of the parent)	191,500	190,038	143,863
Shareholders' equity including non-controlling interest	191,500	190,038	143,863
Liabilities	243,003	272,261	259,246
Total assets	434,503	462,299	403,109
Interest-bearing financial liabilities	109,849	147,979	154,081
Interest-bearing net liabilities	99,423	78,607	129,538
Equity ratio, %	44.1	41.1	35.7
Gearing %	51.9	41.4	90.0
Interest-bearing financial liabilities (net) / EBITDA	1.2	1.0	1.9

* Property, plant and equipment

PERSONNEL	2011	2010	2009
Personnel (average)	3,676	3,703	3,757
of whom in Finland	780	800	839

EXCHANGE RATES		2011	2010	2009
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	41.7650	40.8200	43.1540
Swedish Krona	EUR/SEK	8.9120	8.9655	10.2520
Polish Zloty	EUR/PLN	4.4580	3.9750	4.1045

SHARE PERFORMANCE INDICATORS	2011	2010	2009
Earnings per share, EUR [1]	0.80	0.83	0.63
Dividend per share, EUR [2]	0.73	0.70	-
Dividend payout ratio, % [2]	90.7	84.5	-
Dividend yield, %	5.7	4.2	-
Equity attributable to owners of the parent per share, EUR	4.34	4.31	3.26
Weighted average number of shares (1,000)	44,108	44,108	44,108
Number of shares at the end of period (1,000)	44,108	44,108	44,108
Equity attributable to owners of the parent, EUR thousand	191,500	190,038	143,863
Price per earnings per share (P/E) ratio	16.0	19.9	
Share price, end of period, EUR	12.89	16.51	
Share price, year high, EUR	16.92	16.95	
Share price, year low, EUR	12.13	14.17	
Share price, volume-weighted year average, EUR	15.26	15.56	
Market capitalization at the end of period, EUR million	568.6	728.2	

[1] Due to comparability key ratio year 2009 is calculated as per the number of shares (44,108,252) after the February 17, 2010 registered free share issue.
[2] The dividend 2011 is Board of Directors' proposal to Annual General Meeting on March 28, 2012.

DEFINITIONS OF KEY FIGURES

OPERATING PROFIT (LOSS), %

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

INTEREST-BEARING NET LIABILITIES

Interest-bearing liabilities - cash and cash equivalents

EQUITY RATIO, %

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

GEARING, %

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

INTEREST COVER

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

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), %

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

CASH FLOW RETURN ON INVESTMENT (CFROI), %

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

RETURN ON CAPITAL EMPLOYED (ROCE), %

$$\frac{\text{Operating profit + share of profit or loss of associates}}{\text{(Net working capital + intangible assets ready for use + property, plant and equipment ready for use + investments in associates)**}} \times 100$$

INTEREST-BEARING FINANCIAL LIABILITIES (NET) / EBITDA

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

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

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

DIVIDEND YIELD

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

EQUITY PER SHARE

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

PRICE / EARNINGS RATIO (P/E)

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

EARNINGS PER SHARE (EPS)

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

DIVIDEND PAYOUT RATIO

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

(EUR thousand)	Note	Jan 1 - Dec 31, 2011	Jan 1 - Dec 31, 2010
Revenue		643,729	588,647
Other operating income	7	1,793	3,025
Change in inventories of finished goods and work in progress		11,630	2,005
Materials and services		-340,413	-291,185
Personnel expenses	8	-116,172	-113,108
Depreciation, amortization and impairment losses	9	-21,666	-20,661
Other operating expenses	10	-117,690	-107,966
Operating profit		61,211	60,757
Financial income	12	12,485	8,536
Financial expenses	12	-23,317	-17,211
Share of profit or loss of associates	18	294	-87
Profit before tax		50,673	51,995
Income tax	13	-15,186	-15,471
Net profit for the period		35,487	36,524
Other comprehensive income			
Available-for-sale financial assets		342	1,825
Foreign currency translation differences for foreign operations		-4,261	8,333
Income tax related to components of other comprehensive income		54	-507
Total comprehensive income for the period		31,622	46,175
Net profit attributable to:			
Owners of the parent		35,487	36,524
Non-controlling interest		-	-
Net profit for the period		35,487	36,524
Total comprehensive income attributable to:			
Owners of the parent		31,622	46,175
Non-controlling interest		-	-
Total comprehensive income for the period		31,622	46,175
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	14	0.80	0.83
Diluted earnings per share (EUR)	14	0.80	0.83

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

(EUR thousand)	Note	Dec 31, 2011	Dec 31, 2010
ASSETS			
Non-current assets			
Goodwill	16, 17	68,696	68,386
Other intangible assets	16	30,155	30,544
Property, plant and equipment	15	112,570	114,736
Investments in associates	18	971	668
Available-for-sale financial assets	21	3,028	2,694
Non-current receivables	22	7,564	7,102
Defined benefit pension assets	31	491	413
Deferred tax assets	26	4,932	3,715
Total non-current assets		228,407	228,258
Current assets			
Inventories	20	94,690	76,814
Interest-bearing current assets	23	63	184
Trade and other non-interest-bearing receivables	24	95,060	81,523
Current tax assets		963	3,711
Cash and cash equivalents	25	10,426	69,372
Assets classified as held for sale	6	4,894	2,437
Total current assets		206,096	234,041
Total assets		434,503	462,299
EQUITY AND LIABILITIES			
Equity			
Share capital	27	35,000	35,000
Other reserves	27	359	359
Fair value reserve	27	1,636	1,350
Reserve for invested unrestricted equity	27	40,000	40,000
Translation differences	27	-16,281	-12,130
Retained earnings		130,786	125,459
Equity attributable to owners of the parent		191,500	190,038
Non-controlling interest		-	-
Total equity		191,500	190,038
Non-current liabilities			
Interest-bearing non-current liabilities	28	60,345	139,282
Other non-current liabilities	30	2,382	-
Pension obligations	31	16,743	16,559
Provisions	32	534	199
Deferred tax liabilities	26	10,980	11,309
Total non-current liabilities		90,984	167,349

(EUR thousand)	Note	Dec 31, 2011	Dec 31, 2010
Current liabilities			
Interest-bearing current liabilities	29	49,504	8,697
Trade and other non-interest-bearing payables	30	94,332	88,406
Provisions	32	222	302
Current tax liabilities		7,343	6,780
Liabilities classified as held for sale	6	618	727
Total current liabilities		152,019	104,912
Total equity and liabilities		434,503	462,299

CONSOLIDATED STATEMENT OF CASH FLOWS

(EUR thousand)	Note	Jan 1 - Dec 31, 2011	Jan 1 - Dec 31, 2010
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		35,487	36,524
Adjustments for:			
Non-cash transactions			
Depreciation, amortization and impairment		21,666	20,661
Employee pension benefits		171	2,018
Change in provisions		255	-309
Gain on sale of PPE* and intangible assets		-199	-129
Loss on sale of PPE* and intangible assets		294	141
Other items		3,543	4,182
Dividend income		-120	-62
Interest and other financial expenses		11,062	9,562
Interest income and other financial income		-1,099	-1,332
Share of profit or loss of associates		-294	87
Exchange rate differences of financing		989	508
Income tax for the period		15,186	15,471
Funds from operations before change in net working capital		86,941	87,322
Change in net working capital			
Change in inventories		-19,244	-5,607
Change in trade and other receivables		-10,886	-5,082
Change in trade and other payables		4,709	9,715
Change in net working capital		-25,421	-974
Interest and other financial expenses paid		-12,700	-8,951
Interest and other financial income received		1,070	1,332
Income tax paid		-12,790	-14,874
Total cash flow from operations		37,100	63,855

* Property, plant and equipment

(EUR thousand)	Note	Jan 1 - Dec 31, 2011	Jan 1 - Dec 31, 2010
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisitions of businesses, net of cash acquired	5	-11,930	-
Acquisitions of associates		-	-81
Acquisition of other shares		-21	-3
Acquisition of property, plant and equipment		-14,119	-9,801
Acquisition of intangible assets		-1,460	-1,382
Disposal of associates		-	0
Disposal of subsidiaries and businesses, net of cash disposed of	5	2,871	-
Proceeds from sale of available-for-sale financial assets		18	51
Proceeds from sale of property, plant and equipment		446	124
Proceeds from sale of intangible assets		-	261
Change in non-current loan receivables decrease (+)		502	-
Change in non-current loan receivables increase (-)		-239	-1,671
Dividends received		120	62
Net cash used in investing activities		-23,812	-12,440
Cash flow before financing		13,288	51,415
CASH FLOW FROM FINANCING ACTIVITIES			
Change in non-current borrowings, increase (+)		60,000	139,678
Change in non-current borrowings, decrease (-)		-140,000	-115,221
Current financing, increase (+)		309,140	4,018
Current financing, decrease (-)		-268,722	-34,262
Finance lease (-)		-410	-295
Profit distribution		-30,876	-
Repurchase of own shares		-	-72
Other		-1,264	-339
Net cash used in financing activities		-72,132	-6,493
Net change in cash and cash equivalents		-58,844	44,922
Cash and cash equivalents at Jan 1	25	69,328	24,201
Effect of exchange rate fluctuations on cash held		-278	-205
Cash and cash equivalents transferred in assets held for sale		336	-
Cash and cash equivalents at Dec 31	25	10,426	69,328
Net change in cash and cash equivalents		-58,844	44,922

Reconciliation of cash and cash equivalents is disclosed in Note 25 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	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity at Jan 1, 2010		35,000	359	-	40,000	-20,431	88,935	143,863	-	143,863
Total comprehensive income for the period	27	-	-	1,350	-	8,301	36,524	46,175	-	46,175
Acquisition / Disposal of treasure shares		-	-	-	0	-	-	-	-	-
Equity at Dec 31, 2010		35,000	359	1,350	40,000	-12,130	125,459	190,038	-	190,038
Equity at Jan 1, 2011		35,000	359	1,350	40,000	-12,130	125,459	190,038	-	190,038
Total comprehensive income for the period	27	-	-	286	-	-4,151	35,487	31,622	-	31,622
Adjustment arising from hyperinflation		-	-	-	-	-	716	716	-	716
Dividends paid		-	-	-	-	-	-30,876	-30,876	-	-30,876
Equity at Dec 31, 2011		35,000	359	1,636	40,000	-16,281	130,786	191,500	-	191,500

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)

(EUR thousand)	2011	2010
Reserve for invested unrestricted equity *)	40,000	40,000
Retained earnings	40,204	49,967
Net profit for the period	39,823	21,112
Total	120,027	111,079

*) Reserve for invested unrestricted equity can be distributed as capital repayment. It cannot be distributed as dividends.

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 when the company's parent company at the time, Kemira Oyj distributed Tikkurila's shares as dividend to Kemira Oyj's shareholders.

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 as well as in Russia and other selected Eastern European countries. Tikkurila Group has organized its business operations into four strategic business units defined geographically: SBU East, SBU Scandinavia, SBU Finland and SBU Central Eastern Europe. In the 2011 financial year, Tikkurila Group's revenue amounted to EUR 643.7 million and the average number of personnel was 3,676. The Group operates in 20 countries and has production facilities in 8 countries.

The Board of Directors of Tikkurila Oyj has approved the financial statements for publication at its meeting of February 15, 2012. 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 financial statements and annual report 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 issued by international IASB (International Accounting Standard Board), in force as at December 31, 2011. 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 to the end of reporting period.

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 following new and revised standards and interpretations since January 1, 2011, which affect the reported data or data that will be reported in the future:

- Amendments to IAS 32 *Financial instruments: Presentation - Classification of Rights Issues* (effective on financial years beginning on or after February 1, 2010). The amendment relates to the accounting treatment (classification) of rights issues of shares, options or warrants in a currency other than the issuer's functional currency.
- Revised IAS 24 *Related Party Disclosures* (effective for financial years that started on January 1, 2011 or later). The changes simplify the related party disclosure requirements for government related entities and clarify the definition of a related party.
- Amendments to IFRIC 14 – *Prepayments of a Minimum Funding Requirement* (effective for financial years beginning on or after January 1, 2011). The amendment results in fixing an undesired effect as a result of the interpretation IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding and the connection between these. The amendment results in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense, when there is a minimum funding requirement (MFR).
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after July 1, 2010). The interpretation provides guidance on accounting for debt for equity swaps, e.g. when equity instruments are issued to a creditor to extinguish all or a part of a financial liability. IFRIC 19 applies retrospectively.
- Amendment to IFRS 1 *First-time adoption of IFRS* - Limited exemption from comparative IFRS 7 disclosures for first-time adopters (effective for financial years beginning on or after July 1, 2010).
- Improvements to IFRSs (May 2010) (mainly effective for financial years that started on July 1, 2010 or later). The amendments cover in total 6 standards and one interpretation.

None of these above mentioned amendments has had any significant effect on the consolidated financial statement of the Group.

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 judgement 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 judgements 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 in which the parent company holds directly or indirectly over 50% of the votes or otherwise exercises control. 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, 2011, the Group consisted of 26 companies including the parent company and the Group had investment in one associate.

SUBSIDIARIES

The consolidated financial statements include the parent company and its subsidiaries. In these companies, the parent company holds, on the basis of its shareholdings, more than half of the voting rights directly or through its subsidiaries, or otherwise exercises control. Control refers to the right to decide on the company's financial and business principles in order to benefit from its operations. Companies acquired or established during the accounting period are fully consolidated from when the Group has gained control in the company until the date that such control ceases.

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 purchase 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.

Acquisitions made prior to January 1, 2010 have been treated according to regulations valid at the time.

ASSOCIATES

Associates are companies over which the Group exercises significant influence but not control (generally accompanying a shareholding of 20-50 percent of the voting rights). Investments in associates are accounted for using the equity method. The goodwill generated from the acquisition of associates is included in the carrying amount of the investments. In financial year 2011 and 2010 one associate was included in Tikkurila Group. No goodwill is included in this investment in associate.

The Group's share of its associates' profits or losses is recognized in proportion to the Group's holdings and presented in the statement of comprehensive income as a separate line item after operating profit and financial items. The Group's share of associates' other comprehensive income is recognized as a line item in Group's other comprehensive income. Tikkurila's associate did not have these items during the financial years 2011 and 2010. When the Group's share of losses in an associate exceeds its interest in the associate, the Group does not recognize further losses, unless it has committed to settle the obligations on behalf of the associate.

JOINT VENTURES

A joint venture is an entity where the Group together with other parties has joint control based on a contractual arrangement. Joint ventures are accounted for using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses as well as cash flows of joint ventures is combined with the equivalent items in the consolidated financial statements on a line-by-line basis. In the consolidated financial statement in year 2011 and in year 2010, there was one joint venture, Alcro-Parti AB, accounted for using proportionate consolidation method.

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 differences resulting from transactions denominated in foreign currencies and from the translation of monetary items are recognized in profit or loss. Exchange differences arising from operation-related items are accounted for as adjustments to sales and purchases. Exchange rate differences associated with the hedging of financing transactions and the Group's overall foreign currency position are stated in foreign exchange gains or losses 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 rate 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 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.

Since January 1, 2003, 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 is treated as assets and liabilities of the foreign entities and is translated into euros at the closing rate.

INDEX ACCOUNTING

In December 2011 Belarus was classified as a hyperinflationary economy. In accordant standard IAS 29, the financial statement of the Group's subsidiary located in Belarus, IP Tikkurila, was restated. IP Tikkurila's financial statements are restated by using the general price index published by the national statistic committee of Republic Belarus. General price index was 100 in year 1999 (1999 =100). The values used in index accounting are:

Index	Conversion factor used	
1.1.2011 107.8	31.12.2011 204.0	1.89

The components of the owners' equity, excluding retained earnings are restated by applying a general price index from the dates the components were contributed or otherwise arose. Non-monetary items are restated cost or cost less depreciations with the change in a general price index from the date of acquisition to the end of reporting period.

In 2011 financial statement the monetary items are not restated with index, as they are 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 are restated with the index. The index conversion factor used to items of statement of comprehensive income is the index value at the end of the reporting period divided by the average of the monthly indexes during the financial year 2011. As a result of index restated effect on net monetary position, the gain 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. 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 to retailers, industry and professional use. Revenue is also in a small extent generated from selling paint related services and equipment.

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 other operating income 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 as a defined benefit liability (or asset) equals the net total of the following amounts: the present value of the defined benefit obligation less the fair value of the plan assets, plus any actuarial gains and less any actuarial losses. Pension benefits are calculated by using the Projected Unit Credit Method and resulting pension costs are recognized as expenses over the employee's service period, using actuarial calculations. 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.

Actuarial gains and losses are recognized in profit or loss using the corridor method over the average remaining working lives of the participating employees to the extent that they exceed the higher of the following: 10% of the pension obligation or 10% of the fair value of plan assets.

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 income tax charge in separate countries is calculated on the basis of the tax rate enacted or substantively enacted by the end of 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. 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 bases 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, are used in calculating deferred tax assets and liabilities. No deferred tax liability has been recognized for undistributed earnings of foreign subsidiaries as the majority of such earnings can be transferred to the owner without any tax consequences.

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 within the carrying amount of the associate in question. Tikkurila's cash generating units (CGU) are SBU East, SBU Scandinavia, SBU Finland, and SBU Central Eastern Europe.

RESEARCH AND DEVELOPMENT COSTS

Tikkurila's research and development is steered by considerably 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 concepts. Research costs are recognized through profit or loss.

The Group's development costs are not capitalized because they do not meet the capitalization criteria. The future financial benefits of new or improved products can only be verified at such a late stage that the share of expenses to be capitalized is insignificant and thus capitalization is not carried out. Development costs previously recognized as an expense are not capitalized in a subsequent period.

If the capitalization conditions were met at an earlier stage in the future the capitalized development costs would be included in other intangible assets and they would be amortized on a straight-line basis over their useful life of a maximum of eight years.

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	5-10 years
Marketing channels	5 years
Software	5-8 years

The amortization of intangible assets 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 the intangible asset if the asset meets the conditions of IAS 23 Borrowing Costs. In 2011, Tikkurila did not have these types of intangible asset items.

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 the 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 2011, 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 must be 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, and it is not depreciated or amortized any more. Depreciation 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 of 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 of the cash flows of other similar units. When testing the annual goodwill, which Tikkurila carries out each September-October and on the closing date for possible acquisitions carried out after this, the test is carried out at operating segment level, which in Tikkurila corresponds with the geographically determined so-called strategic business units. Goodwill impairment is tested by comparing the operating segment'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

FINANCIAL ASSETS

A financial asset is recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets are included in the original cost, unless the financial asset is recognized at fair value through profit or loss. All purchases and sales of financial assets are recognized or derecognized using trade date accounting. 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.

For subsequent measurement the Group's financial assets are classified based on their purpose of use as follows: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Financial assets are classified at initial recognition based on their purpose of use.

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.

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 that are not guarantees and which do not meet the hedge accounting criteria. The Group has not applied hedge accounting, so all derivative agreements are classified as financial assets at fair value through profit or loss. Other financial assets at fair value through profit or loss include current money market investments. In the statement of financial position these are included in the Group's cash and cash equivalents.

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 parties in an arm's length transaction. Fair value changes, both realized and unrealized, are recognized in profit or loss in financial items in the period in which they arise.

Derivative assets in the category are presented under current accrued income and deferred expenses and derivative liabilities under accrued expenses and deferred income in the statement of financial position. Open derivative agreements are valued at fair value at the end of each reporting period. 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 are subject to public trading. The fair value of interest rate swaps is determined using discounted future cash flows and forward exchange contracts are valued using the forward exchange market rates at the end of reporting date. More information about derivative agreements in Note 34.

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 comprised the business supportive nature unlisted shares that are measured at cost as their fair values could not be measured reliably. 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. The change in fair value has been recognized in other comprehensive income, net of tax and presented in the financial statements of December 31, 2011 in equity under the fair value reserve.

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. An impairment loss from trade receivables is recognized in consolidated statement of comprehensive income under other operating expenses.

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 at issue 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.

FINANCIAL LIABILITIES

A financial liability is recognized initially at fair value. In the case of a financial liability measured at amortized cost, directly attributable transaction costs are included in the original cost. Tikkurila classifies financial liabilities either as financial liabilities at fair value through profit or loss or other liabilities (financial liabilities measured at amortized cost). 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. 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. All purchases or sales of financial liabilities are recognized or derecognized using trade date accounting.

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 receivables and liabilities are shown under accrued income and deferred expenses and accrued expenses and deferred income. More information about derivatives is stated in Note 34.

