TIKKURILA

FINANCIAL STATEMENTS 2017

SUSTAINABLE NORDICNESS

Tikkurila is a Nordic paint company whose products are manufactured of carefully chosen raw materials that meet the highest quality standards. Our vision is to create surfaces that make a difference.

Beyond being a paint company, we are a community of talented professionals – skilled individuals from harsh conditions, equipped with an understanding of aesthetics and an affinity for sustainability. We share the same values and joy of building a vivid future through surfaces that make a difference.

With expertise that spans decades, we develop premium products and services that provide our customers with quality that will stand the test of time and weather. We embrace our market-leading brands and pride ourselves on innovation that is rooted in tradition but looks far into the future.

We have been innovating since our humble beginnings. We aim to lead the market with industry-changing and sustainable solutions that are safe for us as well as our environment, and strive to know our customers like the backs of our hands.

TIKKURILA AT A GLANCE

- Established in 1862
- Around 3,000 dedicated professionals
- 11 production facilities in eight countries
- Products available in more than 40 countries
- Revenue in 2017: EUR 582 million
- Listed on Nasdaq Helsinki

TIKKURILA
ANNUAL REVIEW 2017

FINANCIAL STATEMENTS 2017

The report provides an overview of Tikkurila's business operations and includes Financial Statements and the Corporate Governance Statement for 2017.

TIKKURILA GRI 2017

The Corporate Responsibility report introduces Tikkurila's sustainability approach and the reported Global Reporting Initiative (GRI) G4 disclosures for the reporting period 2017.

CONTENTS

NORDIC QUALITY FROM START TO FINISH

Tikkurila is a leading Nordic paint industry professional. We develop premium products and services that provide our customers with quality that will stand the test of time and weather.

We offer an extensive range of products for protecting and decorating surfaces for consumers, construction and renovation professionals, designers, as well as selected industrial customers. Consumers account for approximately half of our business, but the share of professionals is on the rise. Our range of services includes, among others, color and tinting services, painting advice as well as expert and training services. We support our customers in all stages of painting in order to ensure a successful result.

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

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

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

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

OPERATING ENVIRONMENT

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

The main factors and market trends affecting the demand for paints and coatings are:

- General economic development (GDP)
- Activity on construction and renovation markets
- Activity level for home sales
- Employment situation and consumer confidence
- Improving standard of living and rise of middle class
- Increasing environmental awareness and climate change
- Digitalization
- Importance of home interior decoration and refurbishing
- Industrial activity level (industrial coatings)

YEAR 2017 HIGHLIGHTS

The key economies in Tikkurila's operating area grew by approximately 2-3 percent in 2017. Economic growth was strong in Sweden, Finland and Poland. In Russia, the market situation stabilized and the economy took a slight upward trend after some difficult years.

Tikkurila Group's revenue increased by 2 percent to EUR 582.4 (572.0) million in 2017. Higher sales volumes increased revenue by one percent. Exchange rate fluctuations increased revenue by 3 percent. Changes in sales prices and in the sales mix as well as divestments had a negative impact on revenue.

Adjusted operating profit totaled EUR 28.8 (54.0) million, which accounts for 4.9 (9.4) percent of revenue. Profitability was weakened by the costs being higher than in the comparison period, which was related to the introduction of the new ERP system and the increased costs of raw materials and packaging materials.

In 2017, Tikkurila initiated an extensive program to boost profitability. The program is aimed at generating at least EUR 30 million in savings. Improved cost competitiveness will support Tikkurila in seeking new growth opportunities. As part of the program, Tikkurila changed its organization model. The goal of the reorganization measures is to clarify the decision-making process and responsibilities while eliminating overlaps. In addition, Tikkurila announced the discontinuation of the manufacturing and warehousing operations in Stary Oskol in southwestern Russia and move of the unit's production to the St. Petersburg site during 2018. Tikkurila also decided to divest its unprofitable subsidiaries in Serbia and Macedonia and to discontinue its German business operations. Actions based on the program will be continued in 2018.

Tikkurila announced that it is planning to construct a new factory in the St. Petersburg area in Russia. Design of the facility is under way and construction is scheduled to begin late 2018. The production is set to commence in 2020.

Based on the decision by the Board of Directors, Erkki Järvinen left his position as the President and CEO of the company. Tikkurila's Board of Directors has appointed CFO Jukka Havia as Tikkurila's interim President and CEO.

Tikkurila's strategy was updated for 2018-2022. The company is committed to improving the overall user experience of its customers and its internal efficiency. Tikkurila is creating value through its customer promise: 'Nordic quality from start to finish'.

Sustainable development is an integral part of the updated company strategy, and concrete sustainability customer promises for promoting the strategy work were defined with the key business personnel. Furthermore, Tikkurila will establish a Group-level sustainability steering team whose responsibilities will be to support Tikkurila's business as well as to steer the development of new products and services that are safe for the environment and health.

REVENUE BY SEGMENT

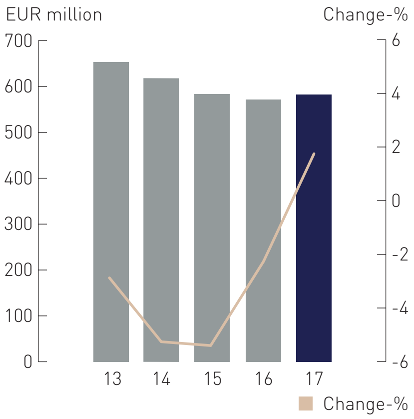
ADJUSTED OPERATING PROFIT* BY SEGMENT

*Excl. Group items

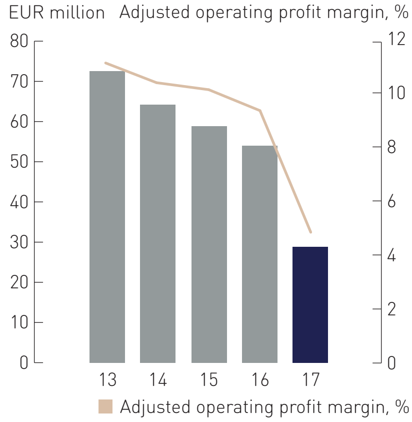
PERSONNEL BY SEGMENT

At year-end, %

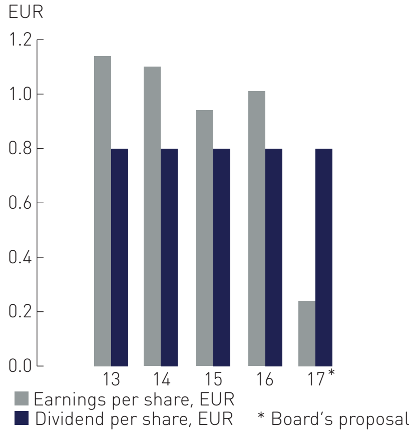
REVENUE



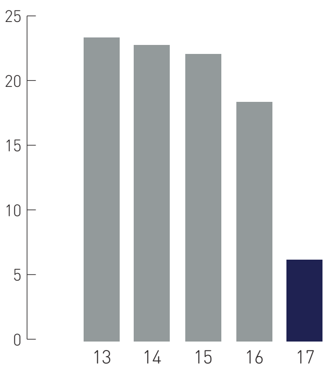
OPERATING PROFIT



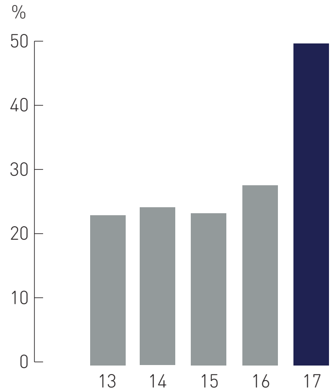
DIVIDEND



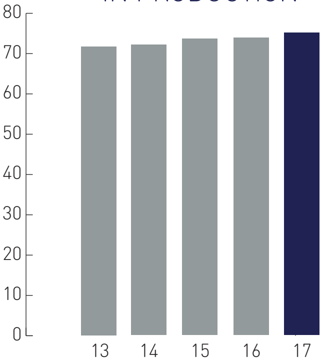
RETURN ON CAPITAL EMPLOYMENT (ROCE)



GEARING



SHARE OF WATER-BORNE PRODUCTS IN PRODUCTION



KEY FIGURES

EUR MILLION	2017	2016
Revenue	**582.4**	572.0
Adjusted operating profit	**28.8**	54.0
Adjusted operating profit, %	**4.9%**	9.4%
Operating profit (EBIT)	**19.3**	53.1
Operating profit (EBIT) margin, %	**3.3%**	9.3%
Profit before tax	**16.6**	57.4
Net profit	**10.7**	44.5
Earnings per share, EUR	**0.24**	1.01
Return on capital employed (ROCE), %, rolling	**6.3%**	18.5%
Cash flow after capital expenditure	**4.4**	22.7
Net interest-bearing debt at period-end	**90.1**	58.7
Gearing, %	**50.2%**	28.1%
Equity ratio, %	**42.0%**	50.9%
Personnel at period-end	**3,037**	3,033
Lost time accidents (LTA)	**2.0**	2.7
Share of water-borne products in production	**75.0%**	73.8%

STRATEGY 2022

Tikkurila is a leading Nordic paint industry professional known for its high-quality surface treatment products and expert services. Our aim is to ensure the best possible user experience in the market. Strong brands, a culture of service, sustainable solutions and market leadership are among our most important competitive advantages.

Tikkurila's focus is on carefully selected customers, certain geographical areas and its own strong brands.
- Tikkurila serves consumers, painting professionals and selected industrial sectors.
- Tikkurila operates in the Nordic countries, Russia, China as well as in selected Eastern European and Central Asian countries.
- Tikkurila invests in its own strong brands and focuses on premium paints.

We have updated our strategy for 2018–2022. During the next five years, our focus will be on improving the customer experience in surface treatment. We want to stand out even more by providing a successful end-result to our customers, and to make this more clearly our competitive edge. Understanding our customers' needs will guide all our operations in the future. Customer experience is contributed throughout our operations, covering everything from product and service development and innovation, the supply chain to the shops, communication and marketing.

MISSION AND CUSTOMER PROMISE

"Nordic quality from start to finish" i.e. we want to offer the best customer experience in surface treatment.

VISION

"Surfaces that make a difference".

Our vision includes all megatrends that affect Tikkurila and gives a clear direction for the long-term development of the company. We not only want to offer products that protect and decorate surfaces but also to develop more solutions and materials to make our customers' work easier and more efficient. Tikkurila wants to answer customers' needs about more durable, functional and environmentally friendly surfaces.

STRATEGIC FOCUS AREAS

We have defined three focus areas for the five-year strategy period:

Segment-specific customer journeys. We divide our three main customer segments – consumers, professionals and industrial customers – into smaller target groups and study the decision-making processes of each group, right from the idea or need to the decision and purchase. We will make each customer journey as pleasant and professional as possible. Our goal is to facilitate and support the customer's journey in all its stages in a way that is relevant to the customer. The development of digital services plays a key role in all of our segments in order to make our customers' decision-making and product use easier.

Creation of a harmonized portfolio. We will unify our portfolios for each customer segment throughout our operating area. We will make our customers' choice easier by reducing the number of alternative products. We leverage our expertise and the best products and concepts. We will invest more in launching innovations that change the market, and we will drive for more sustainable portfolio. We will base our product and service development on market and customer research and on needs analyses derived from them.

More efficient use of resources. We will improve our cost competitiveness and overall operational quality by reorganizing our operations. We will clarify decision-making and responsibilities, and eliminate overlaps. We will make better use of our expertise and increase cooperation across countries. We will optimize our production and logistics network, and increase productivity.

PROFITABLE GROWTH

Our objective is to grow profitably. We look for versatile growth in different product groups and geographical areas. The focus is on organic growth generated by strong brands. Furthermore, we explore actively the possibility of focused acquisitions and alliances.

Tikkurila operates in the Nordic countries, Russia and selected Eastern European and Asian countries. We work to strengthen our market share in our current markets of the paint business and look for growth in those markets, in particular, where our market share is still small.

In 2017, Tikkurila initiated an extensive program to boost profitability. The program is aimed at generating at least EUR 30 million in savings. Improved cost competitiveness will support Tikkurila in seeking new growth opportunities.

SUSTAINABILITY PROMISES

Tikkurila's Corporate Responsibility program "A Colorful Tomorrow" provides Tikkurila with a framework for responsible and sustainable development. In 2018, Tikkurila will renew its Corporate Responsibility program, and together with key business personnel, has defined concrete sustainability customer promises in line with its updated strategy. These promises will guide the company sustainability initiatives and support the business development from the sustainability point-of-view.

- We drive our portfolio towards maximized performance with minimum environmental impact.
- We improve and protect air quality with our products and professional services.
- We drive at better resource efficiency with quality, safety and durability on top of our minds.
- We are a responsible and active partner in our communities.

BUSINESS MODEL

In our business model, strong brands, generated through high-quality and long-term product development and considerable marketing investments, are emphasized. In addition to the leading market position, strong brands and comprehensive surface treatment knowhow, the key success factors in our business operations include cost-efficient and responsible sourcing, an efficient supply chain and a functioning and extensive distribution network as well as diverse services, sales and marketing.

As a paint industry player, we are positioned between raw material and packaging material suppliers and retail in our value chain. We sell decorative paints and painting related merchandising and services primarily to paint wholesalers or retailers and directly to construction supply stores. In addition, we have our own stores for professional customers in Scandinavia. We sell industrial coatings either directly to customers or through our Tikkurila Industrial Paint Service retailer network. Tikkurila has 11 paint manufacturing units to produce various paints and coatings. In addition, the Group purchases painting related merchandising from external cooperation partners that are sold further.

Our operations have wide-ranging impacts on society and the environment. Through high-quality products and services and our professional expertise, we protect the environment, enhance the sustainability of building stock and infrastructure, and make spaces more beautiful, thus having a positive impact on the living environment and people's well-being.

Key functions in our own operations include:

- **Raw material and packaging material purchase:** introducing new raw materials and developing raw material base of products in tight cooperation with suppliers, ensuring responsibility of supplier chain, supplier evaluation and auditing processes
- **Research and development:** developing new products and services, improving product properties, development work related to raw materials and formulas, product and user safety, following and fulfilling the legal requirements
- **Paint production:** manufacturing paint using the raw materials specified by product development, developing operative quality, production processes and resource efficiency, as well as improving productivity and ensuring high service level and timely product deliveries
- **Distribution:** receiving raw materials and packaging materials, transferring them to production, warehousing, order management, distribution management and developing safety, sustainability and efficiency of logistics
- **Sales and marketing:** identifying customer needs, following and analyzing market trends, marketing, sales, participating in the development of services and products, pricing, retail management
- **Services:** ideas and instructions, color and painting guidance, training, technical customer support, search services

INPUT

FINANCIAL CAPITAL
Assets EUR 427.7 million
Debt EUR 248.2 million
Equity EUR 179.5 million

INFRASTRUCTURE
11 production units in 8 countries
10 training centers in 9 countries
7 R&D centers in 6 countries
Approx. 500 raw material and packaging material suppliers

INTELLECTUAL CAPITAL
Strong brands
Comprehensive surface treatment knowhow
High-class product development
Professional and versatile services
Extensive distribution network

HUMAN CAPITAL
3,037 employees in 14 countries
Investments on occupational safety and well-being

COMMUNITY AND RELATIONSHIP
Long-term customer relationships
Active in industry associations
Cooperation in the near-by community

NATURAL RESOURCES
Energy and water
Purchased raw materials and packaging materials

BUSINESS

CUSTOMERS *
Consumers 50%
Professionals 35%
Industry 15%

MISSION
Nordic quality from start to finish.

KEY FUNCTIONS
- raw material and packaging material purchase
- research and development
- production and distribution
- sales and marketing

COMMITTED PERSONNEL AND KNOW-HOW

STRATEGY
We offer competitive surface treatment solutions, and are committed to improving the overall user experience and efficiency of our customers.

VISION
Surfaces that make a difference

We want to make our customers' work easier and more efficient, and answer their needs about more durable, functional and environmentally friendly surfaces.

*Management estimate

OUTPUT

SURFACE TREATMENT SOLUTIONS
Extensive selection of interior paints, lacquers and effect products; exterior products for wood, masonry, and metal surfaces.
Paints and coatings for metal and wood industries.

SERVICES
Color ideas, planning and tinting services.
Painting guidance, expert and training services, technical consultation.
Ideas and instructions for painting, choosing the right product and color, search services.

LEADING MARKET POSITION *
Sweden #1
Russia #1
Finland #1
Baltics #1

WASTE AND EMISSIONS
Waste 7,242 tn
Direct CO_2 emissions 5,201 tn CO_2

*Decorative paints

IMPACT

VALUE FOR CUSTOMERS AND THOSE INFLUENCING THE PURCHASE DECISION
Successful and durable end-results, high-quality surfaces
Customer satisfaction

VALUE FOR OWNERS AND INVESTORS
Dividend proposal EUR 0.80 per share, total EUR 35.3 million

IMPACT IN THE COMMUNITY
Employment: wages and compensation EUR 86.3 million
Taxes (excl. deferred taxes) EUR 7.7 million
Community projects and donations

IMPACT ON THE ENVIRONMENT
Protecting the environment, enhancing the sustainability of building stock and infrastructure. Making spaces more beautiful, thus having a positive impact on the living environment and people's well-being.

Own operations: more efficient use of energy and water, decreased amount of emissions and waste, increased amount of recyclable waste.

TIKKURILA GROUP
FINANCIAL STATEMENTS AND REVIEW OF BOARD OF DIRECTORS 2017

CONTENT

BOARD OF DIRECTORS' REVIEW 2017

MARKET REVIEW

The key economies in Tikkurila's operating area grew by approximately 2-3 percent in 2017.

Economic growth and consumer confidence remained strong and comprehensive in Sweden. Export benefited from the weak Swedish krona and the strengthening of the European Economic Area. However, the behavior of households was fairly cautious, and there was only modest growth in private consumption. The most significant uncertainty factors were related to the housing market's pricing trends. Development in the Swedish paint market is estimated to have been quite steady. The share of professional painters from overall demand continued to grow due to the strong market for new construction. According to Tikkurila's estimate, the company lost some of its market share in decorative paints due to delivery problems (the market share value in 2016: approximately 37 percent).

In Russia, the market situation stabilized and the economy took a slight upward trend after some difficult years. Retail was on a growth path and consumer confidence clearly became stronger. Real earnings remained at the previous level. In the paint market, competition continued to be fierce and price campaigns were actively implemented. The shift of demand to lower price and quality categories seems to be winding down. Tikkurila estimates that no significant changes have occurred in market shares.

The Finnish economy is now clearly on a growth path after a downward trend of several years. Consumer confidence is stronger and reached a record high at the end of 2017. The construction at growth centers remained active. The share of professional painters from overall demand continued to grow due to the strong market for new construction. According to Tikkurila's estimate, the company lost some of its market share in decorative paints due to delivery problems (the market share in value in 2016: more than 50 percent).

Poland's economy continued its strong growth. Retail grew, salaries increased and the unemployment rate declined. Consumer confidence is at a record-high level. Many competitors continued their aggressive campaigns targeting distributors as well as consumers. Price competition was fierce in industrial products as well, the demand of which was negatively affected by the low level of public infrastructure-based projects and investments as well as problems with labor supply. Tikkurila's market share in decorative paints remained stable (the market share in volume in 2016: approximately 15 percent).

Amongst Tikkurila's key currencies, the Russian ruble was stronger during the period under review compared to the previous year. The Polish zloty was slightly stronger and the Swedish krona weaker.

The raw material and packaging material prices were clearly higher compared to the comparison period's level. The price of titanium dioxide rose by more than 30 percent along with the increased demand and decreased supply. The rise in the oil price also raised the price of solvents and solvent-borne binders. Additionally, the lack in monomers caused the price of water-borne binders to rise. Steel price trends raised the price of metal packaging.

FINANCIAL PERFORMANCE IN 2017

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

January–December	Revenue		Adjusted operating result	
EUR million	**1–12/2017**	1–12/2016	**1–12/2017**	1–12/2016
SBU West	**379.8**	395.2	**18.1**	45.3
SBU East	**202.6**	176.8	**15.2**	13.4
Group common and eliminations	**0.0**	0.0	**-4.5**	-4.6
Consolidated Group	**582.4**	572.0	**28.8**	54.0

Tikkurila Group's revenue increased by 2 percent in 2017. Higher sales volumes increased revenue by one percent. Tikkurila was not able to meet the market demand in full in the Nordic countries due to delivery problems. Sales volumes grew in other parts of the Group. Exchange rate fluctuations increased revenue by 3 percent. Changes in sales prices and in the sales mix decreased revenue by one percent. Divestments decreased revenue by one percent.

Adjusted operating profit totaled EUR 28.8 (54.0) million, which accounts for 4.9 (9.4) percent of revenue. Profitability was weakened by the costs being higher than in the comparison period, which was related to the introduction of the new ERP system and the increased costs of raw materials and packaging materials. The direct costs of the introduction of the new ERP system, including depreciation, were EUR 10.4 million in 2017. Some indirect costs were also incurred due to, for example, the addition of work shifts and work resources, additional logistics costs as well as customer refunds in Sweden caused by delivery problems. The introduction of the ERP system and, to some extent, the problems with the availability of raw materials, especially titanium dioxide, are the reasons why Tikkurila was also not able to fully meet the market demand in Sweden and Finland in particular.

Operating profit (EBIT) totaled EUR 19.3 (53.1) million, equaling 3.3 (9.3) percent of revenue. Items affecting comparability were approximately EUR -9.5 million during the review period. As part of the profitability boosting program, Tikkurila reorganized its operations to a certain extent and divested its business operations in the Balkan area. Expenses and impairments affecting comparability were mainly related to the Balkan divestment.

The net financial expenses in January–December 2017 were EUR 2.9 (3.9 positive) million. The net financial expenses increased from the comparison period due to exchange rate differences related to the Russian ruble, in particular. Profit before taxes was EUR 16.6 (57.4) million. Taxes totaled EUR 6.0 (12.9) million, equaling an effective tax rate of 35.9 (22.5) percent. Effective tax rate was increased by higher non-deductible expenditures and losses of subsidiaries from which deferred tax assets were not recognized. Earnings per share were EUR 0.24 (1.01) in the review period.

The Group's key performance indicators and share performance indicators for the financial year 2017 as well as for 2016 and 2015 are presented in the Group's consolidated financial statements on pages 23-24.

FINANCIAL PERFORMANCE BY REPORTING SEGMENTS

SBU WEST

EUR million	1–12/2017	1–12/2016	Change %
Revenue	**379.8**	395.2	-3.9%
Adjusted operating result	**18.1**	45.3	-60.1%
Adjusted operating result margin, %	**4.8%**	11.5%	
Operating result (EBIT)	**16.2**	45.1	-64.0%
Operating result (EBIT) margin, %	**4.3%**	11.4%	
Capital expenditure excluding acquisitions	**11.0**	20.1	-45.5%

FINANCIAL PERFORMANCE IN 2017

SBU West's full-year revenue declined by 4 percent. Changes in sales prices and sales mix decreased revenue by 3 percent. Sales volumes and exchange rate fluctuations had no material impact on revenue.

In Sweden, revenue decreased to EUR 132.8 (149.9) million, while in Finland revenue decreased to EUR 92.8 (98.1) million, and in Poland revenue increased to EUR 76.8 (70.4) million.

SBU West's operating profit was negatively impacted by decline in revenue, expenses and problems related to the introduction of the new ERP system, rise of the raw material and packaging material costs as well as delays in sales price increases.

SBU EAST

EUR million	1–12/2017	1–12/2016	Change %
Revenue	**202.6**	176.8	14.6%
Adjusted operating result	**15.2**	13.4	13.7%
Adjusted operating result margin, %	**7.5%**	7.6%	
Operating result (EBIT)	**8.2**	12.6	-35.0%
Operating result (EBIT) margin, %	**4.1%**	7.1%	
Capital expenditure excluding acquisitions	**3.6**	3.2	14.1%

FINANCIAL PERFORMANCE IN 2017

SBU East's full-year revenue increased by 15 percent from the comparison period. Exchange rate fluctuations, mainly the stronger Russian ruble, increased revenue by 9 percent. Sales price increases and changes in the sales mix increased SBU East's revenue by 6 percent. Higher sales volumes increased revenue by 3 percent. Sales volumes grew in Russia and particularly in China. Divestments of Ukraine and Belarus decreased revenue by 2 percent. Revenue in Russia increased to EUR 143.4 (120.2) million.

Adjusted operating profit was positively affected by the increase in revenue. Profitability improved in Russia, but declined in China due to clearly higher cost level.

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

Tikkurila's financial position and liquidity remained at a good level during the review period although the lower cash flow from operations has increased the amount of short-term interest-bearing debt.

Cash flow from operations in January–December totaled EUR 18.1 (42.8) million. Cash flow was weakened by lower profitability and costs related to implementation of new ERP. At the end of the review period, net working capital totaled EUR 89.7 (89.1) million. Comparing to the previous year-end the inventories for both raw materials and finished goods were higher due to higher prices and also higher buffer stocks to secure availability, while the increase in trade payables offset this, and hence the total balance did not change. The net cash flow from the investing activities was EUR -13.7 (-20.1) million, when taking into account acquisitions and divestments. Cash flow after capital expenditure totaled EUR 4.4 (22.7) million at the end of the review period.

Interest-bearing debt amounted to EUR 107.0 (77.2) million at the end of the review period, and net debt was EUR 90.1 (58.7) million. At the end of the review period, cash and cash equivalents amounted to EUR 17.0 (18.5) million, and short-term interest-bearing debt totaled EUR 57.0 (27.1) million, including the company's issued commercial papers for a total nominal amount of EUR 55.0 (25.0) million. Moreover, the Group had long-term interest-bearing debt totaling EUR 50.1 (50.1) million. At the end of December, the Group had a total of EUR 109.2 (109.4) million of unused committed credit facilities or credit limits.

The Group´s net financial expenses were EUR 2.9 (3.9 positive) million, of which interest expenses totaled EUR 0.0 (-0.3) million and other financing expenses EUR -0.5 (-0.6) million. The average capital-weighted interest rate of interest-bearing debt was 0.8 (0.8) percent. The net profit affected by a total of EUR -2.4 (4.8) million based on the impact of realized and unrealized exchange rate differences recognized during the review period. The main negative impact was related to the Russian ruble denominated items. According to the decision of Tikkurila Board of Directors the company will not carry out forward exchange agreements or apply other financial instruments to hedge risks; instead, exchange rate risk management will involve operative measures such as the coordination of currency allocation of incoming and outgoing cash flows.

At the end of December, the equity ratio was 42.0 (50.9) percent, and gearing was 50.2 (28.1) percent.

CAPITAL EXPENDITURE

In 2017, the gross capital expenditure excluding acquisitions amounted to EUR 14.6 (23.3) million. There were no significant single investments during the review period. Investments were mainly maintenance investments.

The Group's depreciation, amortization and impairment losses amounted to EUR 20.4 (16.7) million in 2017. The Group performs impairment tests in accordance with the IAS 36 standard.

TIKKURILA'S UPDATED STRATEGY: NORDIC QUALITY FROM START TO FINISH

Tikkurila has updated its strategy. During the next five years, our focus will be on improving the customer experience in surface treatment. We want to stand out even more by providing a successful end-result to our customers, and to make this more clearly our competitive edge. Understanding our customers' needs will guide all our operations in the future. In order to achieve this, we will strengthen our market and customer insight. Customer experience is contributed throughout our operations, covering everything from product and service development and innovation, the supply chain to the shops, communication and marketing. We create added value through our customer promise "Nordic quality from start to finish" i.e. we want to offer the best customer experience in surface treatment.

Our vision is "Surfaces that make a difference". We not only want to offer products that protect and decorate surfaces but also to develop more solutions and materials to make our customers' work easier and more efficient. Tikkurila wants to answer customers' needs about more durable, functional and environmentally friendly surfaces.

Tikkurila's target is profitable growth. The Group is undergoing an extensive program to boost profitability and cost competitiveness. Improved cost competitiveness will support Tikkurila's growth efforts.

We have defined three focus areas for the five-year strategy period:

Segment-specific customer journeys. We divide our three main customer segments – consumers, professionals and industrial customers – into smaller target groups and study the decision-making processes of each group, right from the idea or need to the decision and purchase. Each customer segment has its own growth strategy.

Creation of a harmonized portfolio. We will unify our portfolios for each customer segment throughout our operating area.

More efficient use of resources. We will improve our cost competitiveness and overall operational quality. We will optimize our production and logistics network, and increase productivity.

PROGRAM TO BOOST PROFITABILITY

In 2017, Tikkurila initiated an extensive program to boost profitability. The program is aimed at generating at least EUR 30 million in savings. Improved cost competitiveness will support Tikkurila in seeking new growth opportunities.

Reorganization

The goal of the reorganization measures relating to the program for boosting profitability is to clarify the decision-making process and responsibilities while eliminating overlaps. Tikkurila Group's Management Board was renewed in May 2017 and a transition was made to a centrally driven function-based organization structure. The positions of country manager and sales manager were combined in all the countries in which Tikkurila has operations, and in the process, new country managers were appointed for Sweden, Finland and Poland. In addition, the development of the company's key processes was started in early 2018 in order to ensure the achievement of strategic goals.