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. 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. Tikkurila Group has not had such acquired assets with capitalized borrowing costs in the financial years 2011 and 2010.

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 wholly 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 associates as well as joint ventures. Related parties also include Tikkurila Oyj's members of the Board of Directors and Group's Board of Management including CEO. Until the spring of 2010, Tikkurila's former parent company Kemira Plc and other Kemira Group companies were considered as related parties.

Tikkurila follows the same commercial terms with associates, 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 East
- SBU Scandinavia
- SBU Finland
- SBU Central Eastern Europe

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

GOVERNMENT GRANTS

Tikkurila has not received any considerable government grants. 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, personnel expenses, depreciation, amortization and possible impairment losses and other operating expenses.

NON-RECURRING ITEMS

Tikkurila Group states separately non-recurring items in its consolidated statement of other comprehensive income. These are uncommon, nonrecurring and significant items related to the company's normal operations. Such items include for instance received insurance compensations and their adjustments, received or paid penalties or their adjustments, or items related to business reorganizations such as items related to personnel dismissals or items related to the strategic based changes in organization structure.

The effect of these non-recurring items on the Group's operating profit has been excluded when the company has during 2011 issued information regarding its operating profit development compared to the previous financial year. Correspondingly, the foreign currency translation differences have not been considered when comparing revenue and operating profit of two financial years; a majority of Tikkurila's business is carried out outside the euro area and is thus subject to exchange rate fluctuations, but the effect of total foreign currency translation differences is not possible to predict.

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.

Standard amendments approved in the EU

- Amendment to IFRS 7 *Financial Instruments: Disclosures - Transfer of Financial Assets* (effective on financial years beginning on or after July 1, 2011). Amendment will increase the disclosures related to transfers and derecognition of the financial assets. It will require the disclosures to be presented also on those financial assets that are derecognized in their entirety, but in which the entity has a continuing involvement. The amendment is aimed to improve users' possibilities to understand the risk exposures related to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is not expected to have any significant effect on the Group's forthcoming financial statements.
- Amendment to IFRS 1 *First Time Adoption* (effective on financial years beginning on or after July 1, 2011). Amendment replaces references to a fixed date of January 1, 2004 with the date of transition to IFRSs' and eliminates the need during the first time adoption to restate the derecognized transactions occurred before the date of transition to IFRSs. The amendment will not have any effect on the Group's forthcoming financial statements.

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

- Amendment to IAS 12 – *Income Taxes* (effective for financial years beginning on or after January 1, 2012). The amendment requires that earlier presumptions are carried by the entity what part of assets carried at fair value are expected to recover the carrying amount of the assets through use (like rent income) or through the sale of the asset. Amendment applies to the recognition of deferred taxes in connection with investment properties, intangible assets and property, plant and equipments that are measured using the fair value model or revaluation model. The amendment is not expected to have an effect on the Group's forthcoming financial statements.
- Amendment to IFRS 1 *First Time Adoption - Severe Hyperinflation* (effective for financial years beginning on or after July 1, 2011). Amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendment is not expected to have an effect on the Group's forthcoming financial statements.
- Amendment to IAS 1 *Presentation of Items of Other comprehensive Income* (effective for financial years beginning on or after July 1, 2012). The main change is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss in the future from those that would never be reclassified to profit or loss. The amendments will have the effect on the presentation on the Group's forthcoming financial statements.
- IFRS 9 *Financial Instruments* (effective for financial years beginning on or after January, 1 2015). IFRS 9 is the first stage in IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard covers classification and measurement of financial assets. The different measurement methods have been retained. Financial assets are divided into two main groups based on their measurement: those measured at amortized cost and those measured at fair value. The classification depends on the company's business model and on the characteristics of cash flows based on agreement. The guidance in IAS 39 regarding impairment and hedge accounting of financial assets remain valid. According the new standard requirements for recognition and measurement of financial liabilities remain intact excluding the financial liabilities to which the fair value option is applied. The changes in fair value caused by these amendments to the credit risk are recognized in the Group's other comprehensive income and they would not be recognized through profit or loss at a later stage either. This is the case unless it causes bookkeeping asymmetry that affects the result. The amendment is not assessed to have any material effect on the Group's forthcoming financial statements.
- IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after January 1, 2013). The fair value definition is provided in the standard. The standard includes disclosure requirements for fair value measurements and establishes a framework for measuring fair value. Requirements do not extend the use of fair value accounting but provide the guidance how to measure it when fair value is required or permitted by other IFRSs. The standard is not expected to have any significant effect on the Group's forthcoming financial statements.
- IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after January 1, 2013). Standard includes the new approach definition of control. It establishes control as the basis for consolidation as is the principle also according the current standard. Standard set out the additional guidance about the definition of control. It replaces partly the IAS 27 Consolidated and Separate Financial Statements as well as the SIC Interpretation 12 Consolidation - Special Purpose Entities. The standard is not expected to have any significant effect on the Group's forthcoming financial statements at the current organization structure.
- IAS 27 (revised 2011) *Separate Financial Statements* (effective for financial years beginning on or after January 1, 2013). It carries forward the existing accounting and disclosure requirements for separate financial statements. Consolidation requirements included in currently effective IAS 27 are moved to IFRS 10. This is not expected to have any effect on the Group's forthcoming financial statements.

- IFRS 11 *Joint Arrangements* (effective for financial years beginning on or after January 1, 2013). The proportionate consolidation for joint ventures is prohibited. Joint ventures are required to be accounted for using the equity method. Standard is more focused on the rights and obligations of the arrangement rather than its legal form when defining the accounting treatment of joint arrangements. There are two types of joint arrangement: joint operations and joint ventures. In joint operations the joint operator has rights to the certain underlying assets and obligations related to arrangement. In joint ventures the joint operator has rights to the net assets of the arrangement. This standard will have a significant effect on Group's forthcoming financial statements as Group has used the proportionate consolidation method and has combined the Group's share of the assets, liabilities, income and expenses as well as cash flows of joint ventures in the consolidated financial statements on a line-by-line basis.
- IAS 28 (revised 2011) *Associates and joint ventures* (effective for financial years beginning on or after January 1, 2013). Revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
- Amendment to IAS 19 *Employee Benefits* (effective for financial years beginning on or after January 1, 2013). All actuarial gains and losses shall be recognized immediately in other comprehensive income, so called corridor method approach is eliminated. The finance cost is calculated on net funding basis. Disclosure requirements are increased. This amendment will have a significant effect on Group's forthcoming financial statements as the Group has used the corridor method and Group has unrecognized actuarial losses. The recognition of these will decrease the Group's equity (unrecognized actuarial losses, net of tax) and will increase the amount of recognized defined benefit pension liabilities in the consolidated statement of financial position.
- IFRS 12 *Disclosures of Interest in Other Entities* (effective for financial years beginning on or after January 1, 2013). Standard include disclosure requirements related to subsidiaries, joint arrangements (joint ventures and joint operations), associates and special purpose entities and other unconsolidated entities. This is not expected to have any significant effect on the Group's forthcoming financial statements.

2. Critical accounting estimates requiring management's judgement

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 judgement 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 this result of the financial period, the assets and liabilities reported in the closing date and the conditional 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 judgement 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 monitored continuously. The items that are mostly associated with uncertainties 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 ASSET AND ESTIMATES RELATED TO ASSET VALUATION

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 of the consolidated financial statements.

In year 2011 recognized impairments of intangible assets and goodwill relate to the non-current assets classified as held for sale. The Group management assessed that the carrying value of the non-current assets classified as held for sale is higher than the asset's fair value less costs to sell. Therefore impairments of these non-current assets were recognized in the context of the classification of assets as held for sale. The impairment has 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 of 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.

Tikkurila Group has explored alternative operating models related to binder production. Following to this the production of binders at the Vantaa site will be terminated during spring 2012. There is survey of the usage prospects of remaining capacity going on and this analyze was still unfinished during the completion of Group Financial Statements. The management has not estimated that the expected recoverable amount is less than the carrying amount of the assets used in binder production with the information available at the time of closing the annual accounts.

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 are disclosed in Note 4 Business combinations and disposals of businesses.

When evaluating the 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 changes, 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 how to classify the asset items as in the statement of financial position and make the assumptions of their value, also taking into consideration for instance the estimated likelihood of the planned sale and the time of completion. The Group has decided to classify according the IFRS 5 its businesses in subsidiaries in Slovakia, Hungary and in Czech Republic as held for sale at December 31, 2011. The management has used their judgement while estimating the fair values compared to carrying amounts of these assets.

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, 2011, the provisions amounted to EUR 0.8 million. The corresponding figure in the 2010 financial statements was EUR 0.5 million. Provisions have been described in note 32.

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 taxes in the 2011 financial statements was EUR 4.9 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, 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 are recognized in terms of defined benefit pension plans as actuarial gains and losses using the corridor method over the average remaining working lives of the participating employees.

3. Operating segments

Tikkurila's business activities are organized in four reporting segments based on its 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 discrepancy of these operating environments and overall management's strategies of the Group have been taken into account while establishing these reporting segments. These reporting segments are also named as Strategic Business Units (SBU). Revenue arises from the sales of various paints that are sold to retailers, industry and for professional use. Some insignificant revenue is received from the sales of auxiliary services related to paints. Common administrative items and transactions from Treasury function of the Group are presented as Tikkurila common section.

The evaluation of profitability and decision making concerning resource allocation are based on segmental operating profit. The valuation principles concerning segments assets and liabilities are disclosed in Note 1 Accounting policies for the consolidated financial statements. Segment assets are items of the statement of financial position that the segment employs in its business activities or which can reasonably be allocated to a segment. Segment assets and external revenue are presented according to the location of the assets and customer. Inter-segment pricing is determined on an arm's length basis. External revenue accumulates from large number of customers.

Operating segments 2011 (EUR thousand)	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila common	Elimination	Total
External revenue	220,041	192,347	109,182	122,158	-	-	**643,729**
Depreciation, amortization and impairment losses	6,230	6,035	3,640	5,761	-	-	**21,666**
Operating profit (loss)	25,343	24,237	10,804	3,166	-2,340	-	**61,211**
Non-allocated items							
Financial income							**12,485**
Financial expenses							**-23,317**
Share of profit or loss of associates							**294**
Profit before tax							**50,673**
Segment assets	125,048	163,710	78,708	88,872	41,280	-63,115	**434,503**
Investments in associates							**971**
Capital expenditure	3,908	3,534	4,126	14,395	-	-	**25,963**

Operating segments 2010 (EUR thousand)	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila common	Eliminations	Total
External revenue	194,549	181,762	107,176	105,160	-	-	588,647
Depreciation and amortization	6,571	6,004	3,681	4,405	-	-	20,661
Operating profit (loss)	24,129	21,302	13,643	4,387	-2,704	-	60,757
Non-allocated items							
Financial income							8,536
Financial expenses							-17,211
Share of profit or loss of associates							-87
Profit before tax							51,995
Segment assets	117,430	161,030	82,673	70,894	68,758	-38,486	462,299
Investments in associates							668
Capital expenditure	4,502	2,290	2,152	2,164	-	-	11,108

* Sweden, Norway, Denmark
** Russia, Kazakhstan, Belarus, Ukraine, Armenia, Azerbaijan, Georgia, Mongolia, Moldova, Kirgistan, Tadzikistan, Turkmenistan, Uzbekistan
*** Poland, Estonia, Latvia, Lithuania, China, Czech Republic, Hungary, Romania, Germany, Slovakia, Serbia, Macedonia and export activity to other countries than mentioned above

PERSONNEL BY SEGMENTS DURING THE PERIOD, AVERAGE

	2011	2010
East	1,577	1,674
Scandinavia	473	473
Finland	746	766
Central Eastern Europe	845	755
Tikkurila common	35	35
Total	3,676	3,703

REVENUE, BY DESTINATION

(EUR thousand)	2011	2010
Russia	192,991	172,785
Sweden	155,528	147,071
Finland	109,182	107,176
Poland	60,994	58,686
Other countries	125,034	102,929
Total	643,729	588,647

NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION *)

(EUR thousand)	2011	2010
Russia	56,851	59,629
Sweden	87,714	91,344
Finland	29,789	32,022
Poland	10,582	11,716
Other countries	27,457	19,623
Total	212,393	214,334

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

4. Business combinations and disposals of businesses

ACQUISITIONS 2011

ACQUISITION OF THE BUSINESS OPERATIONS OF THE PAINT COMPANY ZORKA COLOR

In the beginning of July 2011, Tikkurila Group completed the acquisition of the business operations of the Serbian paint company Zorka Color. Zorka Color operates in Serbia, where it is one of the three largest decorative paint companies according to estimates by Tikkurila management. Zorka Color also has operations in Bosnia-Herzegovina, Montenegro, Croatia, Kosovo and Macedonia. This acquisition strengthens Tikkurila's position in Central Eastern Europe, particularly in the Balkan region. The acquired assets are consolidated into the SBU Central Eastern Europe segment of Tikkurila Group as from July 1, 2011.

Asset purchase agreement was signed in April 2011, and the transaction was closed and net assets transferred to Tikkurila on July 1, 2011, which is the acquisition date.

Cash consideration paid at the time of closing in July was around EUR 11.9 million, and since no cash was transferred to the acquirer that also equals the net cash impact on Tikkurila Group at the time of closing in July. Moreover, the parties have agreed on an additional contingent consideration based on the future financial performance of the business operations acquired. The contingent component is linked to the equity value development, calculated based on both EBITDA and Net Debt, of the business up until December 31, 2014, and if equity value will increase certain part of that increase is payable in two tranches: firstly, after the finalization of the 2012 financial statements, and secondly, after the finalization of the 2014 financial statements. The fair value of the contingent consideration presented in purchase price allocation has been estimated by Tikkurila's management based on alternative future scenarios, the probability-weighted average of which has been used as the basis for the nominal contingent consideration, which then has been discounted to its present value by using case-specific WACC of 16.4 percent, value at the date of acquisition, as the discounting rate.

The final purchase price allocation of the acquisition of Zorka Color business is presented below.

TOTAL PURCHASE CONSIDERATION

(EUR thousand)	
Fixed consideration paid at closing in July 2011	11,930
Contingent consideration, discounted present value *	2,148
Total Consideration	14,078

* the undiscounted value of the estimated total contingent consideration is about EUR 3,288 thousand

RECOGNIZED AMOUNTS OF IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

(EUR thousand)	Fair values recognized on business combinations
Property, plant and equipment	3,081
Intangible assets	
Trademarks	3,975
Customer relationships	2,279
Inventories	3,459
Trade and other receivables	4,787
Deferred tax assets	586
Total assets	**18,167**
Deferred tax liabilities	646
Trade and other payables	5,083
Total liabilities	**5,729**
Total identifiable net assets	**12,439**
Goodwill	1,639
Total	**14,078**
Acquisition-related costs	**362**

Of the total expenses EUR 167 thousand was included in consolidated statement of comprehensive income in other operating expenses in year 2010 and EUR 195 thousand is included in other operating expenses for the reporting period ended December 31, 2011.

The fair value of the trade and other receivables is EUR 4,787 thousand. The gross contractual amount for these receivable is EUR 5,406 thousand, of which EUR 619 thousand is expected to be uncollectible.

Goodwill has been recognized, and is linked firstly to the know-how of the personnel transferred from Zorka Color to Tikkurila Group, and secondly to the integration and synergy benefits that the acquired assets generate, e.g. as a platform for future growth, via cross-selling opportunities within the Group, as well as via efficiency improvements in sourcing, logistics and production. None of the goodwill is expected to be deductible for tax purposes.

If the Zorka Color transaction would have been carried out in the beginning of 2011, instead of from July 1, 2011, Tikkurila's management estimates that it would have had roughly the following impact on Tikkurila Group's consolidated income statement for January - December 2011:

- Revenue: Increase of EUR 7.9 million
- Net profit: Decrease of EUR 1.3 million

The revenue included in the consolidated statement of comprehensive income since July 1, 2011 contributed by acquired business was EUR 8.1 million and net result of EUR -1.7 million.

At the date of acquisition, the fair value of contingent consideration was EUR 2.148 thousand, by using a discount rate of 16.4%. On December 31, 2011 the contingent consideration had increased to EUR 2,382 thousand. Discount rate used for fair value of contingent consideration at the end of reporting period was 15.3%. The assumptions used to recognize the amount of contingent consideration have not been changed from the acquisition date.

DISPOSALS 2011

In year 2011 was sold for 25 million Swedish crown (approximately EUR 2.8 million) all shares of totally owned company Färgglädje Måleributiken i Alvik AB and business of a retail shop owned by Alcro-Beckers AB in Uppsala, Sweden. The buyers in the transaction include Niklas Frisk, acting earlier as a head of Tikkurila's SBU Scandinavia, and other private persons. The transaction was completed on December 30, 2011. The 60 percent of the total purchase price was paid in cash at the time of closing.

The revenue of the divested businesses in 2011 totaled EUR 7.1 million and the number of employees was 36.

The divesting of these two retail shops is in accordance with the Group's new revised strategy in developing distribution network and distribution set-up. The retail shops will continue selling Group's products.

Tikkurila completed the sale of a Russian subsidiary, OOO Tikkurila Powder Coatings, to Teknos Group Oy during the financial period. Total consideration received amounted to EUR 1,760 thousand.

Sales agreement was signed in December 2010 and the transaction was completed on January 26, 2011.

The revenue of the divested subsidiary was EUR 2.4 million in year 2010 and the number of personnel was about 50 at the year-end 2010. After the disposal of OOO Tikkurila Powder Coatings, Tikkurila Group has no powder coatings related operations. The assets and liabilities of OOO Tikkurila Powder Coatings were classified as held for sale in financial statements 2010. Gain on sale of subsidiary is recognized in other operating income.

ACQUISITIONS AND DISPOSALS 2011

There were no acquisitions or disposals during the financial period 2010.

5. Supplementary cash flow information from business combinations and disposals of businesses

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND BUSINESSES

(EUR thousand)	2011	2010
Acquisition of businesses		
Total purchase consideration	14,078	-
Contingent consideration, fair value at the date of acquisition	-2,148	-
Cash and cash equivalents at acquisition date	-	-
Cash flow on acquisition net of cash acquired	11,930	-
Proceeds from the disposals of businesses and subsidiaries		
Proceeds from the disposals	4,541	-
Recognized receivable as of December 31, 2011	-1,122	-
Cash and cash equivalents in disposed companies / businesses	-548	-
Cash inflow	2,871	-
Assets and liabilities disposed of		
PPE* and intangible assets	3,203	-
Goodwill	1,129	-
Interest-bearing receivables	61	-
Inventory	698	-
Trade receivables and other interest-free receivables	618	-
Cash and cash equivalents	548	-
Total assets	6,258	-
Deferred tax liabilities	675	-
Interest-bearing liabilities	110	-
Trade and other payables	1,065	-
Total liabilities	1,850	-
Total net assets and liabilities of disposed subsidiaries and businesses	4,408	-
Gain / loss on disposals	133	-
Total	4,541	-

* Property, plant and equipment

6. Assets held for sale

Tikkurila Group has classified the assets and liabilities of three sales companies as held for sale. The companies are Tikkurila Kft in Hungary, Tikkurila Slovakia s.r.o. in Slovakia and the Tikkurila s.r.o. in Czech Republic. The revenue of the companies totaled in 2011 EUR 11.9 million and they employed some 60 persons.

Tikkurila signed in November 2011 a letter of intent to sell the entire share capital of its three sales companies in Hungary, Slovakia and the Czech Republic. The buyer is a Czech company to be established by Tikkurila's local management. The new company will continue the retail of Tikkurila's products in all three countries. The transaction is estimated to be completed during the first quarter of 2012.

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

(EUR thousand)	2011	2010
Assets classified as held for sale		
Intangible assets	236	945
Goodwill	-	342
Property plant and equipment	587	460
Deferred tax assets	99	-
Inventories	1,119	265
Interest-bearing receivables	2	-
Trade receivables and other interest-free receivables	2,515	258
Cash and cash equivalents	336	167
Total	4,894	2,437
Liabilities classified as held for sale		
Deferred tax liabilities	68	238
Current interest-bearing liabilities	-	110
Trade and other payables	550	379
Total	618	727

In year 2010, assets held for sale considered the assets of company OOO Tikkurila Powder Coatings. The revenue of OOO Tikkurila Powder Coatings was EUR 2.4 million in 2010, and the company employed some 50 people.
Tikkurila Oyj's Swedish subsidiary, Dickursby Holding AB, signed at December 2010 the agreement to sell the whole 100 percent of the shares of OOO Tikkurila Powder Coatings to Teknos Group Oy. Transaction was completed on January 26, 2011.