Structural changes

Structural changes related to the profitability boosting program aim at increasing efficiency by divesting and optimizing the business operations. Decisions that have been taken to close down and divest business operations:

- Discontinuation of manufacturing and warehousing operations in Stary Oskol in southwestern Russia and move of the unit's production to our St. Petersburg site during 2018.
- Sale of the entire share capital of the subsidiaries in Serbia and Macedonia to the local management of Tikkurila. Tikkurila's Balkan business operations have been unprofitable for a long time. The combined revenue of the two companies to be sold was approximately EUR 13 million in 2016, and the number of employees was around 130. The transaction was closed on January 31, 2018. Tikkurila will continue export to the area.
- Discontinuation of German business operations, even though Tikkurila will continue export to the area in selected segments.

Plans to optimize production:

- Tikkurila is planning to construct a new factory in the St. Petersburg area in Russia. Design of the facility is under way and construction is scheduled to begin late 2018. The production is set to commence in 2020.

Portfolio optimization:

- A project to optimize and harmonize portfolio is currently under way in Tikkurila. The aim is to significantly reduce the number of formulations, raw materials and SKUs (stock keeping unit) during the next years.

Costs related to the profitability boosting program

In 2017, the program resulted in a total of approximately EUR 7 million impairments and sales losses as well as in approximately EUR 2.5 million other expenses.

The announced measures planned for 2018 are estimated to result in significant expenses. Other expenses are subject to possible upcoming decisions.

SALES AND MARKETING

Tikkurila invests significant amounts of money and resources each year in marketing its products and services and strengthening its brands. Tikkurila continued to actively raise its profile and improve the user experience throughout 2017. Tikkurila Group's sales and marketing expenses, including personnel costs, were EUR 97.5 (97.5) million in 2017, which accounts for 16.7 (17.0) percent of its revenue.

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

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

In 2017, Tikkurila launched a reorganization process to introduce a function-driven model for Sales and Marketing. Marketing is part of the Offering function and sales have their own Sales function. The process also included combining the positions of country manager and sales manager. In the new organization model, local units are more strongly supported in the marketing of international brands (Tikkurila and Beckers) with an increasing share of communications and concepts being developed at the group level. Additionally, Tikkurila built up the resources for understanding the markets and customers with the aim of supporting future business development and creation of marketing strategies.

The actions taken during 2017 include developing the Core marketing communications concept to make the consumer-customers' shopping experience more fluent, clarifying and strengthening the product portfolio by launching new products, and making the utilization of guiding and inspiring contents in various markets more efficient. The highlights of 2017 include, for example, launching the Tikkurila Facade 760 exterior color collection for professional customers, starting the selling of A4-size color samples online in Finland, strengthening the sales resources in Russia, opening a showroom in Poland, launching a next -generation waterborne wood oil, and revamping stores in the Baltic countries. In honor of Finland's 100 years of independence, Tikkurila donated murals to several locations in Finland and compiled the colors of 4,000 Finnish houses into a map in cooperation with Finnish people.

In 2017, the focus was on strengthening the Alcro brand positioning through multi-channel responsibility communications and on Beckers product and packaging renewal in Sweden, portfolio development through launching local professional and consumer products in Russia, communicating about color expertise and launching the Core store concept in Finland, and increasing awareness of premium brands through inspiring concepts in Poland.

RESEARCH AND DEVELOPMENT

In 2017, Tikkurila's research and development expenses totaled EUR 10.9 (2016: EUR 11.3 and 2015: EUR 11.2) million or 1.9 (2016: 2.0 and 2015: 1.9) percent of revenue. At the end of 2017, the unit employed 193 (191) 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.

In 2017, R&D was integrated into the Offering function. Product development functions were also centralized in the process. Once the reorganization is complete, product development sites will be located in Finland, Poland, Russia, Sweden, Estonia and Denmark.

The focus of R&D operations was on product launches, product safety matters, environmental friendliness of products, harmonization of formulas and the raw material portfolio, cost savings, securing the supply of raw materials as well as identifying potential external partners. Key projects included securing the supply of titanium dioxide, improving product safety and optimizing production formulas.

In terms of product launches, among the year's highlights were the launch of the Innovatint color tinting software, the revised Facade 760 color card and Facade tinting system, as well as the strengthening of the flooring portfolio for both wooden and concrete floors.

SHARES AND SHAREHOLDERS

At the end of 2017, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of 2017, Tikkurila held 2,461 treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had a total of some 20,000 shareholders on December 31, 2017. A list of the largest shareholders registered in the book-entry account system is regularly updated and is available on Tikkurila's website at www.tikkurilagroup.com/investors/share_information/shareholders.

At the end of December, the closing price of Tikkurila's share was EUR 17.81. In January–December, the volume-weighted average share price was EUR 17.69, the lowest price EUR 15.32, and the highest price EUR 19.67. At the end of December, the market value of Tikkurila Oyj's shares was EUR 785.5 million. During January–December, a total of 16.3 million Tikkurila shares, corresponding to approximately 36.8 percent of the number of shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 287.4 million. Tikkurila's shares are traded also outside of NASDAQ OMX Helsinki, but the company does not have detailed statistics available on this external trading.

Tikkurila Board members and their interest parties held altogether 111,173 shares on December 31, 2017, which is about 0.3 percent of the share capital and votes in Tikkurila. Furthermore, Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the President and CEO in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila's Interim President and CEO and his interest parties held altogether 14,000 shares on December 31, 2017, which is about 0.03 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at http://www.tikkurilagroup.com/corporate_governance/insiders.

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

MAJOR SHAREHOLDER NOTIFICATIONS

Tikkurila received a notification, based on the Securities Markets Act, from Ilmarinen Mutual Pension Insurance Company on May 5, 2017. Ilmarinen Mutual Pension Insurance Company's holding in shares of Tikkurila Oyj fell below the 1/20 (5%) threshold due to trades made on May 5, 2017. The holding of Ilmarinen Mutual Pension Insurance Company in Tikkurila Oyj will amount to 1,758,938 shares, which corresponds to 3.99 percent of the total amount of shares and votes in Tikkurila Oyj.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from FMR LLC on May 12, 2017. The holding of the entities controlled by FMR LLC in shares of Tikkurila Oyj has exceeded the 1/10 (10%) threshold due to trades executed on May 11, 2017. The holding of the above mentioned entities in Tikkurila Oyj has amounted to a total of 4,416,425 shares, which corresponds to 10.01 percent of the total amount of shares, and to a total of 4,359,525 voting rights, which corresponds to 9.88 percent of the total amount of voting rights.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from FMR LLC on May 17, 2017. The holding of the entities controlled by FMR LLC in shares of Tikkurila Oyj fell below the 1/10 (10%) threshold due to trades executed on May 16, 2017. The holding of the above mentioned entities in Tikkurila Oyj will amount to a total of 4,410,825 shares, which corresponds to 9.99 percent of the total amount of shares, and to a total of 4,353,925 voting rights, which corresponds to 9.87 percent of the total amount of voting rights.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Marathon Asset Management LLP on June 16, 2017. The holding of the funds and accounts managed by portfolio managers under the control of Marathon Asset Management LLP in shares of Tikkurila Oyj has exceeded the 1/20 (5%) threshold due to trades executed on June 15, 2017. The holding of the above mentioned entities in Tikkurila Oyj has amounted to a total of 2,205,510 shares, which corresponds to 5.0 percent of the total amount of shares and voting rights. Marathon Asset Management LLP also manages 1,015,115 shares in Tikkurila Oyj for which clients have retained the right to vote, which is included in the total specified below in the Breakdown of holdings:

Custodian
Bank of New York Mellon 896,415
Brown Brothers Harriman 245,816
JP Morgan Chase 105,414
Northern Trust 775,953
State Street Bank & Trust
Company, Boston 1,197,027
Total 3,220,625

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Intrinsic Value Investors (IVI) LLP on August 8, 2017. The holding of the funds and accounts managed by Intrinsic Value Investors (IVI) LLP in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades executed on August 7, 2017. The indirect holding of Intrinsic Value Investors (IVI) LLP in Tikkurila Oyj amounted to a total of 2,372,000 shares, which corresponds to 5.4 percent of the total amount of shares and voting rights.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Bestinver Gestion, S.A. SGIIC on August 9, 2017. The holding of the funds and accounts managed by Bestinver Gestion, S.A. SGIIC in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades executed on August 7, 2017. The indirect holding of Bestinver Gestion, S.A. SGIIC in Tikkurila Oyj amounted to a total of 2,430,469 shares, which corresponds to 5.5 percent of the total amount of shares and voting rights.

CORPORATE GOVERNANCE STATEMENT

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

DECISIONS OF THE ANNUAL GENERAL MEETING AND THE BOARD OF DIRECTORS

Matters relating to the Annual General Meeting

The Annual General Meeting of Tikkurila Oyj approved on April 4, 2017, the Financial Statements for 2016 and decided to discharge the members of the Board of Directors and the President and CEO from liability. The Annual General Meeting approved a EUR 0.80 dividend per share for the financial year 2016. The rest were retained and carried further in the company's unrestricted equity. The dividend was paid to a shareholder who is registered in the company's shareholder register maintained by Euroclear Finland Ltd on the dividend record date, April 6, 2017. The dividend was paid on April 13, 2017.

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

Furthermore, Jari Paasikivi was re-elected as Chairman and Petter Walldén as Vice Chairman of the Board of Directors.

The Annual General Meeting decided that the annual remuneration of the members of the Board of Directors will stay at the current level. The annual remuneration to the members of the Board of Directors will be as follows: EUR 64,000 for the Chairman, EUR 40,000 for the Vice Chairman and the Chairman of the Audit Committee, and EUR 32,000 for other members of the Board of Directors. Approximately 40 percent of the annual remuneration will be paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares will be acquired directly on behalf of the Board members within two weeks from the release of the business review for January 1 - March 31, 2017. Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) will be paid to the members of the Board of Directors as follows: EUR 600 for meetings held in the home state of a member and EUR 1,200 for meetings held outside the home state of a member. If a member participates in a meeting via telephone or video connection the remuneration will be EUR 600. Travel expenses will be paid according to the travel policy of the company.

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

Authorization to repurchase own shares and to decide on the issuance of shares

The Annual General Meeting authorized the Board of Directors to decide upon the repurchase of a maximum of 4,400,000 company's own shares. The shares may be repurchased to be used for financing or implementing possible mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the company. The repurchase authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2018.

The Annual General Meeting authorized the Board of Directors to decide to transfer company's own shares held by the company or to issue new shares limited to a maximum of 4,400,000 shares. The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment. The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or in deviation from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares, settling the payment of the annual fees payable to the members of the Board of Directors or implementing the share-based incentive programs of the company. The authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2018.

Decisions by the Board of Directors

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

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

Tikkurila Oyj's distributable equity totaled 161.3 million on December 31, 2017: reserve for invested unrestricted equity totaled EUR 40.0 million and retained earnings totaled EUR 86.2 million. The Board proposes to the Annual General Meeting that a dividend of EUR 0.80 per share will be distributed for the year ended on December 31, 2017, and that the rest be retained in the unrestricted equity. The proposed dividend totals about EUR 35.3 million, which corresponds to approximately 331 percent of the Group's net profit for 2017.

Due to the seasonality of the business, Tikkurila will, from now on, pay the dividend in two tranches. The payment of the dividend for the financial year 2017 will take place as follows: the first tranche of EUR 0.40 per share will be paid to a shareholder which is recorded at the record date for the payment of dividend on April 16, 2018 at the Company's shareholder register maintained by Euroclear Finland Oy. The proposed date of payment is April 23, 2018. The second tranche EUR 0.40 per share will be paid in November 2018. The second tranche will be paid to a shareholder who is recorded at the record date for the payment of dividend at the Company's shareholder register maintained by Euroclear Finland Oy. The Board of Directors will decide at the meeting scheduled for October 25, 2018 the record date and the payment date for the second tranche. According to the current rules of the Finnish book-entry system the record date would then be October 29, 2018 and the dividend payment date earliest November 5, 2018.

ANNUAL GENERAL MEETING 2018

The Annual General Meeting of Tikkurila Oyj will be held at 10:00 a.m. on Thursday, April 12, 2018 at the Finlandia Hall (address: Mannerheimintie 13, 00100 Helsinki). The report of the Board of Directors and Financial Statements will be available on week 9 at www.tikkurilagroup.com.

CHANGES IN TIKKURILA MANAGEMENT

On September 21, 2017, Tikkurila Oyj's Board of Directors has decided that Erkki Järvinen will leave his position as the President and CEO of the company. Tikkurila's Board of Directors has appointed CFO Jukka Havia as Tikkurila's interim President and CEO starting from September 21, 2017.

EVENTS AFTER REPORTING PERIOD

On January 26, 2018, the Nomination Board of Tikkurila proposed to the Annual General Meeting, which is planned to be held on April 12, 2018, that the number of Board members would be seven and that of the present members Harri Kerminen, Riitta Mynttinen, Jari Paasikivi, Pia Rudengren, and Petteri Walldén would be re-elected and that Catherine Sahlgren and Heikki Westerlund would be elected as new members. All the nominees have given their consent to the position. Catherine Sahlgren, M.Sc. Business Administration and Economics, born in 1962, is the CEO of Teknikmagasinet, which is a Swedish-based retail company selling consumer electronics and gadgets. Her current Board memberships include Future and Arkitektkopia. She is a Swedish citizen and resides in Sweden. Heikki Westerlund, M.Sc. (Economics), born in 1966, made a long career in CapMan Plc, a Nordic private equity company, acting previously as the CEO. His current Board memberships include Orion Oyj (Chairman of the Board) and Espoo Big Band r.y. He is a Finnish citizen and resides in Finland.

The Nomination Board proposes to the Annual General Meeting that the remuneration of the members of the Board of Directors would stay at the current level.

In December 2017, Tikkurila entered into an agreement to sell the entire share capital of the subsidiaries in Serbia and Macedonia to the local management of Tikkurila. The transaction was closed on January 31, 2018. Tikkurila will continue export to the area.

On February 12, 2018, Tikkurila decided to discontinue the German business operations. Tikkurila will continue export to the area in selected segments.

On February 12, 2018, the Board of Directors of Tikkurila Group appointed Elisa Markula (born 1966, M.Sc. Econ.) President and CEO of Tikkurila Group. She will start in the position on May 12, 2018, at the latest.

Elisa Markula joins Tikkurila from Paulig Group where she has worked since 2010 as Director of Paulig Group Coffee Business. Markula is also a member of the Paulig Group Management Team. She has versatile experience in consumer business and branded goods. Prior to Paulig, she has worked at Lego, Snellman, SCA and Fazer, among others. She is a member of the Board of Directors of Olvi Oyj.

REPORTING OF NON-FINANCIAL INFORMATION

Tikkurila provides consumers, professionals and industrial customers with user-friendly and sustainable solutions for the protection and decoration of surfaces. The extensive product selection includes decorative paints for interior and exterior surfaces as well as paints and coatings for the metal and wood industries.

We promote sustainable development and take environmental, financial and social aspects into account in our daily work as well as in our strategic business development and in strengthening our market position. We want to ensure that our operations comply with the norms and standards of international and national responsible business, and that we work with business partners who share similar values.

Tikkurila's business model is described in the Annual Review. Risks and risk management related to non-financial matters are included and described in the risk section in the Board of Directors' Review. More information on Tikkurila's sustainability approach can be found in the Tikkurila Financial Statements and Corporate Responsibility report, and on the Group website at www.tikkurilagroup.com/responsibility.

OPERATING PRINCIPLES AND MANAGEMENT

The strategy and long-term targets confirmed by the Board of Directors guide Tikkurila's business operations. In everything we do, we aim to comply with high ethical principles, legislation, company values and code of conduct. A sustainability program provides Tikkurila with a framework for responsible and sustainable development.

Our daily work and compliance of operations are guided by the Corporate Governance Code for Listed Companies and key business policies, instructions and processes, such as the HSE policy and practical health, safety and environmental instructions and processes as well as sourcing guidelines and supplier evaluation and auditing processes. In addition, the operations are guided by other key instructions related to product development, supply chain, marketing and human resources as well as by a variety of policies and requirements complementing legislation, such as anti-corruption policy, guidelines on competition compliance and data protection policy ensuring the right to privacy.

Certificates and reviews

Tikkurila's objective is to create independently audited and certified quality, environmental, and safety management systems for each of its production sites. At the end of 2017, eleven of our twelve production sites have a certified quality management system (ISO 9001), ten have a certified environmental management system (ISO 14001) and seven have a certified health and safety management system (OHSAS 18001).

Tikkurila's operations and operational systems are assessed and monitored in various reviews and due diligence evaluations. In addition to external audits and certification organizations, the Group HSE function sets targets, audits the company's various sites, gives recommendations and follows up on the local development work with regards to health, safety and environmental issues. The objective of the audits is to develop the HSE operations and ensure its compliance with requirements. In 2017, internal audits were performed at Tikkurila sites in Russia, Poland and Sweden.

Tikkurila has in use an internet-based "whistle-blowing" reporting system that enables both personnel and other stakeholders to anonymously report misconduct of business practices, 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. In 2017, we received three announcements through the reporting system. Those were investigated and processed by Tikkurila's country management. On the basis of the announcements, no further measures were required.

ENVIRONMENT AND SUSTAINABLE SOLUTIONS

Tikkurila drives sustainable beauty and offers colorful experiences using the limited resources of nature and society in a sustainable manner. As part of systematic environmental work, Tikkurila aims to minimize the environmental impact of its operations and products, for instance, by seeking and studying raw materials that are safer for health and the environment, and by developing durable water-borne products with minimal environmental impact. In our operations, we systematically strive to improve resource-efficiency to reduce the amount of material loss and waste, develop our production processes and ensure environmental protection at our production sites.

The environmental impact and other aspects of sustainability of our products are considered throughout their entire life cycle – from raw material selection and product manufacture to the use of products and waste management. The main environmental impact of our operations during the product life cycle results from raw materials and packaging materials production, emissions and wastes generated during its manufacture, as well as the distribution of raw materials, packaging materials and finished products, compounds evaporating (VOC emissions) from the paint during painting and drying, and the disposal of paint waste. The policies and management systems steering the environmental work are described in this report's section "Operating principles and management".

In 2017, we updated our ISO-certified management systems to comply with the revised standards ISO 9001 and ISO 14001. Amongst our countries of operation, the revised certification has been granted to Finland, Sweden, Estonia, Denmark and Kazakhstan. In 2017, the internal HSE audits were carried out in Tikkurila production sites in Russia, Poland and Sweden. Based on the audit observations, the development actions are communicated to the site management and those are in the process. The progress of actions is being followed by the Group and local HSE teams.

Developing product and service offering based on customer needs

Trends affecting our business include urbanization, the rise of the middle class, changes in consumption behavior and digitalization as well as climate change, among other things. As we develop new products, services, and concepts, we carefully analyze the risks and opportunities of different trends and act accordingly.

Customer interest in products that are better for the environment and health has increased due to greater environmental awareness, changes in consumption habits, and legislative changes concerning the composition and safety of paints. Our customers want to choose products that have minimal environmental and health impacts in production and in use, and that are safe to use.

Sustainable development is an integral part of our strategy, and concrete sustainability customer promises for promoting our strategy work are currently being defined with our key business personnel. Furthermore, we will establish a Group-level sustainability steering team whose responsibilities will be to support Tikkurila's business, steer the development of new products and services that are safe for the environment and health, and promote sales, marketing and communications. The team will comprise experts from Tikkurila's primary markets and various functions (sales, marketing, communications, product management, product safety, research and development, sourcing, and supply chain). The team will begin its work in early 2018.

Sustainable solutions

For decades, Tikkurila has persistently developed and promoted water-borne products and products with minimal environmental impact. We are not satisfied with fulfilling the minimum requirements; we want to actively study and minimize the environmental and health effects of raw materials and our products.

Most Tikkurila paints are water-borne. Our goal is to make the interior paint selection for consumers and professionals within the EU countries 100 percent water-borne by 2020. In 2017, the share of water-borne interior paints within the EU countries was 98.9 percent (2016: 98.7).

A water-borne paint is a better choice for both health and the environment. Their health and environmental effects are smaller than those of solvent-borne paints, especially at the application stage, since it is primarily water that evaporates from water-borne paint. The low-emission and nearly odorless water-borne paints ensure better indoor air quality and lower allergy risks.

Paints are awarded with various eco-labels and classifications with the aim of increasing the knowledge of their environmental and health impacts and product characteristics, to help and guide consumers in their purchasing decisions, as well as to make consumption habits more environmentally sound. Tikkurila has over 300 products that have been awarded international or national eco-label, allergy or asthma label or M1 classification.

Environmental protection investments and expenditures

In 2017, Tikkurila invested EUR 0.4 (0.3) million into environmental protection in its units, and environmental protection expenditures totaled EUR 1.9 (1.6) million. In 2017, the environmental investments reported by the sites included mainly improvements in waste and waste water treatment and measures regarding environmental safety. Additionally, the investments included improvements in raw material warehousing, and development of building technology, related to e.g. lightning. The environmental protection expenditures include, among other things, waste handling, waste water treatment and analyses as well as certification costs.

SOCIAL RESPONSIBILITY, EMPLOYEES AND SUPPLIER MANAGEMENT

The corporate social responsibility is taken into account in all stages of our operations, from raw material selection and supplier management to production and the use and disposal of products. All this is done in cooperation with various stakeholders. The social impact of our operations has been determined, and the key effects have been identified as social issues relating to the supplier chain, the occupational safety and job satisfaction of our employees, and other social issues relating to Tikkurila's operations. The policies and management systems steering the company's social responsibility are described in this report's section "Operating principles and management".

Thanks to the preventive safety work and developed reporting practices, Tikkurila's accident frequency rate (LTA) dropped with almost one unit and was 2.0 (2.7). In 2017, a new group-wide performance management model was deployed at Tikkurila. The model enhances leadership and supports the achievement of the company's strategic goals. Furthermore, it harmonizes the practices of supervisor work throughout all countries of operations, thus supporting organizational structure and management model, which were renewed in 2017.

Personnel

At the end of 2017, Tikkurila employed 3,037 (3,033) people in 14 countries. The average number of employees in January-December 2017 was 3,107 (3,112).

Tikkurila Group's number of employees at the end of each quarter is presented below split by SBU, starting from the first quarter of 2016.

	Q1/2016	Q2/2016	Q3/2016	Q4/2016	**Q1/2017**	**Q2/2017**	**Q3/2017**	**Q4/2017**
SBU West	1,605	1,718	1,673	1,649	**1,693**	**1,804**	**1,676**	**1,659**
SBU East	1,494	1,409	1,400	1,353	**1,383**	**1,393**	**1,364**	**1,367**
Group functions	30	30	30	31	**32**	**31**	**26**	**11**
Total	3,129	3,157	3,103	3,033	**3,108**	**3,228**	**3,066**	**3,037**

The company's own production has a significant effect on Tikkurila's personnel structure and amount. Approximately half of Tikkurila's personnel work in the supply chain (production, sourcing, logistics and HSEQ) and more than a third work in sales, marketing and technical support.

The share of temporary employments at the end of 2017 was 7.0 (7.9) percent and 33.6 (34.3) percent were blue-collar workers. 65.3 (64.7) percent of the personnel were men and 34.7 (35.3) percent women. The average age of the employees was 41.4 (40.8) years. In 2017, Tikkurila Group recruited 299 new employees, and 346 persons left the company.

Performance-based salaries and compensation paid in 2017 totaled EUR 86.3 (81.4) million.

Job satisfaction and realization of equality

Tikkurila monitors and measures the well-being and job satisfaction of its employees by conducting a personnel survey. No employee survey was implemented in 2017. In 2016, 82 (2014: 85) percent of Tikkurila employees responded to the personnel survey. Calculated based on the results, Tikkurila's overall index was 486 (463), while the comparable average among the companies using the same survey tool was 358. Tikkurila will renew its personnel survey process in 2018.

The 2016 results show that Tikkurila's strengths are a good working environment and employees' commitment to the company, which is influenced by employees' positive attitude toward their work, the organization, and the company values. On the other hand, employees feel that they do not have enough opportunities to influence the content of their work. They also hope that managers would communicate more regarding target setting and performance monitoring.

At Tikkurila, we adhere to the principle of equality and diversity, regardless of a person's gender, race, ethnicity or nationality, age, religion, political opinion, or social status. The survey in 2016 showed that 91.0 (2014: 89.3) percent of those who responded to the survey feel that all employees are treated equally or somewhat equally at Tikkurila.

Occupational safety

The safety work at Tikkurila focuses on preventive measures, such as risk assessments, safety training, safety talks and rounds, reporting of safety observations and safety-related communications. Preventive safety work directly affects the company's cost-effectiveness and provides a way to improve efficiency and minimize sickness absences.

Tikkurila monitors the safety of the operations using the LTA1 accident frequency rating which indicates the number of accidents that cause absences lasting at least one day per one million working hours. In 2017, Tikkurila's accident frequency rate (LTA) was 2.0 (2.7).

The performance in matters related to health, safety and the environment is monitored through internal audits carried out by the Group's HSE function and with the help of self-assessments. In addition to assessing employees' safety behavior in their everyday work, safety issues are also addressed through regular personal development discussions, safety rounds as well as safety talks between employees and their supervisors and colleagues. Altogether 6,059 (6,701) safety talks and rounds were held within the Group in 2017.

Supplier management

In the supplier chain, the manufacture of raw materials and packaging materials, partner selection, and effective and reliable co-operation with partners have the greatest impact on Tikkurila's business, success and profitability, as well as the realization of social and environmental responsibility.

We set high standards for the cooperation between Tikkurila and its suppliers as well as for all purchased raw materials, other goods and services. Our aim is to ensure that our partners operate responsibly in accordance with our Code of Conduct and fulfill our requirements on quality, safety, environmental and social responsibility.

The Tikkurila Group has approximately 500 local and international raw material and packaging material suppliers. We only cooperate with suppliers that have been approved by our principles for supplier collaboration and make a group-level agreement with our most significant suppliers. By the end of 2017, 43 (39) percent of raw material and packaging material purchases were covered with the Group agreement.

Tikkurila monitors and assesses the supplier collaboration on a regular basis through evaluation and auditing processes. During 2013–2017, Tikkurila has audited 35 suppliers. The audits and evaluations look into the suppliers' order, delivery and production processes, quality control measures, environmental and safety protocol as well as the suppliers' social responsibility and ethical business practices, such as their practices with regard to human rights, bribery and anti-corruption.

TARGETS AND RESULTS

Topic	KPI	Target	**2017**	2016	2015
Environment	Share of water-borne interior paints in sales, EU countries, % Share of water-borne interior paints is calculated from the sales of decorative paints, industrial products are not included.	100% water-borne interior paints within the EU countries by 2020	**98.9**	98.7	98.5
Environment	Wastes (own operations), tn	Decreasing share of waste	**7,242**	6,209	6,678
Social responsibility and employees	Employee job satisfaction (the index of the employee survey)	Continuous improvement	**-**	486	-
Social responsibility and employees	Lost time accidents (LTA)	Decreasing trend No serious accidents	**2.0**	2.7	1.9
Respect for human rights	Human rights violations identified during 2017 (company's own operations and supplier chain)	No cases	**-**	-	-
Anti-corruption and bribery	Anti-corruption and anti-bribery cases identified during 2017 (company's own operations and supplier chain)	No cases	**-**	-	-

RISKS

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

The Group's risks are various in nature and include strategic risks, operational risks, financial risks and hazard risks. Risks are assessed and managed according to the type and characteristics of each risk. In Tikkurila's view the main risks are strategic and operational, but all categories present risks that may have a significant impact on Tikkurila's business.

The key risks relevant to Tikkurila identified by the Board of Directors are presented in the following chart based on certain simplified assumptions and on the situation prevailing at the end of 2017. The risks are divided according to their most relevant time horizon, although most have both short- and long-term implications. A rough probability assessment is also included in the table.

ESTIMATED PROBABILITY	SHORT-TERM	LONG-TERM
HIGH	• Raw material and packaging material availability and price development risks • Operative business and restructuring risks • Credit loss risks • Foreign exchange rate development • Value chain integration, changes in distribution structure and channels, new entrants into the industry, and intensifying competition	• Raw material related legislative changes, environmental and health risks • Innovations in material technology, and their impact on various surfaces • Digitalization and its effects on the industry and distribution channels • Stability of the development of Russia and its adjacent areas
LOW	• Availability of financing and interest rate risks • Impact of lower sales volumes on productivity and efficiency Information security threats	• Refinancing • Adverse changes in product mix, and potential increase of the share of private labels • Social, economic and environmental risks in supplier chain • Changes in customer needs, demographic changes within customer groups • Ensuring adequate know-how of own personnel and external partners

TIME HORIZON

NEAR-TERM RISKS AND UNCERTAINTIES

Tikkurila's business operations are affected by various strategic, operational, financial, and accident risks. Tikkurila endeavors to identify and evaluate risks and respond to them as proactively as possible and contain their possible adverse effects. The company considers the following risks to represent main near-term uncertainties on the date of publishing this Financial Statement Release:

Raw material risks

Tikkurila is dependent on the ability of its suppliers to provide it with the raw materials needed to manufacture paints. The prices of many raw materials and packaging materials that are vital to Tikkurila's operations increased significantly in 2017 and the Group was not able to fully meet and transfer the increased costs to its end product prices without delays; this led to weakened profitability. The availability of raw materials also presented challenges due to, for example, the destruction of Venator's (formerly Huntsman) titanium dioxide factory in Pori in early 2017. Tikkurila believes that pressure to increase will also continue to be on raw material and packaging material prices in 2018 as well as in the possibility that the Group cannot fully meet or transfer the increased costs to its end product prices without delay. Furthermore, the availability of many key raw materials is estimated to remain challenging, which may result in the lack of products as well as the loss of sales or additional costs associated with it.

Uncertainty relating to raw materials may have an effect on profitability, market share trends, product offering or competition in general.

Operational and reorganization risks

In 2017, Tikkurila deployed a new Enterprise Resource Planning system (ERP), which caused major disruptions to the Group's delivery capacity and invoicing especially in Sweden. Due to the disruptions, and in part also due to the lack of raw materials, Tikkurila was not able to deliver all the products ordered, products were not delivered on time, invoices were not sent on all products or invoicing was not done on time, which all led to the loss of sales or additional costs. Although most of the problems with the ERP system have now been resolved, it is possible that problems will also occur during 2018. The plan is to continue the deployment of the new ERP system in China during the first half of 2018 and in Russia during the second half of 2018, and this will create costs. Problems in the deployment process may have serious negative effects on Tikkurila's business operations.

In 2017, Tikkurila launched an extensive program to boost profitability with the aim of achieving savings of at least EUR 30 million. As part of the program, Tikkurila began to implement the reorganization of its functions with the aim of clarifying decision-making and responsibilities and eliminating overlaps, and thus improving cost competitiveness. If the goals of the program for boosting profitability and the reorganization cannot be implemented according to plan, the intended cost savings or targets for improving competitiveness may not be achieved in full. Furthermore, not being able to successfully implement the program's measures as planned may have serious negative effects on Tikkurila's business operations.

Risk of credit loss

Despite being able to avoid major credit losses, in the future, the importance of counterparty risks will be emphasized and may hinder Tikkurila's business operations or cause losses even though Tikkurila has a broad customer base in most markets. The strong growth of Tikkurila's business operations in China and, on the other hand, the fairly concentrated customer base in several markets have increased the risk of major credit losses.

Exchange rate development

Tikkurila's international operations create currency risks for the Group's income statement, balance sheet and cash flow. The most important currency risks are related to the Russian ruble, the Swedish krona and the Polish zloty. Some of the Group's raw material purchases are directly or indirectly priced in U.S. dollars. In recent months, the U.S. dollar has weakened in relation to the euro. If this trend continues, it may have a stabilizing effect on the pressure of raw material costs linked to the U.S. dollar to increase. Furthermore, the company's equity will be subject to currency risks when the subsidiaries' foreign currency-denominated equity items are converted into euros and the euro-denominated consolidated balance sheets' asset values change with the exchange rates.

Risks related to the industry and operative activities

In the paint industry, competition has become increasingly fierce and M&A activity is high, which will change the competitive landscape and the relative competitiveness of companies. The importance of price is highlighted in certain segments. Some companies in the construction industry or related fields have expanded their product range to paints as well in order to supplement their total range of services offered to professional customers, whose importance is increasing. In the future, this may impact the structure of Tikkurila's product portfolio and customer base, which in turn will affect profitability, for example. In addition, particularly the large-scale retail customers of Tikkurila have started to decrease the number of their suppliers and have intensified their tender processes. This development may result in lower sales margins or lower sales or total discontinuation of sales to certain customers if Tikkurila will not be able to provide a competitive offering.

NON-FINANCIAL RISKS

The goal of Tikkurila's risk management is to identify the risks which may prevent the company from achieving its business objectives. The risk management measures cover also the company's non-financial risks. Tikkurila has determined the environmental and social impact of its operations. Based on the impact evaluation, in addition to raw material availability and price risks, the key non-financial risks identified are raw material related legislative changes and environmental and health risks as well as social, economic and environmental risks in supplier chain. In own operations, the key non-financial risks are the environmental risks related to production. Other non-financial risks relate to digitalization and its effects on distribution channels and logistics, impacts of technological development on the use of various construction materials and coatings solutions as well as changes in customer demand and requirements and demographic changes within customer groups.

Raw material and supplier chain related non-financial risks

In the supplier chain, the manufacture of raw materials and packaging materials, partner selection, and effective and reliable co-operation with partners have the greatest impact on Tikkurila's business, success and profitability, as well as the realization of social and environmental responsibility. Tikkurila sets high standards for the cooperation with its suppliers and for all purchased raw materials. The company aims to ensure that its partners operate responsibly in accordance with Tikkurila's Code of Conduct and fulfill the requirements on quality, safety, environmental and social responsibility relating, among other things, to human rights, employment, the right of association, discrimination, working hours and conditions, occupational health and safety as well as environmental protection and ethical business operations. Tikkurila assesses the supplier collaboration and minimizes the risks in the supplier chain through evaluation and auditing processes.

Paint raw materials may be affected by legislative and usage related changes. Tikkurila follows systematically the development of tightening environmental and safety standards and legislation, and actively participates in the work of paint-industry associations at both national and EU level. Possible legislative changes may have a negative impact on Tikkurila's business operations.

Environmental risks related to own operations

Through high quality and safety in our own operations, Tikkurila aims to ensure the protection of the natural environment, the well-being of people, and the promotion of sustainable development. Tikkurila takes into consideration the environmental impact of its operations throughout the product life-cycle and seek to minimize the environmental load. Proactive efforts and continuous improvement actions, as well as focus on work, chemical, and fire safety, are aimed at preventing any potential environmental damage. Properties and production facilities are operated and managed so that they do not cause safety or environmental risks or undue inconvenience to the local residents. In many of the production facilities, the production process is closed. Waste, wastewater, and emissions are properly treated in accordance with local legislation, practices, and permits.

Tikkurila's risk management principles can be viewed on Tikkurila's website at www.tikkurilagroup.com. More information on financial risks is provided in the Notes to the 2017 Consolidated Financial Statements.

OUTLOOK FOR 2018

The market outlook for the current year is relatively good, although uncertainty has increased in the Swedish housing market in recent months. Economic growth is anticipated to continue in Tikkurila's key markets and consumer confidence is high. The identified problems with the deployment of the ERP system have mostly been resolved, and inventory levels have been significantly raised in order to ensure deliveries.

The prices of raw materials and packaging materials are anticipated to continue rising throughout the year. Some challenges with availability may also still occur. In order to compensate for increased costs, Tikkurila will continue to raise its sales prices and to take action to boost profitability.

The ongoing organizational and structural change may cause indirect costs or otherwise negatively affect the company's operations.

GUIDANCE FOR 2018

Tikkurila's revenue is expected to remain at last year's level and adjusted operating profit to improve.

GROUP KEY FIGURES

KEY PERFORMANCE INDICATORS

STATEMENT OF COMPREHENSIVE INCOME AND PROFITABILITY		2017	2016	2015
Revenue, EUR thousand		**582,392**	571,998	584,112
Foreign operations, EUR thousand		**489,616**	473,880	485,972
Operating profit, EUR thousand		**19,310**	53,110	61,685
% of revenue		**3.3**	9.3	10.6
Share of profit or loss of equity-accounted investees, EUR thousand		**231**	333	398
Financial expenses (net), EUR thousand		**2,921**	-3,938	9,272
% of revenue		**0.5**	-0.7	1.6
Interest cover		**13.6**	-17.7	8.5
Profit before tax, EUR thousand		**16,621**	57,381	52,812
% of revenue		**2.9**	10.0	9.0
Net profit for the period, EUR thousand		**10,651**	44,465	41,493
Return on investment (ROI), %		**8.8**	24.2	25.8
Return on equity (ROE), %		**5.5**	22.0	21.4
Return on capital employed (ROCE), %		**6.3**	18.5	22.2
Research and development expenses, EUR thousand		**10,871**	11,260	11,245
% of revenue		**1.9**	2.0	1.9
CASH FLOWS				
Cash flow from operations, EUR thousand		**18,102**	42,778	48,490
Disposals of businesses, PPE* and intangible assets, EUR thousand		**1,299**	327	348
Capital expenditure, EUR thousand		**15,222**	21,333	20,193
% of revenue		**2.6**	3.7	3.5
Cash flow after capital expenditure, EUR thousand		**4,422**	22,714	32,648
Cash flow return on investment (CFROI), %		**5.7**	14.0	16.3
STATEMENT OF FINANCIAL POSITION AND SOLVENCY				
Non-current assets, EUR thousand		**196,575**	206,784	192,345
Shareholders' equity (attributable to the owners of the parent), EUR thousand		**179,520**	208,591	194,969
Shareholders' equity including non-controlling interest, EUR thousand		**179,520**	208,591	194,969
Liabilities, EUR thousand		**248,215**	201,747	186,472
Total assets, EUR thousand		**427,735**	410,338	381,441
Interest-bearing financial liabilities, EUR thousand		**107,049**	77,204	62,994
Interest-bearing net liabilities, EUR thousand		**90,090**	58,673	46,206
Equity ratio, %		**42.0**	50.9	51.1
Gearing %		**50.2**	28.1	23.7
Interest-bearing financial liabilities (net) / EBITDA		**2.3**	0.8	0.6
PERSONNEL				
Personnel (average)		**3,107**	3,112	3,193
of whom in Finland		**584**	560	607
EXCHANGE RATES				
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	**69.3920**	64.3000	80.6763
Swedish Krona	EUR/SEK	**9.8438**	9.5525	9.1895
Polish Zloty	EUR/PLN	**4.1770**	4.4103	4.2639
SHARE PERFORMANCE INDICATORS				
Earnings per share, EUR, basic		**0.24**	1.01	0.94
Earnings per share, EUR, diluted		**0.24**	1.01	0.94
Dividend per share, EUR [1)]		**0.80**	0.80	0.80
Dividend payout ratio, % [1)]		**331.3**	79.4	85.0
Dividend yield, % [1)]		**4.5**	4.3	5.0
Equity attributable to owners of the parent per share, EUR		**4.07**	4.73	4.42

[1)] The dividend 2017 is the Board of Directors' proposal to Annual General Meeting to be held on April 12, 2018.

	2017	2016	2015
Weighted average number of shares (1,000)	**44,106**	44,106	44,093
Number of shares at the end of period (1,000)	**44,106**	44,106	44,106
Weighted average number of shares, adjusted for dilutive effect (1,000)	**44,111**	44,110	44,106
Number of shares at the end of period, adjusted for dilutive effect (1,000)	**44,112**	44,110	44,109
Equity attributable to owners of the parent, EUR thousand	**179,520**	208,591	194,969
Price per earnings per share (P/E) ratio	**73.8**	18.7	17.1
Share price, end of period, EUR	**17.81**	18.81	16.11
Share price, year high, EUR	**19.67**	19.76	19.50
Share price, year low, EUR	**15.32**	14.29	14.15
Share price, volume-weighted year average, EUR	**17.69**	17.12	16.94
Market capitalization at the end of period, EUR million	**785.5**	829.6	710.5
Number of shares traded (1,000)	**16,252**	11,878	11,432
%, of weighted average number of shares	**36.8**	26.9	25.9

COMPONENTS FOR ALTERNATIVE KEY FIGURES

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

NET DEBT

EUR thousand	2017	2016	2015
Interest-bearing non-current liabilities	**50,083**	50,091	50,161
Interest-bearing current liabilities	**56,966**	27,113	12,832
Interest-bearing liabilities, total	**107,049**	77,204	62,994
Cash and cash equivalents	**16,959**	18,531	16,788
Interest-bearing financial liabilities (net)	**90,090**	58,673	46,206

RETURN ON CAPITAL EMPLOYED (ROCE), %

Operating result + share of profit or loss of equity-accounted investees [1]	**19,542**	53,443	62,083
Capital employed [2]	**311,371**	289,103	279,814
Return on capital employed (ROCE), %	**6.3%**	18.5 %	22.2 %

[1] from a rolling 12-month period

[2] 12 months, in average

CAPITAL EMPLOYED 12 MONTHS, IN AVERAGE

Net working capital			
Inventories	**89,856**	84,158	82,904
Trade and other non-interest-bearing receivables	**152,839**	140,229	125,833
Non-current interest-free liabilities	**-41**	-11	-23
Current interest-free liabilities	**-113,002**	-106,159	-105,990
Net working capital	**129,653**	118,217	102,724
Intangible assets ready for use	**99,139**	86,297	89,798
Property, plant and equipment ready for use	**81,849**	83,671	86,289
Equity-accounted investees	**731**	918	1,003
Capital employed 12 months, in average	**311,371**	289,103	279,814

CAPITAL EMPLOYED AT END OF FINANCIAL PERIOD

Net working capital			
Inventories	**95,984**	80,220	78,395
Trade and other non-interest-bearing receivables	**99,283**	100,062	89,698
Non-current interest-free liabilities	**-142**	-17	0
Current interest-free liabilities	**-105,422**	-91,151	-89,169
Net working capital	**89,702**	89,114	78,924
Intangible assets ready for use	**96,657**	86,299	86,924
Property, plant and equipment ready for use	**78,308**	84,921	86,110
Equity-accounted investees	**491**	703	816
Capital employed at end of financial period	**265,158**	261,037	252,774

KEY INDICATORS' FORMULAS

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

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

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

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

EBITDA
Operating profit + depreciation, amortization and impairment losses

RETURN ON CAPITAL EMPLOYED (ROCE), %

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

NET WORKING CAPITAL

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

OPERATING PROFIT (LOSS), %

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

INTEREST-BEARING NET LIABILITIES

Interest-bearing liabilities - cash and cash equivalents

INTEREST COVER

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

GEARING, %

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

INTEREST-BEARING FINANCIAL LIABILITIES (NET) / EBITDA

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

EQUITY RATIO, %

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

Advances received - see note 29

CASH FLOW RETURN ON INVESTMENT (CFROI), %

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

RETURN ON INVESTMENT (ROI), %

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

RETURN ON EQUITY (ROE), %

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

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

DIVIDEND YIELD

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

PRICE / EARNINGS RATIO (P/E)

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

EQUITY PER SHARE

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

EARNINGS PER SHARE (EPS), BASIC

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

EARNINGS PER SHARE (EPS), DILUTED

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

DIVIDEND PAYOUT RATIO

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

SHARE PRICE, VOLUME-WEIGHTED YEAR AVERAGE

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

MARKET CAPITALIZATION AT THE END OF PERIOD

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

SHARE TURNOVER, %

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

NUMBER OF SHARES AT THE END OF PERIOD

Number of shares issued - treasury shares

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

EUR thousand	Note	**Jan 1 - Dec 31, 2017**	Jan 1 - Dec 31, 2016
Revenue		**582,392**	571,998
Other operating income	7	**3,649**	2,506
Change in inventories of finished goods and work in progress		**10,286**	1,778
Materials and services		**-304,916**	-279,503
Personnel expenses	8	**-111,042**	-105,793
Depreciation, amortization and impairment losses	9	**-20,391**	-16,675
Other operating expenses	10	**-140,668**	-121,201
Operating profit		**19,310**	53,110
Financial income	12	**5,557**	12,253
Financial expenses	12	**-8,478**	-8,315
Share of profit or loss of equity-accounted investees	18	**231**	333
Profit before tax		**16,621**	57,381
Income tax	13	**-5,970**	-12,916
Net profit for the period		**10,651**	44,465
Other comprehensive income	26		
Items that will not be reclassified to profit or loss			
Remeasurements on defined benefit plans		**-2,378**	-448
Income taxes relating to items that will not be reclassified to profit or loss		**507**	-8
Total items that will not be reclassified to profit or loss		**-1,871**	-456
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets		**1**	-
Foreign currency translation differences for foreign operations		**-2,581**	5,158
Income taxes relating to items that may be reclassified subsequently to profit or loss		**-**	-159
Total items that may be reclassified subsequently to profit or loss		**-2,580**	4,999
Total comprehensive income for the period		**6,200**	49,008
Net profit attributable to:			
Owners of the parent		**10,651**	44,465
Non-controlling interest		**-**	-
Net profit for the period		**10,651**	44,465
Total comprehensive income attributable to:			
Owners of the parent		**6,200**	49,008
Non-controlling interest		**-**	-
Total comprehensive income for the period		**6,200**	49,008
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	14	**0.24**	1.01
Diluted earnings per share (EUR)	14	**0.24**	1.01

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

ASSETS

EUR thousand	Note	**Dec 31, 2017**	Dec 31, 2016
Non-current assets			
Goodwill	16, 17	**71,956**	72,303
Other intangible assets	16	**26,468**	30,655
Property, plant and equipment	15	**81,233**	87,531
Equity-accounted investees	18	**491**	703
Available-for-sale financial assets	20	**755**	822
Non-current receivables	21, 23	**7,481**	7,340
Defined benefit pension and other long-term employee benefit assets	30	**8**	133
Deferred tax assets	25	**8,183**	7,297
Total non-current assets		**196,575**	206,784
Current assets			
Inventories	19	**95,984**	80,220
Interest-bearing current assets	22	**655**	915
Trade and other non-interest-bearing receivables	23	**97,817**	98,827
Current tax assets		**10,431**	4,879
Cash and cash equivalents	24	**16,959**	18,531
Non-current assets held for sale	6	**9,314**	182
Total current assets		**231,160**	203,554
Total assets		**427,735**	410,338

EQUITY AND LIABILITIES

EUR thousand	Note	**Dec 31, 2017**	Dec 31, 2016
Equity			
Share capital	26	**35,000**	35,000
Other reserves	26	**42**	42
Fair value reserve	26	**-**	-
Reserve for invested unrestricted equity	26	**40,000**	40,000
Treasury shares	26	**-42**	-42
Translation differences	26	**-39,338**	-36,757
Retained earnings		**143,857**	170,348
Equity attributable to owners of the parent		**179,520**	208,591
Non-controlling interest		**-**	-
Total equity		**179,520**	208,591
Non-current liabilities			
Interest-bearing non-current liabilities	27	**50,083**	50,091
Other non-current liabilities	29	**142**	19
Defined benefit pension and other long-term employee benefit liabilities	30	**27,118**	25,504
Provisions	31	**503**	546
Deferred tax liabilities	25	**4,991**	6,245
Total non-current liabilities		**82,837**	82,405
Current liabilities			
Interest-bearing current liabilities	28	**56,966**	27,113
Trade and other non-interest-bearing payables	29	**105,460**	91,263
Provisions	31	**622**	278
Current tax liabilities		**1,321**	688
Liabilities classified as held for sale	6	**1,009**	-
Total current liabilities		**165,378**	119,342
Total equity and liabilities		**427,735**	410,338

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

CASH FLOW FROM OPERATING ACTIVITIES

EUR thousand	Note	**Jan 1 - Dec 31, 2017**	Jan 1 - Dec 31, 2016
Net profit for the period		**10,651**	44,465
Adjustments for:			
Non-cash transactions			
Depreciation, amortization and impairment		**20,391**	16,675
Employee benefits		**116**	142
Change in provisions		**290**	-293
Gain on sale of PPE* and intangible assets		**-228**	-413
Loss on sale of PPE* and intangible assets		**102**	517
Other items		**7,661**	4,359
Dividend income		**-20**	-3
Interest expenses and other financial expenses		**1,537**	1,537
Interest income and other financial income		**-986**	-660
Share of profit or loss of equity-accounted investees		**-231**	-333
Exchange rate differences of financing		**2,390**	-4,812
Income tax for the period		**5,970**	12,916
Funds from operations before change in net working capital		**47,643**	74,097
Change in net working capital			
Change in inventories		**-25,285**	-4,842
Change in trade and other receivables		**-6,445**	-10,324
Change in trade and other payables		**17,823**	-281
Change in net working capital		**-13,907**	-15,447
Interest and other financial expenses paid		**-3,522**	-2,013
Interest and other financial income received		**679**	272
Income tax paid		**-12,791**	-14,131
Total cash flow from operations		**18,102**	42,778
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses, net of cash acquired	5	**-**	-
Acquisition of property, plant and equipment		**-12,659**	-8,408
Acquisition of intangible assets		**-2,563**	-12,925
Disposal of subsidiaries, net of cash disposed of	5	**924**	-525
Proceeds from sale of available-for-sale financial assets		**75**	238
Proceeds from sale of property, plant and equipment		**373**	851
Proceeds from sale of intangible assets		**2**	1
Repayments of loan receivables (+)		**52**	308
Loan receivables, increase (-)		**-293**	-
Dividends received		**409**	396
Net cash used in investing activities		**-13,680**	-20,064
Cash flow before financing		**4,422**	22,714

* Property, plant and equipment
Reconciliation of cash and cash equivalents is disclosed in Note 24 Cash and cash equivalents.
Reconciliation of liabilities arising from financing activities is in Note 33.

CASH FLOW FROM FINANCING ACTIVITIES

EUR thousand	Note	**Jan 1 - Dec 31, 2017**	Jan 1 - Dec 31, 2016
Proceeds from non-current borrowings (+)		**-**	-
Repayments of non-current borrowings (-)		**-**	-
Current financing, increase (+)		**287,902**	196,239
Current financing, decrease (-)		**-257,988**	-181,746
Payment of finance lease liabilities (-)		**-247**	-384
Dividends paid		**-35,285**	-35,285
Acquisition of own shares		**-**	-
Other		**0**	238
Net cash used in financing activities		**-5,618**	-20,938
Net change in cash and cash equivalents		**-1,196**	1,776
Cash and cash equivalents at Jan 1	24	**18,531**	16,788
Effect of exchange rate fluctuations on cash held		**-827**	33
Cash and cash equivalents transferred in assets held for sale	6	**1,290**	-
Cash and cash equivalents at Dec 31	24	**16,872**	18,531
Net change in cash and cash equivalents		**-1,196**	1,776

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 unre-stricted equity	Treasury shares	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity at Jan 1, 2016		35,000	42	-	40,000	-42	-41,756	161,725	194,969	-	194,969
Total comprehensive income for the period	26	-	-	-	-	-	4,999	44,009	49,008	-	49,008
Share-based compensation		-	-	-	-	-	-	-102	-102	-	-102
Dividends paid		-	-	-	-	-	-	-35,285	-35,285	-	-35,285
Equity at Dec 31, 2016		35,000	42	-	40,000	-42	-36,757	170,348	208,591	-	208,591

EUR thousand											
Equity at Jan 1, 2017		35,000	42	-	40,000	-42	-36,757	170,348	208,591	-	208,591
Total comprehensive income for the period	26	-	-	1	-	-	-2,581	8,780	6,200	-	6,200
Share-based compensation		-	-	-	-	-	-	13	13	-	13
Dividends paid		-	-	-	-	-	-	-35,285	-35,285	-	-35,285
Equity at Dec 31, 2017		35,000	42	1	40,000	-42	-39,338	143,857	179,520	-	179,520

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)

EUR thousand	**2017**	2016
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**86,239**	82,539
Net profit for the period	**35,038**	38,984
Total	**161,276**	161,523

1. ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION

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

Tikkurila provides consumers and professionals with user-friendly and sustainable solutions for surface protection and decoration. Tikkurila is a strong regional company, whose aim is to be the leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area and Russia. Tikkurila Group has organized its business operations into two strategic business units defined geographically: SBU West and SBU East. In the 2017 financial year, Tikkurila Group's revenue amounted to EUR 582.4 million and the average number of personnel was 3,107. The Group operates in 14 countries and has production facilities in 9 countries.

The Board of Directors of Tikkurila Oyj has approved the financial statements for publication at its meeting of February 12, 2018. In accordance with the Finnish Limited Liability Companies Act, the shareholders can approve or reject the financial statements or make a decision on altering the financial statements in the Annual General Meeting arranged after its publication. A copy of the consolidated financial statements is available from the company's headquarters at Kuninkaalantie 1, 01300 Vantaa and at www.tikkurilagroup.com.

BASIS OF PREPARATION

Tikkurila Oyj's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as with the related SIC and IFRIC Interpretations, in force as at December 31, 2017. 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.

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

Tikkurila Group has applied the following new and revised standards and interpretations since January 1, 2017, which affect the reported data or data that will be reported in the future:

- Amendments to IAS 7 Statements of Cash Flows- Disclosure Initiative (effective for financial years beginning on or after January 1, 2017). The amendments require entities to provide disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments are to be applied prospectively, not required to present comparative information for earlier period. Reconciliation of liabilities arising from financing activities is disclosed in Note 33 Finanical risk management.

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

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

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

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

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the parent company, Tikkurila Oyj and all subsidiaries which are controlled by the Group. The goodwill of business combinations, that have taken place prior to 2003, corresponds with the book value of the accounting standards previously adopted by the Group. On the closing date, December 31, 2017, the Group consisted of 17 companies including the parent company and the Group had investment in one joint venture. The Group had not any ownership in associates in financial years 2017 or 2016.

Subsidiaries

The consolidated financial statements include the parent and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The power comprises the rights to direct the relevant activities. Companies acquired or established during the accounting period are fully consolidated from when the Group has gained control over the company until the date that such control ceases. The Group's subsidiaries are disclosed in Note 38.

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

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

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

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

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

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

Associates

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

The Group's share of associates' profits or losses is recognized in proportion to the Group's holdings and is presented in the statement of comprehensive income in line "Share of profit or loss of equity-accounted investees", after operating profit and financial items. The Group's share of changes of associates' other comprehensive income items is recognized in Group's other comprehensive income. If the Group's share of losses in an associate would exceed its interest in the associate, the Group would not recognize further losses, unless it has committed to settle the obligations on behalf of the associate. Tikkurila did not have any investments in associates in financial year 2017 nor in year 2016.

Joint arrangements

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

Joint ventures

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

TRANSLATION OF FOREIGN CURRENCY ITEMS

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

Foreign currency transactions

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

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

Exchange rate differences resulting from transactions denominated in foreign currencies and from the translation of monetary items are recognized in profit or loss. Exchange rate differences arising from operation-related items are accounted for as adjustments to sales and purchases. Foreign exchange gains and losses arising from financial items are included in financial income and expenses. The Group does not carry out currency forward agreements to hedge financing transactions and the Group's overall foreign currency position nor the Group apply hedge accounting to manage risks related to financing transactions.

Translation of financial statements of foreign subsidiaries

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

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

PENSION OBLIGATIONS

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

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

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

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

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

OTHER LONG-TERM EMPLOYEE BENEFITS

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

SHARE-BASED PAYMENTS

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

The Board of Directors of Tikkurila Oyj approved in April 2016 a share-based incentive plan for the Group key employees. The plan consists of a Performance Share Plan 2015-2019 and a Matching Share Plan 2016-2018. In May 2017, the Board of Directors of Tikkurila resolved a matching share plan 2017-2019 for the selected Group key employees.

The Performance Share Plan includes three performance periods, calendar years 2015-2017, 2016-2018 and 2017-2019. The Board of Directors of Tikkurila Oyj will decide on the performance criteria of the plan and their targets at the beginning of each performance period. Approximately 10 key employees, including the members of the Management Board, belong to the target group of all the performance periods. In both Matching Share Plans there is one vesting period, calendar years 2016-2018 and 2017-2019. The prerequisite for receiving reward, on a basis of these plans, is that a person participating in the plan acquires the Company's shares up to the number determined by the Board of Directors.

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

A key employee participating in the plan has the possibility to earn a reward only in case the employment or service contract continues at least up until the payment dates defined in the terms and conditions of the plan and subject to that he/she still owns the shares originally purchased at the time of reward payment.

Tikkurila Oyj's Board of Directors decided in February 2012 to establish a share-based commitment and incentive plan, which consisted of Performance Share Plan 2012-2016 and a Matching Share Plan 2012-2014. The performance criteria of the plan and their targets were similar than in the year 2016 Share Plan. The share-based incentive plan 2012 is closed.

More information about share-based incentive plan is disclosed in Note 36 to the consolidated financial statements.

During 2014 Tikkurila Oyj's subsidiary Tikkurila Sverige AB acquired a company, in conjunction with which were granted call options. There is no option outstanding at the year-end as options were settled in September 2016.

More details of this option arrangement are found in Note 36.

CURRENT TAXES AND DEFERRED TAXES

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

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

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

INTANGIBLE ASSETS

Goodwill

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

Research and development costs

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

The Group's development costs fulfilling the capitalization criteria will be capitalized. There have not been such development costs during the financial year 2017 nor 2016. Development costs previously recognized as an expense are not capitalized in a subsequent period.

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

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

Other intangible assets

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

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

Items of property, plant and equipment in acquired subsidiaries are recognized at fair value on the acquisition date.