7. Other operating income

(EUR thousand)	2011	2010
Gains on sale of non-current assets	187	87
Gains on sale of available-for-sale financial assets	12	42
Insurance compensation	66	1,522
Rental income	975	1,148
Other income from operations	553	226
Total	1,793	3,025

Gains on sales of non-current assets in 2011 and 2010 consist mainly of sales of machinery and equipment.
Rental income is received mainly from leasing of premises and leasing of tinting machines to customer.
Insurance compensation in year 2010 consists mainly of compensation related to OOO Tikkurila warehouse fire.

8. Personnel expenses

(EUR thousand)	2011	2010
Emoluments of Board of Directors and Managing Directors	-4,041	-2,680
Wages and salaries	-84,758	-85,426
Pension expenses for defined contribution plans	-13,764	-12,945
Pension expenses for defined benefit plans	-1,526	-1,091
Other personnel expenses	-12,083	-10,967
Total	-116,172	-113,108

Emoluments of Boards of Directors and CEO of Tikkurila Oyj are disclosed in Note 38 Related parties.
Pension expenses for defined benefit plans are disclosed in Note 31 Pension obligations.

Personnel, average	2011	2010
Personnel in Finland, average	780	800
Personnel outside Finland, average	2,896	2,903
Total	3,676	3,703
Personnel at year-end	3,551	3,468

Average number of personnel in joint venture consolidated with the proportionate method was 6 (6).
Group's personnel by segments is disclosed in Note 3 Operating segments.

9. Depreciation, amortization and impairment losses

(EUR thousand)	2011	2010
Depreciation and amortization		
Intangible assets	-5,328	-5,195
Property, plant and equipment*		
Buildings and constructions	-3,987	-4,255
Machinery and equipment	-10,185	-10,045
Other property, plant and equipment	-1,216	-1,166
Total	-20,716	-20,661
Impariment losses		
Intangible assets		
Goodwill	-386	-
Other intangible assets	-564	-
Total	-950	-
Total depreciation, amortization and impairment	-21,666	-20,661

No impairment losses were recognized of PPE* during the year 2011 or 2010. Impairment losses of intangible assets were recognized in year 2011 related to assets classified as held for sale. The carrying amount of the assets classified as held for sale was impaired to amount that equals the estimated fair value less costs to sell. No impairment losses of intangible assets were recognized during the year 2010.

10. Other operating expenses

(EUR thousand)	2011	2010
Rents	-12,908	-12,483
Other voluntary personnel expenses	-3,927	-3,736
Sales and marketing	-27,991	-27,613
Repair and maintenance	-7,403	-6,139
IT and communication	-3,850	-3,269
Freights for goods sold	-18,088	-15,349
Professional fees	-3,624	-4,040
Transportation and travel	-9,975	-8,752
Energy, heating and water	-6,014	-5,235
Insurances excl. personnel insurances	-1,149	-1,168
Office expenses	-1,485	-1,696
Representation and membership fees	-2,384	-2,283
External services	-10,736	-8,285
Authority fees and environmental tax	-2,089	-2,076
Credit losses	-828	-1,902
Other expenses	-5,239	-3,940
Total	-117,690	-107,966
Audit fees:		
KPMG	-402	-417
Other audit firms	-68	-110
Tax advisory, KPMG	-41	-61
Tax advisory, other audit firms	-43	-17
Other services, KPMG	-208	-313
Other services, other audit firms	-116	-156
Total	-878	-1,074

NON-RECURRING ITEMS IN FINANCIAL STATEMENTS

(EUR thousand)	2011	2010
Expenses		
Wages and salaries	-331	-
Other personnel expenses	-21	-
Defined benefit and contribution pension expenses	-64	-
External services	-130	-
Other	-5	-424
Impairments:		
Intangible assets	-564	-
Goodwill	-386	-
Total	-1,501	-424
Income		
Other operating income	-	1,467
Total	-	1,467
Total non-recurring items	-1,501	1,043

Non-recurring items in 2011 are related to ongoing structural changes in Tikkurila Group. In comparison year the non-recurring items related to insurance compensation received in Russia and a fine set by the competition authorities in Poland.

11. Research and development expenses

(EUR thousand)	2011	2010
Research and development expenses total	-9,926	-10,155

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

12. Financial income and expenses

(EUR thousand)	2011	2010
Financial income		
Dividend income from available-for-sale financial assets	120	62
Interest income from loans and other receivables	444	527
Interest income from assets at fair value through profit or loss	388	801
Other interest income	7	-
Exchange rate gains		
Exchange rate gains from finanical assets at fair value through profit or loss	8,190	4,563
Exchange rate gains from loans and other receivables	2,179	1,747
Exchange rate gains from financial liabilities measured at amortized cost	897	832
Other financial income	-	4
Gain on net monetary position	260	-
Total	12,485	8,536
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	-6,118	-7,167
Interest expenses from financial liabilities at fair value through profit or loss	-2,566	-1,341
Other interest expenses	-99	-
Exchange rate losses		
Exchange rate losses from financial liabilities at fair value through profit or loss	-5,565	-5,133
Exchange rate losses from loans and other receivables	-3,338	-2,145
Exchange rate losses from financial liabilities measured at amortized cost	-3,352	-371
Other financial expenses	-2,279	-1,054
Total	-23,317	-17,211
Total financial income and expenses	-10,832	-8,675

Interest income in year 2010 include interests from Kemira Plc in total of EUR 0.1 million. Interest expepenses include interests to Kemira Plc and Kemira International Finance BV in total of EUR 1.4 million in year 2010.
Kemira Group companies were considered as related parties of Tikkurila Group companies until March 26, 2010. Other related party transactions with Kemira Group companies in year 2010 are presented in Note 38.

	2011	2010
Net financial expenses as a percentage of revenue	1.7	1.5
Net interests as a percentage of revenue	1.2	1.2

Exchange rate gains and losses in financing items (EUR thousand)	2011	2010
Realized	463	195
Unrealized	-1,452	-702
Total	-989	-507

Exchange rate gains and losses in operating profit (EUR thousand)	2011	2010
Revenue	94	-345
Materials and services	-2,585	714
Total	-2,491	369

13. Income taxes

(EUR thousand)	2011	2010
Current income tax charge	-16,696	-15,360
Adjustments for prior years	135	-464
Deferred taxes	1,375	353
Total	-15,186	-15,471
Income taxes recognized in other comprehensive income		
Deferred taxes		
Available-for-sale financial assets, fair value changes	-56	-475
Current taxes		
Net investment in foreign operations	110	-32
Total income taxes recognized in other comprehensive income	54	-507

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

	2011	2010
Taxes at enacted tax rates by countries	-12,817	-12,370
Tax-exempt income	84	193
Non-deductible expenditure	-998	-1,441
Effect of changes in tax rates	121	-11
Used tax losses, previously unrecognized	54	52
Current year losses for which no deferred tax asset was recognized	-1,458	-400
Taxes from previous financial years	135	-464
Changes to carrying amounts of deferred tax assets related to previous years	24	-389
Impairment of goodwill	-73	-
Tax reliefs	168	-
Effect of associate's result	77	-23
Non-credited foreign withholding taxes	-420	-
Other items	-83	-618
Total taxes in the statement of comprehensive income	-15,186	-15,471

During the year 2011 tax rate was decreased in Ukraine from 25% to 23%. The Finnish corporate income tax rate change was approved in December 2011. The Finnish tax rate decreased from 26% to 24.5% as of January 2012. In financial statements the Finnish deferred taxes are measured by using the substantially enacted corporate tax rate (24.5%). In previous year in Hungary, the tax rate decreased from 19% to 10%.

In comparison year changes to carrying amounts of deferred tax assets related to previous years include reversals of deferred taxes recognized from earlier years' tax losses.

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, calculated as follows:

	2011	2010
Profit for the period attributable to the owners of the parent, EUR thousand	35,487	36,524
Weighted average number of ordinary shares (1000)	44,108	44,108*)
Basic earnings per share (EUR / share)	0.80	0.83

*) Due to comparability the earnings per share is calculated as per the number of shares (44,108,252) after the February 17, 2010 registered free share issue.
Tikkurila Oyj has one class of shares that has no nominal value. The number of shares was 44,108,252 at end of the reporting period 2011, at the end of year 2010 44,108,252. Dilutive effects didn't exist in either year.

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	2011 Total
Acquisition cost at Jan 1, 2011	8,154	119,277	174,241	8,229	4,204	314,105
Acquisition through business combinations	-	-	3,222	-	51	3,273
Other increases	-	460	7,769	480	4,713	13,422
Disposal of businesses and subsidiaries	-	-	-318	-3	-	-321
Other decreases	-	-114	-3,605	-105	-7	-3,831
Transfer to held for sale assets	-	-195	-1,162	-222	-3	-1,582
Other changes	-	-	-304	-	-	-304
Reclassifications	-	336	773	290	-1,718	-319
Exchange rate differences	28	-1,547	-2,876	-174	-179	-4,748
Cost at Dec 31, 2011	8,182	118,217	177,740	8,495	7,061	319,695
Accumulated depreciation and impairment losses at Jan 1, 2011	-	-68,413	-127,018	-3,939	-	-199,370
Accumulated depreciation relating to decreases and transfers	-	112	3,211	94	-	3,417
Depreciation during the financial year	-	-3,987	-10,185	-1,216	-	-15,388
Disposal of businesses and subsidiaries	-	-	176	-	-	176
Transfer to held for sale assets	-	37	793	165	-	995
Other changes	-	-	327	23	-	350
Exchange rate differences	-	749	1,854	91	-	2,694
Accumulated depreciation and impairment losses at Dec 31, 2011	-	-71,502	-130,842	-4,781	-	-207,125
Net carrying amount at Jan 1, 2011	8,154	50,864	47,223	4,290	4,204	114,736
Net carrying amount at Dec 31, 2011	8,182	46,715	46,898	3,714	7,061	112,570

(EUR thousand)	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2010 Total
Acquisition cost at Jan 1, 2010	7,578	115,193	164,293	6,549	3,753	297,366
Other increases	-	857	7,073	1,099	867	9,896
Other decreases	-	-28	-2,707	-84	-20	-2,839
Transfer to held for sale assets	-	-451	-234	-	-	-685
Reclassifications	252	92	90	425	-608	251
Exchange rate differences	324	3,614	5,726	240	212	10,116
Cost at Dec 31, 2010	8,154	119,277	174,241	8,229	4,204	314,105
Accumulated depreciation and impairment losses at Jan 1, 2010	-	-63,381	-116,400	-2,728	-	-182,509
Accumulated depreciation relating to decreases and transfers	-	24	2,383	53	-	2,460
Depreciation during the financial year	-	-4,255	-10,045	-1,166	-	-15,466
Transfer to held for sale assets	-	104	121	-	-	225
Other changes	-	32	25	-56	-	1
Exchange rate differences	-	-937	-3,102	-42	-	-4,081
Accumulated depreciation and impairment losses at Dec 31, 2010	-	-68,413	-127,018	-3,939	-	-199,370
Net carrying amount at Jan 1, 2010	7,578	51,812	47,893	3,821	3,753	114,857
Net carrying amount at Dec 31, 2010	8,154	50,864	47,223	4,290	4,204	114,736

*Other property, plant and equipment include for example shelters and pavements.
Contractual commitments for the acquisition of property, plant and equipment is disclosed in Note 37 Contingent assets and liabilities and contractual commitments.

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, 2011			
Acquisition cost	1,200	611	1,811
Accumulated depreciation	145	550	695
Net carrying amount	1,055	61	1,116
Dec 31, 2010			
Acquisition cost	412	1,078	1,490
Accumulated depreciation	200	862	1,062
Net carrying amount	212	216	428

16. Intangible assets

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2011 Total
Acquisition cost at Jan 1, 2011	68,386	60,054	-	1,165	129,605
Acquisition through business combinations	1,605	6,182	-	-	7,787
Other increases	-	431	-	1,029	1,460
Disposal of subsidiaries and businesses	-787	-2,312	-	-	-3,099
Other decreases	-	-293	-	-	-293
Transfer to held for sale assets	-	-2,027	-	-	-2,027
Reclassifications	-	594	-	-257	337
Exchange rate differences	-122	-383	-	-20	-524
Cost at Dec 31, 2011	69,082	62,246	-	1,918	133,246
Accumulated amortization and impairment losses at Jan 1, 2011	-	-30,674	-	-	-30,674
Accumulated amortization relating to decreases and transfers	-	103	-	-	103
Amortization during the financial year	-	-5,328	-	-	-5,328
Impairment losses	-386	-564	-	-	-950
Disposal of subsidiaries and businesses	-	659	-	-	659
Transfer to held for sale assets	-	1,791	-	-	1,791
Exchange rate differences	-	4	-	-	4
Accumulated amortization and impairment losses at Dec 31, 2011	-386	-34,009	-	-	-34,395
Net carrying amount at Jan 1, 2011	68,386	29,379	-	1,165	98,930
Net carrying amount at Dec 31, 2011	68,696	28,237	-	1,918	98,850

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2010 Total
Acquisition cost at Jan 1, 2010	68,261	58,469	-	1,170	127,900
Other increases	-	1,435	-	-53	1,382
Other decreases	-	-637	-	-	-637
Transfer to held for sale assets	-342	-1,332	-	-	-1,674
Exchange rate differences	467	2,119	-	48	2,634
Cost at Dec 31, 2010	68,386	60,054	-	1,165	129,605

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2010 Total
Accumulated amortization and impairment losses at Jan 1, 2010	-	-25,926	-	-	-25,926
Accumulated amortization relating to decreases and transfers	-	513	-	-	513
Amortization during the financial year	-	-5,195	-	-	-5,195
Transfer to held for sale assets	-	387	-	-	387
Exchange rate differences	-	-453	-	-	-453
Accumulated amortization and impairment losses at Dec 31, 2010	-	-30,674	-	-	-30,674
Net carrying amount at Jan 1, 2010	68,261	32,543	-	1,170	101,974
Net carrying amount at Dec 31, 2010	68,386	29,379	-	1,165	98,930

The carrying amounts of investments in associates in 2011 or 2010 do not include goodwill. The Group did not have intangible assets with indefinite useful lives.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 19.4 million (2010: EUR 19.1 million), as well as marketing channels and customer connections acquired in business combinations in total of EUR 2.4 million (2010: EUR 3.3 million). Other intangible assets include also carrying amount of Enterprise Resource Planning -program (M3) total of EUR 2.1 million (2010: EUR 3.2 million).

17. Impairment test

Goodwill is tested for impairment 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 that include goodwill with their expected recoverable amounts. An impairment loss is recognized if the recoverable amount of the asset 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 has four cash generating units that equal to operating segments (see Note 3). Operating segments in Tikkurila are also referred as Strategic Business Units (SBUs). Goodwill has been allocated to the following cash generating units: Scandinavia, East and Central Eastern Europe.

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

Cash-generating units: (EUR thousand)	2011 Carrying amount	2011 of which Goodwill	2010 Carrying amount	2010 of which Goodwill
Finland	37,679	-	33,120	-
Scandinavia	107,440	60,937	107,406	61,719
East	102,582	6,088	94,315	6,217
Central Eastern Europe	58,585	1,671	47,688	450

Annually, close the end of the summer season, during the strategic analysis, Tikkurila Management Board and members of Board of Directors define the objectives for the next three years. 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. These objectives are later on approved by Tikkurila's Board of Directors. The Strategic Business Unit cash flow forecasts over a three year period are a result of this process. These cash flows are used in impairment tests. Capital expenditure 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 that has been extrapolated by using zero growth.

The discount rate used varies between 7.5% - 17.9% depending on the cash-generating unit in 2011. The discount rates are defined as WACC (weighted average cost of capital) which reflects the total cost of equity and debt while taking the specific risks involving the assets into consideration.

The cash flows and discount rates are determined before taxes.

SIGNIFICANT ASSUMPTIONS AND SENSITIVITY ANALYSIS OF THE IMPAIRMENT TESTS

The forecasted cash flows reflect the Tikkurila management's perception of the development in sales and costs during the three year's forecast period. The significant assumptions used in the impairment tests relate thus to the development of sales and profitability that are change in revenue and change in the 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.

In 2011 impairment test, the pace of the growth of revenue is expected to stabilize during the forecasting period from 2012 to 2014 for SBU Finland and Central Eastern Europe areas, compared to the previous three years forecasted development, when SBU East and Scandinavia areas the growth of revenue is expected to accelerate compared to the previous forecasted development. The greatest growth is further expected in the SBU East area. The raw material prices are expected to increase at the same pace as during the previous years. As per the latest strategy streamlining, cutting out overlapping and harmonizing of group activities as well as thorough expense control are expected to maintain Group's competitiveness and to improve profitability.

In 2010 impairment test, the pace of the growth of revenue is expected to stabilize during the forecasting period from 2011 to 2013, compared to the previous' years forecasted development. The greatest growth is further expected in the SBU Central Eastern Europe. The raw material prices are expected to increase at the same pace as during the previous years. The raw material price fluctuations, however, are expected to be much stronger as in history. The cut down of fixed costs is expected to improve profitability.

The main assumptions relating to the discount rates are based on the same principles each year, but the values of the key assumptions are defined separately for each SBU and each testing period in order to reflect the corresponding market information. The discount rates have been changed mainly due to the changes in the main assumptions underlying them, which are risk free rate, capital structure and Beta coefficient. The increase in the interest rate in SBU East from 2010 to 2011 is mainly caused by the increase in the risk-free interest rate and in the cost of debt. The decrease in the interest rate in SBU Scandinavia is mainly caused by the decrease in the risk-free interest. 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 in 2010 and 2011.

	Scandinavia 2011	Scandinavia 2010	East 2011	East 2010	Central Eastern Europe 2011	Central Eastern Europe 2010
Estimate parameters used						
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	16.6	14.1	14.2	15.3	11.3	12.6
Discount rate, pre-tax, %	7.5	8.8	17.9	16.8	13.5	13.0
Growth post forecast period, %	0.0	0.0	0.0	0.0	0.0	0.0
The amount at which the present value of the cash flow exceeds the carrying amount, EUR thousands	273,217	94,446	87,042	52,511	31,987	45,424

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

	Scandinavia 2011	Scandinavia 2010	East 2011	East 2010	Central Eastern Europe 2011	Central Eastern Europe 2010
Change in key assumptions						
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	-9.1	-4.5	-5.1	-3.8	-2.5	-4.1
Change in pre-tax discount rate, % -units	14.1	5.9	11.6	7.3	5.7	10.1
Change in growth post forecast period, % -units	-31.0	-9.0	-29.4	-14.2	-9.7	-21.7

The chart above presents those 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, when a 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. Investments in associates

(EUR thousand)	2011	2010
Carrying amount at Jan 1	668	774
Share of profit or loss of associates	294	-87
Additions	-	81
Disposals	-	-4
Transfers	-	-186
Exchange rate differences and other changes	9	90
Net carrying amount at Dec 31	971	668

Transfers in year 2010 included the transfers of shares of PPHU Polifarb sp.zo.o. to available-for-sale financial assets. Due to sale of shares, ownership decreased below 20 percent. The Group does not have the significant influence over the company.

ASSOCIATES AND SUMMARIZED FINANCIAL INFORMATION OF ASSOCIATES:

(EUR thousand)	Domicile	Assets	Liabilities	Revenue	Net profit for the period	Group holding (%)
2011						
Happy Homes i Sverige AB	Sweden	15,162	12,693	65,279	652	45.1

(EUR thousand)	Domicile	Assets	Liabilities	Revenue	Net loss for the period	Group holding (%)
2010						
Happy Homes i Sverige AB	Sweden	12,884	11,113	68,397	-194	45.1

Intra-group balances and transactions with associates are disclosed in Note 38 Related parties.

19. Joint ventures

In year 2011 or 2010, there were no changes in ownership of joint ventures, Alcro-Parti AB was the only joint venture owned by the Group.

TIKKURILA'S SHARE OF ASSETS, LIABILITIES, INCOME AND EXPENSES OF JOINT VENTURES :

(EUR thousand)	2011	2010
Non-current assets	14	-
Current assets	1,135	1,035
Total assets	1,149	1,035
Non-current liabilities	221	147
Current liabilities	234	225
Total liabilities	455	372
Revenue	3,569	3,304
Expenses	-3,306	-3,020
Income taxes	-71	-76
Net profit for the period	192	208
Personnel during the period, average	6	6

Intra-group balances and transactions with joint ventures are disclosed in Note 38 Related parties.