Depreciation is calculated using the straight-line method based on the assets' estimated useful lives. Land is not depreciated. The depreciation periods generally applied by the Group are:

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

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

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

Borrowing costs are capitalized at the acquisition cost of property, plant and equipment if the asset meets the conditions of IAS 23 Borrowing Costs. In year 2017 or 2016, 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's comparable property, plant and equipment in own use. Rental income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

INVENTORIES

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset and a financial liability is recognized initially at fair value. Directly attributable transaction costs are included in the original cost, unless it is financial asset or liability recognized at fair value through profit or loss. All purchases and sales of financial assets and liabilities are recognized or derecognized using trade date accounting. Financial assets and liabilities of Tikkurila Group have been classified at initial recognition based on their purpose of use as financial assets and liabilities at fair value through profit or loss, loans and other receivables, available-for-sale financial assets and other financial liabilities (measured at amortized cost). In financial year 2017 and 2016, the Group does not have any financial assets or liabilities classified as fair value through profit or loss. In the past years, this category comprised derivative instruments.

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

FINANCIAL ASSETS

Loans and other receivables

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

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

Available-for-sale financial assets

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

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

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

FINANCIAL LIABILITIES

Other financial liabilities

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

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset under IAS 23 Borrowing costs, are capitalized as part of the cost of that asset. In financial year 2017, the Group has not had such acquired assets with capitalized borrowing costs. In financial year 2016, the development and construction of enterprise resourcing planning system qualified such asset and the borrowing costs are included as part of the cost. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that incurs in connection with the borrowing of funds.

PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

RELATED PARTY TRANSACTIONS

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

Tikkurila follows the same commercial terms in its business with joint ventures and other related parties as with third parties. The related party transactions are presented in the Note 37.

SEGMENT REPORTING

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

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

GOVERNMENT GRANTS

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

OPERATING PROFIT

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

ITEMS AFFECTING COMPARABILITY

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

EQUITY

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

ADOPTING NEW AND AMENDED IFRS STANDARDS AND INTERPRETATIONS

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

New standards, amendments and interpretations approved in the EU

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

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

As assessed the impacts with the current structure of the financial assets the accounting and classification of available for sale financial assets will change. These equity instruments are long-term nature investments that the Group is not intending to sell. These all will be classified as fair value through OCI. Received dividends will be recognized in profit or loss, but possible impairment losses would not be recognized in profit or loss nor the gains or losses on disposal would be reclassified to profit or loss. Available for sale financial assets amounted to EUR 0.8 million in consolidated statement of financial position at the end of the financial year 2017.

There are no impacts resulting from the application of standard to financial liabilities. The Group has no such financial assets at the end of financial year 2017 that would be classified as fair value through profit or loss. The Group's trade receivables, classified and measured at amortised cost in accordance IFRS 9, consist the most of the Group's financial assets. The impairment model to recognize the lifetime expected credit loss will be applied to all trade receivables. The Group has applied group wide guidelines that are based on the overdue time of trade receivables when measuring the loss allowance. As applying IFRS 9 standard, this model is changed as following: the loss allowance is recognized for all trade receivables also in time categories not due, overdue 1-90 days as well as 90-180 days in accordance with the percentages defined to separate geographical areas in which Group operates.

Historical losses and customers' behavior of geographical area in question are impacting to the percentages defined. In accordance to these calculations, Group will recognize an adjustment of EUR -1.1 million in retained earnings and trade receivables as of January 1, 2018.

The Group applies expected credit loss model also to its loan receivables. Estimated amount of loss allowance equals to 12-month expected credit losses, as there is no significant increase in credit risk involved in these. As resulting, the Group will recognize an adjustment of EUR -0.2 million in retained earnings and loan receivables as of January 1, 2018.

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

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

Tikkurila's revenue mainly consists of selling of decorative paints, coatings and fillers to construction supply stores, hardware store chains and retailers which sell Tikkurila's products to consumers and professional painters. Industrial coatings are sold either directly to end customers or through retailer network. In addition, the Group has its own paint shops located in Sweden, Norway and Denmark, which primary serve professional customers. Revenue is generated also in a small extent from selling paint related services and equipment.

Analyzing impacts of IFRS 15 and assessing customer agreements was continued in the Group during the financial year 2017. The work has been performed by going through different types of customer contracts including different set-ups of agreements as well as by documenting impacts on current sales practices on a more detailed level in co-operation with external consultants.

In general, the revenue is recognized on selling goods i.e. the performance obligations are satisfied, when the goods are delivered to a customer in compliance with the contract terms. Delivery terms stated in purchase orders and/or in frame agreements identify the point of time when control is transferred to a customer. Applying IFRS 15 will not change the point of time when the revenue is recognized.

Typically, in customer agreements, there are afterwards granted discounts, credits that are tied to volume and/or value of the deliveries or sales volumes of specified product groups. The impact of the variable consideration on the transaction price requires estimation at point of time of the revenue recognition.

In customer contracts, there are commitments also on marketing and sales promotion actions. If, and when sales promotion expenses, consideration payable to a customer, are not considered as a payment for distinct services purchased from a customer, those will be recognized as a reduction of revenue as applying IFRS 15; in 2017 and earlier years a part of these payments to a customer has been recognized in other operating expenses. In financial year 2017 such sales promotion expenses amounted to EUR 3.3 million. This will have no impact on operating profit, instead the revenue will decrease, and respectively other operating expenses will decrease as well.

As continuing further IFRS 15 analysis after publishing the 2016 financial statement release, an interpretation in relation to selected support products to paints was slightly modified. On the contrary to the previous conclusion, these specified support products were concluded to be separately identified and fulfilling the separate performance obligation criteria. These contracts include material rights on sales based discounts granted to customers, that are to be allocated based on a stand-alone selling price to paints and support products in accordance with IFRS 15. Because of this EUR 1.2 million will be recognized in the Group as adjustment to retained earnings net of tax. The adjustment is due to allocation of transaction price to paint sales and it will be entered as income in coming financial periods.

According to Tikkurila's assessment IFRS 15 will not have significant impact on Group revenue nor operating result on Group's forthcoming financial statements.

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

IFRS 16 are to be recognized in consolidated statement of financial position, relate to office and business premises (offices and shops) as well as cars.

The Group will likely adopt, at the date of initial application, the simplified approach where the cumulative effect of applying the standard is recognized as an adjustment to the opening balance of retained earnings and comparative information is not restated. In measurement of right-of-use asset the Group will likely choose the option where the lease liability equals to the right-of-use asset. The recognition and measurement exemptions for short-term leases and leases for which underlying asset is of low value will be applied.

This standard will have a significant impact on the Group's financial statement. Right-of-use assets and liabilities recognized on the consolidates statement of financial position are estimated to be around EUR 15-17 million.

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

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

- Amendments to IFRS 2 Share-based payments (effective for financial years beginning on or after January 1, 2018). The amendments clarify that estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and market conditions should follow the same approach as for equity-settled share-based payments. Amendments also clarify accounting for a modification of a share-based payment from cash-settled to equity-settled.

  In addition, these clarify that share-based payment transactions with a net settlement feature for withholding tax obligation should be classified as equity-settled in its entirety providing that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Tikkurila's share-based payment plans have net settlement features. Thus, cash settled payments will be recognized directly in equity and will be measured as equity settled payments. This is not expected to have any material impact on Group's financial statements.

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

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

- Amendments to IAS 40 Investment Property (effective for financial years beginning on or after January 1, 2018). The amendments clarify that property is transferred to, or from investment property when and only when a change in use of property is supported by evidence. The change in management's intentions, alone, provides not enough evidence of a change in use. The amendments are to be applied either prospectively or retrospectively. This is not expected to have any impact on Group's financial statements.

- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective for financial years beginning on or after January 1, 2019). These amendments enable companies to measure at amortized costs prepayable financial assets with so-called negative compensation. This is not expected to have any material impact on Group's financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after January 1, 2019). The interpretations clarify accounting for income tax treatments when there is uncertainty over treatment and that have yet to be accepted by tax authorities. In such cases entities shall use assessment whether the tax authorities will accept the company's chosen tax treatment. In assessment, the assumption that tax authorities have full knowledge of all related information is applied. This interpretation is not expected to have any material impact on Group's financial statements.

- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (effective for financial years beginning on or after January 1, 2019). The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interest in an associate or joint venture that form part of the net investment in the associate or joint venture. This is not expected to have any impact on Group's financial statements.

- Annual Improvements to IFRSs 2015-2017 (effective for financial years beginning on or after January 1, 2019). The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. These amendments are not expected to have any material impact on Group's financial statements.

- IFRS 17 Insurance Contracts (effective for financial years beginning on or after January 1, 2021). This standard replaces IFRS 4-standard. Standard applies to insurance contracts and their measurement. This is not expected to have any impact on Group's financial statements.

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

2. CRITICAL ACCOUNTING ESTIMATES REQUIRING MANAGEMENT'S JUDGMENT

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

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

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

IMPAIRMENT OF ASSETS AND ESTIMATES RELATED TO VALUATION OF ASSETS

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

In financial year 2017 impairment losses on property, plant and equipment as well as intangible assets were recognized on machines and equipment and other intangible assets of Balkan area subsidiaries. In financial year 2016, impairment losses on property, plant and equipment were related to land area located in Ukraine. In addition, goodwill related to Tikkurila Drytech's business was impaired in 2016. The impairments have been presented in the Note 9. Depreciation, amortization and impairment losses.

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

Valuation of inventory requires some management assessment. Inventories are valued at the lower of cost or net realizable value. When determining the net realizable value the estimated selling price less the estimated direct costs needed to complete the sale and estimated costs required to finish the product are defined. When the carrying amount of inventory exceeds the net realization value an impairment of inventory is recognized. Even though raw materials used in production and company manufactured finished goods have a rather long preservability, unpredicted changes in demand or customer behavior may expose Tikkurila to higher inventory obsolescence risks that needs to be estimated at the time of preparing financial statements.

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 growth of Tikkurila's businesses in China has increased the Yuan denominated receivables and thus this might increase the credit risk involved in these as well as fluctuation of Chinese Yuan might have an adverse impact on the values of Group's assets. Difficulties in deployment of new ERP system increased the balances of overdue trade receivables, especially in Sweden. In addition, concentration of clientele in several market areas has increased the credit risk.

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

Tikkurila has significant business and assets in Russia. Even though in financial years 2017 and 2016 Russian ruble has stabilized and appreciated compared to year 2015 and macroeconomic situation stabilized, there are still major geopolitical and economic risks in the region. Moreover, it is often difficult to assess the counterparty risk in Russia. These aspects have an effect particularly on the valuation of assets.

BUSINESS COMBINATIONS

In business combinations the net identifiable assets of the acquired companies are measured at fair value. Taking into account Tikkurila Group's geographical operating area and the nature of its operations, it is possible that the fair value of the acquired companies or business operations and the related assets and liabilities cannot be reliably determined and that the value determination involves a lot of estimated items. In the case of a major acquisition, the estimated fair values of property, plant and equipment and intangible assets acquired and their estimated useful lives may have a significant effect on Tikkurila's result and statement of financial position. The net assets acquired in business combinations during the current and previous financial year are disclosed in Note 4 Business combinations and disposals of businesses. In financial years 2017 and 2016 Tikkurila had no acquisitions.

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

If the Group plans to divest a business operation or sell some asset items, the management has to use consideration in determining the timing when the criteria according IFRS 5 are fulfilled and based on that asset, assets to be classified as non-current assets held for sale. In context of classification, the Group management use its estimation in order to assess the amount of possible impairment loss to be recognized if the carrying amount is above the fair value less costs to sell. At the financial year-end, the Group reclassified its Serbian and Macedonian subsidiaries as held for sale. This divestment is expected to be closed during the first quarter of year 2018. In context of classifying these assets as held for sale, impairment losses EUR 234 thousand were recognized on machinery and equipment and EUR 963 thousand on other intangible assets. This divestment is expected to result around EUR 5.6 million loss. This estimated loss is recognized on year 2017 result and presented as accrued expenses and deferred income on consolidated statement of financial position.

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

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

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

PROVISIONS

A provision is recognized when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. A provision can be recognized when the amount of the obligation can be determined reliably. Recognizing provisions requires the management's estimates, since the precise euro amount of obligations related to provisions is not known when preparing the financial statements. If the management estimates that no probable payment obligation arises the item is presented as a contingent liability in the financial statements. On the closing date, December 31, 2017, the provisions amounted to EUR 1.1 million. The corresponding figure in the 2016 financial statements was EUR 0.8 million. Provisions have been described in Note 31.

INCOME TAXES

For the recognition of deferred tax assets on tax losses and other items, management assesses the probability of a future taxable profit against which tax assets can be utilized. The Group has subsidiaries in several countries with different types of tax regulations. Estimating the total amount of income taxes at Group level requires significant consideration. Actual profits may differ from the forecasts and, in such case, the change will affect the taxes in future periods. The amount of deferred tax assets in the 2017 financial statements was EUR 8.2 million and the amount of confirmed tax losses carried forward from prior periods for which no deferred tax asset has been recognized was EUR 1.9 million.

PENSION OBLIGATIONS

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

3. SEGMENT INFORMATION

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

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

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

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

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

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

REPORTABLE SEGMENTS 2017

EUR thousand	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
External revenue	**379,791**	**202,603**	**-**	**-3**	**582,392**
Depreciation, amortization and impairment losses	**11,749**	**8,497**	**144**	**-**	**20,391**
Operating profit (loss)	**16,227**	**8,208**	**-5,124**	**0**	**19,310**
Items affecting comparable EBIT by segment	**-1,842**	**-7,003**	**-628**	**-**	**-9,473**
Adjusted operating profit (loss) by segment	**18,068**	**15,211**	**-4,496**	**0**	**28,783**
Non-allocated items					
Financial income					**5,557**
Financial expenses					**-8,478**
Share of profit or loss of equity-accounted investees					**231**
Profit before tax					**16,621**
Segment assets	**321,359**	**81,775**	**54,753**	**-30,152**	**427,735**
Investments in equity-accounted investees					**491**
Capital expenditure	**10,973**	**3,618**	**-**	**-**	**14,591**

REPORTABLE SEGMENTS 2016

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

SBU West consists of Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia and Lithuania.
SBU East consists of Russia, Central Asian countries, Serbia, Macedonia, and China. Furthermore, SBU East is responsible for the exports to approximately 20 countries.

REPORTABLE SEGMENTS 2017	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
EUR thousand					
Operating profit (loss) by segment	**16,227**	**8,208**	**-5,124**	**0**	**19,310**
Items affecting comparable EBIT by segment					
Divestments	**-**	**-5,601**	**-**	**-**	**-5,601**
Personnel related	**-1,642**	**-204**	**-628**	**-**	**-2,474**
Insurance compensation for personal injury	**-200**	**-**	**-**	**-**	**-200**
Gain on sale of available-for-sale financial assets	**-**	**-**	**-**	**-**	**-**
Impairment losses	**0**	**-1,198**	**-**	**-**	**-1,197**
Total	**-1,842**	**-7,003**	**-628**	**-**	**-9,473**
Adjusted operating profit (loss) by segment	**18,068**	**15,211**	**-4,496**	**0**	**28,783**

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

PERSONNEL BY SEGMENTS DURING THE PERIOD, AVERAGE

	2017	2016
SBU West	**1,716**	1,656
SBU East	**1,380**	1,425
Tikkurila common *)	**11**	30
Total	**3,107**	3,112

*) In financial year 2017, the Group has continued organizational and structural transformation, which is aimed at clarifying decision-making, responsibilities and eliminating overlaps. Due to these organizational changes, the group level function key persons, whose responsibilities are clearly emphasized as directly supporting roles of business units' performance have been reclassified as part of the number of personnel of SBU East and SBU West.

REVENUE BY DESTINATION

EUR thousand	**2017**	2016
Russia	**143,355**	120,197
Sweden	**132,805**	149,927
Finland	**92,775**	98,117
Poland	**76,763**	70,355
Other countries	**136,694**	133,402
Total	**582,392**	571,998

REVENUE BY PRODUCT GROUP

EUR thousand	**2017**	2016
Decorative paints	**478,941**	474,912
Industrial coatings	**103,450**	97,085
Total	**582,392**	571,998

NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION *)

EUR thousand	**2017**	2016
Russia	**28,272**	32,321
Sweden	**78,280**	79,784
Finland	**35,049**	37,192
Poland	**17,754**	15,588
Other countries	**20,793**	26,306
Total	**180,149**	191,192

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

4. BUSINESS COMBINATIONS AND DISPOSALS OF BUSINESSES

ACQUISITIONS 2017

There were no acquisitions during the financial year 2017.

ACQUISITIONS 2016

There were no acquisitions during the financial year 2016.

DISPOSALS 2017

There were no disposals during the financial period 2017.

DISPOSALS 2016

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

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

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

Tikkurila sold in August 2016 the shares in its Swedish, dormant subsidiary, Färdigfärgat AB. The consideration was EUR 14 thousand from which EUR 10 thousand was received in cash at the closing. Remaining amount of consideration was received in September 2017.

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

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

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND BUSINESSES

EUR thousand	2017	2016
Acquisition of businesses		
Total purchase consideration	-	-
Cash and cash equivalents at acquisition date	-	-
Returned share of consideration from the previous years' acquisitions	-	-
Cash outflow on acquisition net of cash acquired	-	-
Proceeds from the disposal		
Total proceeds	-	4,753
Cash inflow from the previous years' disposals	924	56
Recognized as receivable at the date of disposal *)	-	-4,693
Cash and cash equivalents in disposed companies	-	-641
Net cash effect	924	-525

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

Assets and liabilities disposed of	2017	2016
PPE**) and intangible assets	-	886
Deferred tax assets	-	43
Interest-bearing receivables	-	16,687
Inventory	-	2,905
Trade receivables and other interest-free receivables	-	9,558
Cash and cash equivalents	-	641
Total assets	-	30,720
Deferred tax liabilities	-	1
Interest-bearing liabilities	-	16,723
Trade and other payables	-	7,889
Total liabilities	-	24,613
Total net assets and liabilities of disposal	-	6,107
Loss on disposal in equity	-	-1,354
Total	-	4,753

**) Property, plant and equipment

6. NON-CURRENT ASSETS HELD FOR SALE

At the end of financial year 2016 non-current assets held for sale consisted of flats in Balkan area which were sold during financial year 2017 except for one flat.

In December 2017, Tikkurila announced about an agreement to sell the entire share capital of its subsidiaries in Serbia and Macedonia to the local management of Tikkurila. The transaction is expected to be closed during the first quarter 2018. At year-end 2017, assets and liabilities of these subsidiaries were disclosed as held for sale. These are included in balances of SBU East.

The revenue of companies totaled in 2017 some EUR 13 million and they employed some 130 persons. In the financial statements of Tikkurila Group, an estimated divestment loss of EUR 5.6 million and impairment losses of EUR 1.2 million have been recognized on intangible assets and PPE.

On the face of the consolidated statement of financial position, the accrued loss on divestment of Balkan subsidiaries is presented in “Trade and other non-interest-bearing payables”. Estimated loss on divestment EUR 5.6 million is presented in Note 29 Accrued expenses and deferred income in line “Other”.

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

Non-current assets held for sale

EUR thousand	2017	2016
PPE *)	**2,658**	-
Other investments	**39**	182
Deferred tax assets	**14**	-
Inventory	**2,185**	-
Trade receivables and other interest-free receivables	**3,128**	-
Cash and cash equivalents	**1,290**	-
Total assets	**9,314**	182

Liabilities classified as held for sale		
Interest-bearing liabilities	**12**	-
Trade and other payables	**997**	-
Total liabilities	**1,009**	-

*) During the financial year 2016 the land area located in (Northern part of the) Finland was classified as held for sale financial assets. This land area, included in assets of SBU West, was sold in October.
At the end of financial year 2016 Non-current assets held for sale consisted of flats located in Balkan area. The carrying amounts of assets were compared to the sales price offers derived from the real estate markets. The sales price estimations were lower of the carrying amounts and thus impairment loss was recognized. The impairment loss was presented in financial expenses of the consolidated statement of comprehensive income. In order to complete these sales transactions, the flats were offered to market by local real estate brokers. These held for sale assets were recognized in assets of SBU East.

7. OTHER OPERATING INCOME

EUR thousand	2017	2016
Gains on sale of non-current assets	**228**	368
Gains on sale of available-for-sale financial assets	**0**	45
Insurance compensation	**237**	92
Rental income	**339**	318
Income on services provided to joint venture	**978**	930
Other income from operations	**1,867**	753
Total	**3,649**	2,506

Gains on sales of non-current assets in 2017 consist mainly from gains on sales of vehicles.

Gains on sales of non-current assets in 2016 consist of gain on a disposal of land area EUR 0.1 million and gain on a sale of subsidiary EUR 0.1 million.

Rental income is received mainly from leasing of premises in years 2017 and 2016.

8. PERSONNEL EXPENSES

EUR thousand	2017	2016
Wages and salaries	**-86,306**	-81,403
Share-based payments	**-25**	-47
Pension expenses for defined contribution plans	**-11,196**	-10,590
Pension expenses for defined benefit plans	**-1,249**	-1,311
Other personnel expenses	**-12,267**	-12,442
Total	**-111,042**	-105,793

Remuneration of Board of Directors and CEO of Tikkurila Oyj are disclosed in Note 37 Related parties.
Pension expenses for defined benefit plans are disclosed in Note 30 Pension obligations and other long-term employee benefits.

Personnel, average	2017	2016
Personnel in Finland, average	**584**	560
Personnel outside Finland, average	**2,523**	2,552
Total	**3,107**	3,112
Personnel at year-end	**3,037**	3,033

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

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

EUR thousand	**2017**	2016
Depreciation and amortization		
Intangible assets	**-5,257**	-3,152
Property, plant and equipment		
Buildings and constructions	**-3,187**	-3,056
Machinery and equipment	**-9,372**	-9,442
Other property, plant and equipment	**-1,377**	-879
Total	**-19,193**	-16,529
Impairment losses		
Intangible assets		
Other intangible assets	**-963**	-
Goodwill	**-**	-137
Property, plant and equipment		
Machinery and equipment	**-234**	-
Land and water	**-**	-9
Total	**-1,197**	-146
Total depreciation, amortization and impairment losses	**-20,391**	-16,675

In financial year 2017 recognized impairment losses on intangible assets and property, plant and equipment relate to Group companies in Balkan area which assets and liabilities are classified as held for sale.
Impairment of goodwill in financial year 2016 related to goodwill recognized on acquisition of Tikkurila Drytech AB (SBU West).
In financial year 2016 impairment losses recognized on property, plant and equipment relate to land area in Ukraine (SBU East).

10. OTHER OPERATING EXPENSES

EUR thousand	**2017**	2016
Rents	**-12,928**	-11,623
Other voluntary personnel expenses	**-4,607**	-5,189
Sales and marketing	**-27,152**	-28,721
Repair and maintenance	**-9,111**	-8,677
IT and communication	**-5,681**	-5,578
Freights for goods sold	**-17,869**	-15,942
Professional fees	**-5,802**	-5,815
Transportation and travel	**-9,136**	-8,572
Energy, heating and water	**-4,800**	-4,788
Insurances excl. personnel insurances	**-1,079**	-1,034
Office expenses	**-1,981**	-1,773
Representation and membership fees	**-2,534**	-2,577
External services	**-24,262**	-15,028
Authority fees and environmental tax	**-1,192**	-1,351
Credit losses	**-1,647**	-1,426
Other expenses	**-10,887**	-3,107
Total	**-140,668**	-121,201
Audit fees: [1]		
KPMG	**-433**	-448
Other audit firms	**-26**	-74
Tax advisory, KPMG	**-31**	-52
Other services, KPMG	**-16**	-34
Total	**-506**	-608

[1] Includes possibly invoiced out-of-the-pocket fees, like travelling expenses.
Other than audit fees invoiced by KPMG Oy Ab amounted to EUR 24 thousand.

ITEMS AFFECTING COMPARABILITY

EUR thousand	2017	2016
Expenses		
Wages and salaries	**-1,680**	-
Other personnel expenses	**-533**	-
Defined benefit and contribution pension expenses	**-85**	-
Other	**-5,977**	-750
Impairment losses:		
Goodwill	**-**	-137
Other intangible assets	**-963**	-
Property, plant and equipment	**-234**	-9
Total	**-9,472**	-896

In financial year 2017, items affecting comparability comprised a provision for a divestment loss of EUR 5.6 million related to disposal of Serbian and Macedonian group companies. Exact amount of loss will be realized when transactions is closed.

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

11. RESEARCH AND DEVELOPMENT EXPENSES

EUR thousand	2017	2016
Research and development expenses total	**-10,871**	-11,260

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

12. FINANCIAL INCOME AND EXPENSES

EUR thousand	2017	2016
Financial income		
Dividend income from available-for-sale financial assets	**20**	3
Interest income from loans and other receivables	**983**	658
Other interest income	**3**	-
Exchange rate gains		
Exchange rate gains from financial assets at fair value through profit or loss	**-**	-
Exchange rate gains from loans and other receivables	**4,087**	11,403
Exchange rate gains from financial liabilities measured at amortized cost	**464**	187
Other financial income	**-**	2
Total	**5,557**	12,253

EUR thousand	2017	2016
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	**-1,004**	-872
Interest expenses from financial liabilities at fair value through profit or loss	**-**	-
Capitalized borrowing costs	**-**	59
Other interest expenses	**-13**	-124
Exchange rate losses		
Exchange rate losses from financial liabilities at fair value through profit or loss	**-**	-
Exchange rate losses from loans and other receivables	**-6,850**	-6,215
Exchange rate losses from financial liabilities measured at amortized cost	**-91**	-563
Other financial expenses	**-520**	-555
Impairment loss on available-for-sale financial assets	**-**	-45
Total	**-8,478**	-8,315
Total financial income and expenses	**-2,921**	3,938

	2017	2016
Net financial expenses as a percentage of revenue	**0.5**	-0.7
Net interests as a percentage of revenue	**0.0**	0.0

EUR thousand	2017	2016
Exchange rate gains and losses in financing items		
Realized	**-266**	-582
Unrealized	**-2,124**	5,394
Total	**-2,390**	4,812
Exchange rate gains and losses in operating profit		
Revenue	**-38**	-4
Materials and services	**-1,970**	1,125
Total	**-2,008**	1,121

In financial year 2016 total net financial expenses were positive mainly due to strengthening of Russian ruble during the year.

13. INCOME TAXES

EUR thousand	2017	2016
Current income tax charge	**-7,788**	-14,843
Adjustments for prior years	**45**	95
Deferred taxes	**1,773**	1,832
Total	**-5,970**	-12,916
Income taxes recognized in other comprehensive income		
Items that will not be reclassified to profit or loss		
Deferred taxes		
Remeasurements on defined benefit plans	**507**	-8
Total tax items that will not be reclassified to profit or loss	**507**	-8
Items that may be reclassified subsequently to profit or loss		
Deferred taxes		
Available-for-sale financial assets, fair value changes	**-**	-
Net investment in foreign operations	**-**	-529
Current taxes		
Net investment in foreign operations	**-**	370
Total tax items that may be reclassified subsequently to profit or loss	**0**	-159
Total income taxes recognized in other comprehensive income	**507**	-167

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

EUR thousand	**2017**	2016
Tax at parent's tax rate	**-3,324**	-11,476
Effect of different tax rates in foreign subsidiaries	**-234**	-288
Tax-exempt income	**36**	161
Non-deductible expenditure	**-1,862**	-1,139
Effect of changes in tax rates	**-2**	3
Used tax losses, previously unrecognized	**5**	153
Current year losses for which no deferred tax asset was recognized	**-369**	-546
Taxes from previous financial years	**45**	95
Changes of deferred taxes related to previous years and current year temporary difference which no deferred taxes were recognized	**-231**	-112
Effect of result of equity-accounted investees	**51**	73
Non-credited foreign withholding taxes	**0**	-30
Other items	**-85**	190
Total taxes in the statement of comprehensive income	**-5,970**	-12,916

The Norwegian corporate tax rate decreased from 24% to 23% as of January 2018. In financial statements 2017 the Norwegian deferred taxes are measured by using the substantially enacted corporate tax rate (23%). Corporate income tax reform, under which undistributed corporate profits are tax exempt, in Latvia is effective as of January 1, 2018. Company will pay corporate tax on profits when it distributes dividends or makes other payments with the aim of actual profit distribution. Corporate tax rate in Latvian increased from 15% to 20%.

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

14. EARNINGS PER SHARE

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

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

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

Shares transferred to participants as per performance periods 2012-2014, 2013-2015 and 2014-2016 were acquired from the market.

	2017	2016
Profit for the period attributable to the owners of the parent, EUR thousand	**10,651**	44,465
Weighted average number of ordinary shares (1,000)	**44,106**	44,106
Basic earnings per share (EUR / share)	**0.24**	1.01
Profit for the period attributable to the owners of the parent, EUR thousand	**10,651**	44,465
Weighted average number of ordinary shares (1,000)	**44,106**	44,106
Effect of share-based incentive plan (1,000)	**5**	4
Weighted average number of ordinary shares, adjusted for dilutive effect (1,000)	**44,111**	44,110
Diluted earnings per share (EUR / share)	**0.24**	1.01

Tikkurila Oyj has one class of shares that has no nominal value. The number of registered shares was 44,108,252 at end of the reporting period 2017, and at the end of previous year 44,108,252. The Group held 2,461 treasury shares on December 31, 2017. At the end of year 2016, the Group held 2,461 treasury shares.