20. Inventories

(EUR thousand)	2011	2010
Materials and supplies	29,032	22,535
Work in progress	1,273	1,570
Finished goods	64,337	52,410
Prepayments	48	299
Total	94,690	76,814

Inventory write-downs amounting to EUR 2.7 million (EUR 2.4 million) were recognized during the financial period. Write-down of inventory is recognized as expense if carrying amount exceeds net realizable value. The amount of write-downs 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 2011 reversals of inventory write-down amounting to EUR 0.0 million were recognized (EUR 0.1 million). The amount of cost recognized as expense was EUR 328.8 million (EUR 289.2 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 inventories carried at fair value less costs to sell in year 2011 was EUR 715 thousand (EUR 674 thousand).

21. Available-for-sale financial assets

(EUR thousand)	2011	2010
Carrying amount at Jan 1	2,694	929
Additions	21	3
Disposals	-10	-9
Change in valuation	342	1,825
Transfers	-	-66
Exchange rate differences	-19	12
Carrying amount at Dec 31	3,028	2,694

Available-for-sale financial assets include mainly unquoted shares that are measured at amortized cost. These shares are of business supportive nature, such as personnel's recreational activities and environment maintenance 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 measurements is significant and the probabilities of various measurements cannot be reasonably estimated. In year 2010, Group has changed the valuation basis for shares of Ekokem Oy. These shares are quoted in OTC-list. This information is used to determine their fair value. Shares have been transferred in comparison year in fair value hierarchy of financial assets from level 3 to level 2. Unrealized fair value changes are recognized in other comprehensive income, net of tax and these are included in fair value reserve in equity. (Note 33)

In year 2010, the land area located in Poland was transferred from available-for-sale financial assets to property, plant and equipment. According the judgement of the Group's management the sale of land area is not likely to take place. Land has been measured at amortized cost and it is presented at the statement of the financial position in property, plant and equipment.

During the first quarter of the year 2010, the Group sold part of the investment in associate, PPHU Polifarb sp.z.o.o. As the result the Group's ownership decreased, and was less than 20%. Remaining shares were transferred to available-for-sale financial assets. Shares are measured at amortized cost. Company's shares are unquoted.

No impairment losses were recognized for available-for-sale financial assets during the years 2011 or 2010.

Gain on sale of available-for-sale financial assets amounted to EUR 12 (42) thousand and loss amounted to EUR 4 (0) thousand. Gains or losses on the sales of these assets are included in other operating income or expense.

22. Non-current receivables

(EUR thousand)	2011	2010
Loan receivables	2,954	2,395
Prepayments	2,890	2,696
Accrued income and deferred expenses	-	155
Other receivables	1,709	1,856
Finance lease receivables	11	-
Total non-current assets	7,564	7,102
Prepayments		
Pre-rent of the logistic centre area in Moscow	2,479	2,610
Pre-rent of the production site in Serbia	238	-
Other prepayments	173	86
Total prepayments	2,890	2,696
Other receivables		
Trade receivables and hire-purchases	966	1,331
Non-current interest-bearing receivables	743	525
Total other receivables	1,709	1,856
Finance lease receivables - maturity		
Within one year	4	58
After one year and not later than five years	12	-
Later than five years	-	-
Total	16	58

(EUR thousand)	2011	2010
Finance lease receivables - present value of the minimum lease payments		
Within one year	3	51
After one year and not later than five years	11	-
Later than five years	-	-
Total	14	51
Unearned finance income	2	7
Total finance lease receivables	16	58

23. Current interest-bearing receivables

(EUR thousand)	2011	2010
Finance lease receivables	3	51
Loan receivables	60	126
Other receivables	-	7
Total interest-bearing receivables	63	184

Non-current portion and maturities of the finance lease receivables are disclosed in Note 22 Non-current receivables.

24. Trade and other non-interest-bearing receivables

(EUR thousand)	2011	2010
Trade receivables	83,139	68,794
Accrued income and deferred expenses	8,606	9,207
Other receivables	3,315	3,522
Total current non-interest-bearing receivables	95,060	81,523

Tikkurila Group sells certain trade receivables to a financing company. The credit risks and contractual rights relating these financial assets are transferred to the financing company at the time of the sale. Arrangement fees are recognized as financial expenses.
Other receivables include VAT receivables amounting to EUR 2.7 million (EUR 3.1 million) and prepayments of EUR 69 thousand (EUR 65 thousand).

(EUR thousand)	2011	2010
Accrued income and deferred expenses		
Items related to net revenue and purchases	1,468	2,437
Employee benefit expenses	441	474
Insurances	296	216
Leases	2,357	2,467
Interests	6	17
Derivatives	1,275	1,544
Other	2,763	2,207
Total	8,606	9,362

25. Cash and cash equivalents

(EUR thousand)	2011	2010
Cash	10,426	35,417
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	-	33,955
Total cash and cash equivalents	10,426	69,372

(EUR thousand)	2011	2010
Cash and cash equivalents according to cash flow:		
Cash	10,426	35,417
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	-	33,955
Bank overdrafts	-	-44
Total cash and cash equivalents	10,426	69,328

26. Deferred tax assets and liabilities

2011 (EUR thousand)	Jan 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Acquisitions / disposals	Transfer to held for sale	Dec 31, 2011
Deferred tax assets						
Internal margin of inventories	919	60	-	-	-31	**948**
Provisions and accruals	2,181	735	-	86	-30	**2,972**
Tax losses carried forward	20	77	-	-	-38	**59**
Defined benefit plans	338	-82	-	-	-	**256**
Other	257	-21	-	461	-	**697**
Deferred tax assets in the statement of financial position	**3,715**	**769**	**-**	**547**	**-99**	**4,932**
Deferred tax liabilities						
Cumulative depreciation difference	-6,073	-217	-	2	23	**-6,265**
Available-for-sale financial assets	-475	-	-56	-	-	**-531**
Fair value measurement of PPE* and intangible assets in business combinations	-3,861	679	-	-211	45	**-3,348**
Defined benefit plans	-52	52	-	-	-	**-**
Other	-848	12	-	-	-	**-836**
Deferred tax liabilities in the statement of financial position	**-11,309**	**526**	**-56**	**-209**	**68**	**-10,980**

2010 (EUR thousand)	Jan 1, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Acquisitions / disposals	Transfer to held for sale	Dec 31, 2010
Deferred tax assets						
Internal margin of inventories	17	902	-	-	-	919
Provisions and accruals	390	1,791	-	-	-	2,181
Tax losses carried forward	1,643	-1,623	-	-	-	20
Defined benefit plans	36	302	-	-	-	338
Other	282	-25	-	-	-	257
Deferred tax assets in the statement of financial position	2,368	1,347	-	-	-	3,715
Deferred tax liabilities						
Cumulative depreciation difference	-5,580	-493	-	-	-	-6,073
Available-for-sale financial assets	-	-	-475	-	-	-475
Fair value measurement of PPE* and intangible assets in business combinations	-5,094	995	-	-	238	-3,861
Defined benefit plans	27	-79	-	-	-	-52
Other	1,040	-1,888	-	-	-	-848
Deferred tax liabilities in the statement of financial position	-9,607	-1,465	-475	-	238	-11,309

* Property, plant and equipment

The Group subsidiaries had tax losses carried forward of EUR 8.6 million at December 31, 2011 (EUR 5.8 million) for which no deferred tax asset was recognized. Unlimited right to carry forward the tax losses concerns 32 percent of the tax losses. Tax losses with the limited right expires in 2012-2019. 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.

No deferred tax liability has been recognized for undistributed earnings of foreign subsidiaries as the majority of such earnings can be transferred to the owner without any tax consequences.

27. Capital and reserves

Tikkurila Oyj has one class of shares. The maximum number of shares is 100,000,000 and the maximum share capital is EUR 140 million as per the articles of association of Tikkurila Oyj. The share has no nominal value. The share capital was EUR 35 million at December 31, 2011 (EUR 35 million) and it is fully paid. The number of shares was 44,108,252 at the end of year 2011. At the beginning of the reporting period 2010, number of shares was 1,025,000 and 44,108,252 at the end of year 2010. The number of shares of Tikkurila Oyj was changed in February 2010 by share issue without payment to Kemira Plc.

Earnings per share are presented in context of the consolidated statement of comprehensive income and in Note 14 Earnings per share. Dilutive effects existed in neither 2011 nor 2010.

FAIR VALUE RESERVE

Fair value reserve includes accumulated fair value changes of available-for-sale financial assets.

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.

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 0.70 per share, totaled EUR 30.876 thousand was distributed in year 2011. No dividends were distributed in year 2010. After the respective reporting date The Board of Directors proposes that a dividend of EUR 0.73 per share, totaled EUR 32,199 thousand, will be distributed of the year 2011.

(EUR thousand)	Fair value reserve	Translation differences	Total	Non-controlling interest	Total
Other comprehensive income 2011					
Total exchange differences on translating foreign operations	-	-4,261	-4,261	-	-4,261
Income taxes on net investment to foreign subsidiary	-	110	110	-	110
Available-for-sale financial assets, fair value changes	342	-	342	-	342
Deferred taxes on fair value changes of available-for-sale financial assets	-56	-	-56	-	-56
Other comprehensive income 2011	286	-4,151	-3,865	-	-3,865

(EUR thousand)	Fair value reserve	Translation differences	Total	Non-controlling interest	Total
Other comprehensive income 2010					
Total exchange differences on translating foreign operations	-	8,333	8,333	-	8,333
Income taxes on net investment to foreign subsidiary	-	-32	-32	-	-32
Available-for-sale financial assets, fair value changes	1,825	-	-	-	1,825
Deferred taxes on fair value changes of available-for-sale financial assets	-475	-	-475	-	-475
Other comprehensive income 2010	1,350	8,301	9,651	-	9,651

28. Non-current interest-bearing liabilities

(EUR thousand)	2011	2010
Loans from financial institutions	59,729	99,135
Loans from pension institutions	-	40,000
Finance lease liabilities	616	147
Total non-current interest-bearing liabilities	60,345	139,282

The maturity analysis and currency risk of non-current borrowings are disclosed in Note 35 Financial risk management.

(EUR thousand)	2011	2010
Finance lease liabilities - total minimum lease payments		
Within one year	480	293
After one year and not later than five years	658	152
Later than five years	-	-
Total	1,138	445
Finance lease liabilities - present value of the minimum lease payments		
Within one year	427	272
After one year and not later than five years	616	147
Later than five years	-	-
Total	1,043	419
Future finance charges	95	26
Total finance lease liabilities	1,138	445

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

29. Current interest-bearing liabilities

(EUR thousand)	2011	2010
Loans from financial institutions	32,084	2,040
Commercial paper program	10,957	-
Finance lease liabilities	426	272
Other interest-bearing current liabilities	6,037	6,385
Total interest-bearing current liabilities	49,504	8,697

Other interest-bearing current liabilities include deposit made in personnel services office in total of EUR 6.0 million (EUR 6.3 million).
Specification of finance lease liabilities is disclosed in Note 28 Non-current interest-bearing liabilities.

AVERAGE INTEREST RATE AND CURRENCY DISTRIBUTION OF INTEREST-BEARING LIABILITIES

Average interest rate for current and non-current loans at December 31, 2011 was 5.2% (5.2%).

Interest-bearing liabilities by currency (in euro):

(EUR thousand)	2011	2010
EUR	107,749	145,862
RUB	-	17
PLN	-	44
SEK	-	-
CNY	2,084	2,040
Other	16	16
Total	109,849	147,979

30. Trade and other non-interest-bearing payables

(EUR thousand)	2011	2010
Other non-current liabilities *)	2,382	-

*) Contingent consideration, Note 4

(EUR thousand)	2011	2010
Trade payables	41,215	38,445
Other non-interest-bearing payables	6,975	3,937
Prepayments	156	313
Accrued expenses and deferred income	45,986	45,711
Total current non-interest-bearing payables	94,332	88,406

(EUR thousand)	2011	2010
Accrued expenses and deferred income		
Employee benefit expenses	18,230	18,361
Items related to revenue and purchases	22,196	18,670
Interests	581	1,592
Derivatives	924	2,214
Other	4,055	4,874
Total	45,986	45,711
Net liabilities		
Interest-bearing non-current liabilities	60,345	139,282
Interest-bearing current liabilities	49,504	8,697
Cash and cash equivalents		
Cash	-10,426	-35,417
Cash equivalents (bank deposits, money market investments, maturity less than 3 months)	-	-33,955
Total	99,423	78,607

31. 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 defined benefit pension plans are funded in insurance companies and the benefits vary by countries. Mainly the benefits are related to the retirement age and pension level.

In defined benefit pension plans the amount of pension is determined based on certain factors such as salary and working years. The corridor method is applied in recognizing the actuarial gains and losses.

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.

In addition, the Group has also a pension plan under its own responsibility in the Netherlands. Also this is accounted for as defined contribution plans. Tikkurila Coatings B.V is under liquidation process.

Obligations transferred includes for example the obligation of plan of Swedish joint venture, Alcro Parti AB. Due to lack of required information to measure the pension obligation, this was earlier accounted for as defined contribution plans. Other changes in other contribution plans are arising due to disposal of subsidiary, Färgglädje Måleributiken i Alvik AB and transfer of Polish retirement payment to provisions. More information about this employee benefit is stated in Note 32.

The effect of the defined benefit pension plans on Group's consolidated statement of comprehensive income and statement of financial position is presented below.

(EUR thousand)	2011	2010
Items recognized in the statement of financial position:		
Present value of funded obligations	2,167	1,903
Present value of unfunded obligations	21,169	18,799
Fair value of plan assets	-1,755	-1,555
Present value of pension obligation	21,581	19,147
Unrecognized actuarial gains (+) / losses (-)	-5,388	-3,548
Net liability (+)	16,193	15,599
In the statement of financial position		
Liability arising from the defined benefit plans	16,684	16,012
Receivable arising from defined benefit plans	-491	-413
Net liability	16,193	15,599

(EUR thousand)	2011	2010
Liability arising from the defined contribution plans	59	547
Total pension obligations in the statement of financial position (net)	16,252	16,146
Recognized in the statement of comprehensive income:		
Current service costs	427	321
Interest costs	836	777
Expected return on plan assets	-92	-79
Actuarial gains (-) / losses (+) for the period	318	37
Other changes	37	35
Total defined benefit plans	1,526	1,091
Obligation transferred	-477	-
Defined contribution plan expenses	11	52
Total pension obligations in the statement of comprehensive income	1,537	1,143
Movements in the present value of the defined benefit obligation		
Defined benefit obligations at Jan 1	20,702	17,866
Current service costs	427	321
Interest costs	836	777
Actuarial gains (-) / losses (+)	1,978	282
Exchange rate differences on foreign plan	149	2,291
Benefits paid by the plan	-896	-835
Obligation transferred	140	-
Defined benefit obligations at Dec 31	23,336	20,702
Movement in the present value of plan assets		
Fair value of plan assets at Jan 1	1,555	1,343
Expected return on plan assets	92	79
Contributions paid into the plan	256	959
Actuarial gains (+) / losses (-)	-132	-70
Exchange rate differences on foreign plan	7	89
Benefits paid by the plan	-23	-831
Other changes	-	-14
Fair value of plan assets at Dec 31	1,755	1,555
Realized return on pension plan	0	9
Realized return on plan assets	0	9
Actuarial presumptions		
Discount rate	3.3-4.3%	4.0-4.5%
Expected return on plan assets	4.8%	5.4%
Inflation	2.0%	2.0%
Forthcoming increases in wages and salaries	3.0-3.8%	3.0-4.0%
Forthcoming increases in pensions	0.7-3.0%	1.3-2.0%
Plan assets include		
Assets in insurance companies *	1,755	1,555
Total	1,755	1,555

* 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 1.2 million of contributions into the defined benefit plans during the year 2012.

(EUR thousand)					
At Dec 31	2011	2010	2009	2008	2007
Liability arising from the defined contribution plans	59	547	495	451	405
Present value of defined benefit plans	23,336	20,702	17,866	21,146	22,260
Fair value of plan assets	1,755	1,555	1,343	5,702	4,621
Settlement of the obligation	-	-	-	112	-
Actuarial gains (-) / losses (+)	-5,388	-3,548	-2,890	-3,159	-2,937
Deficit / surplus	16,252	16,146	14,128	12,848	15,107
Experience adjustments - plan liabilities	105	-	-1	-459	-1,614
Experience adjustments - plan assets	14	-	-1	-69	-235

32. Provisions

(EUR thousand)	Restructuring	Site restoration	Other provisions	2011 Total
2011				
Non-current provisions				
Balance at Jan 1, 2011	182	17	-	199
Exchange rate differences	-	-2	-	-2
Provisions made during the period	-	-	58	58
Reclassifications	-74	-15	368	279
Non-current provisions at Dec 31, 2011	108	0	426	534
Current provisions				
Balance at Jan 1, 2011	-	302	-	302
Exchange rate differences	-	-33	-	-33
Provisions made during the period	-	55	-	55
Provisions used during the period	-	-209	-29	-238
Reclassifications	74	15	47	136
Current provisions at Dec 31, 2011	74	130	18	222

(EUR thousand)	Restructuring	Site restoration	Other provisions	2010 Total
2010				
Non-current provisions				
Balance at Jan 1, 2010	182	229	-	411
Exchange rate differences	-	8	-	8
Reclassifications	-	-220	-	-220
Non-current provisions at Dec 31, 2010	182	17	-	199
Current provisions				
Balance at Jan 1, 2010	97	302	-	399
Exchange rate differences	10	10	-	20
Provisions made during the period	-	23	-	23
Provisions used during the period	-101	-253	-	-354
Provisions reversed during the period	-6	-	-	-6
Reclassifications	-	220	-	220
Current provisions at Dec 31, 2010	-	302	-	302

RESTRUCTURING PROVISIONS

Tikkurila Group recognized in year 2009 a restructuring provision arising from the reductions of personnel in its both Finnish and Swedish offices. Majority of this recognized provision realized already during the year 2009 and some minor amounts also in year 2010. Related to Finnish site there is still EUR 182 thousand restructuring provision. Accurate timing of realization is not known, but the major part is estimated to realize after 2012.

SITE RESTORATION PROVISIONS

Site restoration provision arises from the restoration obligation concerning contamination of the soil and groundwater of Group's Polish production plant. The contamination was caused by the actions of the previous owner of the production plant.

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 monts 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 proceed. The provision of Poland was presented earlier in pension liabilities. This provision include also jubilee provision. The amount of jubilee provision is established by pattern of past practice.

Group had no other provisions in year 2010.

33. 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	Total fair values
2011							
Non-current financial assets							
Available-for-sale financial assets	21	-	-	3,028	-	3,028	3,028
Non-current receivables	22	-	4,674	-	-	4,674	4,674
Current financial assets							
Interest-bearing receivables	23	-	63	-	-	63	63
Derivatives	24,34	1,275	-	-	-	1,275	1,275
Cash equivalents	25	-	10,426	-	-	10,426	10,426
Trade and other non-interest-bearing receivables	24	-	83,139	-	-	83,139	83,139
Total		1,275	98,302	3,028	-	102,605	102,605
Non-current financial liabilities							
Non-current interest-bearing liabilities	28	-	-	-	60,345	60,345	60,666
Current financial liabilities							
Current interest-bearing liabilities	29	-	-	-	49,504	49,504	49,504
Derivatives	30,34	924	-	-	-	924	924
Contingent consideration	30	-	-	-	2,382	2,382	2,382
Trade payables	30	-	-	-	41,215	41,215	41,215
Total		924	-	-	153,446	154,370	154,691

(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	Total fair values
2010							
Non-current financial assets							
Available-for-sale financial assets	21	-	-	2,694	-	2,694	2,694
Non-current receivables	22	-	4,251	-	-	4,251	4,251
Current financial assets							
Interest-bearing receivables	23	-	184	-	-	184	184
Derivatives	24,34	1,544	-	-	-	1,544	1,544
Cash equivalents	25	33,955	35,417	-	-	69,372	69,372
Trade and other non-interest-bearing receivables	24	-	68,794	-	-	68,794	68,794
Total		35,499	108,646	2,694	-	146,839	146,839

(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	Total fair values
2010							
Non-current financial liabilities							
Non-current interest-bearing liabilities	28	-	-	-	139,282	139,282	139,130
Current financial liabilities							
Current interest-bearing liabilities	29	-	-	-	8,697	8,697	8,697
Derivatives	30,34	2,214	-	-	-	2,214	2,214
Trade payables	30	-	-	-	38,445	38,445	38,445
Total		2,214	-	-	186,424	188,638	188,486

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 2.51%. In year 2010 the range of discount rates used was 3.23% - 4.45%.

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. The fair values cannot be reliably measured and therefore they are measured at cost. In addition, available-for-sale financial assets include 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.

FAIR VALUE HIERARCHY

(EUR thousand)

2011	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	2,268	760	3,028
Money market investments	-	-	-	-
Derivatives (in assets)	-	1,275	-	1,275
	-	3,543	760	4,303
Derivatives (in liabilities)	-	924	-	924

2010	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	1,926	768	2,694
Money market investments	-	33,955	-	33,955
Derivatives (in assets)	-	1,544	-	1,544
	-	37,425	768	38,193
Derivatives (in liabilities)	-	2,214	-	2,214

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: 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

(EUR thousand)	2011	2010
	Available-for-sale financial assets	Available-for-sale financial assets
Carrying amount at Jan 1	768	929
Translation differences in other comprehensive income	-19	12
Acquisitions	21	3
Disposals	-10	-9
Reclassifications to Level 3	-	186
Reclassifications from Level 3	-	-353
Carrying amount at Dec 31	760	768

In year 2011, gain on sales of available-for-sale financial assets were recognized EUR 12 (42) thousand and loss on sale amounted to EUR 4 (0) thousand. Gains on sales of these assets are included in other operating income and loss is recognized in other operating expenses.

In year 2010 the reclassifications from level 3 included transfer of Ekokem Oy shares to level 2 and the transfer of the land area in Poland to property, plant and equipment.

Reclassifications to level 3 included the shares of PPHU Polifarb sp.z.o.o. As the Group's ownership decreased below 20%, the remaining shares were reclassified to available-for-sale financial assets. Shares are measured at amortized costs as their fair values cannot be measured reliably.

34. Derivative instruments

Majority of derivative instruments of the Group will provide economic hedge, even though they do not qualify the hedge accounting under IAS 39. Derivative instruments are measured at fair value and changes of fair values are recognized immediately in profit or loss.

Tikkurila primarily hedges its net currency position with currency derivatives. As hedge accounting is not applied, changes in the fair values are immediately recognized in profit or loss under financial items.

In addition, the Group has hedged during the reporting period some of the future cash flows arising from the interest rate payments of its non-current loans with interest rate derivatives. Hedge accounting (IAS 39) is not applied, so fair value changes are recognized in profit or loss under financial items.

According the new financial management policy, approved in December 2011, Tikkurila does not use interest rate derivatives to hedge interest rate risk. Due to this policy change all interest derivatives were closed by the end of December.

Derivative liabilities are presented in the statement of financial position in " Accrued expenses and deferred income" and the derivative receivables are presented in "Accrued income and deferred expenses".

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

FAIR VALUES AND NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

2011 (EUR thousand)	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	1,197	-847	351	96,237
Interest rate derivatives				
Interest rate swaps	-	-	-	-

2010 (EUR thousand)	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	885	-1,590	-706	119,834
Interest rate derivatives				
Interest rate swaps	36	-	36	20,000

Derivative instruments in the comprehensive income (EUR thousand)	2011	2010
Financial income	8,534	5,331
Financial expenses	-8,131	-6,474

Derivative instruments in the statement of financial position (EUR thousand)	2011	2010
Accrued income and deferred expenses	1,275	1,544
Accrued expenses and deferred income	924	2,214

35. Financial risk management

TIKKURILA GROUP'S BUSINESS FROM THE FINANCIAL RISK POINT OF VIEW

INTERNATIONAL NATURE OF THE BUSINESS

Tikkurila operates in a geographically wide area selling products in about 40 countries. Due to special features of each geographical area, the business is exposed to various financial risks and, up to a certain extent, restrictions set by local legislation. Because major part of the revenues are generated 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 cash flows in EUR.

SEASONALITY

Since the sale of paints and other products of the Group typically correlate 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. The peak period of outdoor painting during summer months causes this seasonality in the Nordic countries, where weather conditions make it difficult of fully prevent to do the outdoor painting during winter time.

In addition to intra-year seasonality, construction with its related services, which is one of the essential customer segments for Tikkurila, is by nature very sensitive to economic conditions. These fluctuations are softened to a certain extent by the fact that Tikkurila's revenue is arising partly from new construction activity and partly from renovation activity. In addition, home decoration by consumers is not very sensitive to economic conditions although general economic development and customer confidence on economic development have an impact on it.

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 balance sheet items and financial risks.

THE OBJECTIVE AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

Financial risk management targets to lower the fluctuations of profitability and to increase the predictability of the business. Tikkurila Oyj's treasury acts as an internal bank for Group companies offering both short- and long-term funding, taking deposits and managing Group cash. The treasury is responsible for executing external financial transactions and subsidiaries are conducting their financial operations with parent company's treasury unless local law or other constraints prohibit.

The objective of financial risk management is to hedge according to defined principles Group's cash flow, statement of financial position and net profit from the adverse impact and fluctuation of financial risks. The aim is to keep the creditworthiness of Tikkurila Oyj on a good level. 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. Treasury department regularly reports the most important financial risks to the Tikkurila Management Board and to the Board of Directors of the parent company.

FINANCIAL INSTRUMENTS AND THEIR SIGNIFICANCE AND TREATMENT

The most significant items in Tikkurila's statement of financial position December 31, 2011 are different components of net working capital, cash and interest-bearing liabilities. Counterparty risks related to trade receivables and cash are central, and the creditworthiness of counterparties and using of several counterparties are key elements for managing the risk. Currency forwards are used to hedge exchange rate risks. The aim is to hedge partly the net risk position based on hedging policy defined by the Board of Directors. Tikkurila does not apply the IFRS hedge accounting. The treatment of financial instruments is described in more detail in "Accounting policies for the consolidated financial statements". The Group has not used any commodity derivatives during 2011 or 2010.

FOREIGN EXCHANGE RATE RISKS

The fluctuation of foreign exchange rates impact the Tikkurila Group from different angles:

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

The methods used for managing exchange rate risks:

- matching of certain currency outgoing and incoming cash flows on Group level; and
- diversification, i.e. using different currencies as different currencies do not correlate perfectly with each other; and
- currency clauses in both purchase and sales contracts; and
- use of derivative instruments.

Because the Group has not applied hedge accounting, the financial result of derivatives, which hedge business cash flows, is partially shown in different lines of the statement of comprehensive income (below EBIT) than exchange rate gains and losses of hedged cash flows (above EBIT or in the statement of financial position).

The changes of currency rates may have a significant indirect effect on the relative competitiveness of Tikkurila's competitors; therefore, it might have a negative impact on Tikkurila Group.

TRANSACTION RISK

During 2010 and 2011 about 80% of Tikkurila's revenue was generated outside the euro area, so currency 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 are 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 risk is followed and managed mainly at 12-month period because the reliability of longer forecasts is weak. Group companies report their 12-month currency exposures monthly, and the parent company's treasury consolidates Group's net currency exposure.

Transaction risk is hedged in the first place by matching currency denominated income and expenses and after that by commercial agreements (currency clauses). The remaining estimated 12-month net risk position is hedged by currency derivatives. The Board of Directors approved new financial risk management policy in December 2011. According to the policy the average hedge ratio of net exposure shall be 50%. At the end of year 2011, the hedge ratio, based on the estimated future 12 months net flows, was about 48%.

The Group purchases raw materials from several international suppliers and it 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 optional or require negotiations with customers.

(EUR thousand)

Transaction risk position	USD	SEK	NOK	DKK	PLN	RSD	RUB	BYR	UAH	Other
Dec 31, 2011										
Bank accounts	-	-13,807	-	-	3	-	1	-15	-	-36
Loans and deposits	-	-855	-1,475	3,027	-1,952	13,505	19,321	4,184	6,345	4,187
Trade receivables and payables	-109	1,041	7	-9	935	-	180	567	5,779	1,306
Estimated currency flow	-11,774	20,020	18,869	7,328	12,581	-5,786	45,508	7,295	3,844	13,984
Currency forwards	10,434	-4,825	-8,344	-	-4,329	-	-19,155	-	-	-11,607
Position after hedges	-1,449	1,574	9,057	10,346	7,238	7,719	45,855	12,031	15,968	7,834
Sales-related currency clauses*	-	-	-	-	-	-	-44,127	-	-	-
Open position	-1,449	1,574	9,057	10,346	7,238	7,719	1,728	12,031	15,968	7,834

(EUR thousand)

Transaction risk position	USD	SEK	NOK	DKK	PLN	RSD	RUB	BYR	UAH	Other
Dec 31, 2010										
Bank accounts	31	-	9	8	7	-	2	-	-	-
Loans and deposits	-	-12,519	-1,693	2,469	-2,336	-	12,419	2,400	6,137	2,690
Trade receivables and payables	-218	1,967	1,051	1,044	902	-	-1,098	346	4,625	1,547
Estimated currency flow	-11,160	32,212	7,553	5,673	11,693	-	42,718	4,174	2,666	15,059
Currency forwards	7,110	-14,500	-3,821	-	-1,208	-	-11,269	-	-	-6,594
Position after hedges	-4,237	7,159	3,101	9,193	9,058	-	42,771	6,920	13,428	12,702
Sales-related currency clauses*	-	-	-	-	-	-	-55,162	-	-	-
Open position	-4,237	7,159	3,101	9,193	9,058	-	-12,391	6,920	13,428	12,702

* The impact of currency clauses has been shown simplified so that it is estimated that they are executed in full, although this is does not always happen or there might be time lags.

Transaction risk position is a sum of currency denominated items in the statement of financial position, 12-month estimated currency flow and countervalue of these items expressed in functional currency of a subsidiary.

The impact of currency rate changes to profit before tax based on items in statement of financial position December 31, 2011:

	2011					2010				
(EUR thousand)	USD	SEK	RSD	UAH	NOK	USD	SEK	RSD	UAH	NOK
Impact of 10% weakening of currency	-939	1,680	-1,228	-1,102	892	-627	2,275	-	-965	407
Impact of 10% strengthening of currency	1,147	-2,053	1,501	1,347	-1,090	766	-2,781	-	1,179	-496

TRANSLATION RISK

In addition to translation risk affecting income statements when the currency denominated income statements are converted into euro, Tikkurila's equity is exposed to foreign exchange rate risk arising from net investments made to subsidiaries outside euro area. According to the financial management policy accepted by the Board of Directors in December 2011 translation risk is 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, 2011				
Equity	49,194	38,307	23,024	14,698
Impact of 10% strengthening of currencies on equity	5,466	4,256	2,558	1,633
Impact of 10% weakening of currencies on equity	-4,472	-3,482	-2,093	-1,336
	RUB	SEK	PLN	other
Dec 31, 2010				
Equity	50,966	40,331	25,806	9,483
Impact of 10% strengthening of currencies on equity	5,663	4,481	2,867	1,054
Impact of 10% weakening of currencies on equity	-4,633	-3,667	-2,346	-862

INTEREST RATE RISK

Tikkurila Group has had following interest-bearing assets and liabilities during 2011 and/or 2010:

Interest-bearing assets:

- cash
- time deposits
- investments in short-term interest-bearing securities of banks and corporates
- 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
- long-term loans from pension institution
- 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 new financial management policy, approved in December 2011, Tikkurila does not use interest rate derivatives to hedge interest rate risk. Due to this policy change Tikkurila Oyj closed EUR 40 million nominal value interest rate derivatives and booked the market value of EUR -720 thousand to financial income and expenses.

The share of fixed and floating rate assets and liabilities is presented in the table below. 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, 2011	Dec 31, 2010
Fixed rate		
Financial assets *	-	37,059
Financial liabilities	-44,085	-20,000
Net	-44,085	17,059
Floating rate		
Financial assets	-	-
Financial liabilities	-65,764	-127,979
Net	-65,764	-127,979

* Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 99 (EUR 79) million net debt position on December 31, 2011, the impact of one percentage point increase in interest rate to next year's profit before tax is EUR -0.9 million (EUR -0.0 million). The sensitivity analysis is based on assumption that the interest rate change will happen at the beginning of the year and that the change is parallel over the yield curve. In addition, it is assumed that the net debt position remains unchanged and the impact of currency rates is zero. Current loans are assumed to be renewed at due date. 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. Because of the seasonality of the business, the year-end net debt level is not typical for entire year, so interest rate sensitivity changes during the year.

CREDIT RISK

Credit risk is a risk that occurs when counterparty fails to meet its obligations, i.e. counterparty risk. At Tikkurila, the most significant items that are exposed to credit risk are trade receivables, current placements and cash.

The principles of managing credit risk of trade receivables are defined in the credit risk policy. The management of credit risk of trade receivables is decentralized to business units, but the parent company's treasury unit monitors the risk. Tikkurila's large and geographically divergent clientele reduces concentration of credit risk, although some big trade and retail paint chains have relatively big influence. Credit risk related to trade receivables is 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 selling.

Tikkurila uses advance payments and credit insurances to some extent to reduce credit risk.

Advance payments are used in Russia where about 11% of revenue in 2011 took place using advance payments.

Credit insurance is used in Poland where about 93% of trade receivable as of December 31, 2011 was insured. According to terms of the insurance Tikkurila is entitled to get 90% of the nominal amount, if the customer is not able to pay the invoice.

In Finland, Tikkurila reduced the credit risk by selling part of the receivables to a financing company on a non-recourse basis.

Credit risk related to current placements and cash is controlled by principles defined by the Board of Directors. Tikkurila manages this counterparty risk 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 deposit their surplus liquidity 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, 2011	Dec 31, 2010
Available-for-sale financial assets	21	3,028	2,694
Financial assets at fair value through profit or loss	24,34,25	1,275	35,499
Loans and other receivables	22, 23, 24, 25	98,302	108,646
Total		102,605	146,839

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

(EUR thousand)	Dec 31, 2011	Dec 31, 2010
EUR	17,103	38,693
SEK	25,773	22,279
RUB	21,499	14,539
PLN	12,054	11,851
DKK	3,740	3,967
RSD	3,476	-
UAH	4,841	4,306
Other	9,816	13,011
Total	98,302	108,646

Movement of allowance for impairment of trade receivables

(EUR thousand)	Dec 31, 2011	Dec 31, 2010
Balance at beginning of year	9,172	9,060
Exchange rate differences	-238	211
Additions	1,880	3,142
Realized	-622	-1,661
Acquisition / disposal of business	394	-
Decreases	-1,366	-1,580
Total	9,220	9,172

The ageing of loans and other receivables at December 31:

(EUR thousand)	Carrying amount Dec 31, 2011	Carrying amount Dec 31, 2010
Not past due	86,478	101,035
Past due 0 - 90 days	8,971	4,841
Past due 91 - 180 days	1,694	1,636
Past due 181 - 365 days	663	476
Past due over 365 days	496	658
Total	98,302	108,646

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 0.8 (1.9) million on past due loans and other receivables during the financial year 2011.

LIQUIDITY RISK

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 and by selling part of the receivables to a financing company. The surplus liquidity is kept on bank accounts or invested to highly liquid current placements.

During the year 2011 Tikkurila prepaid EUR 40 million bilateral loan from pension insurance company and rearranged EUR 180 million loan arrangement which was signed in 2010. The new EUR 180 million loan arrangement, which was signed in September 2011 with three banks, is divided to a EUR 60 million term loan with 5 year maturity and a EUR 120 million revolving credit facility which has three year maturity. Due to the restructuring of debt financing EUR 1.0 million financing expenses were recognized based on the accrued expenses of the original debt package that was repaid. The revolving credit facility includes an option to extend the maturity for additional two years at banks' discretion. In October 2011 Tikkurila signed also a EUR 25 million bilateral revolving credit facility. The loans have covenants which are linked to gearing and net debt to EBITDA- ratio. Gearing can be at maximum 1.30 and net debt to EBITDA ratio can be at maximum 3.50. When calculating these figures, the net debt is the average of the net debt from four preceding quarters, and EBITDA is the sum of the four preceding quarter EBITDA. If Tikkurila breaches these covenants, the loan will fall due immediately unless the lenders give a waiver. According to the arrangement, the consent from the borrowers is also needed for any significant investments or acquisitions. In addition to these facilities, Tikkurila has signed a commercial paper frame agreement, which has a EUR 100 million nominal capacity between 1 to 364 days.

In addition, as of December 31, 2011, Tikkurila has EUR 10 million committed credit facilities. At the end of 2011, Tikkurila had unused a EUR 115 million revolving credit facility and EUR 10 million credit facilities. At the end of reporting period the amount of cash in bank accounts was EUR 10 million.

The Group uses rolling cash flow estimates to manage liquidity risk. 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 uses different 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 east.

Contractual maturities of liabilities on December 31, 2011 are disclosed in following chart.

(EUR thousand) Dec 31, 2011	Carrying amount	Contractual cash flows	2012	2013	2014	2015	>2015
Loans from financial institutions	91,813	100,499	33,859	1,660	1,660	1,660	61,660
Commercial papers	10,957	11,000	11,000	-	-	-	-
Other interest-bearing liabilities	6,037	6,037	6,037	-	-	-	-
Finance lease liabilities	1,042	1,138	479	373	229	42	15
Trade payables	41,215	41,215	41,215	-	-	-	-
Contingent consideration	2,382	3,288	-	1,509	-	1,779	-
Guarantees	3,845	3,845	3,845	-	-	-	-
Total	**157,291**	**167,022**	**96,435**	**3,542**	**1,889**	**3,481**	**61,675**
Maturity of derivative financial assets / liabilities							
Currency forwards							
inflow	1,197	33,705	33,705	-	-	-	-
outflow	-847	-33,354	-33,354	-	-	-	-
Total	**351**	**351**	**351**	**-**	**-**	**-**	**-**

(EUR thousand) Dec 31, 2010	Carrying amount	Contractual cash flows	2011	2012	2013	2014	>2014
Loans from financial institutions	101,175	110,291	5,450	3,227	101,614	-	-
Loans from pension institutions	40,000	46,436	1,660	6,660	11,409	11,024	15,683
Other interest-bearing liabilities	6,341	6,341	6,341	-	-	-	-
Finance lease liabilities	419	445	293	128	22	2	0
Trade payables	38,445	38,445	38,445	-	-	-	-
Bank overdrafts	44	44	44	-	-	-	-
Guarantees	4,684	4,684	4,684	-	-	-	-
Total	191,108	206,686	56,917	10,015	113,045	11,026	15,683
Maturity of derivative financial assets / liabilities							
Currency forwards							
inflow	973	29,211	29,211	-	-	-	-
outflow	-1,679	-29,917	-29,917	-	-	-	-
Interest rate swaps	36	53	31	22	-	-	-
Total	-670	-653	-675	22	-	-	-

The figures are undiscounted.

PRICE RISK OF LONG-TERM INVESTMENTS

Tikkurila Oyj has shares of Ekokem Oy in its possession. These are valued at fair value at the end of reporting period. Shares are classified as available-for-sale so their unrealized fair value change, net of tax, is booked to other comprehensive income.

In addition to Ekokem shares, the Group holds a small number of unlisted shares that are measured at amortized cost. These shares are long-term investments related to personnel's recreational activities, and Tikkurila is not intending to sell them. 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.

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 up medium-term targets for the Group's gearing and return for capital employed (ROCE-%): the gearing shall be kept below 100% and return for capital employed shall improve continuously.

Some loan agreements of Tikkurila Oyj have covenants which are 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 non-recurring items. The Board of Directors proposes to the annual general meeting, which will be held March 28, 2012, that Tikkurila would pay EUR 0.73 per share dividend, which is about 88% of Group's 2011 net profit, excluding non-recurring items, net of tax.

(EUR thousand)	Dec 31, 2011	Dec 31, 2010
Equity	191,500	190,038
Non-controlling interest	-	-
Total	191,500	190,038
Non-current interest-bearing liabilities	60,345	139,282
Current interest-bearing liabilities	49,504	8,697
Cash and cash equivalents	10,426	69,372
Net debt	99,423	78,607
Gearing, %	51.9%	41.4%
Equity ratio, %	44.1%	41.1%
EBITDA	82,877	81,418
Net debt/EBITDA	1.20	0.97
Capital employed		
Goodwill	68,696	68,386
Investments in associates	971	668
Property, plant and equipment and intangible assets	142,725	145,280
Net working capital	96,202	73,048
Total	308,594	287,382

36. Operating leases

GROUP AS LESSEE

Lease payments are of premises, facilities, land, advertising space and storage space. 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)	2011	2010
Within one year	10,729	10,314
After one year and not later than five years	22,491	23,573
Later than five years	6,030	7,017
Total	39,250	40,904

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)	2011	2010
Within one year	608	546
After one year and not later than five years	416	409
Later than five years	1,098	1,198
Total	2,122	2,153

37. Contingent assets and liabilities and contractual commitments

(EUR thousand)	2011	2010
Mortgages given as collateral for liabilities in the statement of financial position		
Loans from pension institutions	-	40,000
Mortgages given	-	53,000
Other loans	-	-
Mortgages given	102	102
Total loans	-	40,000
Total mortgages given	102	53,102
Contingent liabilities		
Guarantees		
On behalf of own commitments	946	1,710
On behalf of others	2,899	2,974
Rent obligations	39,290	40,904
Total contingent liabilities	43,135	45,588

CONTRACTUAL COMMITMENTS:

Tikkurila Group had contractual commitments for purchase of property, plant and equipment total of EUR 3.8 million in 2011 (EUR 0.8 million in 2010).
In addition, Tikkurila Group has some commitments which are related to personnel's years in service as well as retiring. These commitments are not mandatory, but are rather established by a pattern of past practice. The amount of the obligation cannot be measured with sufficient reliability.