15. PROPERTY, PLANT AND EQUIPMENT

EUR thousand	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*)	Prepayments and non-curent assets under construction	2017 Total
Acquisition cost at Jan 1, 2017	5,839	109,511	183,381	9,928	2,610	**311,269**
Other increases	-	693	7,118	1,476	2,845	**12,132**
Other decreases	-	-46	-2,158	-283	-	**-2,487**
Disposal of businesses and subsidiaries	-	-	-	-	-	**-**
Transfer to held for sale assets	-	-841	-4,470	-	-161	**-5,472**
Other changes	-	-	-4	-17	-270	**-291**
Reclassifications	-	750	742	613	-2,106	**-1**
Exchange rate differences	-60	-894	-1,259	-653	8	**-2,858**
Cost at Dec 31, 2017	**5,779**	**109,173**	**183,350**	**11,064**	**2,926**	**312,292**
Accumulated depreciation and impairment losses at Jan 1, 2017	-81	-69,581	-147,360	-6,716	-	**-223,738**
Accumulated depreciation relating to decreases and transfers	-	44	2,463	-119	-	**2,388**
Depreciation during the financial year	-	-3,187	-9,372	-1,377	-	**-13,937**
Impairment losses	-	-	-234	-	-	**-234**
Disposal of businesses and subsidiaries	-	-	-	-	-	**-**
Transfer to held for sale assets	-	373	2,441	-	-	**2,814**
Exchange rate differences	5	205	999	438	-	**1,647**
Accumulated depreciation and impairment losses at Dec 31, 2017	**-75**	**-72,146**	**-151,064**	**-7,774**	**-**	**-231,059**
Net carrying amount at Jan 1, 2017	**5,758**	**39,930**	**36,020**	**3,212**	**2,610**	**87,531**
Net carrying amount at Dec 31, 2017	**5,703**	**37,027**	**32,286**	**3,290**	**2,926**	**81,233**

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

*) Other property, plant and equipment include for example shelters, improvements on leasehold premises and pavements.
Contractual commitments for the acquisition of property, plant and equipment is disclosed in Note 35 Commitments and contingent liabilities.

In financial year 2017 the majority of prepayments and non-current assets comprised projects related to installation of paint department and store concept in Poland.

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

Other projects in process related to maintenance and upgrading of buildings and production technology in year 2017 and 2016.

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, 2017			
Acquisition cost	1,214	1	**1,215**
Accumulated depreciation	804	1	**804**
Net carrying amount	**411**	**0**	**411**
Dec 31, 2016			
Acquisition cost	1,369	606	**1,975**
Accumulated depreciation	914	550	**1,464**
Net carrying amount	**455**	**56**	**511**

16. INTANGIBLE ASSETS

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	**2017 Total**
Acquisition cost at Jan 1, 2017	74,419	59,898	16,659	**150,975**
Other increases	-	130	2,329	**2,459**
Other decreases	-	-113	-	**-113**
Disposal of businesses and subsidiaries	-	-	-	**-**
Transfer to held for sale assets	-1,422	-5,515	-	**-6,937**
Other changes	-	1	1	**2**
Reclassifications	-	17,229	-17,227	**2**
Exchange rate differences	-292	-485	5	**-772**
Cost at Dec 31, 2017	**72,704**	**71,145**	**1,767**	**145,616**
Accumulated amortization and impairment losses at Jan 1, 2017	-2,116	-45,902	-	**-48,018**
Accumulated amortization relating to decreases and transfers	-	112	-	**112**
Amortization during the financial year	-	-5,257	-	**-5,257**
Impairment losses	-	-963	-	**-963**
Disposal of businesses and subsidiaries	-	-	-	**-**
Transfer to held for sale assets	1,422	5,515	-	**6,937**
Exchange rate differences	-54	50	-	**-4**
Accumulated amortization and impairment losses at Dec 31, 2017	**-748**	**-46,445**	**-**	**-47,193**
Net carrying amount at Jan 1, 2017	**72,303**	**13,996**	**16,659**	**102,958**
Net carrying amount at Dec 31, 2017	**71,956**	**24,700**	**1,767**	**98,424**

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	2017 Total
Acquisition cost at Jan 1, 2016	73,956	61,630	4,396	**136,566**
Other increases	-	34	12,950	**12,984**
Other decreases	-	-543	-	**-543**
Disposal of businesses and subsidiaries	-150	-3,389	-	**-3,539**
Other changes	-	-	-1	**-1**
Reclassifications	-	689	-681	**7**
Exchange rate differences	613	1,477	-5	**2,085**
Cost at Dec 31, 2016	**74,419**	**59,898**	**16,659**	**147,559**
Accumulated amortization and impairment losses at Jan 1, 2016	-2,031	-46,632	-	**-45,247**
Accumulated amortization relating to decreases and transfers	32	542	-	**574**
Amortization during the financial year	-	-3,152	-	**-3,152**
Impairment losses	-137	-	-	**-137**
Disposal of businesses and subsidiaries	-	3,380	-	**3,380**
Exchange rate differences	20	-40	-	**-20**
Accumulated amortization and impairment losses at Dec 31, 2016	**-2,116**	**-45,902**	**-**	**-44,602**
Net carrying amount at Jan 1, 2016	**71,925**	**14,999**	**4,396**	**91,320**
Net carrying amount at Dec 31, 2016	**72,303**	**13,996**	**16,659**	**102,958**

The carrying amounts of equity-accounted investee in 2017 or 2016 did not include goodwill. The Group did not have intangible assets with indefinite useful lives in 2017 or earlier financial periods.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 6.7 million (2016: EUR 9.2 million), as well as marketing channels and customer connections acquired in business combinations in total of EUR 1.1 million (2016: EUR 2.8 million). Other intangible assets include also carrying amount of software in total of EUR 16.9 million (2016: EUR 2.0 million).

There were no capitalized borrowing costs in 2017 (2016: EUR 59 thousand). The average interest rate of external borrowings for each month was applied as the capitalization rate. The average rate for the capitalized borrowing costs was 1.19% in 2016.

In financial year 2017, prepayments and assets under construction is mostly comprised of development cost of the enterprise resource planning which accumulated capitalized amount was EUR 1.0 million. The amount of development cost of the enterprice resource planning in financial year 2016 was EUR 14.8 million.

17. IMPAIRMENT TEST

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

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

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

Cash generating units: EUR thousand	**2017** **Carrying amount,**	**of which Goodwill**	2016 Carrying amount,	of which Goodwill
Finland	**45,442**	**-**	46,116	-
Scandinavia	**105,324**	**68,630**	107,376	68,714
East	**64,301**	**3,326**	65,645	3,589
Central Europe	**47,347**	**-**	43,932	-
South-East Europe	**11,945**	**-**	15,507	-

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

The discount rate used in 2017 varied between 8.1% - 15.4% depending on the cash-generating unit. The discount rates are defined as WACC (weighted average cost of capital) which reflects the total cost of equity and debt while taking into consideration the specific risks related to the assets.

In the 2017 calculation of WACC, the peer group of benchmark companies operating in the same industry has been re-specified and expanded. The key country in Area SEE has been changed from Serbia to China because the significance of China in this cash generating unit has increased and, furthermore, the divestment of Balkan subsidiaries is in process and will be finalized during the first quarter of 2018. Moreover, the definition of the risk-free interest rate has been changed so that the basis is the market interest rate level of the 30-year government bonds of each major country in that area. Since such interest rates are not available in the key countries of cash generating units Area East, Area CE and Area SEE, for these areas the risk-free interest rate is based on the 30-year German government bond interest rate plus the inflation differential between Germany and the country in question. The German government bond is used because Germany is an AAA-rated country. With this change, the double effect of country risk has been eliminated as country risk is already affecting the WACC via the separate market risk component.

The cash flows and discount rates are determined before taxes.

SIGNIFICANT ASSUMPTIONS AND SENSITIVITY ANALYSIS OF THE IMPAIRMENT TESTS

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

In 2017 impairment test, for the forecasting period from 2018 to 2020, the revenue is expected to grow absolutely and relatively highest in Area South-East Europe as it was also in the previous three-year forecasting period from 2017 to 2019. However, the estimated level of revenue in Area South-East Europe is on lower level in this forecasting period 2018-2020 due to anticipated divestment. For Area East, the revenue growth is estimated to continue strong in forecasting period from 2018 to 2020. The estimated revenue for Area Scandinavia in the forecasting period from 2018 to 2020 is on lower level compared to the estimated revenue in the previous forecasting period. Raw material prices have increased during the year 2017, especially for few essential raw materials. Increases in prices of raw materials are anticipated to continue for the year 2018. In financial year 2017, cost cutting actions have been implemented which are expected to improve profitability in the future. Examples of chosen measures to achieve this year initiated program for cost savings and to increase profitability are, for instance, optimizing the production and logistic network in the Group, harmonizing product portfolio and number of used raw materials, reorganizing operations by eliminating overlaps of operations, clarifying decision-making and responsibilities.

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

The values of the key assumptions related to discount rates are defined separately for each cash-generating unit and each testing period in order to reflect the corresponding market information. The discount rates have changed mainly due to the changes in the main assumptions of WACC, which are risk free interest rate, capital structure and Beta coefficient. The greatest decrease of discount rate from the year 2016 to year 2017 occured in the operating area South-East Europe. The decrease is mainly caused by the decrease of the risk free interest rate. The average market-based ratio between equity and liabilities of benchmark companies and the branch is considered as capital structure.

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

	Scandinavia		East		Central Europe		South-East Europe		Finland	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Estimate parameters used										
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	**10.2**	11.4	**14.2**	15.1	**11.2**	8.8	**23.9**	19.5	**11.7**	12.6
Discount rate, pre-tax, %	**8.1**	6.4	**15.4**	19.1	**9.7**	12.0	**9.9**	19.6	**8.4**	6.7
Growth post forecast period, %	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0
The amount at which the recoverable amount exceeds the carrying amount, EUR thousands	**71,746**	179,273	**43,394**	17,132	**32,983**	2,560	**153,935**	40,778	**69,412**	100,624

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

	Scandinavia		East		Central Europe		South-East Europe		Finland	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Change in key assumptions										
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	**-2.9**	-5.4	**-4.5**	-2.4	**-2.8**	-0.3	**-20.2**	-10.8	**-5.7**	-6.2
Change in pre-tax discount rate, % -units	**4.5**	8.7	**9.2**	3.9	**5.7**	0.5	**58.1**	37.0	**10.1**	10.9
Change in growth post forecast period, % -units	**-5.7**	-12.0	**-15.6**	-5.7	**-8.1**	-0.7	**n/a**	n/a	**-14.5**	-15.4

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

18. EQUITY-ACCOUNTED INVESTEES

EUR thousand	**2017**	2016
Carrying amount at Jan 1	**703**	816
Share of profit or loss of equity-accounted investees	**231**	333
Dividends	**-381**	-393
Other comprehensive income	**-36**	-20
Exchange rate differences	**-26**	-33
Carrying amount at Dec 31	**491**	703

ASSOCIATES
During year 2017 or 2016 the Group did not have ownership in any associate company.

JOINT VENTURES
Alcro Parti AB is the only joint arrangement in which the Group participates. The Group has 50 percent of ownership interest and voting rights in Alcro Parti AB. In year 2017 or 2016, there were no changes in ownership in joint arrangements.

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

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

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

SUMMARIZED FINANCIAL INFORMATION OF JOINT VENTURE:

EUR thousand	2017	2016
Non-current assets	1,759	1,266
Current assets excluding cash and cash equivalents	1,533	670
Cash and cash equivalents	971	694
Total assets	4,263	2,630
Non-current financial liabilities	-	-
Other non-current liabilities	796	681
Current financial liabilities excluding trade payables	-	-
Other current liabilities including trade payables	2,484	543
Total liabilities	3,280	1,225
Net assets	983	1,405
Group's share of net assets (50%)	491	703
Revenue	8,902	9,065
Depreciation and amortization	-	-
Interest income	-	-
Interest expenses	0	0
Income taxes	-164	-193
Profit for the period	463	667
Other comprehensive income	-72	-40
Total comprehensive income for the period	391	627
Group's share of total comprehensive income for the period	196	313
Dividends received by Group	381	393
Personnel during the period, average	10	9

EUR thousand	2017	2016
Group's share of net assets at Jan 1	703	816
Group share of net profit	232	333
Dividends received	-381	-393
Other comprehensive income	-36	-20
Translation differences	-26	-33
Carrying amount at Dec 31	491	703

Balances and transactions with joint venture are disclosed in Note 37 Related parties.

19. INVENTORIES

EUR thousand	2017	2016
Materials and supplies	27,421	22,218
Work in progress	2,792	2,466
Finished goods	64,887	54,925
Prepayments	885	610
Total	95,984	80,220

Inventory write-downs amounting to EUR 6.7 million (EUR 2.9 million) were recognized during the financial period. Write-down of inventory is recognized as expense if carrying amount exceeds net realizable value. The valuation of inventories at end of each review period requires to some extent management estimates. Based on Group's internal instructions and on operative information, subsidiary and Group management use judgment when assessing the need and amount of write-down, since mostly there are no explicit methods in assessing the fair value of the inventories.

The amount of write-down of inventories to net realizable value and all losses in inventories are recognized as an expense in the consolidated statement of comprehensive income under "Materials and services" and "Change in inventories of finished goods and work in progress". During the financial year 2017 also reversals of inventory write-down amounting to EUR 1.0 million were recognized (EUR 0.8 million). The amount of cost recognized as expense was EUR 294.6 million (EUR 277.7 million) and it is presented in the consolidated statement of comprehensive income, line-items "Materials and services" and "Change in inventories of finished goods and work in progress".

Carrying amount of inventory carried at net realizable value in year 2017 was EUR 1.3 million (EUR 1.7 million).

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR thousand	**2017**	2016
Carrying amount at Jan 1	**822**	1,095
Additions	**-**	161
Disposals	**-75**	-193
Change in valuation	**1**	-45
Other changes / Transfers	**-**	-182
Exchange rate differences	**7**	-14
Carrying amount at Dec 31	**755**	822

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

In financial year 2017, no impairment losses were recognized for available-for-sale financial assets. In financial year 2016, an impairment loss of EUR 45 thousand was recognized for available-for-sale financial assets. Impairment losses for available-for-sale financial assets are recognized in financial costs.

In financial year 2017 gains on sale of available-for-sale financial assets amounted to EUR 0 (45) thousand. Losses on sale were recognized in year 2017 EUR 0 (44) thousand. Gains or losses on the sales of these assets are included in other operating income or expense.

21. NON-CURRENT RECEIVABLES

EUR thosand	**2017**	2016
Loan receivables	**5,701**	5,677
Prepayments	**162**	138
Accrued income and deferred expenses	**202**	314
Other receivables	**1,416**	1,211
Total non-current assets	**7,481**	7,340
Other receivables		
Trade receivables and hire-purchases	**1,416**	1,211
Other non-current non-interest-bearing receivables	**-**	-
Total other receivables	**1,416**	1,211

22. CURRENT INTEREST-BEARING RECEIVABLES

EUR thousand	2017	2016
Loan receivables	655	915
Total interest-bearing receivables	**655**	915

23. TRADE AND OTHER NON-INTEREST-BEARING RECEIVABLES

EUR thousand	2017	2016
Trade receivables	88,070	89,178
Accrued income and deferred expenses	6,142	5,950
Other receivables	3,605	3,699
Total current non-interest-bearing receivables	**97,817**	98,827

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

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

EUR thousand	2017	2016
Accrued income and deferred expenses		
Items related to net revenue and purchases	2,682	2,649
Employee benefit expenses	446	248
Insurances	479	360
Leases	1,288	1,038
Interests	112	146
Other	1,337	1,823
Total	**6,344**	6,264

Non-current accrued income and deferred expenses presented in Note 21 are included in this disclosure as well.

24. CASH AND CASH EQUIVALENTS

EUR thousand	2017	2016
Cash	16,959	18,418
Cash equivalents (bank deposits, maturity less than 3 months)	-	113
Total cash and cash equivalents	**16,959**	18,531

EUR thousand	2017	2016
Cash and cash equivalents according to cash flow:		
Cash	16,959	18,418
Cash equivalents (bank deposits, maturity less than 3 months)	-	113
Bank overdrafts	-87	-
Total cash and cash equivalents	**16,872**	18,531

25. DEFERRED TAX ASSETS AND LIABILITIES

								Balance at Dec 31, 2017		
2017 EUR thousand	Net balance at Jan 1, 2017	Translation differences	Recognized in profit or loss	Recognized in OCI	Acquisitions / disposals	Transfer to held for sale	Other changes and transfers	Net	Deferred tax assets	Deferred tax liabilities
Carry forward tax losses	223	-27	21	-	-	-	-	217	217	-
Defined benefit pension plans	1,927	-55	28	497	-	-	-	2,397	2,397	-
Provisions	161	4	-24	-	-	-	-	141	141	-
Inventory profit	1,007	-45	-38	-	-	-14	-	910	910	-
Cumulative depreciation difference	-2,799	54	207	-	-	-	-	-2,538	237	-2,775
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-
Fair value measurement of PPE*) and intangible asset in business combinations	-2,274	90	558	-	-	-	-	-1,626	-	-1,626
Other temporary differences	2,807	-137	1,021	-	-	-	-	3,691	4,281	-590
Net tax liabilities (assets)	1,051	-116	1,773	497	-	-14	-	3,191	8,183	-4,991

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

*) Property, plant and equipment

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

The Group subsidiaries had tax losses carried forward of EUR 3.0 million at December 31, 2017 (EUR 7.8 million) for which no deferred tax asset was recognized. The unlimited right to carry forward the tax losses concerns 73 (22) percent of the tax losses. Tax losses with the limited right expire in 2018–2027. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which deferred tax assets can be utilized.

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

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

26. CAPITAL AND RESERVES

	Number registered shares (1,000)	Treasury shares (1,000)	Number of shares outstanding (1,000)
Total at January 1, 2016	44,108	-2	44,106
Acquisition of treasury shares	-	-	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	-	-
Total at December 31, 2016	**44,108**	**-2**	**44,106**
Acquisition of treasury shares	-	-	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	-	-
Total at December 31, 2017	**44,108**	**-2**	**44,106**

Tikkurila Oyj has one class of shares, and each share entitles its holder to one vote at the General Meetings and to an equal amount of dividend. The share has no nominal value. The share capital was EUR 35 million at December 31, 2017 (EUR 35 million) and it is fully paid. On December 31, 2017, the number of shares was 44,108,252 including 2,461 treasury shares. At the end of year 2016, number of shares was 44,108,252 including 2,461 treasury shares.

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

FAIR VALUE RESERVE

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

RESERVE FOR INVESTED UNRESTRICTED EQUITY

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

TREASURY SHARES

The treasury share reserve comprises the cost of the Tikkurila Oyj's shares held by the Group. During the financial year 2017 TIkkurila did not purchase or disposed any treasury shares without any consideration. At the year-end 2017, Tikkurila Oyj held 2,461 treasury shares, equaling a total cost of EUR 42 thousand. Treasury shares represented 0.01% of the share capital and aggregate voting power of all shares.

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

OTHER RESERVES

Other reserves include the funded portion of retained earnings.

TRANSLATION RESERVE

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

DIVIDENDS

Dividend of EUR 0.80 per share, totaled EUR 35,285 thousand, was distributed in year 2017. In year 2016, dividend of EUR 0.80 per share, totaled EUR 35,285 thousand was distributed. After the respective reporting date, The Board of Directors proposes that a dividend of EUR 0.80 per share, totaled EUR 35,285 thousand, will be distributed of the year 2017. Total amount informed here is calculated for number of shares outstanding as end of financial year 2017.

EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	**Total**
Other comprehensive income 2017						
Items that will not be reclassified to profit or loss:						
Remeasurements on defined benefit plans	-	-	-2,332	-2,332	-	**-2,332**
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	-46	-46	-	**-46**
Income taxes relating to items that will not be reclassified to profit or loss	-	-	497	497	-	**497**
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	10	10	-	**10**
Total items that will not be reclassified to profit and loss, net of tax	**-**	**-**	**-1,871**	**-1,871**	-	**-1,871**
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	-	-2,564	-	-2,564	-	**-2,564**
Foreign currency translation differences for equity-accounted investees	-	-17	-	-17	-	**-17**
Available-for-sale financial assets, fair value changes	1	-	-	1	-	**1**
Total items that may be reclassified subsequently to profit or loss, net of tax	**1**	**-2,581**	**-**	**-2,580**	**-**	**-2,580**
Other comprehensive income 2017, net of tax	**1**	**-2,581**	**-1,871**	**-4,451**	**-**	**-4,451**

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

27. NON-CURRENT INTEREST-BEARING LIABILITIES

EUR thousand	2017	2016
Loans from financial institutions	**49,900**	49,867
Finance lease liabilities	**183**	224
Total non-current interest-bearing liabilities	**50,083**	50,091
Liabilities that matures later than five years		
Loans from financial institutions	**-**	-

The maturity analysis and currency risk of non-current borrowings are disclosed in Note 33 Financial risk management.

EUR thousand	2017	2016
Finance lease liabilities - total minimum lease payments		
Within one year	**197**	231
After one year and not later than five years	**188**	235
Later than five years	**-**	-
Total	**386**	466
Finance lease liabilities - present value of the minimum lease payments		
Within one year	**188**	217
After one year and not later than five years	**183**	224
Later than five years	**-**	-
Total	**371**	441
Future finance charges	**14**	25
Total finance lease liabilities	**386**	466

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

28. CURRENT INTEREST-BEARING LIABILITIES

EUR thousand	2017	2016
Loans from financial institutions	**1,881**	1,916
Commercial paper program	**54,897**	24,979
Finance lease liabilities	**187**	217
Other interest-bearing current liabilities	**-**	-
Total interest-bearing current liabilities	**56,966**	27,113

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

AVERAGE INTEREST RATE AND CURRENCY DISTRIBUTION OF INTEREST-BEARING LIABILITIES

Average interest rate for current and non-current loans in year 2017 was 0.8% (0.8%). *)

Interest-bearing liabilities by currency (in euro):

EUR thousand	2017	2016
EUR	**105,155**	75,231
CNY	**1,784**	1,902
Other	**110**	70
Total	**107,049**	77,204

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

29. TRADE AND OTHER NON-INTEREST-BEARING PAYABLES

EUR thousand	**2017**	2016
Non-current accrued expenses and deferred income	**142**	17
Other non-current interest-free liabilities	**-**	-
Total other non-current liabilities	**142**	17
Trade payables	**51,492**	41,702
Other non-interest-bearing payables	**4,087**	5,077
Advances received	**675**	452
Accrued expenses and deferred income	**49,208**	44,032
Total current non-interest-bearing payables	**105,460**	91,263
Accrued expenses and deferred income		
Share-based payments	**37**	17
Employee benefit expenses	**14,933**	15,737
Items related to revenue and purchases	**24,482**	24,765
Interests	**39**	9
Other	**9,858**	3,521
Total	**49,350**	44,049

At the financial year-end 2017, line "Other" in accrued expenses and deferred income included estimated EUR 5.6 million loss on divestment of subsidiaries in Balkan area.

Net liabilities	**2017**	2016
Interest-bearing non-current liabilities	**50,083**	50,091
Interest-bearing current liabilities	**56,966**	27,113
Cash and cash equivalents		
Cash	**-16,959**	-18,418
Cash equivalents (bank deposits, maturity less than 3 months)	**-**	-113
Total	**90,090**	58,673

30. PENSION OBLIGATIONS AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

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

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

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

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

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

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

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

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

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

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

EUR thousand	**2017**	2016
Defined benefit pension obligations (net)	**25,965**	24,122
Other long-term employee benefits including social costs	**1,145**	1,249
Pension obligations and other long-term employee benefits	**27,110**	25,371
Defined benefit pension obligations		
Items recognized in the statement of financial position:		
Present value of funded obligations	**1,952**	2,023
Present value of unfunded obligations including Swedish payroll tax liability	**25,973**	24,255
Fair value of plan assets	**-1,960**	-2,156
Net defined benefit liability	**25,965**	24,122

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
EUR thousand	**2017**	2016	**2017**	2016	**2017**	2016
Balance at Jan 1	**24,657**	24,726	**-2,156**	-1,932	**22,501**	22,794
Included in profit or loss: [1)]						
Current service cost	**631**	671	**-**	-	**631**	671
Interest expense / (income)	**627**	651	**-55**	-54	**572**	597
Gain on settlements	**-**	-	**-**	-3	**-**	-3
Administrative expenses	**-**	-	**5**	4	**5**	4
	1,257	1,322	**-50**	-53	**1,207**	1,269
Included in other comprehensive income: [2)]						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from						
Experience adjustment	**76**	-146	**-**	-	**76**	-146
Demographic assumptions	**-**	-44	**-**	-	**-**	-44
Financial assumptions	**1,743**	556	**-**	-	**1,743**	556
Return on plan assets, excluding amounts included in interest expense/(income)	**-**	-	**112**	-28	**112**	-28
Effect of movements in exchange rates	**-799**	-719	**169**	-112	**-630**	-831
	1,021	-353	**281**	-140	**1,302**	-493
Other:						
Contributions paid by						
Employer	**-**	-	**-110**	-128	**-110**	-128
Payments from the plans:						
Benefits payments	**-995**	-980	**75**	58	**-920**	-922
Obligations transfers and other changes	**-13**	-58	**-**	39	**-13**	-19
Balance at Dec 31	**25,927**	24,657	**-1,960**	-2,156	**23,967**	22,501

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

2) Loss of EUR 401 thousand (loss of EUR 83 thousand) on Swedish payroll tax is recognized in other comprehensive income.

In addition, actuarial loss of EUR 36 thousand (actuarial loss EUR 20 thousand), net of tax, is recognized in other comprehensive income regarding equity-accounted investees.

EUR thousand	**2017**	2016
Remeasurements on defined benefit plans in other comprehensive income		
Actuarial gains (-) / losses (+) on defined benefit pension obligations, including actuarial gains and losses on Swedish payroll tax	**2,220**	450
Return on plan assets, excluding amounts included in interest expense/(income)	**112**	-28
Change in income taxes related to remeasurements for defined benefit plans	**-497**	14
Actuarial gains / losses recognized from equity-accounted investees, net of tax	**36**	20
Total	**1,871**	456
Plan assets include		
Assets in insurance companies *)	**1,960**	2,156
Total	**1,960**	2,156

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

The Group expects to pay EUR 1.1 million of contributions into the defined benefit plans during the year 2018.

The significant actuarial assumptions	**2017**	2016
Discount rate	**0.9-2.5%**	1.3-2.6%
Inflation	**1.9-2.0%**	1.5-2.0%
Forthcoming increases in wages and salaries	**2.5%**	2.5%
Forthcoming increases in pensions	**0.5-2.0%**	0.0-2.0%

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

The Group's major plan is the defined benefit pension plan in Sweden. The present value of this pension obligation at the end of financial year was EUR 22,838 thousand (EUR 21,492 thousand). In addition, the value of the payroll tax related to this defined benefit obligation was EUR 1,998 thousand (EUR 1,621 thousand) at year-end 2017. The most significant actuarial assumptions regarding this plan were as following: discount rate 2.50% (2.60%), inflation 1.90% (1.50%), to which development the pension level has been in practice linked to, as well as life expectancy and forthcoming increases in salaries 2.5% (2.5%). The life expectancy for a 65-year-old woman is 25 years and for a 65-year-old man 23 years.

At December 31, 2017, the weighted-average duration of the defined benefit pension obligation was 16.3 years (2016: 17.1 years).

SENSITIVITY ANALYSIS:

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

	Impact on defined benefit obligation			
Effect in thousands of euro	**Dec 31, 2017**		Dec 31, 2016	
Change in assumption	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**-2,449**	**2,786**	-2,248	2,552

	Dec 31, 2017		Dec 31, 2016	
Sensitivity analyses on Group's most significant plan, Swedish defined benefit pension plan	**Increase**	**Decrease**	Increase	Decrease
One-year change in life expectancy	**1,130**	**-1,119**	1,010	-1,005
Inflation (0.5% movement)	**1,919**	**-1,822**	1,810	-1,637

OTHER LONG-TERM EMPLOYEE BENEFITS

The parent company of the Group, Tikkurila Oyj, has a long-service benefit plan according to which an employee has a right to a compensated absence or right to a gift given after certain years of service time. In year 2017, the terms of the long-service benefit plan were changed and thus employee’s right to gift when retiring was abolished. The impact of this curtailment is considered in actuarial calculation of year 2017 and impact of the curtailment is deducting personnel expenses in profit or loss.