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, associates and joint ventures. In addition, Tikkurila's former parent company Kemira Plc and other Kemira Group companies were considered as related parties until March 26, 2010.

Related parties include members of Board of Directors and the Group's Board of Management, including CEO.

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)	Sales	Purchases	Receivables	Liabilities
2011				
Associates	20,229	1,244	3,780	-
Joint ventures	2,248	-	125	13
2010				
Associates	21,779	1,274	4,191	69
Joint ventures	2,049	-	111	15
Group companies of Kemira Plc [1)	74	1,603	-	-

[1) Group companies of Kemira Plc include both subsidiaries and associates of Kemira Group.
The related party transactions relating to the financial items are presented in the notes that relate to the particular financial item.

LOANS, GUARANTEES AND OTHER COLLATERALS GRANTED TO RELATED PARTIES

No loans, guarantees or other collaterals have been granted to the management in 2011 nor 2010.

DISPOSAL OF BUSINESSES TO FORMER MEMEBER OF RELATED PARTY

Tikkurila Group sold in December 2011 all shares of totally owned company Färgglädje Måleributiken i Alvik AB and business of a retail shop owned by Alcro-Beckers AB in Uppsala, Sweden. The buyers in the transaction include Niklas Frisk, acting earlier as a head of Tikkurila's SBU Scandinavia, and other private persons. Niklas Frisk was part of the Tikkurila Management Board until December 31, 2011. (Note 4.)

Moreover, Tikkurila has in November 2011 signed a letter of intent to sell the entire share capital of its three sales companies to a Czech company to be established by Tikkurila's local management. The assets and liabilities of these companies are classified as held for sale in financial statements. (Note 6.)

(EUR)	2011	2010
Management employee benefits [2)		
Wages, salaries and other short-term employee benefits	3,302,366	1,927,584
Post-employment benefits	158,032	137,576
Total	3,460,398	2,065,160

[2) Includes members of the Management Board (including CEO) and members of the Board of Directors.

(EUR)	2011	2010
Executive remuneration		
CEO		
Erkki Järvinen		
Fixed salary (fringe benefits included)	417,363	450,075
Bonuses	800,000	120,390
Total	1,217,363	570,465
Supplementary pension payments	55,125	52,500
Other Management Board memebers		
Fixed salary (fringe benefits included)	992,586	994,835
Termination benefits	101,687	-
Bonuses	755,129	96,084
Total	1,849,402	1,090,919
Supplementary pension payments	102,907	85,076
Board compensation		
Board members **)		
Jari Paasikivi, Chairman of the Board from February 8, 2010	66,000	74,400
(Vice-chairman until February 8, 2010)		
Petteri Walldén, Vice-chairman of the Board from February 8, 2010	41,800	49,300
Eeva Ahdekivi, member of the Board	39,400	44,700
Pia Rudengren, member of the Board	46,600	50,700
Riitta Mynttinen, memeber of the Board from March 31, 2011	39,400	-
Harri Kerminen, Chairman of the Board until February 8, 2010	-	-
Ove Mattsson, member of the Board until March 31, 2011	2,400	47,100
Total	235,600	266,200

**) 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 75 (72) thousand in year 2011.
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 months' salary. The CEO has the right to terminate his employment with 6 month's 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.

The retirement age of the other Management Board members is 63 years.

Tikkurila Group had a management's incentive program with the vesting period 2009-2010. Total of 13 persons were included in that incentive program. Due this program, payments made to CEO and other members of Management Board were as total of EUR 1.091 thousand during the year 2011.

In addition, Tikkurila Group had a bonus system for year 2011. Based on this system there were payments done in March 2011.

Tikkurila Group has a bonus system for companies' management and persons in specific positions in Group companies. The coverage and bonus criteria for each unit will be agreed between the President and CEO and the business unit or function leader. Bonus criteria consist of the Tikkurila Group and business unit operating profit, as well as function, region, company or team specific targets. In addition, the criteria include individual targets. The bonus shall be payable in March 2012.

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 %
2011				
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 Coatings Sp.z.o.o.	Debica	Poland	100	100
Tikkurila AB	Stockholm	Sweden	100	100
Tikkurila Coatings B.V. [1]	Rozenburg	The Netherlands	100	100
Tikkurila (China) Paints Co., Ltd [2]	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	100
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Kft [3]	Budapest	Hungary	100	100
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila Zorka d.o.o.	Sabac	Serbia	100	100
Tikkurila dooel	Skopje	Macedonia	100	-
Tikkurila s.r.o. [3]	Prague	Czech Republic	100	100
Tikkurila Slovakia s.r.o. [3]	Martin	Slovakia	100	100
Alcro-Beckers AB	Stockholm	Sweden	100	100
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Pigrol Farben GmbH	Ansbach	Germany	100	-
Tikkurila Romania s.r.l.	Pantelimon City	Romania	100	100

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2010				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
Tikkurila Kft	Budapest	Hungary	100	100
SIA Tikkurila	Riga	Latvia	100	100
Tikkurila Coatings Sp.z.o.o.	Debica	Poland	100	100
Tikkurila AB	Stockholm	Sweden	100	100
Tikkurila Coatings B.V.	Rozenburg	The Netherlands	100	100
OOO Tikkurila Coatings	St. Petersburg	Russia	100	100
Tikkurila (Beijing) Paints Co. Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
OOO Tikkurila Powder Coatings [4]	St. Petersburg	Russia	100	-
IP Tikkurila	Minsk	Belarus	100	100
TOO Tikkurila	Almaty	Kazakhstan	100	100
TOV Tikkurila	Kiev	Ukraine	100	100
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila s.r.o.	Prague	Czech Republic	100	100
Tikkurila Slovakia s.r.o.	Martin	Slovakia	100	100
Alcro-Beckers AB	Stockholm	Sweden	100	100
Färgglädje Måleributiken i Alvik AB	Bromma	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Pigrol Farben GmbH	Ansbach	Germany	100	-
Tikkurila Romania s.r.l.	Pantelimon City	Romania	100	100

[1] Company is in liquidation process.
[2] Former Tikkurila (Beijing) Paints Co. Ltd
[3] Assets and liabilities of the company are classified as held for sale in Financial statements 2011.
[4] Assets and liabilities of the company were classified as held for sale in Financial statements 2010.

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2011				
Alcro Parti AB	**Stockholm**	**Sweden**	**50.0**	-
2010				
Alcro Parti AB	Stockholm	Sweden	50.0	-

Associates	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2011				
Happy Homes i Sverige AB	**Stockholm**	**Sweden**	**45.1**	-
2010				
Happy Homes i Sverige AB	Stockholm	Sweden	45.1	-

40. Changes in group structure

CHANGES IN GROUP STRUCTURE DURING 2011

Tikkurila Group sold all the shares in a Russian subsidiary, OOO Tikkurila Powder Coatings. The sales and purchase agreement was signed in December 2010. The transaction was completed in January 2011. In Financial statements 2010, company's assets and liabilities were classified as held for sale.

Alcro-Beckers AB sold all shares in Färgglädje Måleributiken i Alvik AB as well as the assets of Alcro-Beckers AB's retail store in Uppsala, Sweden, as part of the disposed businesses in December 2011.

Tikkurila Group has signed a letter of intent to sell the all shares in three sales companies, Tikkurila Kft (Hungary), Tikkurila Slovakia s.r.o. (Slovakia) and Tikkurila s.r.o. (Czech Republic). The assets and liabilities of these three companies are classified as held for sale on December 31, 2011.

Tikkurila Oyj established a Serbian subsidiary in April 2011. Company is fully owned by Tikkurila Oyj. Name of the company was changed to Tikkurila Zorka d.o.o. in July 2011.

Tikkurila Zorka d.o.o. established in June 2011 a Macedonian subsidiary, Tikkurila dooel. Tikkurila d.o.o. owns the whole share capital of Tikkurila dooel.

The acquired business operations of Serbian paint company Zorka Color was transferred to both of the companies on July 1, 2011.

In Russia OOO Tikkurila Coatings merged to its sister company OOO Tikkurila in November 2011. Both companies were owned 100% by Tikkurila Oyj.

CHANGES IN COMPANY NAMES:

Former name:	New name:
Tikkurila (Beijing) Paints Co., Ltd	Tikkurila (China) Paints Co., Ltd.
Tikkurila d.o.o.	Tikkurila Zorka d.o.o.

CHANGES IN THE GROUP STRUCTURE DURING 2010

No disposals or acquisitions of Group companies occured in 2010.
Tikkurila Coatings (Ireland) Ltd was dissolved in September 2010.

CHANGES IN COMPANY NAMES:

Former name:	New name:
Tikkurila Coatings AB	Tikkurila AB
BNH Nya Hembutikerna AB	Happy Homes i Sverige AB *)

*) Associate

41. Events after the end of reporting period

Based on the group-wide efficiency program, which was launched in the fourth quarter of 2011, Tikkurila Oyj started co-operation negotiations in November in Finland. The negotiations targeted all personnel groups and functions of Tikkurila Oyj in Finland. As a result of the negotiations, a total of 62 persons, working in various functions of the company, were dismissed. Of these personnel reductions, altogether 39 employees were directors and other white-collar workers and 23 were blue-collar workers. The personnel reductions and related support activities are estimated to result in non-recurring expenses of EUR 1.5-2.0 million during the financial year 2012. Moreover, Tikkurila Oyj outsourced approximately 50 employees within site support services to ISS Palvelut Oy at the end of January 2012.

TIKKURILA OYJ INCOME STATEMENT (FAS)

(EUR thousand)	Note	Jan 1 - Dec 31, 2011	Jan 1 - Dec 31, 2010
Revenue	2	224,903	204,790
Change in inventories of finished goods and work in progress	4	5,570	-194
Other operating income	3	94	102
Materials and services	4	-119,486	-97,971
Personnel expenses	5	-45,069	-46,903
Depreciation, amortization and impairment losses	7	-6,295	-6,546
Other operating expenses	4,6	-33,021	-32,622
Operating profit		26,696	20,656
Financial income and expenses	8	17,534	4,196
Profit before extraordinary items		44,229	24,851
Profit before appropriations and taxes		44,229	24,851
Appropriations	7,9	2,290	1,057
Income tax	10	-6,696	-4,796
Net profit for the period		39,823	21,112

TIKKURILA OYJ BALANCE SHEET (FAS)

(EUR thousand)	Note	Dec 31, 2011	Dec 31, 2010
ASSETS			
Non-current assets	11		
Intangible assets		4,565	5,426
Tangible assets		24,871	26,399
Investments			
Holdings in Group companies		181,698	183,898
Other shares and holdings		652	642
Total investments		182,349	184,538
Total non-current assets		211,785	216,364
Current assets			
Inventories	12	31,665	25,706
Non-current receivables	13	24,833	12,291
Current receivables	13	57,247	48,413
Cash and cash equivalents		3,387	59,352
Total current assets		117,131	145,762
Total assets		328,916	362,126
EQUITY AND LIABILITIES			
Equity	14		
Share capital		35,000	35,000
Reserve for invested unrestricted equity		40,000	40,000
Retained earnings		40,204	49,967
Net profit for the period		39,823	21,112
Total equity		155,027	146,079
Appropriations	15	7,385	9,675
Provisions	16	182	182
Liabilities	17		
Non-current liabilities		60,000	140,000
Current liabilities		106,322	66,190
Total liabilities		166,322	206,190
Total equity and liabilities		328,916	362,126

TIKKURILA OYJ CASH FLOW (FAS)

(EUR thousand)	Jan 1 - Dec 31, 2011	Jan 1 - Dec 31, 2010
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before extraordinary items	44,229	24,851
Adjustments to operating result:		
Unrealized exchange gains and losses	-600	801
Depreciation,amortization and impairment losses	6,295	6,546
Interest income	-3,989	-3,358
Interest expenses	7,911	6,811
Dividend income	-29,302	-17,142
Other adjustments	599	72
Write-down of non-current assets	6,778	8,000
Other financial items	1,668	692
Total funds from operating activities before change in net working capital	33,591	27,274
Change in net working capital		
Change in inventories	-5,959	606
Change in current receivables	-816	3,091
Change in non-interest-bearing current liabilities	-1,110	3,183
Change in net working capital, total	-7,884	6,880
Interest and other financial expenses paid	-11,279	-5,335
Interest and other financial income received	4,311	1,640
Income taxes paid	-3,983	-8,625
Dividends received	9,017	17,082
Total cash flow from operating activities	23,773	38,916
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	-3,906	-2,151
Investments in Group companies	-4,578	-1,456
Investments in other shares	-10	-
Change in non-current loan receivables increase (-), decrease (+)	-2,636	-31,190
Proceeds from sales of tangible and intangible assets	-	4
Dividends received	120	60
Net cash used in investing activities	-11,010	-34,733
Cash flow before financing	12,763	4,182
CASH FLOW FROM FINANCING ACTIVITIES		
Acquisition of own shares	-	-72
Increase in non-current loans	60,000	140,000
Decrease in non-current loans	-140,000	-105,240
Change in current financing increase (+), decrease (-)	42,147	20,473
Dividends paid	-30,876	-
Net cash used in financing activities	-68,729	55,161
Net change in cash and cash equivalents	-55,965	59,344
Cash and cash equivalents at Dec 31	3,387	59,352
Cash and cash equivalents at Jan 1	59,352	9
Change in cash and cash equivalents	-55,965	59,344

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 when the company's parent company at the time, Kemira Oyj, distributed Tikkurila's shares as dividend to Kemira Oyj's shareholders. 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 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, FINANCIAL LIABILITIES AND DERIVATIVES

Financial assets and financial liabilities except derivatives are measured at amortized cost, less any impairment losses. Derivative agreements are recognized at fair value and the changes of fair values are presented in financing items.

The principles for accounting and valuing methods have been stated in consolidated accounting policies.

Investments in commercial papers are measured at fair value.

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.

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTIZATION

Non-current asset are recognized in the balance sheet at historical acquisition cost less cumulative 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	10 - 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

Tikkurila Oyj's inventories are stated at the lower of cost and net realizable value.

Inventory cost is determined using the first-in, first-out (FIFO) method or the weighted average cost method. The cost of finished goods comprises direct costs, production costs and related appropriate production and supply overheads and fixed general costs and production and supply related non-current assets' planned depreciations and amortizations and insurance expenses.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs have been expensed. Development expenses have not been activated because they do not fulfill the activating requirements. The future economical benefits of new or improved products can be realized only so late stage that amount to be activated would be immaterial and therefore no activating has been done.

LEASE

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

2. Revenue

	2011	2010
Revenue by geographical segment, % of total revenue	%	%
Finland	48	52
Other EU countries	24	23
Other Europe	25	23
Other countries	2	2
Revenue by geographical segment, total	100	100

3. Other operating income

(EUR thousand)	2011	2010
Gains on sale of non-current assets	-	2
Other income from operations	94	100
Other operating income, total	94	102

4. Other operating expenses

(EUR thousand)	2011	2010
Change in inventories of finished goods and work in progress	5,570	-194
Materials and services		
Materials and supplies		
Purchases during the financial year	-119,184	-96,593
Change in inventories of materials and supplies	389	-498
External services	-691	-880
Total materials and services	-119,486	-97,971
Personnel expenses	-45,069	-46,903
Rents	-1,716	-1,553
Loss on sales of non-current assets	-	-2
Other expenses	-31,305	-31,067
Total other operating expenses	-192,006	-177,690

5. Personnel expenses and number of personnel

(EUR thousand)	2011	2010
Wages and salaries	-35,255	-37,074
Pension expenses	-7,224	-7,674
Other personnel expenses	-2,590	-2,155
Total personnel expenses	-45,069	-46,903
Management remunerations and emoluments		
Members of the Board of Directors and CEO	-1,453	-837

REMUNERATION OF CEO

(EUR thousand)	2011	2010
Fixed salary	-417	-450
Bonuses	-800	-120
Total	-1,217	-570
Supplementary pension payments	-55	-53

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 months' salary. The CEO has the right to terminate his employment with 6 month's period of notice.
The age of retirement for the CEO is 63 years. CEO has a supplementary pension insurance. 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.

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS

(EUR thousand)	2011	2010
Jari Paasikivi	-66	-74
Petteri Walldén	-42	-49
Harri Kerminen, until February 8, 2010	-	-
Pia Rudengren	-47	-51
Eeva Ahdekivi	-39	-45
Riitta Mynttinen as from March 31, 2011	-39	-
Ove Mattsson until March 31, 2011	-2	-47
Total	-236	-266

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2011 or in 2010.

Number of personnel	2011	2010
Average number of white-collar employees	417	423
Average number of blue-collar employees	363	377
Personnel (average)	780	800

6. Auditor's fees

(EUR thousand)	2011	2010
KPMG Oy Ab, Authorized Public Accountants		
Audit fees	-84	-124
Tax consultancy	-12	-2
Other fees	-125	-308
Other audit firms		
Other fees	-101	-38
Auditing fees, total	-323	-472

7. Depreciation, amortization and impairment losses

(EUR thousand)	2011	2010
Depreciation according to plan		
Intangible asset		
Goodwill	-948	-1,133
Other capitalized expenditure	-1,042	-975
Tangible assets		
Buildings and structures	-1,771	-1,765
Machinery and equipment	-2,508	-2,648
Other tangible assets	-26	-25
Total depreciation and amortization	-6,295	-6,546
Change in depreciation difference		
Intangible assets	-5	-
Other capitalized expenditure	664	477
Buildings and structures	959	813
Machinery and equipment	646	-258
Other tangible assets	26	25
Total	2,290	1,057

There were no impairments included in depreciations in year 2011, neither in year 2010.

8. Financial income and expenses

(EUR thousand)	2011	2010
Financial income		
Dividend income		
Dividend income from Group companies	29,182	17,082
Dividend income from others	120	60
Total dividend income	29,302	17,142
Interest income		
Interest income from non-current investments from others	7	8
Interest income from current investments from Group companies	3,511	2,514
Interest income from current investments from others	470	836
Total interest income	3,989	3,358

(EUR thousand)	2011	2010
Other financial income		
Other financial income from Group companies	-	80
Total other financial income	-	80
Exchange gains		
Exchange gains from Group companies	905	2,207
Exchange gains from others	7,298	4,587
Total exchange gains	8,203	6,794
Total financial income	41,494	27,374
Write-down of non-current investments		
From holdings in subsidiaries	-6,778	-8,000
Total write-down of non-current investments	-6,778	-8,000
Financial expenses		
Interest expenses		
Interest expenses to Group companies	-610	-795
Interest expenses to others	-7,301	-6,017
Total interest expenses	-7,911	-6,811
Other financial expenses		
Other financial expenses to others	-2,203	-1,098
Other financial expenses, total	-2,203	-1,098
Exchange losses		
Exchange losses to Group companies	-1,732	-1,738
Exchange losses to others	-5,336	-5,532
Total exchange loss	-7,068	-7,269
Total financial expenses	-17,182	-15,178
Total financial income and expenses	17,534	4,196
Exchange gains and losses		
Realized	535	326
Unrealized	600	-801
Total exchange gains and losses	1,135	-475

9. Change in appropriations

(EUR thousand)	2011	2010
Change in depreciation difference	2,290	1,057
Change in appropriations, total	2,290	1,057

10. Income taxes

(EUR thousand)	2011	2010
Income tax for current year	-6,723	-4,538
Income tax for previous year	35	-250
Change in deferred taxes	-7	-8
Total income taxes	-6,696	-4,796

11. Non-current assets

INTANGIBLE ASSETS

(EUR thousand)	2011	2010
Goodwill		
Acquisition cost at beginning of year	10,291	10,291
Carrying amount at year end	10,291	10,291
Accumulated amortization at beginning of year	-8,404	-7,271
Amortization during the financial year	-943	-1,133
Accumulated amortization at year end	-9,347	-8,404
Carrying amount at year end	943	1,887
Other capitalized expenditure		
Acquisition cost at beginning of year	8,683	7,915
Increase	357	768
Acquisition cost at year end	9,040	8,683
Accumulated amortization at beginning of year	-5,401	-4,427
Amortization during the financial year	-1,047	-975
Accumulated amortization at year end	-6,448	-5,401
Carrying amount at year end	2,592	3,282
Advance payments and assets under construction		
Acquisition cost at beginning of year	257	329
Change during the year	773	-72
Carrying amount at year end	1,029	257
Total intangible assets	4,565	5,426

TANGIBLE ASSETS

(EUR thousand)	2011	2010
Land and water		
Acquisition cost at beginning of year	2,020	2,020
Acquisition cost at year end	2,020	2,020
Buildings and constructions		
Acquisition cost at beginning of year	34,225	33,899
Increase	267	340
Decrease	-	-15
Acquisition cost at year end	34,492	34,225
Accumulated depreciation at beginning of year	-24,942	-23,189
Accumulated depreciation related to decrease	-	11
Depreciation during the financial year	-1,771	-1,765
Accumulated depreciation at year end	-26,713	-24,942
Carrying amount at year end	7,779	9,282

(EUR thousand)	2011	2010
Machinery and equipment		
Acquisition cost at beginning of year	52,511	51,290
Increase	955	1,222
Acquisition cost at year end	53,466	52,511
Accumulated depreciation at beginning of year	-37,816	-35,168
Depreciation during the financial year	-2,508	-2,648
Accumulated depreciation at year end	-40,324	-37,816
Carrying amount at year end	13,143	14,695

The carrying amount of production machinery and equipment was EUR 9,199 thousand (EUR 10,422 thousand).

(EUR thousand)	2011	2010
Other tangible assets		
Acquisition cost at beginning of year	1,094	1,094
Acquisition cost at year end	1,094	1,094
Accumulated depreciation at beginning of year	-858	-833
Depreciation during the financial year	-26	-25
Accumulated depreciation at year end	-884	-858
Carrying amount at year end	209	236
Advance payments and assets under construction		
Acquisition cost at beginning of year	165	271
Change during the year	1,554	-106
Carrying amount at year end	1,720	165
Total tangible assets	24,871	26,399

INVESTMENTS

(EUR thousand)	2011	2010
Holdings in Group companies		
Acquisition cost at beginning of year	183,898	190,462
Increase	4,581	1,456
Decrease	-6,781	-8,020
Carrying amount at year end	181,698	183,898
Other shares and holdings		
Acquisition cost at beginning of year	642	642
Increase	10	-
Carrying amount at year end	652	642
Total investments	182,349	184,539

12. Inventories

(EUR thousand)	2011	2010
Materials and supplies	10,262	9,653
Work in progress	282	607
Finished goods	21,120	15,360
Advance payments	0	86
Total inventories	31,665	25,706

13. Receivables

(EUR thousand)	2011	2010
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	24,230	10,558
Loan receivables from others	115	151
Total non-current interest-bearing receivables	24,346	10,709
Non-current interest-free receivables		
Loan receivables from Group companies	602	1,511
Total non-current interest-free receivables	602	1,511
Deferred tax assets	64	71
Total non-current receivables	25,012	12,291
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	1,160	1,217
Current interest-bearing receivables from Group companies	30,031	20,338
Total current interest-bearing receivables	31,192	21,555
Current interest-free receivables		
Loan receivables from others	60	100
Other current receivables from others	26	12
Trade receivables		
Trade receivables from Group companies	12,254	10,386
Trade receivables from others	8,741	10,355
Total trade receivables	20,995	20,741
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	1,240	559
Deferred expenses from others	3,555	5,445
Total deferred expenses and accrued income	4,795	6,004
Total current interest-free receivables	25,876	26,858
Total current receivables	57,068	48,413
Total receivables	82,080	60,704

(EUR thousand)	2011	2010
Deferred expenses and accrued income		
Interest income	207	182
Derivatives	1,276	1,544
Income taxes	-	816
Insurances	75	234
Others	3,237	3,229
Total deferred expenses and accrued income	4,795	6,004

14. Equity

(EUR thousand)	2011	2010
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	71,079	49,967
Dividends	-30,876	-
Retained earnings at December 31	40,204	49,967
Net profit for the period	39,823	21,112
Retained earnings and net profit for the period at December 31	80,027	71,079
Total unrestricted equity	120,027	111,079
Total equity at December 31	155,027	146,079
Distributable funds at December 31		
Reserve for invested unrestricted equity	40,000	40,000
Retained earnings	40,204	49,967
Net profit for the financial year	39,823	21,112
Distributable funds	120,027	111,079

*) Reserve for invested unrestricted equity can be distributed as repayment of capital. It cannot be distributed as dividends.

15. Appropriations

(EUR thousand)	2011	2010
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and structures	-1,878	-1,041
Machinery and equipment	7,560	8,328
Other tangible assets	92	119
Other capitalized expenditure	1,606	2,270
Intangible rights	5	0
Total accumulated depreciation difference	7,385	9,675
Change in depreciation difference		
Depreciation difference at January 1	9,675	10,732
Change in depreciation difference in income statement	-2,290	-1,057
Depreciation difference at December 31	7,385	9,675

16. Provisions

(EUR thousand)	2011	2010
Other provisions	182	182

17. Liabilities

(EUR thousand)	2011	2010
Non-current liabilities		
Loans from financial institutions	60,000	100,000
Loans from pension institutions	-	40,000
Other non-current liabilities to group companies	0	0
Total non-current liabilities	60,000	140,000
Maturity of non-current liabilities		
Maturity		
2011 (2012)	-	5,000
2014 (2013)	-	110,000
2015 (2014)	-	10,000
2016 (2015)	60,000	10,000
2017 (2016)	-	5,000
Total non-current liabilities	60,000	140,000

The company has no debentures or other bond loans.

(EUR thousand)	2011	2010
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	22,719	21,223
Other interest-bearing liabilities to others	46,993	6,341
Total other interest-bearing liabilities	69,712	27,564
Total current interest-bearing liabilities	69,712	27,564

(EUR thousand)	2011	2010
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	788	374
Trade payables to others	13,575	13,263
Total trade payables	14,363	13,637
Accrued expenses and deferred income		
to Group companies	36	111
to others	21,062	23,679
Total accrued expenses and deferred income	21,097	23,789
Other interest-free liabilities to others	1,150	1,199
Total current interest-free liabilities	36,610	38,625
Total current liabilities	106,322	66,190
Accrued expenses and deferred income		
Personnel expenses	9,907	9,163
Related to sales	7,352	6,498
Interest	506	1,593
Income taxes	1,732	262
Derivatives	925	2,213
Other	676	4,060
Total accrued expenses and deferred income	21,097	23,789

18. Contingent liabilities

(EUR thousand)	2011	2010
Lease liabilities		
Maturity within one year	1,170	1,040
Maturity later than one year	1,669	1,240
Total lease liabilities	2,839	2,280
Loans secured with mortgages		
Loans from pension institutions	-	40,000
Mortgages given	-	53,000
Guarantees		
On behalf of Group companies	21,981	21,029

19. Derivative instruments

	2011		2010	
(EUR thousand)	Nominal value	Fair value	Nominal value	Fair value
Currency derivatives				
Currency forwards	96,237	351	119,834	-706
Interest rate derivatives				
Interest rate swaps	-	-	20,000	36

SHARES AND SHAREHOLDERS

SHARES AND SHARE CAPITAL

At the end of 2011, 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 2011, Tikkurila held no treasury shares.

BOARD AUTHORIZATIONS

On March 31, 2011, 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 the company's unrestricted equity in one or more tranches. The proposed maximum amount of the authorization corresponds to approximately ten percent of all the shares in the company.

The company's own shares can be repurchased through public trading, due to which the repurchase will take place in directed manner, i.e. otherwise than 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 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 will decide upon other terms related to repurchase of shares.

The repurchase authorization will be valid for a period of 18 months from the resolution of the Annual General Meeting. As of December 31, 2011, 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 a maximum of 4,400,000 company's own shares held by the company and to issue a maximum of 4,400,000 new shares in one or more tranches. The proposed maximum aggregate amount of the authorizations corresponds to approximately 20 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 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 implementing the share-based incentive programs of the company. A directed share issue may be carried out without payment only in connection with 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 will decide upon other terms related to share issues.

The authorization to issue shares will be valid for a period of three years from the resolution of the Annual General Meeting. As of December 31, 2011, the Board of Directors had not exercised 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 2011, the closing price for the Tikkurila share was EUR 12.89. The share price of Tikkurila declined by 22 percent in 2011. The OMX Helsinki CAP, i.e. the portfolio index of NASDAQ OMX Helsinki, declined by 29 percent during the year 2011. The volume-weighted average share price for the review period January–December was EUR 15.26, the highest price being EUR 16.92, and the lowest EUR 12.13. At the end of 2011, the market value of Tikkurila's shares, valued at the closing price, was EUR 568.6 million. During January–December 2011, a total of 24.1 million Tikkurila shares, corresponding to about 54.7 percent of the registered amount of shares, were traded on NASDAQ OMX Helsinki, and the value of the traded volume was EUR 368.4 million.

HOLDINGS OF TIKKURILA'S BOARD OF DIRECTORS AND MANAGEMENT BOARD

Tikkurila Board members and their interest parties held altogether 43,249 shares on December 31, 2011, which is approximately 0.1 percent of the share capital and votes in Tikkurila. 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.

The Tikkurila Management Board and their interest parties held altogether 4,825 shares on December 31, 2011, which is approximately 0.01 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available on www.tikkurilagroup.com/corporate_governance/insiders/.

INCENTIVE PLANS

There are no option programs or share-based incentive plans in Tikkurila.

DIVIDEND POLICY

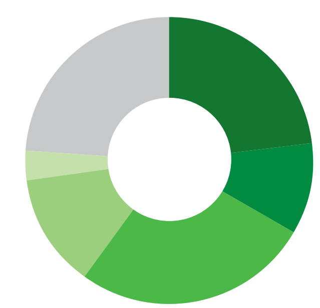
According to Tikkurila's dividend policy, Tikkurila aims to distribute a dividend of at least 40 percent of its annual operative net income. Operative net income means net profit for the period excluding non-recurring items and adjusted for tax effects.

The Board of Directors proposes to the Annual General Meeting to be held on March 28, 2012, that a dividend of EUR 0.73 per share will be distributed for the year ended on December 31, 2011. The proposed dividend corresponds to approximately 88 percent of operative net income.

SHAREHOLDERS

According to Euroclear Finland Oy's register, Tikkurila had a total of 22,842 shareholders on December 31, 2011, 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.

Breakdown by shareholder category on December 31, 2011



- 23.1% Private companies
- 10.5% Financial and insurance institutions
- 26.5% Public sector organizations
- 13.0% Households
- 3.1% Non-profit organizations
- 23.9% Foreigners and Nominee registered

DISCLOSURE OF CHANGES IN HOLDINGS IN 2011

Kemira Oyj announced on March 31, 2011, that its holding in Tikkurila shares fell below 1/10 (10%) and 1/20 (5%) threshold, and that its current holding in Tikkurila shares is 0 percent. Prior to the trades, the holding of Kemira amounted to 6,175,155 Tikkurila shares, which corresponded to 14.0 percent of the total amount of shares and votes in Tikkurila.

Ilmarinen Mutual Pension Insurance Company announced on August 5, 2011, that its holding in shares of Tikkurila Oyj exceeded the 1/10 (10%) threshold. The holding of Ilmarinen Mutual Pension Insurance Company in Tikkurila amounted to 4,461,823 shares, which corresponds to 10.1 percent of the total amount of shares and votes in Tikkurila.

Orkla ASA announced on August 10, 2011, that its holding in shares of Tikkurila exceeded the 1/20 (5%) threshold. The holding of Orkla ASA in Tikkurila amounted to 2,722,404 shares, which corresponds to 6.2 percent of the total amount of shares and votes in Tikkurila.

Tikkurila's largest shareholders on December 31, 2011

		Number of shares	% of share capital
1	Oras Invest Oy	7,969,552	18.1
2	Ilmarinen Mutual Pension Insurance Company	4,595,335	10.4
3	Varma Mutual Pension Insurance Company	3,796,459	8.6
4	Mandatum Life Insurance Company Ltd.	2,090,049	4.7
5	Tapiola Mutual Pension Insurance Company	1,798,906	4.1
6	Kaleva Mutual Insurance Company	660,584	1.5
7	The State Pension Fund	557,000	1.3
8	Alfred Berg Mutual Fund	462,237	1.1
9	Keva	351,519	0.8
10	Wipunen Varainhallinta Oy	305,000	0.7
	10 largest registered shareholders total	22,586,641	51.2
	Nominee registered shares	10,113,622	22.9
	Other shares	11,407,989	25.9
	Total	44,108,252	100.0

Breakdown of share ownership on December 31, 2011

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	11,651	51.0	537,129	1.2
101–1 000	9,966	43.6	3,075,081	7.0
1 001–10 000	1,091	4.8	2,799,715	6.4
10 001–100 000	109	0.5	3,241,947	7.4
100 001–1 000 000	18	0.1	4,417,874	10.0
yli 1 000 000	7	0.0	30,036,506	68.1
Total	22,842	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 120,026,721.17 of which EUR 39,823,127.15 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.73 per share be distributed as dividend from the net profit for the year and from retained earnings. The total dividend would amount to EUR 32,199,023.96. EUR 87,827,697.21 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 15, 2012

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

Erkki Järvinen
CEO

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF TIKKURILA OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Tikkurila Oyj for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

The Board of Directors and the President and CEO 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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Vantaa, 15 February 2012

KPMG OY AB

Pekka Pajamo
Authorized Public Accountant

TIKKURILA'S CORPORATE GOVERNANCE STATEMENT 2011

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 at www.tikkurilagroup.com, as well as is included in the 2011 Annual Report.

GENERAL PRINCIPLES AND FRAMEWORK

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

- the Finnish Companies Act;
- the Finnish Securities Market Act;
- the Finnish Corporate Governance Code (which can be found in full at e.g. www.cgfinland.fi);
- the Articles of Association of Tikkurila;
- the standards issued by the Finnish Financial Supervision Authority;
- the rules and regulations of Nasdaq OMX Helsinki Ltd.;
- the Helsinki Takeover Code, issued by the Finnish Central Chamber of Commerce; and
- other legislation or regulations applicable to the Group's business.

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

As the Group's business is either directly or indirectly dependant on markets outside of the domicile of Tikkurila Oyj, relevant local (i.e. non-Finnish) laws and regulations are also taken into account in the Group's operations.

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

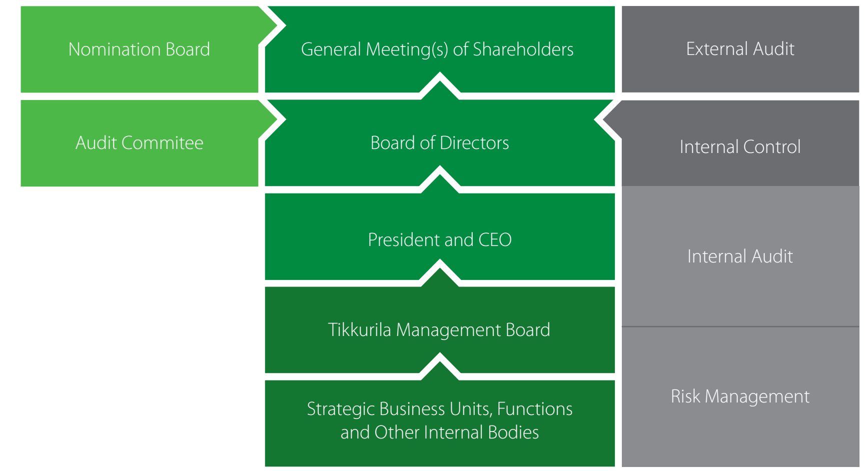
ANNUAL GENERAL MEETING OF SHAREHOLDERS (AGM)

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

- the adoption of the financial statements of the previous financial year;
- the use of profit as stated by the adopted and audited financial statements;
- the number of members on the Board of Directors;
- the election of members of the Board of Directors;
- the remuneration of the members of the Board of Directors;

OVERVIEW OF TIKKURILA'S GOVERNING BODIES

The following diagram summarizes the key governing bodies of Tikkurila:



- the election of the Auditor;
- the compensation to be paid to the Auditor;
- the discharging from liability of the members of the Board and the President and CEO;
- any proposals by the Board of Directors or by the shareholders or group of shareholders related to e.g. authorizations granted to the Board, share buy-backs or granting of special rights related to shares; and
- any changes in the Articles of Association.

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

The decisions of the shareholders' meeting during 2011 are presented in the 2011 Board of Directors' report, and all the meeting materials and decisions are published on the company's website. The Annual General Meeting in 2012 will be held on March 28, 2012.

NOMINATION BOARD

The Annual General Meeting of Tikkurila held on March 31, 2011, decided to establish a Nomination Board consisting of shareholders or representatives of shareholders to prepare and present a proposal for the next Annual General Meeting concerning the composition and remuneration of the Board of Directors.

The Nomination Board was convened so that each of the company's three largest shareholders registered on August 31, 2011 as shareholders in the shareholders' register maintained by Euroclear Finland Ltd and having the most voting rights were requested to appoint one member to the Nomination Board. In addition, the Chairman of the Board of Directors of Tikkurila acted as an expert member of the Nomination Board.

Hence, the members of the Nomination Board, as of September 9, 2011, have been: Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy; Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company; and Risto Murto, Executive Vice President of Varma Mutual Pension Insurance Company. The fourth member of the Nomination Board is Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj, who acts as an expert member.

During 2011, the Nomination Board convened three times.

BOARD OF DIRECTORS

The duties and responsibilities of the Board of Directors are governed by the Finnish Companies Act and other relevant legislation. The Board of Directors oversees the management and business operations of Tikkurila. The main duties of the Board include:

- to approve the strategy of the Group;
- to decide on long-term financial and operational goals;
- to approve annual budgets and medium-term business plans;
- to decide on any major corporate restructuring, merger, acquisition or divestment;
- to decide on major investments as well as major expenses, commitments and internal policies;

- to decide on key funding and risk management issues and related pledges and commitments;
- to approve or confirm the appointment and remuneration of the Group management;
- to appoint and dismiss the Group President and CEO, and to appoint the members of the Tikkurila Management Board;
- to monitor and evaluate the performance of the Group President and CEO;
- to ensure the adequacy of planning, information and control systems, as well as the handling of financial reporting and risk management;
- to make proposals for, including but not limited to proposing the dividend payout, and to convene the Annual General Meeting;
- to oversee that the Group's disclosure policy is applied; and
- to ensure that the supervision of the accounting and financial matters, and any audits thereby, are properly organized.

The Board of Directors represents all the shareholders and shall always work to the best advantage of the Group and all the shareholders of Tikkurila Oyj.

In accordance with the Articles of Association, the Board of Directors of Tikkurila Oyj comprises 3–7 members elected by the Annual General Meeting for a term that lasts until the end of the next Annual General Meeting. The Board of Directors elects the Chairman and the Vice Chairman within its members immediately after the Annual General Meeting of the Shareholders. The Board is convened by the Chairman. The Board of Directors has a quorum when more than half of its members attend the meeting. The President and CEO, as well 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.

According to the decision of the Annual General Meeting that took place in March 2011, the Board has five members. The members of the Board are Jari Paasikivi (Chairman), Petteri Walldén (Vice Chairman), Eeva Ahdekivi, Riitta Mynttinen and Pia Rudengren. Ove Mattsson served as a Board member until March 2011.

All of the Board members are independent of the company, and four members out of five are also independent of major shareholders. Chairman of the Board, Jari Paasikivi, is the CEO of Oras Invest Oy, and hence not independent of the key shareholders, since Oras Invest Oy owns about 18 percent of Tikkurila Oyj's shares.

During 2011, the Board of Directors revised the Group strategy, and started to oversee the implementation of the strategy. Moreover, the Board decided on the strategic bolt-on acquisition in Serbia, which geographically expanded the Group's SBU CEE operations.

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

During 2011, the Board held 14 meetings, and the attendance rate was 99 percent.

🗋 More detailed information is presented of the members of the Board of Directors on pages 30–31.