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

EUR thousand	**2017**	2016
Other long-term employee benefits		
Items recognized in the statement of financial position:		
Present value of long-service benefit plan	**916**	1,000
Social costs	**229**	249
Liability of long-service benefit plan including social costs	**1,145**	1,249
Balance		
Other long-service benefit obligation at Jan 1	**1,000**	944
Included in profit or loss:		
Current service cost	**74**	69
Interest cost	**9**	12
Actuarial losses (gains) arising from		
Experience adjustment	**-74**	57
Demographic assumptions	**-**	-
Financial assumptions	**35**	12
Curtailment of the other long-service benefit plan	**-66**	-
	-23	150

EUR thousand	**2017**	2016
Other:		
Payments from the plans:		
- Benefits payments	**-61**	-94
Long-service benefit obligation at Dec 31	**916**	1,000

	2017	2016
Actuarial assumptions		
Discount rate	**0.8%**	0.9%
Inflation	**1.5%**	1.1%
Forthcoming increases in wages and salaries	**1.9%**	1.5%
Employee turnover	**3.0%**	3.0%

Tikkurila Oyj expects to pay EUR 102 thousand of contributions into the long-service benefit plan during the year 2018.
At December 31, 2017, the weighted-average duration of the long-service benefit obligation was 9 years (2016: 9 years).

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

	Impact on long-service benefit plan obligation			
Effect in thousands of euro	**Dec 31, 2017**		Dec 31, 2016	
Change in assumption	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**-36**	**38**	-38	41
Salary growth rate (0.5% movement)	**38**	**-35**	37	-35

31. PROVISIONS

EUR thousand	Environmental provisions	Restructuring	Other provisions	**2017 Total**
2017				
Non-current provisions				
Balance at Jan 1, 2017	-	118	428	**546**
Exchange rate differences	-	-	24	**24**
Provisions made during the period	-	26	4	**30**
Provisions used during the period	-	-	-14	**-14**
Provisions reversed during the period	-	-	-	**-**
Reclassifications	-	-83	-	**-83**
Non-current provisions at Dec 31, 2017	**-**	**61**	**442**	**503**
Current provisions				
Balance at Jan 1, 2017	-	256	22	**278**
Exchange rate differences	-	-	1	**1**
Provisions made during the period	71	-	279	**350**
Provisions used during the period	-	-64	-	**-64**
Provisions reversed during the period	-	-106	-	**-106**
Reclassifications	80	83	-	**163**
Current provisions at Dec 31, 2017	**151**	**169**	**302**	**622**

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

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.

ENVIRONMENTAL PROVISIONS

Provision of EUR 151 thousand for cost related to clean up and rehabilitate the land was recognized.

Lease agreement of land area, in which production facility is located, expires in December 2018.

RESTRUCTURING PROVISIONS

As per previous years concluded co-operation negotiations related to Tikkurila's Finnish site the restructuring provisions were recognized concerning the deduction of personnel. At the end of the financial year 2017, these provisions amounted to EUR 230 thousand, from which the EUR 169 thousand is presented as current provisions. The accurate timing of realization of these provisions is uncertain.

OTHER PROVISIONS

Other provisions arise from retirement one-time payments to employees by the company at the time of retirement. Such provision is in Poland. The amount of payment equals approximately two - three-month salary of the person at the time of retirement. This plan is based on legal requirements in the country. Company has no future obligations related to these plans after payment is settled. One-time retirement payments as well as jubilee provision in Serbian and Macedonian companies were included in other provisions in financial year 2016 and 2017. At the year-end 2017, these provisions were transferred to “Liabilities classified as held for sale” on consolidated statement of financial position.

The Group has recognized a provision on waste recycling tax related to its subsidiary in Lithuania. Provision on waste recycling tax was recognized as the Certificates of packaging waste recovery and/or recycling, acting as exemption from the waste recycling tax, given by Government certified and supervised waste management company were cancelled. The cancellation was caused due to waste management company's subcontractor’s operations contrary to the agreement. Subcontractor collected payments for waste recycling tax but neglected to collect and/or recycle packaging waste. Adverse actions of subcontractor took place in years 2013-2015. The provision amounted to EUR 279 thousand. In Tikkurila’s view it has fulfilled all its obligations in respect of waste recycling tax duty. Tikkurila will file a complaint about the decision by which it would be held accountable for third party actions contrary to the agreement.

In addition, other provision consists minor amount of warranty provision.

In financial year 2016, other provisions released comprised a dispute of commercial agreement individual pension obligation.

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

EUR thousand	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available -for-sale financial assets	Other financial liabilities	**Total carrying amounts**	**Fair value level 1**	**Fair value level 2**	**Fair value level 3**	**Total fair values**
2017										
Financial assets measured at fair value										
Non-current financial assets										
Available-for-sale financial assets	20	-	-	755	-	**755**	**-**	**-**	**755**	**755**
		-	-	755	-	**755**				
Financial assets not measured at fair value										
Non-current receivables	21									
Loan receivables		-	5,701	-	-	**5,701**	**-**	**5,701**	**-**	**5,701**
Other receivables		-	1,416	-	-	**1,416**	**-**	**1,416**	**-**	**1,416**
Current financial assets										
Interest-bearing receivables	22	-	655	-	-	**655**				
Cash equivalents	24	-	16,959	-	-	**16,959**				
Trade and other non-interest-bearing receivables	23	-	88,070	-	-	**88,070**				
		-	**112,801**	-	-	**112,801**				
Financial liabilities not measured at fair value										
Non-current financial liabilities										
Finance lease liabilities	27	-	-	-	183	**183**	**-**	**183**	**-**	**183**
Loans from financial institutions	27	-	-	-	49,900	**49,900**	**-**	**49,999**	**-**	**49,999**
Current financial liabilities										
Current interest-bearing liabilities	28	-	-	-	56,966	**56,966**				
Trade payables	29	-	-	-	51,492	**51,492**				
		-	-	-	**158,541**	**158,541**				

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

Fair values for non-current liabilities are based on discounted contractual cash flows. Interest rates used for discounting are the interest rates the Group would have to pay for similar loans at the end of reporting period. The interest rate is based on a risk free interest rate and a company specific credit risk premium. The discount rate used is 0.80%. In year 2016 the discount rate used was 0.75%.

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

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

FAIR VALUE HIERARCHY LEVELS

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: is for inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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

EUR thousand	**2017**	2016
	Available-for-sale financial assets	Available-for-sale financial assets
Carrying amount at Jan 1	**822**	1,095
Translation differences in other comprehensive income	**7**	-14
Additions	**-**	161
Change in valuation	**1**	-45
Other changes / Transfers	**-**	-182
Disposals	**-75**	-193
Carrying amount at Dec 31	**755**	822

In year 2017, gain of EUR 0 thousand is recognized on available-for-sale financial assets in fair value hierarchy level 3 as well as loss on sale of EUR 0 thousand. In year 2016, total gain of EUR 45 thousand was recognized as well as loss on sale of EUR 44 thousand. Gains on sales of these assets are included in other operating income and loss is recognized in other operating expenses.

In financial year 2017, no impairment loss was recognized on available for sale financial assets classified in level 3.
In financial year 2016, the impairment loss of EUR 45 thousand is recognized on real estate investment classified in level 3. Estimated amount of impairment loss is based on the real estate market prices in that specific area.

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Tikkurila Group held no assets classified in level 2 nor level 1 at the end of the financial year 2017 nor during the year 2016.

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

33. FINANCIAL RISK MANAGEMENT

THE OBJECTIVES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

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

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

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

The following countries in which the Group operates, have local exchange control regulations that restrict the cash deposit abroad: China, Macedonia and Serbia. At the year-end 2017 cash and cash equivalents held by those entities amounted to EUR 2,093 thousand. At the end of financial year 2016, corresponding figure amounted to EUR 3,463 thousand. The European Union and the United States have set sanctions against Russia, which is a significant market area for Tikkurila. These sanctions can have adverse effects on Tikkurila's business, or they can make it more difficult to repatriate capital from Russia to Finland or they can have a negative impact on the financial position of Tikkurila's local customers or suppliers.

FINANCIAL INSTRUMENTS AND THEIR SIGNIFICANCE AND TREATMENT

From the financial risk point of view the most significant items in Tikkurila's statement of financial position December 31, 2017 were the various components of net working capital, cash and interest-bearing liabilities. Counterparty risks related to trade receivables and cash are central, and the creditworthiness and diversification of counterparties are key elements for managing the risk.

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

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

FOREIGN EXCHANGE RATE RISKS

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

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

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

The key methods used for managing exchange rate risks are:

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

TRANSACTION RISKS

During 2017 and 2016 about 70% of Tikkurila's revenue was generated outside the euro area, so foreign exchange rate changes have a significant impact on Tikkurila's consolidated euro-denominated revenue. At net profit level, the foreign exchange rate risks are reduced as expenses are mostly denominated in the same currency as revenue. The major impact of foreign exchange rate risks is reflected on cash flows and statement of financial position items, which are denominated in other currencies than the functional currency of each Group company. The most important intra-group transactions that create exchange rate risks are business transactions between Group companies and loans and deposits between Group companies and Tikkurila Oyj. Transaction risks are monitored in respect of existing balance sheet items.

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

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

EUR thousand

Transaction risk position	KZT	SEK	NOK	DKK	PLN	RSD	RUB	MKD	CNY	Other
Dec 31, 2017										
Bank accounts	-259	-2,366	1,001	2,300	213	-874	24,812	-89	-	212
Loans and deposits	2,706	9,143	278	-	-	8,580	-	2,000	1,922	-
Trade receivables and payables	495	-732	263	1,692	5,393	435	5,983	-74	1,713	-278
Open position	2,942	6,045	1,542	3,992	5,606	8,141	30,795	1,837	3,635	-66

EUR thousand

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

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

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

The impact of currency rate changes to profit before tax based on items in statement of financial position December 31, 2017:

	2017					2016				
EUR thousand	**RUB**	**SEK**	**RSD**	**KZT**	**PLN**	RUB	SEK	RSD	KZT	PLN
Impact of 10% weakening of currency	**-2,799**	**-549**	**-740**	**-267**	**-509**	-3,069	1,597	-721	-631	-198
Impact of 10% strengthening of currency	**3,421**	**671**	**904**	**326**	**623**	3,751	-1,952	882	771	241

TRANSLATION RISKS

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

NET INVESTMENTS MADE IN FOREIGN CURRENCIES

EUR thousand	RUB	SEK	PLN	Other
Dec 31, 2017				
Equity	30,532	4,630	32,822	10,186
Impact of 10% strengthening of currencies on equity	3,392	514	3,647	1,132
Impact of 10% weakening of currencies on equity	-2,776	-421	-2,984	-926

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

INTEREST RATE RISKS

Tikkurila Group had following interest-bearing assets and liabilities during 2017 and/or 2016:

Interest-bearing assets:

- cash
- time deposits
- interest-bearing receivables
- interest-bearing receivables in relation to divestments

Interest-bearing debt:

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

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

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

EUR thousand	**Dec 31, 2017**	Dec 31, 2016
Fixed rate		
Financial assets *)	**1,382**	1,093
Financial liabilities	**-57,149**	-27,336
Net	**-55,767**	-26,243
Floating rate		
Financial assets	**4,319**	5,499
Financial liabilities	**-49,900**	-49,867
Net	**-45,581**	-44,368

*) Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 90.1 (58.7) million net debt position on December 31, 2017, the impact of each one percentage point increase in interest rates to next financial year's profit before tax would be EUR -0.7 (-0.4) million. The sensitivity analysis is based on an assumption that the interest rate changes will happen at the beginning of the year and that the changes are parallel over the yield curve. In addition, it is assumed that the net debt position remains unchanged and the impact of foreign exchange rates would be zero. Current loans are assumed to be renewed at due dates. Regarding non-current loans with floating interest rates, the effect of the interest rate change is taken into account from the date of rate fixing. Net debt includes cash and cash equivalents, but the interest rates on cash are expected to remain unchanged or any changes to take place only after the next financial year. Because of the seasonality of Tikkurila's business, the year-end net debt level is not typical for entire year, so interest rate sensitivity changes during the year. If the average net debt in 2018 would be at the average level of 2017, calculated as the average of actual month-end balances, and consequently equal about EUR 106 million, then applying the abovementioned assumptions and principles one percentage point increase in interest rates would increase Group's interest expense in 2018 by about EUR 1.1 million. Correspondingly interest rate decrease by one percentage point would decrease the interest expense accordingly by the same amount.

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

CREDIT RISKS

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

Advance payments are used in Russia where about 6% (5%) of revenue in 2017 took place using advance payments.

Credit insurance is used in Poland where about 85% (84%) of trade receivable as of December 31, 2017 was insured. According to terms of the insurance Tikkurila is entitled to get 95% of the nominal amount, if the customer is not able to pay the invoice.

Credit risks related to short-term investments and cash are controlled by principles defined by the Board of Directors. Tikkurila manages these counterparty risks by diversifying its excess liquidity into numerous counterparties and by investing surplus liquidity in high-quality short-term interest-bearing tradeable securities and in bank deposits, as defined in the internal policy determined by the Board of Directors. Investment-related credit risk is mainly centralized to Tikkurila Oyj as subsidiaries' surplus liquidity is in possession of parent company through the multicurrency cash pool established during the year 2016. Previously subsidiaries made deposits 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, 2017**	Dec 31, 2016
Available-for-sale financial assets	20	**755**	822
Financial assets at fair value through profit or loss	23,33	**-**	-
Loans and other receivables	21, 22, 23, 24	**112,801**	115,578
Total		**113,556**	116,400

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

EUR thousand	**Dec 31, 2017**	Dec 31, 2016
EUR	**31,202**	36,643
SEK	**19,397**	16,138
RUB	**30,095**	31,010
PLN	**16,084**	16,169
DKK	**3,511**	3,045
RSD	**-**	2,919
CNY	**8,007**	3,910
Other	**4,505**	5,744
Total	**112,801**	115,578

Receivables denominated in Serbian dinar are presented as held for sale assets in consolidated statement of financial position at the end of year 2017. In addition, receivables denominated in Macedonian denar are reclassified as held for sale in part of the announced divestment of Balkan subsidiaries and thus diminishing group "Other".

The growth of Tikkurila's businesses in China impacted on the Yuan denominated receivables to be significantly in higher level than in comparison year.

Movement of allowance for impairment of trade receivables

EUR thousand	**Dec 31, 2017**	Dec 31, 2016
Balance at beginning of year	**5,226**	5,238
Exchange rate differences	**-136**	281
Additions	**2,537**	1,828
Realized	**-1,423**	-1,102
Acquisition / disposal of business	**-**	-426
Reclassified to assets held for sale	**-890**	-
Decreases	**-504**	-593
Total	**4,810**	5,226

The ageing of loans and other receivables at December 31:

EUR thousand	**Carrying amount Dec 31, 2017**	Carrying amount Dec 31, 2016
Not past due	**102,906**	111,262
Past due 0 - 90 days	**7,993**	2,562
Past due 91 - 180 days	**1,396**	1,107
Past due 181 - 365 days	**436**	443
Past due over 365 days	**70**	204
Total	**112,801**	115,578

The Group recognizes impairment loss on receivables when there is objective evidence that a financial asset or group of financial assets is impaired. The debtor's significant financial difficulties, payment delays and neglect can be considered as such objective evidence. Tikkurila recognized a credit loss of EUR 1.6 (1.4) million on past due trade and other receivables during the financial year 2017.

There was no impairment loss on receivables from joint ventures during the financial year 2017 or 2016.

LIQUIDITY RISKS

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

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

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

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

At the end of 2017, Tikkurila had unused a EUR 100 (100) million revolving credit facility and EUR 9 (9) million committed credit facilities. A total of EUR 55 (25) million of commercial papers were issued at the end of the year. At the end of reporting period the amount of cash in bank accounts was EUR 17 (19) million.

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

In order to increase the efficiency of transferring funds and visibility over cash flows, Tikkurila has established in year 2016 a multicurrency cross border cash pool where Group companies in Finland, Sweden, Norway, Denmark, Estonia, Latvia, Lithuania, Poland and Russia are participating at the end of financial year 2017.

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

Contractual maturities of liabilities at December 31:

Dec 31, 2017 EUR thousand	Carrying amount	Contractual cash flows	2018	2019	2020	2021	2022	>2022
Loans from financial institutions	51,782	53,165	2,321	404	407	50,033	-	-
Commercial papers	54,897	55,000	55,000	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Finance lease liabilities	370	385	197	126	50	10	2	-
Trade payables	51,492	51,492	51,492	-	-	-	-	-
Guarantees	8,383	8,383	8,383	-	-	-	-	-
Total	**166,924**	**168,425**	**117,393**	**530**	**457**	**50,043**	**2**	**-**

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

The figures are undiscounted.

PRICE RISK OF LONG-TERM INVESTMENTS

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

CAPITAL MANAGEMENT

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

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

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

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

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

The Board of Directors of Tikkurila Oyj has given a guideline for dividend distribution. The targeted dividend payout should be 40% of annual net profit excluding the impact of items affecting comparability. The Board of Directors proposes to the annual general meeting, which will be held on April 12, 2018, that Tikkurila would pay EUR 0.80 per share dividend, which is about 182% of Group's 2017 net profit, excluding items affecting comparability, net of tax.

EUR thousand	**Dec 31, 2017**	Dec 31, 2016
Equity	**179,520**	208,591
Non-controlling interest	**-**	-
Total	**179,520**	208,591
Non-current interest-bearing liabilities	**50,083**	50,091
Current interest-bearing liabilities	**56,966**	27,113
Cash and cash equivalents	**16,959**	18,531
Net debt	**90,090**	58,673
Gearing, %	**50.2%**	28.1%
Equity ratio, %	**42.0%**	50.9%
EBITDA	**39,701**	69,785
Net debt/EBITDA	**2.27**	0.84
Capital employed		
Goodwill	**71,956**	72,303
Investments in equity-accounted investees	**491**	703
Property, plant and equipment ready for use and intangible assets ready for use (excluding goodwill)	**103,009**	98,917
Net working capital	**89,702**	89,114
Total capital employed	**265,158**	261,037

EUR thousand		Cash flows					
Reconciliation of liabilities arising from financing activities	**Dec 31, 2016**	Proceeds and repayments	Foreign exchange rates	Other non-cash changes	Reclassification to held for sale asset and liabilities	New leases	**Dec 31, 2017**
Non-current borrowings from financial institutions	**49,867**	-	-	33	-	-	**49,900**
Current borrowings from financial institutions	**1,916**	-4	-118	-	-	-	**1,794**
Finance lease liabilities	**441**	-247	-2	-	-12	190	**370**
Commercial papers	**24,979**	29,918	-	-	-	-	**54,897**
	77,204	**29,667**	**-87**	**33**	**-12**	**190**	**106,962**

Bank overdrafts are presented on the face of the consolidated statement of the financial position as part of the current loans from the financial institutions, Note 28. On the consolidated statement of cash flows bank overdrafts are presented in cash and cash equivalents (Note 24). Bank overdraft is not included in above stated reconciliation.

34. OPERATING LEASES

GROUP AS LESSEE

Lease payments are of premises, facilities, land, advertising space and warehouses. Lease payments for facilities and fixture include trucks, vehicles and equipment for transportation and lifting. Lease terms vary from one country to another and renewal options are possible.

Non-cancellable operating lease rentals are payable as follows:

EUR thousand	**2017**	2016
Within one year	**9,631**	9,710
After one year and not later than five years	**11,432**	11,668
Later than five years	**14,140**	8,033
Total	**35,204**	29,411

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	**2017**	2016
Within one year	**362**	476
After one year and not later than five years	**500**	494
Later than five years	**416**	503
Total	**1,278**	1,473

35. COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand	2017	2016
Mortgages given as collateral for liabilities in the statement of financial position		
Other loans	-	-
Mortgages given	102	102
Total loans	-	-
Total mortgages given	102	102
Contingent liabilities		
Guarantees		
On behalf of own commitments	606	690
On behalf of others	1,322	1,686
Other obligations on own behalf	6,455	7,299
Rent obligations	35,204	29,411
Total contingent liabilities	43,587	39,086

CONTRACTUAL COMMITMENTS:

Tikkurila Group had contractual commitments in relation to the purchase of property, plant and equipment total of EUR 0.9 million (EUR 0.6 million in 2016) at the end of financial year 2017. Contractual commitments for purchase of intangible assets totaled EUR 0.0 million (EUR 2.8 million) at the end of year 2017.

OTHER COMMITMENTS AND PENDING LITIGATIONS

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

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

According to Tikkurila's management assumptions and estimates, at the end of the reporting period, there were such changes in operational circumstances that would, due the result of a past event, have caused outflows of economic benefits from the Group. Therefore, such an obligation related to environmental obligations were recognized. Provision related to clean up and rehabilitate the land amounted to EUR 0.2 million. This is disclosed in Note 31.

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

The products and services of Tikkurila Group are sold to external companies specializing in wholesale or retail trade and especially in industrial and professional products, in certain markets direct to end-users of Tikkurila's products. Group companies have various - frame, delivery and other - agreements with its customers. At the end of financial year 2017, Tikkurila Group companies had customer agreements, which are valid beyond December 31, 2017, and which have terms and conditions creating binding commitments to Tikkurila. To major extent the commitments granted for discounts, costs or guarantees are contingent. The agreements require customers to buy Tikkurila's products and are based on the amount or value of orders made by the customers in the future. In certain cases, however, there are commitments for Tikkurila Group companies to provide certain services or to participate in customers' sales promotion activities without direct link to deliveries of Tikkurila products.

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

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

Tikkurila has appealed against decision

of Vilnius Regional Environmental Protection Department of the Ministry of Environment, according to which Tikkurila's subsidiary would be held accountable for third party actions contrary the agreement. This proceeding is pending on local court.

CONTINGENT ASSETS

Tikkurila has during the financial year 2017 claimed for indemnity related to fire at raw material supplier Venator Oy's (former Huntsman Pigments Oy) Pori plant according to business interruption insurance. The estimation of the loss resulted to Tikkurila's business due the accident on the premises of raw material supplier is still in process, thus the possible indemnity to be received has not been recognized in financial statements 2017.

36. SHARE-BASED PAYMENTS

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

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

Financial year 2017	
Shares	5,273
Cash	96

Financial year 2016	
Shares	6,280
Cash	96

In 2017 and 2016 there were altogether six Board members to whom the shares were granted.

SHARE-BASED COMMITMENT AND INCENTIVE PLAN OF MANAGEMENT

Tikkurila has had two separate share-based commitment and incentive plan of management. Both plans included CEO, members of Tikkurila Management Board and other individual key employees. Plans and their terms are disclosed in following paragraphs. Share incentive plan launched in year 2012 is already expired.

RESOLUTIONS OF THE BOARD OF DIRECTORS OF TIKKURILA IN APRIL 2016 AND IN MAY 2017 ON A SHARE-BASED INCENTIVE PLAN

The Board of Directors of Tikkurila Oyj approved in April 2016 a share-based incentive plan for the Group key employees. The plan consists of a Performance Share Plan 2015-2019 and a Matching Share Plan. In May 2017, the Board of Directors of Tikkurila resolved on details of the performance period 2017-2019 of the share-based incentive program 2015-2019 as well as a matching share plan 2017-2019 for the selected Group key employees.

PERFORMANCE SHARE PLAN 2015-2019

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

The potential reward of the plan from all the performance periods 2015-2017, 2016-2018 and 2017-2019 will be calculated with the same intrinsic value formula based on the Tikkurila Group's average EBITDA and net debt. The range varies for performance periods. The rewards to be paid on a basis of the performance periods 2015-2017 and 2016-2018 will amount to an approximate maximum total of 250,000 Tikkurila Oyj shares. The rewards to be paid on a basis of the performance period 2017-2019 will amount to an approximate maximum total of 120,000 Tikkurila Oyj shares. In addition, the Company will pay taxes and tax-related costs arising from the reward to the participants in the connection with the reward payment.

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

MATCHING SHARE PLANS

In both Matching Share Plan there is one vesting period, calendar years 2016-2018 and 2017-2019. The prerequisite for receiving reward on a basis of these plans is that a person participating in the plan acquires the Company's shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of participant's employment or service upon reward payment. The Matching Share Plans are directed to selected key employees determined by the Board of Directors, who have not participated in the share-based plan launched in 2012.

The rewards to be paid on a basis of the Matching Share Plan which vesting period is 2016-2018 will amount to a maximum total of 4,000 Tikkurila Oyj shares. In addition, the Company will pay taxes and tax-related costs arising from the reward to the participants in the connection with the reward payment. The reward from the plan will be paid partly in the Company's shares and partly in cash in 2019.

The rewards to be paid on a basis of the Matching Share Plan which vesting period is 2017-2019 will amount to a maximum total of 8,000 Tikkurila Oyj shares. The Company will additionally pay taxes and tax-related costs arising from the reward to the participants in the connection with the reward payment. The reward from the plan will be paid partly in the Company's shares and partly in cash in 2020.

SHARE BASED INCENTIVES DURING THE REPORTING PERIOD 1.1.2017-31.12.2017

Plan	Matching Share Plan 2016-2018	Matching Share Plan 2017-2019	Performance Share Plan 2015-2019		
Type	Matching share, Initial	Matching share, Initial	Share		
Instruments	**MSP 16-18**	**MSP 17-19**	**PSP 15-17**	**PSP 16-18**	**PSP 17-19**
Grant dates	28.4.2016	7.8.2017	28.4.2016	28.4.2016	30.6.2017
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity
Beginning of earning period	1.1.2016	1.1.2017	1.1.2015	1.1.2016	1.1.2017
End of earning period	31.3.2019	31.3.2020	31.12.2017	31.12.2018	31.12.2019
Vesting conditions	Share ownership, employment until the end of the ownership period	Share ownership, employment until the end of the ownership period	Average Intrinsic Value Employment until the end of the restriction period	Average Intrinsic Value Employment until the end of the restriction period	Average Intrinsic Value Employment until the end of the restriction period
Estimated end of restriction/ ownership period	31.3.2019	31.3.2020	31.3.2018	31.3.2019	31.3.2020
Maximum contractual life, years	3.3	3.2	3.2	3.2	3.2
Remaining contractual life , years	1.3	2.3	0.3	1.3	2.3
Number of persons at 31.12.2017	1	4	6	6	9
Number of persons at 31.12.2016	2	-	9	10	-

No payments are anticipated from PSP 15-17 because the intrinsic value for the period of the plan did not reach the in advance set level.

Changes during the period 2017	**MSP 16-18**	**MSP 17-19**	**PSP 15-17**	**PSP 16-18**	**PSP 17-19**
1.1.2017					
Outstanding at the beginning of the reporting period, pcs	4,000	-	104,000	112,000	-
Changes during the period					
Granted	-	4,500	-	-	120,000
Awarded	-	-	-	-	-
Forfeited	2,000	-	46,000	54,000	36,000
Expired	-	-	-	-	-
31.12.2017					
Outstanding at the end of the period	2,000	4,500	58,000	58,000	84,000

Changes during the period 2016	MSP 16-18	MSP 17-19	PSP 15-17	PSP 16-18	PSP 17-19
1.1.2016					
Outstanding at the beginning of the reporting period, pcs	-	-	-	-	-
Changes during the period					
Granted	4,000	-	104,000	112,000	-
Awarded	-	-	-	-	-
Forfeited	-	-	-	-	-
Expired	-	-	-	-	-
31.12.2016					
Outstanding at the end of the period	4,000	-	104,000	112,000	-

FAIR VALUE DETERMINATION

The fair value of share based incentives have been determined at grant date and the fair value is expensed until vesting. The pricing of the share based incentives granted during the periods 2017 and 2016 were determined by the following inputs and had the following effect:

Valuation parameters for instruments granted during period 2017

	MSP 17-19	PSP 17-19
Share price at grant, EUR	17.33	18.93
Share price at reporting period end, EUR	17.81	17.81
Cost of equity	7.7%	Not applicable
Holding period, years	2.65	Not applicable
Interest expense (one share), EUR	1.03	Not applicable
Expected dividends (discounted), EUR	1.56	1.55
FMV of equity component, EUR	13.72	17.38
Fair value 31 Dec 2017, EUR '000	**155**	**0**

Valuation parameters for instruments granted during period 2016

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

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

	2017	2016
Expenses for the financial year, share-based payments	32	23
Expenses for the financial year, share-based payments, equity-settled	13	9
Liabilities arising from share-based payments 31 December 2017	37	17

RESOLUTION OF THE BOARD OF DIRECTORS IN FEBRUARY 2012, AND BASIC INFORMATION ABOUT THE PLAN

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

Summary of the bookkeeping total value and personnel expenses of the share-based plan

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

Personnel expenses recognized, EUR million (excluding the impact of deferred taxes)

	2012	2013	2014	2015	2016	2012-2016
Performance period 2012-2014	0.5	1.0	0.8	0.8	-	3.1
Performance period 2013-2015	-	0.1	-0.1	0.1	-	0.1
Performance period 2014-2016	-	-	0.0	0.0	-	0.0
TOTAL	**0.5**	**1.1**	**0.7**	**0.9**	**-**	**3.2**

PAYMENTS BASED ON THE PLAN IN YEAR 2016

Based on the performance period 2013-2015, during the first half year 2016 participants were paid according the following split based on so-called performance shares:

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

CALL OPTIONS GRANTED TO KEY EMPLOYEES OF A SWEDISH SUBSIDIARY

In November 2014, Tikkurila Oyj's Swedish subsidiary Tikkurila Sverige AB acquired all the shares of Täby Färg & Tapet AB. In conjunction with this transaction the parties also agreed on a share option arrangement. In financial year 2016 a total of EUR 27 thousand IFRS 2 based personnel expenses were recognized. The final value of this arrangement was about EUR 110 thousand and settlement was done in cash in September 2016.

37. RELATED PARTIES

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

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

The terms and conditions of related party transactions are determined on an arm's length basis. Related party companies are disclosed in Note 38 Group's ownership in shares and participations.

Related party transactions are presented below:

EUR thousand	Revenue	Other operating income	Purchases	Receivables	Liabilities
2017					
Joint ventures	**5,312**	**958**	**-**	**2,049**	**30**
2016					
Joint ventures	5,580	922	-	281	31

The dividends received from joint ventures amounted to EUR 381 thousand (EUR 393 thousand) during the financial year.

LOANS, GUARANTEES AND OTHER COLLATERALS GRANTED TO RELATED PARTIES

No loans, guarantees or other collaterals have been granted to the management in 2017 or 2016.

TIKKURILA ANNOUNCE TO SELL ITS BUSINESS OPERATION IN THE BALKAN AREA TO LOCAL MANAGEMENT

In December 2017, Tikkurila announced that company has entered into an agreement to sell the entire share capital of its subsidiaries in Serbia and Macedonia to the local management of Tikkurila.

EUR thousand	**2017**	2016
Management employee benefits [1)]		
Wages, salaries and other short-term employee benefits	**2,230**	1,677
Benefits related to termination of employment	**497**	-
Post-employment benefits	**387**	269
Share-based incentive plan	**10**	-
Total	**3,125**	1,946

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

Remunerations presented in this note are on accrual basis.
Share-based incentive plan is disclosed in Note 36.
The disclosures about remuneration differ between Tikkurila Group (applying IFRS) and parent company Tikkurila Oyj (applying Finnish Accounting Standards) due to differences in accounting and valuation principles especially in relation to share-based payments.

EXECUTIVE REMUNERATION

EUR thousand	**2017**	2016
CEO		
Erkki Järvinen		
Fixed salary (fringe benefits included)	**706**	445
Bonuses	**21**	87
Benefits related to termination of employment	**422**	-
Share-based incentive plan	**-**	-
Total	**1,149**	532

EUR thousand	2017	2016
Voluntary, supplementary pension payments	91	70
Statutory pension expenses	124	90
Interim CEO [2]		
Jukka Havia (since September 21, 2017)		
Fixed salary (fringe benefits included)	71	-
Bonuses	-	-
Share-based incentive plan	-	-
Total	71	-
Statutory pension expenses	12	-
Other Management Board members		
Fixed salary (fringe benefits included)	1,093	706
Bonuses	28	145
Benefits related to termination of employment	75	-
Share-based incentive plan	10	-
Total	1,206	850
Statutory pension expenses	160	109
Board compensation		
Board members [3]		
Jari Paasikivi, Chairman of the Board	73	70
Petteri Walldén, Vice chairman of the Board	49	46
Eeva Ahdekivi, member of the Board	42	48
Pia Rudengren, member of the Board	57	46
Riitta Mynttinen, member of the Board	49	46
Harri Kerminen, member of the Board	41	37
Total	311	295

[2] Tikkurila Oyj's Board of Directors has appointed CFO Jukka Havia as Tikkurila's Interim CEO starting from September 21, 2017. Jukka Havia has been a member of the Tikkurila Management Board and his employee benefits until September 21, 2017 is disclosed as part of the Other Management Board members' remuneration.

[3]40 percent of the annual fee, excluding meeting fees, of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 96 (96) thousand in year 2017. This is included in figures presented above.

The Interim 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 6-month salary. The CEO has the right to terminate his employment with 6-month period of notice. The retirement age for the Interim CEO is around 65 years. osakkeenomistajat.

Erkki Järvinen, CEO of Tikkurila until September 21, 2017, had a notice period of 6 months on company's behalf, and in additional severance payments equaling 12-month salary is paid. In addition, he has a supplementary pension insurance held by insurance company. This plan is defined contribution plan and thus The Group has no obligations in relation to it after termination of employment.

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

According the decision of Tikkurila Management, the criteria for annual management bonus scheme for the financial year 2017 for the Group top management consist of the 2017 Tikkurila Group revenue and operative EBIT. CEO's annual cash based bonus may not exceed 58.33 % of CEO's annual salary. Other management Board members' annual cash based bonus may not exceed 48.33% of their annual salary.

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

Share holdings of Tikkurila Board of Directors and Management Board are stated in page 104, Shares and shareholders.

38. 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 %
2017				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
SIA Tikkurila	Riga	Latvia	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
TOO Tikkurila	Almaty	Kazakhstan	100	100
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila d.o.o.	Sabac	Serbia	100	100
Tikkurila dooel	Skopje	Macedonia	100	100
Tikkurila Sverige AB	Stockholm	Sweden	100	100
Tikkurila Drytech AB	Flen	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	100
Tikkurila Danmark A/S	Brönby	Denmark	100	100
Tikkurila GmbH	Ansbach	Germany	100	100

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

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Tikkurila Group's ownership and voting shares %
2017				
Alcro Parti AB	Stockholm	Sweden	50	-
2016				
Alcro Parti AB	Stockholm	Sweden	50	-

39. CHANGES IN GROUP STRUCTURE

CHANGES IN THE GROUP STRUCTURE DURING 2017

During the financial year Danish subsidiaries Tikkurila Danmark A/S and ISO Paint Nordic A/S merged. Tikkurila Danmark A/S continues after merger.

CHANGES IN THE GROUP STRUCTURE DURING 2016

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

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

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

40. EVENTS AFTER THE END OF REPORTING PERIOD

On January 26, 2018, the Nomination Board of Tikkurila proposed to the Annual General Meeting, which is planned to be held on April 12, 2018, that the number of Board members would be seven and that of the present members Harri Kerminen, Riitta Mynttinen, Jari Paasikivi, Pia Rudengren, and Petteri Walldén would be re-elected and that Catherine Sahlgren and Heikki Westerlund would be elected as new members. All the nominees have given their consent to the position. Catherine Sahlgren, M.Sc. Business Administration and Economics, born in 1962, is the CEO of Teknikmagasinet, which is a Swedish-based retail company selling consumer electronics and gadgets. Her current Board memberships include Future and Arkitektkopia. She is a Swedish citizen and resides in Sweden. Heikki Westerlund, M.Sc. (Economics), born in 1966, made a long career in CapMan Plc, a Nordic private equity company, acting previously as the CEO. His current Board memberships include Orion Oyj (Chairman of the Board) and Espoo Big Band r.y. He is a Finnish citizen and resides in Finland. The Nomination Board proposes to the Annual General Meeting that the remuneration of the members of the Board of Directors would stay at the current level.

In December 2017, Tikkurila entered into an agreement to sell the entire share capital of the subsidiaries in Serbia and Macedonia to the local management of Tikkurila. The transaction was closed on January 31, 2018. Tikkurila will continue export to the area.

On February 12, 2018, Tikkurila decided to discontinue the German business operations. Tikkurila will continue export to the area in selected segments.

On February 12, 2018, the Board of Directors of Tikkurila Group appointed Elisa Markula (born 1966, M.Sc. Econ.) President and CEO of Tikkurila Group. She will start in the position on May 12, 2018, at the latest.
Elisa Markula joins Tikkurila from Paulig Group where she has worked since 2010 as Director of Paulig Group Coffee Business. Markula is also a member of the Paulig Group Management Team. She has versatile experience in consumer business and branded goods. Prior to Paulig, she has worked at Lego, Snellman, SCA and Fazer, among others. She is a member of the Board of Directors of Olvi Oyj.

TIKKURILA OYJ INCOME STATEMENT (FAS)

EUR thousand	Note	**Jan 1 - Dec 31, 2017**	Jan 1 - Dec 31, 2016
Revenue	2	**190,197**	186,826
Change in inventories of finished goods and work in progress	4	**4,280**	-983
Other operating income	3	**21,251**	17,944
Materials and services	4	**-114,403**	-101,548
Personnel expenses	5	**-35,734**	-34,512
Depreciation, amortization and impairment losses	7	**-5,535**	-3,493
Other operating expenses	4,6	**-55,110**	-45,496
Operating profit		**4,947**	18,737
Financial income and expenses	8	**30,931**	25,882
Profit before appropriations and taxes		**35,878**	44,620
Appropriations	7,9	**682**	407
Income taxes	10	**-1,522**	-6,042
Net profit for the period		**35,038**	38,984

TIKKURILA OYJ BALANCE SHEET (FAS)

EUR thousand	Note	**Dec 31, 2017**	Dec 31, 2016
ASSETS			
Non-current assets	11		
Intangible assets		**17,877**	18,091
Tangible assets		**17,365**	18,773
Investments			
Holdings in Group companies		**187,603**	185,834
Other shares and holdings		**540**	540
Total investments		**188,143**	186,374
Total non-current assets		**223,385**	223,238
Current assets			
Inventories	12	**32,243**	24,781
Non-current receivables	13	**10,844**	9,624
Current receivables	13	**76,604**	72,940
Cash and cash equivalents		**11,749**	7,186
Total current assets		**131,440**	114,531
Total assets		**354,825**	337,768
EQUITY AND LIABILITIES			
Equity	14		
Share capital		**35,000**	35,000
Reserve for invested unrestricted equity		**40,000**	40,000
Retained earnings		**86,239**	82,539
Net profit for the period		**35,038**	38,984
Total equity		**196,276**	196,523
Appropriations	15	**3,856**	4,537
Provisions	16	**230**	374
Liabilities	17		
Non-current liabilities		**50,142**	50,017
Current liabilities		**104,321**	86,316
Total liabilities		**154,463**	136,333
Total equity and liabilities		**354,825**	337,768

TIKKURILA OYJ CASH FLOW (FAS)

EUR thousand	**Jan 1 - Dec 31, 2017**	Jan 1 - Dec 31, 2016
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before appropriations and taxes	**35,878**	44,620
Adjustments:		
Unrealized exchange gains and losses	**2,322**	-5,545
Depreciation, amortization and impairment losses	**5,535**	3,493
Interest income	**-5,202**	-6,139
Interest expenses	**819**	817
Dividend income	**-31,774**	-26,670
Other adjustments	**-122**	-339
Loss on disposal of group company investments and receivables	**-**	1,612
Write-down of non-current investments	**2,000**	-
Write-down of non-current loan receivables	**519**	9,400
Other financial items	**245**	643
Funds from operating activities before change in net working capital	**10,220**	21,891
Change in net working capital		
Change in inventories	**-7,460**	1,272
Change in current receivables	**3,448**	-8,589
Change in interest-free current liabilities	**8,473**	-2,361
Change in net working capital, total	**4,462**	-9,679
Interest and other financial expenses paid	**-1,149**	-2,945
Interest and other financial income received	**5,475**	5,806
Income taxes paid	**-3,307**	-5,992
Dividends received	**31,774**	25,032
Total cash flow from operating activities	**47,475**	34,113
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	**-5,556**	-12,639
Investments in Group companies	**-2,371**	-12,993
Disposal of Group companies	**-**	60
Change in loan receivables	**-10,963**	6,981
Proceeds from sales of tangible and intangible assets	**4**	248
Net cash used in investing activities	**-18,887**	-18,343
Cash flow before financing	**28,588**	15,770
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in non-current loans (+)	**-**	-
Decrease in non-current loans (-)	**-**	-
Change in current financing increase (+)	**285,568**	224,471
Change in current financing decrease (-)	**-274,310**	-204,406
Dividends paid	**-35,285**	-35,285
Net cash used in financing activities	**-24,027**	-15,220
Net change in cash and cash equivalents	**4,561**	550
Cash and cash equivalents at Dec 31	**11,747**	7,186
Cash and cash equivalents at Jan 1	**7,186**	6,635
Change in cash and cash equivalents	**4,561**	550

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - TIKKURILA OYJ

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

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

FOREIGN CURRENCY TRANSACTIONS

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

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

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

SHARE-BASED INCENTIVE PLAN FOR THE PERSONNEL

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

REVENUE RECOGNITION

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

INCOME TAXES

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

DEFERRED TAXES

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

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTIZATION

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

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

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

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

INVENTORIES

The inventory of Tikkurila Oyj is valued to direct and indirect acquisition cost or if lower, to the value of replacement price or to the value of probable sales price. The acquisition cost is defined through weighted average cost method. The acquisition cost of inventory includes direct variable costs.

Indirect costs, such as manufacturing and sourcing fixed costs, as well as depreciations and indirect variable costs has been activated as indirect costs to the value of finished goods.

RESEARCH AND DEVELOPMENT COSTS

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

LEASE

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

COMPARABILITY OF FINANCIAL YEAR 2017 TO FINANCIAL YEAR 2016

Co-operation negotiations were concluded in Autumn 2017 and a total of six persons were dismissed. In September Erkki Järvinen left his position as the President and CEO of the company. In addition to these some organizational and structural transformation were also implemented. A result of the changes, EUR 1.2 million was recognized as non-recurring expenses in personnel expenses in financial year 2017.

The weak level of the operating profit was affected by expenses and problems related to the introduction of the new ERP system and a rise of the raw material and packing material costs that accelerated towards the year-end.

2. REVENUE

	2017	2016
Revenue by geographical segment, % of total revenue	**%**	%
Finland	**48**	52
Other EU countries	**26**	25
Other Europe	**19**	21
Other countries	**6**	3
Revenue by geographical segment, total	**100**	100

3. OTHER OPERATING INCOME

EUR thousand	2017	2016
Gains on sale of non-current assets	**4**	123
Gains on sale of shares	**-**	8
Other income from operations	**21,248**	17,813
Other operating income, total	**21,251**	17,944

The accounting practice concerning category of other operating income has been changed. Costs that are charged for the maintenance of property and production machinery have been booked to other operating income during the financial year 2017. In corresponding year 2016 they were booked as a deduction of other operating expenses.

Other operating income includes intercompany service charges and intercompany charges regarding intangible asset licenses, rights to use. In total of EUR 20.1(17.6) million.

4. OTHER OPERATING EXPENSES

EUR thousand	2017	2016
Change in inventories of finished goods and work in progress	**4,280**	-983
Materials and services		
Materials and supplies		
Purchases during the financial year	**-116,848**	-100,637
Change in inventories of materials and supplies	**3,182**	-289
External services	**-736**	-623
Total materials and services	**-114,403**	-101,548
Personnel expenses	**-35,734**	-34,512
Rents	**-1,315**	-1,354
Other expenses and expense reimbursement	**-53,795**	-44,142
Total other operating expenses	**-200,966**	-182,539

5. PERSONNEL EXPENSES AND NUMBER OF PERSONNEL

EUR thousand	2017	2016
Wages and salaries	**-29,000**	-27,438
Pension expenses	**-5,526**	-5,223
Other personnel expenses	**-1,208**	-1,851
Total personnel expenses	**-35,734**	-34,512
Fringe benefits (tax value)	**-1,410**	-1,356

In financial year 2017 personnel expenses include EUR 1.2 million non-recurring expenses as a result of the personnel dismissals due to co-operation negotiations and changes of organization structure.

Management remunerations	2017	2016
Members of the Board of Directors, CEO and other Management Board members	**-2,734**	-1,677

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

Details from share-based commitment and incentive plan of management can be found from notes to the consolidated financial statements in Note 36.

ACCRUAL BASED REMUNERATION OF CEO AND MANAGEMENT BOARD

In the following table remuneration of CEO is presented on accrual basis in year 2017 and 2016.

EUR thousand	**2017**	2016
CEO Erkki Järvinen (until September 21, 2017)		
Fixed salary, fringe benefits included *)	**-1,128**	-445
Bonuses	**-21**	-87
Total	**-1,149**	-532
Voluntary, supplementary pension payments	**-91**	-70
Statutory pension expenses	**-124**	-90

*) Reported salary includes severance payment of EUR 422 thousand related to the termination of contract of CEO.

Erkki Järvinen, CEO of Tikkurila until September 21, 2017, had a 6-month period of notice on company's behalf, and in which case severance payment equaling 12-month salary is paid. In addition, he has a supplementary pension held by insurance company, which is based on a defined contribution plan.

Interim CEO Jukka Havia (since September 21, 2017)		
Fixed salary, fringe benefits included	**-71**	-
Total	**-71**	-
Statutory pension expenses	**-12**	-

Tikkurila Oyj's Board of Directors has appointed CFO Jukka Havia as Tikkurila's Interim CEO starting from September 21, 2017. Jukka Havia has been a member of the Tikkurila Management Board and his employee benefits until September 21, 2017 is disclosed as part of the Other Management Board members' remuneration.

The Interim CEO's period of notice is 6 months. In the event the company would give notice to the Interim CEO, he will receive an additional remuneration equaling to 6-month salary. The Interim CEO has the right to terminate his employment with 6-month period of notice. The retirement age for the Interim CEO is around 65 years.

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

EUR thousand	**2017**	2016
Other Management Board members 1)		
Fixed salary, fringe benefits included	**-1,168**	-706
Bonuses	**-28**	-145
Share-based incentive plan	**-6**	-
Total	**-1,202**	-850
Statutory pension expenses	**-160**	-109
Statutory pension is a defined contribution plan.		

1) EUR 178 thousand is not included in income statement line wages and salaries in year 2017. The comparison year EUR 210 thousand was not included in wages and salaries.

In addition, the employment of a member of Management Board was ended in 2017. Reported salaries include severance payment of EUR 75 thousand.

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS *)

EUR thousand	2017	2016
Jari Paasikivi	**-73**	-70
Petteri Walldén	**-49**	-46
Harri Kerminen	**-41**	-37
Pia Rudengren	**-57**	-46
Eeva Ahdekivi	**-42**	-48
Riitta Mynttinen	**-49**	-46
Total	**-311**	-295

*)40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 96 (96) thousand in year 2017. This is included in figures presented above.

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2017 or in 2016.

Number of personnel	2017	2016
Average number of white-collar employees	**368**	353
Average number of blue-collar employees	**216**	207
Personnel (average)	**584**	560

6. AUDITOR'S FEES

EUR thousand	2017	2016
KPMG Oy Ab, Authorized Public Accountants		
Audit fees	**-173**	-222
Tax consultancy	**-18**	-6
Other auditing	**-6**	-29
Other fees	**-**	-4
Other audit firms		
Other fees	**-115**	-73
Tilintarkastajan palkkiot yhteensä	**-312**	-333

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

EUR thousand	2017	2016
Depreciation according to plan and impairment losses		
Intangible asset		
Other intangible assets	**-2,885**	-721
Tangible assets		
Buildings and constructions	**-751**	-805
Machinery and equipment	**-1,891**	-1,959
Other tangible assets	**-8**	-7
Total depreciation, amortization and impairment losses	**-5,535**	-3,493
Change in depreciation difference		
Other intangible assets	**-92**	-6
Buildings and constructions	**81**	-72
Machinery and equipment	**694**	480
Other tangible assets	**-1**	5
Total	**682**	**407**

8. FINANCIAL INCOME AND EXPENSES

EUR thousand	2017	2016
Financial income		
Dividend income		
Dividend income from Group companies	**31,774**	26,670
Dividend income from others	**0**	-
Total dividend income	**31,774**	26,670
Interest income		
Interest income from Group companies	**4,973**	6,012
Interest income from others	**229**	126
Total interest income	**5,202**	6,139
Other financial income		
Other financial income from Group companies	**107**	109
Total other financial income	**107**	109
Exchange gains		
Exchange gains from Group companies	**309**	6,890
Exchange gains from others	**3,713**	1,349
Total exchange gains	**4,022**	8,239
Total financial income	**41,105**	41,157
Write-down of non-current investments		
From holdings in group companies	**-2,000**	0
Total write-down of non-current investments	**-2,000**	0
Financial expenses		
Interest expenses		
Interest expenses to Group companies	**-4**	-78
Interest expenses to others	**-815**	-739
Total interest expenses	**-819**	-817
Other financial expenses		
Other financial expenses to Group companies *)	**-519**	-9,400
Loss on disposal of group company investments and receivables **)	**-**	-1,612
Other financial expenses to others	**-352**	-337
Total other financial expenses	**-872**	-11,349
Exchange losses		
Exchange losses to Group companies	**-727**	-1,579
Exchange losses to others	**-5,756**	-1,530
Total exchange losses	**-6,483**	-3,109
Total financial expenses	**-8,174**	-15,275
Total financial income and expenses	**30,931**	25,882

*) A write-down of subsidiary loan receivables of EUR 519 (9,400) thousand.

**) In year 2016, loss on disposal of group company investments and receivables was resulted from the divestment of subsidiaries in Ukraine and Belarus together with receivables from these companies to OÜ FarbaHouse, a company established by Tikkurila's local management. More information related to this is disclosed in Note 4 to the consolidated financial statements.

Interest expenses others in financial expenses contain EUR 0 (59) thousand capitalized interest expenses.

Majority of the exchange rate losses recognized in financial year 2017 was resulted from weakening of Russian ruble. Correspondingly, in comparison year the higher financial income were resulted from exchange rate gains originated from strengthening of Russian ruble.

Internal short term loans of the companies have been replaced by multi-currency cross border pool. Due to this change, the financial exchange gains and losses are recognized through bank accounts in exchange gains from others and exchange losses to others.

EUR thousand	**2017**	2016
Exchange gains and losses		
Realized	**-139**	-414
Unrealized	**-2,322**	5,545
Total exchange gains and losses	**-2,461**	5,130

9. CHANGE IN APPROPRIATIONS

EUR thousand	**2017**	2016
Change in depreciation difference	**682**	407
Total change in appropriations	**682**	407

10. INCOME TAXES

EUR thousand	**2017**	2016
Income tax for current year	**-1,496**	-6,096
Income tax for previous years	**0**	83
Change in deferred taxes	**-25**	-29
Total income taxes	**-1,522**	-6,042

11. NON-CURRENT ASSETS

INTANGIBLE ASSETS

EUR thousand	**2017**	2016
Other intangible assets		
Acquisition cost at beginning of year	**11,106**	10,578
Increase	**17,243**	528
Acquisition cost at year end	**28,349**	11,106
Accumulated amortization at beginning of year	**-9,227**	-8,506
Amortization during the financial year	**-2,885**	-721
Accumulated amortization and impairment losses at year end	**-12,112**	-9,227
Carrying amount at year end	**16,237**	1,878
Advance payments and assets under construction		
Acquisition cost at beginning of year	**16,213**	4,275
Change during the year	**-14,573**	11,938
Carrying amount at year end	**1,640**	16,213
Total intangible assets	**17,877**	18,091

Advance payments and assets under construction comprise EUR 1,003 (14,833) thousand of project related expenses of the enterprise resource planning and EUR 0 (59) thousand of capitalized interest expenses related to the same ERP's acquisition value.
The ERP system has been booked as deployed at year 2017, its development still continues over the fiscal year.

TANGIBLE ASSETS

EUR thousand	2017	2016
Land and water		
Acquisition cost at beginning of year	**1,512**	1,637
Decrease	**-**	-125
Carrying amount at year end	**1,512**	1,512
Buildings and constructions		
Acquisition cost at beginning of year	**23,937**	23,023
Increase	**169**	914
Acquisition cost at year end	**24,107**	23,937
Accumulated depreciation at beginning of year	**-17,477**	-16,672
Depreciation during the financial year	**-751**	-805
Accumulated depreciation and impairment losses at year end	**-18,228**	-17,477
Carrying amount at year end	**5,879**	6,460
Machinery and equipment		
Acquisition cost at beginning of year	**43,521**	42,984
Increase	**1,087**	537
Acquisition cost at year end	**44,608**	43,521
Accumulated depreciation at beginning of year	**-33,102**	-31,143
Depreciation during the financial year	**-1,891**	-1,959
Accumulated depreciation and impairment losses at year end	**-34,994**	-33,102
Carrying amount at year end	**9,614**	10,418

The carrying amount of production machinery and equipment is EUR 8,194 thousand (EUR 9,082 thousand).
Accelerate depreciations of EUR 0 (270) thousand has been done on production investments.

EUR thousand	2017	2016
Other tangible assets		
Acquisition cost at beginning of year	**958**	958
Increase	**66**	-
Acquisition cost at year end	**1,024**	958
Accumulated depreciation at beginning of year	**-762**	-754
Depreciation during the financial year	**-8**	-7
Accumulated depreciation at year end	**-770**	-762
Carrying amount at year end	**254**	197
Advance payments and assets under construction		
Acquisition cost at beginning of year	**185**	313
Change during the year	**-80**	-128
Carrying amount at year end	**106**	185
Total tangible assets	**17,365**	18,773

INVESTMENTS

EUR thousand	2017	2016
Holdings in Group companies		
Acquisition cost at beginning of year	**185,834**	181,847
Increase	**3,769**	3,993
Write-down	**-2,000**	-
Decrease	**-**	-6
Carrying amount at year end	**187,603**	185,834

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

EUR thousand	2017	2016
Other shares and holdings		
Acquisition cost at beginning of year	**540**	540
Decrease	**0**	-
Carrying amount at year end	**540**	540
Total investments	**188,143**	186,374

12. INVENTORIES

EUR thousand	2017	2016
Materials and supplies	**11,616**	8,434
Work in progress	**1,608**	1,412
Finished goods	**19,019**	14,935
Total inventories	**32,243**	24,781

13. RECEIVABLES

EUR thousand	2017	2016
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	**3,339**	1,597
Loan receivables from others	**5,760**	6,437
Total non-current interest-bearing receivables	**9,098**	8,034
Non-current interest-free receivables		
Trade receivables from others	**1,440**	1,157
Deferred expenses and accrued income from others	**250**	351
Total non-current interest-free receivables	**1,690**	1,508
Deferred tax assets	**56**	81
Total non-current receivables	**10,844**	9,624
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	**2,797**	2,360
Current interest-bearing receivables from Group companies	**42,043**	36,606
Total current interest-bearing receivables	**44,840**	38,966

EUR thousand	2017	2016
Current interest-free receivables		
Other current receivables from others	**27**	93
Trade receivables		
Trade receivables from Group companies	**14,819**	16,378
Trade receivables from others	**10,419**	12,670
Total trade receivables	**25,238**	29,049
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	**1,474**	1,743
Deferred expenses and accrued income from others	**5,025**	3,089
Total deferred expenses and accrued income	**6,498**	4,832
Total current interest-free receivables	**31,764**	33,974
Total current receivables	**76,604**	72,940
Total receivables	**87,448**	82,563
Deferred expenses and accrued income		
Interest income	**1,287**	1,489
Income taxes	**2,737**	952
IT services	**853**	1,140
Others	**1,871**	1,603
Total deferred expenses and accrued income	**6,748**	5,184

Deferred expenses and accrued income "Others" includes withdrawal costs of a loan EUR 186 (EUR 299) thousand. These expenses have been accrued for the period of repayment schedule.

14. EQUITY

EUR thousand	2017	2016
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	**121,523**	117,824
Dividends	**-35,285**	-35,285
Retained earnings at December 31	**86,239**	82,539
Net profit for the period	**35,038**	38,984
Retained earnings and net profit for the period at December 31	**121,276**	121,523
Total unrestricted equity	**161,276**	161,523
Total equity at December 31	**196,276**	196,523

EUR thousand	2017	2016
Distributable funds at December 31		
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**121,523**	117,824
Dividends	**-35,285**	-35,285
Net profit for the financial year	**35,038**	38,984
Distributable funds	**161,276**	161,523

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

Changes in treasury shares	EUR '000	Number of shares
Acquisition cost / Number of pieces at January 1	**42**	**2,461**
Change	**-**	**-**
Carrying amount / Number of pieces at December 31, 2017	**42**	**2,461**

15. APPROPRIATIONS

EUR thousand	2017	2016
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and constructions	**-2,631**	-2,551
Machinery and equipment	**6,020**	6,714
Other tangible assets	**26**	25
Other intangible assets	**434**	342
Intangible rights	**7**	7
Total accumulated depreciation difference	**3,856**	4,537
Change in depreciation difference		
Depreciation difference at January 1	**4,537**	4,944
Change in depreciation difference in income statement	**-682**	-407
Depreciation difference at December 31	**3,856**	4,537

16. PROVISIONS

EUR thousand	2017	2016
Other provisions	**230**	374

17. LIABILITIES

EUR thousand	2017	2016
Non-current liabilities		
Loans from financial institutions	**50,000**	50,000
Other non-current liabilities to others	**142**	17
Total non-current liabilities	**50,142**	50,017

EUR thousand	**2017**	2016
Maturity of non-current liabilities		
Maturity		
2019 (2018)	**129**	-
2020 (2019)	**13**	17
2021 (2020)	**50,000**	-
2022 (2021)	**-**	50,000
2023 (2022)	**-**	-
Total non-current liabilities	**50,142**	50,017
Loans that will fall due after 5 years or later		
Loans from financial institutions	**-**	-
Total	**-**	-
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	**8,061**	26,721
Other interest-bearing liabilities to others	**54,897**	24,979
Total other interest-bearing liabilities	**62,957**	51,700
Total current interest-bearing liabilities	**62,957**	51,700
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	**3,135**	2,555
Trade payables to others	**17,271**	11,851
Total trade payables	**20,406**	14,406
Accrued expenses and deferred income		
Accrued expenses and deferred income to Group companies	**2,989**	520
Accrued expenses and deferred income to others	**17,045**	18,637
Total accrued expenses and deferred income	**20,035**	19,156
Advances received	**-**	11
Other interest-free liabilities to others	**923**	1,043
Total current interest-free liabilities	**41,364**	34,616
Total current liabilities	**104,321**	86,316
Accrued expenses and deferred income		
Personnel expenses	**6,000**	6,417
Related to sales	**7,899**	8,925
Other	**6,136**	3,814
Total accrued expenses and deferred income	**20,035**	19,156

18. CONTINGENT LIABILITIES

EUR thousand	**2017**	2016
Lease liabilities		
Maturity within one year	**929**	986
Maturity later than one year	**1,056**	1,229
Total lease liabilities	**1,986**	2,215
Other contingent liabilities		
Material contractual commitment for acquisition of tangible and intangible assets	**33**	2,852
Commitments for indirect and direct purchases	**6,347**	7,296
Total other contingent liabilities	**6,380**	10,148

Material contractual commitments for acquisition of tangible and intangible assets have decreased compared to the previous year due to the deployment of the new ERP.