REMUNERATION OF THE BOARD OF DIRECTORS

The Annual General Meeting decided on March 2011 on the remuneration to be paid to the members of the Board. According to that decision, the Board remuneration was the following:

- Chairman of the Board, EUR 57,000 per year;
- Deputy Chairman of the Board, EUR 37,000 per year; and
- other members of the Board, EUR 31,000 per year.

The annual remuneration of the Board members was paid as a combination of shares and cash so that 40 percent of the annual remuneration 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;
- EUR 1,200 per meeting to members living in other EU countries; and
- EUR 2,400 per meeting to members living outside the EU.

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

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

AUDIT COMMITTEE

The Chairman of the Audit Committee is Eeva Ahdekivi, and the members are Pia Rudengren and Jari Paasikivi.

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

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

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

During 2011, the Audit Committee met five times. The attendance rate was hundred percent. The Group's CFO Jukka Havia acted as the Secretary of the Committee, and Tikkurila's principal auditor Pekka Pajamo was present in the meetings and presented reports to the Audit Committee. In addition, Tikkurila's internal auditor reported audit findings to the Audit Committee during the year.

In the financial year 2011, the Audit Committee oversaw and edited the Group interim reports before Board perusal, discussed results guidance and new guidelines pertaining to it, studied internal and external audit reports and prepared the next year's audit plans and the election of Auditor, to be presented to the Annual General Meeting 2011. The Audit Committee also mapped the largest risks, including strategic risks, of Tikkurila.

INFORMATION ON THE REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND TIKKURILA MANAGEMENT BOARD

(EUR million)	Persons	Fees paid in shares	Fees paid in cash	Salary and Fringe Benefits	Bonuses	Pension benefits	Total
Board of Directors							
Chairman	1	0.0	0.0				0.1
Other members, total	5	0.1	0.1				0.2
Board of Directors, total		0.1	0.2				0.2
Tikkurila Management Board							
President and CEO	1			0.4	0.8	0.1	1.3
Other members, total	7			1.1	0.8	0.1	2.0
Tikkurila Management Board, total				1.5	1.6	0.2	3.2

PRESIDENT AND CEO

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

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

TIKKURILA MANAGEMENT BOARD

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

In 2011, the Tikkurila Management Board comprised of the following persons:

- Erkki Järvinen, President and CEO, Group (Chairman)
- Jukka Havia, Chief Financial Officer, Group
- Janno Paju, Senior Vice President, SBU East (Chief Commercial Officer as of January 1, 2012)
- Petri Miettinen, Group Vice President, Supply Chain & HSEQ
- Kenneth Sundberg, Group Vice President, R&D
- Arto Lehtinen, Senior Vice President, SBU Finland (until December 31, 2011)
- Niklas Frisk, Senior Vice President, SBU Scandinavia (until December 31, 2011)
- Ilpo Jousimaa, Senior Vice President, SBU Central Eastern Europe (until December 2, 2011)

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 compensation for the members of the Management Board.

In 2011, the Tikkurila Management Board had three preparatory bodies set to prepare and discuss operational issues to be decided by the Tikkurila Management Board:

BUSINESS BOARD

Chaired by Anna-Lena Högfeldt, Group Vice President, Marketing
Including: SBU leaders, Marketing, CEO, CFO

OPERATIONS BOARD

Chaired by Petri Miettinen, Group Vice President, Supply Chain & HSEQ
Including: Supply Chain Management, R&D, Marketing

CORPORATE OFFICE

Chaired by Jukka Havia, CFO
Including: Finance, HR, IT, Legal, Communications

Tikkurila has operations in multiple countries, and hence also has a large number of legal entities in various countries. The President and CEO is the decision-maker for any major decisions, which do not require the Board of Directors' resolution, and the Group or regional management teams make the operational decisions. The Boards of Directors of Tikkurila's subsidiaries do not have any independent operational or other major decision-making power, but the subsidiary boards ensure that local legal entities are managed in accordance with local laws and regulations, as well as in accordance with the Tikkurila Group's internal policies.

REMUNERATION OF THE TIKKURILA MANAGEMENT BOARD MEMBERS

The Board of Directors determines the President and CEO's and other executives' salaries and other remuneration, as well as employment terms. The President and CEO and other executives form the Management Board of the Tikkurila Group.

Remuneration of the Management Board consists of total salary and performance-based bonuses. Total salary includes salary in money and taxable benefits. Performance-based bonuses are determined by the achievement of Group and business area-specific performance targets for each financial year. The performance-based bonuses consist of cash bonuses.

During 2011 or previous years, Tikkurila did not have any share-based incentive schemes in use.

REMUNERATION OF THE PRESIDENT AND CEO IN 2011

The total salary, including base salary, bonuses and taxable benefits, paid during the financial period of 2011 to President and CEO Erkki Järvinen was EUR 1,217,363. The bonus accrued to the CEO in relation to the financial year of 2011 will be paid in March 2012, and that bonus may not exceed 50 percent of his annual salary.

President and CEO Erkki Järvinen is entitled to retire at the age of 63 and has a defined contribution-based supplementary pension plan. In 2011, the cost of the supplementary pension was EUR 55,125. The pension is based on a defined contribution pension scheme.

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 employment.

The President and CEO was a member of the 2011 management bonus scheme. The principles of the incentive system are described in more detail in the "Management Bonus Scheme for 2011".

REMUNERATION OF THE TIKKURILA MANAGEMENT BOARD IN 2011

Tikkurila Management Board members were included in the 2011 bonus scheme. The principles of the incentive schemes are described in more detail in the "Management Bonus Scheme for 2011".

MANAGEMENT BONUS SCHEME FOR 2011

On December 15, 2010, the Board of Directors of Tikkurila Oyj approved the principles for the annual management bonus scheme for 2011.

Participants in the management bonus scheme are the members of the Tikkurila Management Board, employees on the management team level and functions of the business units, managing directors of the companies belonging to the Tikkurila Group as well as selected managers and experts in specific positions in companies belonging to the Tikkurila Group, altogether 137 persons for 2011.

Bonus criteria for 2011 consist of the 2011 Tikkurila Group EBIT as well as function-, region-, company- or team-specific targets. In addition, the criteria include individual targets. Receiving a bonus is subject to fulfilling two to four different objectives. All targets shall be measurable in figures and at least 50 percent must be financial targets.

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 2011, KPMG Oy Ab was elected as an auditor.

The Audit Committee of the Board prepares the election process of auditors. The aggregate duration of the principal auditor cannot exceed seven years. Therefore, taken into account that the Finnish Audit Act came into force in 2007, the current principal auditor, Pekka Pajamo of KPMG, can be in that role until no later than the financial year 2013.

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.

The auditor is elected by the Annual General Meeting for one year's term of service. The auditor reports to the Board of Directors at least once a year.

During 2011, the Group had a total of EUR 402,000 auditing-related expenses and EUR 249,000 expenses for other services provided by KPMG, the Auditor of Tikkurila Oyj.

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. The internal policies and the Code of Conduct have been communicated to all staff in the Tikkurila Group, and an e-learning tool related to the Code of Conduct was launched in 2011.

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.

INTERNAL CONTROL ACTIVITIES DURING 2011

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

As examples of the practical implementation of internal control activities during 2011, the following issues can be highlighted:

- training and education of personnel;
- internal policies and manuals were issued or updated, including e.g. Policy on Related Parties, Group Authorization Policy, Business Agreement Policy and Financial Risk Management Policy;
- business impact analysis was carried out outlining some key dependency and interruption risks;
- during 2011 specific activities have been carried out in relation to information and IT security, and those initiatives will be continued in 2012, but in a somewhat redefined way; and
- multiple IT software application projects have been either implemented or are currently in the process of being implemented, including e.g. CRM, ERP, forecasting and planning, as well as product data management solutions, and within these projects internal controls shall be taken into account.

INTERNAL AUDIT

The internal audit provides independent appraisal and assurance for the review of operations within the Group in order to support the management and the Board of Directors in fulfilling their oversight responsibilities. The Audit Committee has confirmed the Internal Audit Charter for Tikkurila. The purpose is to evaluate and contribute to the improvement of risk management, control and governance systems in the Group. The internal audit function has complete and unrestricted access to all activities of Tikkurila. 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 each topic's importance and risks for the Tikkurila Group.

The internal audit function regularly reports to the Audit Committee of the Board, and the President and CEO of Tikkurila acts as the administrative superior of the internal auditor. Internal audit plans and findings are also subject to regular review with the external auditors during the course of the year.

INTERNAL AUDIT ACTIVITIES DURING 2011

Tikkurila's internal audit function was implemented as an outsourced service from Kemira Oyj until the end of 2010. From the beginning of 2011, Tikkurila has had its own internal audit function, including an in-house internal auditor, who has, to the required extent, been helped by third-party experts to carry out the internal audit activities.

During 2011 the internal audit carried out audits based on selected themes with the scope covering the key markets of Tikkurila's operations. Cross-country audits were carried out in sales and distribution agreements, sourcing and products costing, and certain quality and risk management areas. One target was to find and implement best practices, as found by the audits, onto all Tikkurila's subsidiaries, as well as to unify the activities and fill any gaps found. In addition to the theme-based work, country-specific audits were carried out.

PLAN FOR INTERNAL AUDIT ACTIVITIES DURING 2012

Based on the Audit Committee's preliminary internal audit plan, internal audit function will in 2012 focus on inventory management, financial reporting and forecasting processes, transfer pricing, management and treatment of related party transactions as well as on general compliance, including e.g. evaluating the policies in the Group. Country-specific audits will also be carried out.

RISKS

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

Tikkurila's Board of Directors strives at recognizing and understanding Tikkurila's most important risks. The Board decides on the risk strategy: which risks the Group must take in order to achieve its goals, and what is the risk tolerance for specific material risks. The risk strategy is synchronized with Tikkurila's overall business strategy. The Board also decides which risks are mitigated, and to what extent and at what cost, e.g. by hedging or by business contract design. Finally, the Board oversees that proper risk control and management exists to cover normal business risks. Tikkurila's internal control, internal audit and risk management aim at decreasing to a relevant extent the adverse effects of possible materialization of risks.

Tikkurila has risks of various character, such as strategic risks, operational risks, financial risks and hazard risks. Risks are assessed and managed according to the type and characteristics of each risk. In Tikkurila's view the main risks are among strategic and operational risks, but all categories present risks that may have a significant impact on Tikkurila's business.

In order to illustrate relevant risks to Tikkurila, and based on certain simplified assumptions, the chart on the following page outlines some key risks identified by the Board of Directors. The size of the box depicts the estimated rough potential monetary impact of that risk class, and the color of the box signalizes whether the risks are mostly internally manageable or externally created by nature. Risks are split by their most relevant time horizon, even though most of them have both short-term and long-term implications.

Tikkurila is dependent on its suppliers' ability to deliver the raw materials needed for paint production. Commodity prices fluctuate based on supply-demand balances, which typically vary from cycle to cycle. Supply adjustment is typically slow and price changes can be swift. It is possible that the Group will not fully be able to transfer the changing costs to its end product prices, at least not with immediate effect. In addition, the uncertainties related to raw materials can affect market share development, the general competitive situation or the product selection.

The competitive situation in the paint industry or within the value chain can change quickly, especially due to new market entrants and changes in market structures or in distribution. It is possible that there will be more consolidation and less operators in the industry, changing the relative strength of each competitor. New suppliers can enter the business and existing competitors can expand their operations, which can have a detrimental impact on TIkkurila. Customers may consolidate or organize more bargaining power. In addition, possible alterations of the company's distribution channels can cause pressure on prices or results.

The general economic development affects the demand drivers, such as construction and renovation activity, for Tikkurila's products and services. A halt or turnaround in the macro-economic development within Tikkurila's operating area can have a negative effect on Tikkurila's business, financial position and result.

Tikkurila announced revisions to its strategy in October 2011. The revised strategy includes possible entrance to service business, and new distribution structures and other structural changes. Horizontal or vertical integration may be considered to achieve the set objectives. New strategic steps present risks in the form of ramp-up investments, learning curve costs, cost for reaching economies of scale and requires increased focus from management.

Due to the international nature of Tikkurila's operations, the Group's income statement, balance sheet, and cash flows are sensitive to foreign exchange rate changes. Currently, the most important currencies are the Russian ruble, Swedish crown and Polish zloty. Translation risks and transaction risks affect profit and loss accounts through changing currency values in i.a. raw material expenses or sales prices measured at the Group level in euro, and also balance sheet when foreign subsidiaries' assets and equity are translated into euro in the Group books. These risks are relative to the scope of business conducted in these countries.

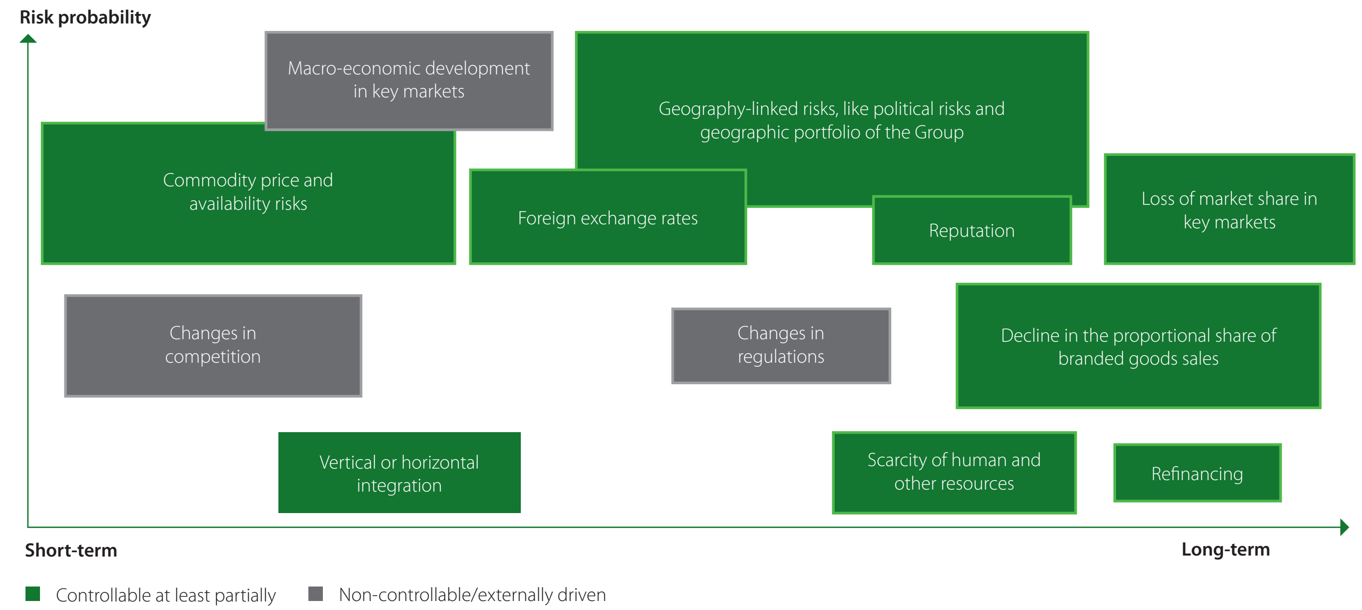
Political and geographic risks exist in many of Tikkurila's operating countries. These include the possibility of high or hyper inflation, political unrest, deterioration of infrastructure, war or other disruptive conditions to business.

Tikkurila's business is subject to numerous laws and regulations, both administrative and industry-specific, within the EU area and in other countries. Changes in regulation can hamper optimal production structure or transferability of Tikkurila materials and finished products, or lead to e.g. less choices for raw materials, or to more expensive ones, or to an increase in warehousing costs. Risks also include new duties and levies on materials, transport or transactions.

Refinancing risks are not deemed to be material for Tikkurila for the short-term as Tikkurila restructured its debt facilities in 2011, and has secured external financing for three-year and five-year maturities. However, any longer-term difficulty in obtaining new long-standing financing in the volatile economic environment may affect Tikkurila's operations adversely.

Tikkurila has developed strong local and international brands over decades. It has good customer loyalty and quality reputation, according to regular external surveys, and therefore brand and reputation risks are important. Any changes in consumer preferences or price elasticity of demand can negatively affect demand for Tikkurila Group's branded products, which may lead to a decline in market shares in key markets.

Scarcity of human and other resources may affect Tikkurila's long-term growth proposition. Demand for paints may grow rapidly in a positive economic environment, and Tikkurila's new revised strategy may introduce new needs for human resources and capabilities.



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 objectives and ability to reach its results.

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

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

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

Some risk management measures are performed centrally in order to generate cost benefits and ensure a sufficient level of protection. These include insurance cover for certain risks, such as general third party and product liability, cargo, property damage and business interruption insurance for major production sites, as well as the hedging of treasury risks. Major investment and acquisition risks are assessed by the Management Board and Tikkurila Board.

The responsibility for the implementation of the Group's risk management activities lies with the President and CEO as well as the Tikkurila Management Board. The Board of Directors is responsible for approving key policies and principles of risk management processes. The Board of Directors and the Audit committee approve and follow up the reporting procedures, and monitor the adequacy, appropriateness and effectiveness of the Group's business and administrative processes.

RISK MANAGEMENT ACTIVITIES DURING 2011

During 2011, the Group continued to develop its risk strategy and risk management processes. The Audit Committee carried out a risk mapping of Tikkurila's main risks (illustration: see previous chapter). Based on the risk mapping, the Board discussed and defined Tikkurila's risk strategy.

Based on the risk assessments carried out in 2010, risk registers were developed. Risk assessment was included as an integrated part of investment appraisals. Moreover, group-wide crisis management and communications processes and toolkits were prepared, implemented and trained during 2011. In the Group's HSEQ operations a new IT application was implemented to record and manage all incidents. Financial risk management policies were updated at the end of 2011. A business impact analysis was carried out in co-operation with a third-party expert, in order to find out interdependency and interruption risks in certain key operational areas, and the final report based on that process was issued in January 2012. The results of these studies will be utilized starting from 2012 . At the end of 2011 a group-wide whistle blowing system, run by an independent third-party provider, was taken into use.

PLAN FOR RISK MANAGEMENT ACTIVITIES DURING 2012

Application of the group-wide risk register will be further enhanced by e.g. training local controllers, who will ensure larger-scale training and implementation. Internal processes in relation to compliance issues will be developed so that the Group compliance officer and internal auditor can forward tasks to appropriate parties within the organization and so that internal policies are coherently applied. Risk reporting will be developed to reflect the revised Tikkurila strategy, announced in October 2011. It is possible that the revision in strategy may cause changes in risk appetite, risk probability, monitoring responsibilities and/or overall risk areas. As the Group has started restructuring activities at the end of 2011, action and contingency plans are planned to be implemented to avoid interruption risks. Moreover, roles and responsibilities of various Tikkurila employees and internal bodies might also be redefined to reflect the changed business structure.

MANAGEMENT OF INSIDER ISSUES

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

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

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

SILENT PERIOD

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

During the silent period, Tikkurila's spokespersons are not available for meetings with capital market representatives and may not discuss Tikkurila's performance or market development.

GUIDANCE

Tikkurila gives guidance in the form of an official outlook statement published in interim reports, financial statements and the review of the Board of Directors. Tikkurila will provide outlook statements only for a period for which the company has a reasonable visibility. The outlook includes management's descriptive estimate on revenue and profitability. The estimate may also include other elements. No other forward-looking statements or answers to questions concerning the future performance are given unless the company decides to update the guidance and publish a stock exchange release regarding the update. Any such updates are published without undue delay once reasonable visibility and accuracy of future prospects exist.

COMMUNICATIONS

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

Tikkurila's shares are listed on the Nasdaq OMX Helsinki stock exchange. Tikkurila will strictly adhere to all regulatory disclosure requirements for listed companies. Tikkurila complies with the Finnish Corporate Governance Code ("Corporate Governance Code") issued by the Finnish Securities Market Association. In addition, Tikkurila's internal policies, such as Corporate Responsibility and Code of Conduct, guide communication activities.

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

DEVIATIONS FROM THE FINNISH CORPORATE GOVERNANCE CODE

The Finnish Corporate Governance Code, which came into force on October 1, 2010, has altogether 55 recommendations. The Code also has the so-called "comply or explain" principle. In 2011, Tikkurila fully complied with the recommendations in the Code, even though the Group has decided not to have a separate Remuneration Committee (ref: Recommendation 31 in the Code), as some remuneration testing, i.e. of long term incentives, is carried out by the Audit Committee. Furthermore, the Nomination Board makes proposals to the shareholders as to the remuneration of the members of the Board; and moreover, to a relevant extent, the Board of Directors uses their discretion and authority to decide upon the overall remuneration of the Group President and CEO as well as other members of the management team.

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