EUR thousand		
Guarantees		
On own behalf	**33**	30
On behalf of Group companies	**26,441**	21,963
Total guarantees	**26,474**	21,993

MORTGAGES

The company has mortgages EUR 99 (EUR 89) million, which are held by Tikkurila Oyj.

OTHER COMMITMENTS

In addition, Tikkurila Oyj has personnel's years in service related commitments, which are not mandatory but are rather established by a pattern of past practice, and share-based incentive plan commitments. These together are approximately EUR 1.2 (1.3) million. takauksen Tikkurila Sverige AB:n puolesta.

Tikkurila Oyj is a plaintiff in an arbitration procedure in Denmark. This includes only the arbitracy expense risk.

In year 2006, the subsidiary of Tikkurila Oyj, Tikkurila Sverige AB, sold its subsidiary to Skanska Nya Hem AB. The divested entity owned a land plot and buildings in Stockholm. According to the revised terms, if at the end of 2019 there will be no final town plan regarding BTAs for the land area in question, Skanska has the option either to finalize the transaction with the preliminary purchase price without any right to adjustment or to cancel the transaction and let Tikkurila Sverige AB buy the property back at the preliminary transaction price. If the transaction would be reversed, Tikkurila Sverige AB has also committed, subject to certain limitations, to compensate Skanska for costs related to preparing the property for further development. Tikkurila Oyj has given guarantee on behalf of Tikkurila Sverige AB.

SHARES AND SHAREHOLDERS

SHARES AND SHARE CAPITAL

At the end of 2017, 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 2017, Tikkurila held 2,461 treasury shares.

BOARD AUTHORIZATIONS

On April 4, 2017, 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.

REPURCHASE AUTHORIZATION

The Annual General Meeting on April 4, 2017, authorized the Board of Directors to decide upon the repurchase of a maximum of 4,400,000 company's own shares with assets pertaining to the company's unrestricted equity in one or more tranches. The maximum amount of the authorization corresponds to approximately 10 percent of all the shares in the company.

The authorization for repurchases of Company's own shares will be carried out at the market price of the share on Nasdaq Helsinki Ltd or in other marketplace the rules of which allow companies to trade with their own shares. The authorization entitles the Board of Directors to repurchase the shares in another proportion than that of the shares held by the current shareholders (directed repurchase). In repurchasing of the Company's own shares, the Company may enter into derivative, stock lending or other arrangements customary in capital market practice within the limits set by law and other regulations. In repurchases, the Company will follow the rules and guidelines regarding, among other factors, the determination of the repurchase price, settlement and disclosure of trades, of the marketplace in which the repurchase is carried out.

The consideration payable for the repurchase of the shares shall be based on the market price of the Company's share on the securities market. The minimum consideration of the repurchase of the Company's own shares is the lowest market price of the share quoted during the authorization period and, correspondingly, the maximum price is the highest market price of the share quoted during the authorization period.

The shares may be repurchased to be used for financing or implementing possible mergers and acquisitions, developing the Company's equity structure, improving the liquidity of the Company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the Company. For the aforementioned purposes, the Company may retain, transfer further or cancel the shares. The Board of Directors would decide upon other terms related to repurchase of shares.

The repurchase authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2018.

As of December 31, 2017, the Board of Directors had not exercised this authorization.

GENERAL SHARE ISSUE AUTHORIZATION

The Annual General Meeting on April 4, 2017, authorized the Board of Directors to decide to transfer the company's own shares held by the company or to issue new shares in one or more tranches limited to a maximum of 4,400,000 shares. The maximum aggregate amount of the authorization corresponds to approximately 10 percent of all the shares in the company.

The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment. The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or in deviation from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares, settling the payment of the annual fees payable to the members of the Board of Directors or implementing the share-based incentive programs of the company. Upon the issuance of the new shares, the subscription price of the new shares shall be recorded to the invested unrestricted equity reserves. In case of a transfer of the company's own shares, the price payable for the shares shall be recorded to the invested unrestricted equity reserves.

The Board of Directors will decide upon other terms and conditions related to the share issues. The authorization would be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2018.

As of December 31, 2017, the Board of Directors had not exercised this authorization.

AUTHORIZATION TO DECIDE ON THE SHARE ISSUE RELATED TO THE IMPLEMENTATION OF THE SHARE-BASED COMMITMENT AND INCENTIVE PROGRAM

The Annual General Meeting on March 28, 2012, authorized the Board of Directors to decide to transfer Company's own shares held by the company or to issue new shares in one or more tranches limited to a maximum of 440,000 shares, deviating from the shareholders' pre-emptive subscription right, to the Company's key persons as part of the share-based commitment and incentive program released on February 16, 2012. The proposed maximum aggregate amount of the authorization corresponds to approximately one percent of all the existing shares in the company.

The company's own shares held by the company may be transferred and the new shares may be issued without payment to the key persons who have purchased the company's shares in accordance with the terms of the share-based commitment and incentive program decided by the Board of Directors and released by the company on February 16, 2012. The implementation of the share-based commitment and incentive program constitutes a weighty financial reason for the company to deviate from the shareholders' pre-emptive subscription right.

The Board of Directors will decide upon other terms related to share issues. The authorization will be valid for five (5) years from the decision.

During 2017, the Board of Directors did not exercise this authorization.

MARKET CAPITALIZATION AND TRADING

The trading of Tikkurila Oyj's shares began on NASDAQ OMX Helsinki on March 26, 2010.

At the end of December, the closing price of Tikkurila's share was EUR 17.81. In January–December, the volume-weighted average share price was EUR 17.69, the lowest price EUR 15.32, and the highest price EUR 19.67. At the end of December, the market value of Tikkurila Oyj's shares was EUR 785.5 million. During January–December, a total of 16.3 million Tikkurila shares, corresponding to approximately 36.8 percent of the number of shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 287.4 million. Tikkurila's shares are traded also outside of NASDAQ OMX Helsinki, but the company does not have detailed statistics available on this external trading.

HOLDINGS OF TIKKURILA'S BOARD OF DIRECTORS AND MANAGEMENT BOARD

Tikkurila Board members and their interest parties held altogether 111,173 shares on December 31, 2017, which is about 0.3 percent of the share capital and votes in Tikkurila. Furthermore, Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the President and CEO in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila's Interim President and CEO and his interest parties held altogether 14,000 shares on December 31, 2017, which is about 0.03 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at http://www.tikkurilagroup.com/corporate_governance/insiders.

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

SHARE-BASED INCENTIVE PLANS

Resolutions of the Board of Directors of Tikkurila in April 2016 and in May 2017 on a share-based incentive plan

The Board of Directors of Tikkurila Oyj approved in April 2016 a share-based incentive plan for the Group key employees. The plan consists of a Performance Share Plan 2015-2019 and a Matching Share Plan 2016-2018. In May 2017, the Board of Directors of Tikkurila resolved on matching share plan 2017-2019 for the selected Group key employees.

Performance Share Plan 2015-2019

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

The rewards to be paid on a basis of the performance periods 2015-2017 and 2016-2018 will amount to an approximate maximum total of 250,000 Tikkurila Oyj shares. The rewards to be paid on a basis of the performance period 2017-2019 will amount to an approximate maximum total of 120,000 Tikkurila Oyj shares. In addition, the Company will pay taxes and tax-related costs arising from the reward to the participants in the connection with the reward payment.

Matching Share Plans

In both Matching Share Plan there is one vesting period, calendar years 2016-2018 and 2017-2019. The prerequisite for receiving reward on a basis of these plans is that a person participating in the plan acquires the Company's shares up to the number determined by the Board of Directors. Furthermore, receiving of reward is tied to the continuance of participant's employment or service upon reward payment.

The rewards to be paid on a basis of the Matching Share Plan which vesting period is 2016-2018 will amount to a maximum total of 4,000 Tikkurila Oyj shares. The reward from the plan will be paid partly in the Company's shares and partly in cash in 2019. The rewards to be paid on a basis of the Matching Share Plan which vesting period is 2017-2019 will amount to a maximum total of 8,000 Tikkurila Oyj shares. The reward from the plan will be paid partly in the Company's shares and partly in cash in 2020. The Company will additionally pay from both matching share plans taxes and tax-related costs arising from the reward to the participants of in the connection with the reward payment.

Based on this share-based incentive plan 2016 EUR 0.0 (0.0) million was recognized during the year 2017 in personnel expenses.

Plan of 2012

To commit and motivate key personnel, the Board of Directors of Tikkurila Oyj decided on a share-based plan in 2012, and it also selected key persons, each of which has a right to participate in this plan. To participate, each person need to buy Tikkurila Oyj's shares from the market. The maximum number of shares under this plan has been individually defined for each participant. On December 31, 2016, a total of nine key employees selected by the Board participated in the share-based plan.

Share incentive plan launched in year 2012 is already expired and no personnel expenses recognized on this plan in financial year 2017 or 2016.

DIVIDEND POLICY

According to Tikkurila's dividend policy, Tikkurila aims to distribute a dividend of at least 40 percent of its annual adjusted net profit. Adjusted net profit means net profit for the period excluding items affecting comparability and adjusted for tax effects.

The Board of Directors proposes to the Annual General Meeting to be held on April 12, 2018, that a dividend of EUR 0,80 per share will be distributed for the year ended on December 31, 2017. The proposed dividend corresponds to approximately 182 percent of adjusted net profit.

SHAREHOLDERS

According to Euroclear Finland Oy's register, Tikkurila had approximately 20,000 shareholders on December 31, 2017, the largest single shareholder being Oras Invest Oy with 18.1 percent. A list of the largest shareholders is updated regularly on Tikkurila's website at www.tikkurilagroup.com/investors/share_information/shareholders.

DISCLOSURE OF CHANGES IN HOLDINGS

Tikkurila received a notification, based on the Securities Markets Act, from Ilmarinen Mutual Pension Insurance Company on May 5, 2017. Ilmarinen Mutual Pension Insurance Company's holding in shares of Tikkurila Oyj fell below the 1/20 (5%) threshold due to trades made on May 5, 2017. The holding of Ilmarinen Mutual Pension Insurance Company in Tikkurila Oyj will amount to 1,758,938 shares, which corresponds to 3.99 percent of the total amount of shares and votes in Tikkurila Oyj.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from FMR LLC on May 12, 2017. The holding of the entities controlled by FMR LLC in shares of Tikkurila Oyj has exceeded the 1/10 (10%) threshold due to trades executed on May 11, 2017. The holding of the above mentioned entities in Tikkurila Oyj has amounted to a total of 4,416,425 shares, which corresponds to 10.01 percent of the total amount of shares, and to a total of 4,359,525 voting rights, which corresponds to 9.88 percent of the total amount of voting rights.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from FMR LLC on May 17, 2017. The holding of the entities controlled by FMR LLC in shares of Tikkurila Oyj fell below the 1/10 (10%) threshold due to trades executed on May 16, 2017. The holding of the above mentioned entities in Tikkurila Oyj will amount to a total of 4,410,825 shares,

Breakdown by shareholder category on December 31, 2017

19.6% Private companies
7.5% Financial and insurance institutions
9.7% Public sector organizations
11.6% Households
2.3% Non-profit organizations
49.3% Foreigners and Nominee registered

which corresponds to 9.99 percent of the total amount of shares, and to a total of 4,353,925 voting rights, which corresponds to 9.87 percent of the total amount of voting rights.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Marathon Asset Management LLP on June 16, 2017. The holding of the funds and accounts managed by portfolio managers under the control of Marathon Asset Management LLP in shares of Tikkurila Oyj has exceeded the 1/20 (5%) threshold due to trades executed on June 15, 2017. The holding of the above mentioned entities in Tikkurila Oyj has amounted to a total of 2,205,510 shares, which corresponds to 5.0 percent of the total amount of shares and voting rights. Marathon Asset Management LLP also manages 1,015,115 shares in Tikkurila Oyj for which clients have retained the right to vote, which is included in the total specified below in the Breakdown of holdings:

CUSTODIAN
Bank of New York Mellon 896,415
Brown Brothers Harriman 245,816
JP Morgan Chase 105,414
Northern Trust 775,953
State Street Bank & Trust Company, Boston 1,197,027
Total 3,220,625

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Intrinsic Value Investors (IVI) LLP on August 8, 2017. The holding of the funds and accounts managed by Intrinsic Value Investors (IVI) LLP in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades executed on August 7, 2017. The indirect holding of Intrinsic Value Investors (IVI) LLP in Tikkurila Oyj amounted to a total of 2,372,000 shares, which corresponds to 5.4 percent of the total amount of shares and voting rights.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Bestinver Gestion, S.A. SGIIC on August 9, 2017. The holding of the funds and accounts managed by Bestinver Gestion, S.A. SGIIC in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades executed on August 7, 2017. The indirect holding of Bestinver Gestion, S.A. SGIIC in Tikkurila Oyj amounted to a total of 2,430,469 shares, which corresponds to 5.5 percent of the total amount of shares and voting rights.

Tikkurila's largest shareholders on December 31, 2017

		Number of shares	% of share capital
1	Oras Invest Oy	7,969,552	18.1
2	Varma Mutual Pension Insurance Company	2,493,525	5.7
3	Ilmarinen Mutual Pension Insurance Company	1,615,079	3.7
4	Mandatum Life Insurance Company Ltd.	1,166,300	2.6
5	Kaleva Mutual Insurance Company	650,000	1.5
6	ODIN Finland	522,494	1.2
7	The State Pension Fund	507,000	1.2
8	Nordea Nordic Small Cap Fund	441,311	1.0
9	OP-Finland Small Firms Fund	195,241	0.4
10	OP-Finland Small Firms Fund	147,000	0.3
	10 largest registered shareholders total	**15,707,502**	**35.7**
	Nominee registered shares	21,030,712	47.7
	Other shares	7,370,038	16.7
	Total	**44,108,252**	**100.0**

Breakdown of share ownership on December 31, 2017

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	10,579	52.6	487,463	1.1
101–1,000	8,604	42.8	2,690,511	6.1
1,001–10,000	854	4.3	2,038,238	4.6
10,001–100,000	63	0.3	1,905,800	4.3
100,001–1,000,000	9	0.1	2,804,068	6.4
over 1,000,000	6	0.0	34,182,172	77.5
Total	**20,115**	**100.0**	**44,108,252**	**100.0**

BOARD OF DIRECTOR'S PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The distributable funds of Tikkurila Oyj, the parent of Tikkurila Group, are EUR 161,276,271.61 of which EUR 35,037,528.32 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.80 per share will be distributed as dividend from the net profit for the year. The total dividend would amount to EUR 35,284,632.80. EUR 125,991,638.81 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 12, 2018

Jari Paasikivi
Chairman of the Board

Petteri Walldén
Vice Chairman of the Board

Pia Rudengren
Member of the Board

Eeva Ahdekivi
Member of the Board

Riitta Mynttinen
Member of the Board

Harri Kerminen
Member of the Board

Jukka Havia
Interim CEO

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF TIKKURILA OYJ

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Tikkurila Oyj (business identity code 0197067-4) for the year ended December 31, 2017. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 10 to the consolidated financial statements.

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

MATERIALITY

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of goodwill (EUR 72 million) and other intangible assets (EUR 26 million) (Notes 1, 2, 16 and 17)	
Valuation of goodwill and other intangible assets is a Key Audit Matter due to the following: • The goodwill and other intangible assets amount a significant part of the total assets (being 23 % of total assets); and • The valuation of goodwill and other intangible assets is complex and involves management judgement particularly in countries where there is increased uncertainty over the economic prospects and currency risks are heightened such as Russia and its adjacent countries. • The impairment test of goodwill and other assets involves determining future cash flows which, with regard to the most significant assumptions, are based on gross margin levels, discount rates and the projected time period, as well as the growth rate assumptions for the time after the time period which affects the so-called terminal value.	• The group audit team considered the valuation of goodwill and other intangible assets overall. • We also used our valuation specialist to address the valuation risk of goodwill and other intangible assets. In connection of our review we performed the following procedures: • The examination of the mathematical accuracy of the impairment testing model. • The assessment of sensitivity analyses in terms of most critical cash-generating units. • The assessment of historical accuracy of estimates. • The comparison of the assumptions used in the impairment testing of Tikkurila to externally available industry economic and financial data. • We have also considered the appropriateness of the note disclosures in respect of goodwill and other intangible.

Accuracy of revenue (EUR 582 million) (Notes 1 and 2)

Revenue and revenue recognition principles are a Key Audit Matter due to the following:

- Considering the significant volume of sales transactions and variety of pricing and discounts agreements, minor errors could, in aggregate, have a material impact on the financial statements. Individual contracts exist with several customers, which include a variety of differing terms and conditions.
- The level of management judgement involved at the end of the reporting period in the assessment of amount of discounts, credits or other benefits that are tied to the volume or value of the sale of certain product groups and that are granted afterwards.
- Our group audit instructions highlighted revenue as a focus area. Auditors of significant components were instructed to carry out appropriate controls testing and substantive procedures.

- Our audit procedures have included test of controls within the sales process a.m. controls over recording of sales transactions and approval of price chances.
- On a sample basis, we checked that customer-specific prices are set up in a system in accordance with the agreement with the customer.
- We assessed the appropriateness of the principles applied in light of contractual terms and transfer of risks and rewards of ownership.
- On a sample basis, we assessed that the IFRS revenue recognition criteria have been met for the deliveries occurring near 31 the year-end.
- Concerning discounts, credits and other benefits:
  - We evaluated the processes and controls in place for recognition of customer discounts.
  - On a sample basis, we tested the nature of discount arrangements and amounts to the contracts or to other supporting documents.

Valuation of Inventory (EUR 96 million) (Notes 1, 2 and 19)

Valuation of inventory is a Key Audit Matter due to the following:

- The inventory amounts a significant part of the total assets (being 22 % of total assets)
- There is management judgement involved in assessing the level of inventory provision required in respect of slow moving and obsolete inventory, therefore, there is a risk that slow moving and obsolete inventory has not been adequately provided for.

- Our group audit instructions highlighted inventory valuation as a focus area. Auditors of significant components were instructed to carry out appropriate controls testing and substantive procedures.
- We have assessed a provisioning policy for obsolete and slow-moving items established by the management.
- We have inquired about the methods used for identifying slow moving and obsolete inventory.
- We have reviewed the calculation of inventory provision for slow moving and obsolete inventory made by the management and evaluated the compliance with the Group accounting principles.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent

company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors by the Annual General Meeting on January 1, 2011, and our appointment represents a total period of uninterrupted engagement of 7 years. The current auditor in charge, Toni Aaltonen, Authorized Public Accountant, KHT, was elected on March 28, 2012.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the members of the Board of Directors of the parent company and the President and CEO should be discharged from liability for the financial period audited by us.

Helsinki, February 12, 2018
KPMG Oy Ab
TONI AALTONEN
Authorized Public Accountant, KHT

CORPORATE GOVERNANCE STATEMENT 2017

1. INTRODUCTION

Tikkurila Oyj (later referred to also as "Tikkurila" or "Group" both in relation to Tikkurila Oyj and the Group it forms) has prepared this corporate governance statement based on existing legislation and regulations. This corporate governance statement is issued separately from the Board of Directors' report, and is also available on the website www.tikkurilagroup.com, as well as is included in the 2017 Annual Review.

GENERAL PRINCIPLES AND FRAMEWORK

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

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

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

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

2. TIKKURILA'S GOVERNING BODIES

The following diagram summarizes the key governing bodies of Tikkurila:

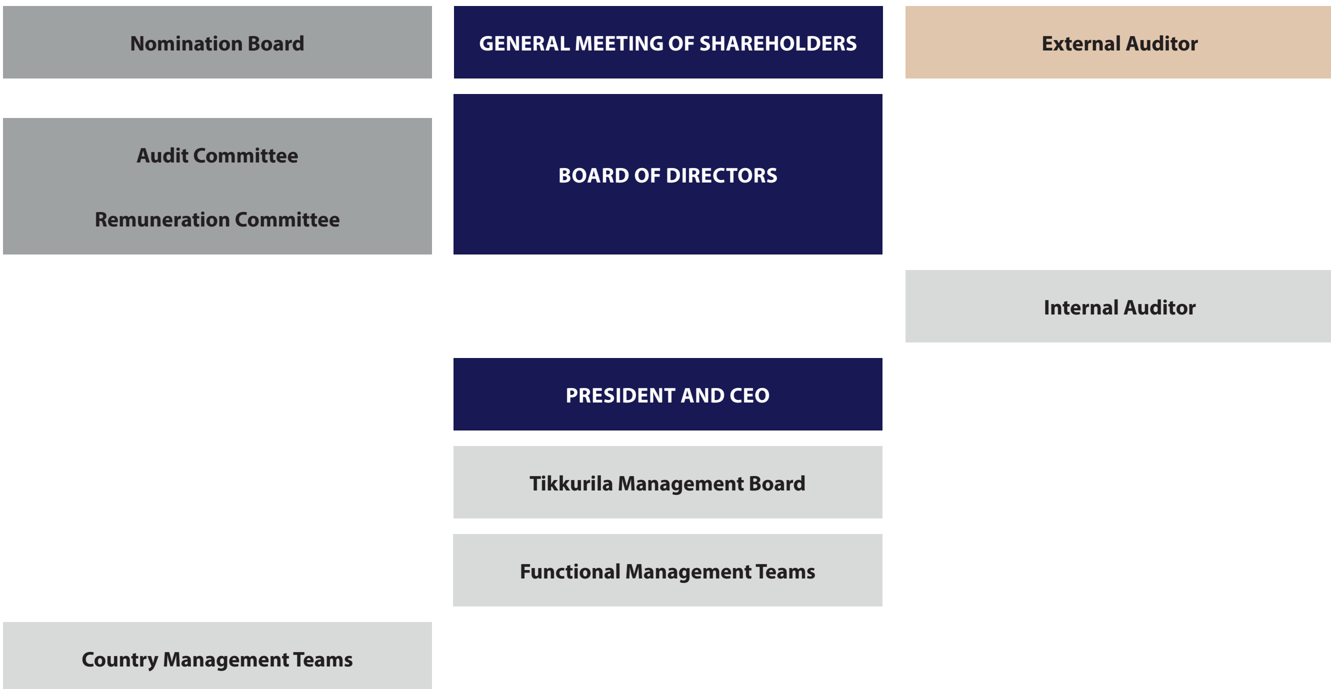
ANNUAL GENERAL MEETING OF SHAREHOLDERS (AGM)

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

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

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

The decisions of the shareholders' meeting during 2017 are presented in the 2017 Board of Directors' report, and all the meeting materials and decisions are published on the Company's web page. The Annual General Meeting in 2018 will be held on April 12, 2018.



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

NOMINATION BOARD

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

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

Until June 13, 2017 the members of the Nomination Board were: Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; and Reima Rytsölä, Executive Vice President, Investments, of Varma Mutual Pension Insurance Company. Tikkurila Oyj's three largest registered shareholders, on May 31, 2017, appointed their representatives for the Tikkurila Nomination Board so that from June 13, 2017, the Nomination Board has had the following members: Annika Paasikivi, Chief Operating Officer, Oras Invest Oy; Reima Rytsölä, Executive Vice President, Investments, Varma Mutual Pension Insurance Company; and Mikko Mursula, Chief Investment Officer, Ilmarinen Mutual Pension Insurance Company. During 2017, Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj, acted as the expert member of the Nomination Board.

During 2017, the Nomination Board had two (2016: three) meetings, and the attendance rate was 100 (89) percent.

PREPARATION PROCESS FOR THE BOARD NOMINATION AND THE DIVERSITY OF THE BOARD OF DIRECTORS

The Nomination Board, consisting of shareholders or their representatives, annually prepares proposals for the Annual General Meeting in relation to the number ot the members of the Board, the composition of the Board, the Chairman and Vice Chairman of the Board, as well as the remuneration of the Board members. Proposals take into account both the articles of association of the Company, as well as all relevant legislation. When designing the composition of the Board of Directors, Tikkurila's Nomination Board assesses the composition from the viewpoint of the Company's current and future business needs, while taking into account the diversity of the Board.

The diversity of the Board of Directors will be assessed from various viewpoints. Tikkurila's Board of Directors shall have sufficient and complementary experience and expertise in the key industries and markets relevant to Tikkurila's business. In addition, an essential element is the personal characteristics of the members and their diversity.

For example, the following factors are considered and taken into account when electing Board members:

Professional expertise
- knowledge of the company's value creation drivers
- industry
- relevant markets
- accounting and finance
- governance

Personal characteristics
- education
- gender and age
- personality
- culture

The Company's aim is that the Board of Directors represent expertise in different industries and markets, diverse professional and educational backgrounds, diverse age distribution and both genders. Concerning gender diversity, the objective is that both genders are represented in the Board by at least two members.

The realization of the diversity principles is monitored and reported in the Company's Corporate Governance Statement and Corporate Responsibility Report.

BOARD OF DIRECTORS

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

- to approve the strategy of the Group;
- to decide on long-term financial and operational goals;
- to approve 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 confirm the appointment of 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 policies are 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 is convened by the Chairman. The Board of Directors has a quorum when more than half of its members attend the meeting. The President and CEO, as well as the CFO of the Group, attend the Board meetings presenting the issues being discussed or decided upon, and the Group Vice President, Legal Affairs, acts as the Secretary of the Board.

During the financial year 2017, Tikkurila Oyj's Board of Directors had the following six members for the full year:

- Eeva Ahdekivi, member of the Board continuously from 2009
- Harri Kerminen, member of the Board continuously from 2012
- Riitta Mynttinen, member of the Board continuously from 2011

- Pia Rudengren, member of the Board continuously from 2009
- Jari Paasikivi (Chairman), member of the Board continuously from 2008, Chairman from 2010
- Petteri Walldén (Vice Chairman) member of the Board continuously from 2008, Vice Chairman from 2010

All of the Board members are independent of the Company, and members other than Jari Paasikivi are also independent of major shareholders. Chairman of the Board, Jari Paasikivi, is the CEO of Oras Invest Oy, and hence he is not independent of the key shareholders, since Oras Invest Oy owns approximately 18 percent of Tikkurila Oyj's shares.

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 2017, the Board had 12 (2016: 10) meetings, and the average attendance rate was 99 (98) percent.

REMUNERATION OF THE BOARD OF DIRECTORS

The Annual General Meeting decided in April 2017 on the remuneration to be paid to the members of the Board. According to that decision, the Board remuneration in 2017 was the following:

- Chairman of the Board, EUR 64,000 per year;
- Deputy Chairman of the Board and Chairman of the Audit Committee, EUR 40,000 per year; and
- other members of the Board, EUR 32,000 per year.

The annual remuneration of the Board members was paid as a combination of shares and cash so that approximately 40 percent of the annual remuneration was paid as shares: either from shares already owned by Tikkurila or, if not possible, in shares acquired from the market, and 60 percent was paid in cash.

In addition, the following meeting-specific fee was paid:

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

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

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

AUDIT COMMITTEE

In 2017, Eeva Ahdekivi was the Chairman of the Audit Committee until April 4, 2017, and thereafter Pia Rudengren became Chair. The third member of the Audit Committee was Riitta Mynttinen.

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

Tikkurila's Audit Committee 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, half-year financial reports and business reviews, and to review the results of the impairment testing of the assets;
- to assess risks and to review risk management policies and actions;
- to evaluate Tikkurila's compliance with laws, regulations and Tikkurila's internal Code of Conduct financial reporting principles as well as corporate social responsibility initiatives;
- to confirm audit plans for both external and internal audit;
- to prepare the election of auditors;
- to pre-approve the non-audit services of the external audit firm; and
- to review the corporate governance statement.

During 2017, the Audit Committee met five (2016: 5) times. The attendance rate was 100 (100) percent. The Group's CFO, Jukka Havia, acted as the Secretary of the Committee, and Tikkurila's Principal Auditor, Toni Aaltonen, was present in the meetings and presented reports to the Audit Committee. In addition, Tikkurila's Internal Auditor reported audit findings to the Audit Committee.

SUMMARY OF THE ATTENDANCE AND REMUNERATION OF THE BOARD OF DIRECTORS, 2017

		Board of Directors						Audit Committee		Remuneration Committee		
		# of meetings	EUR	EUR	EUR	EUR	EUR	# of meetings	EUR	# of meetings	EUR	EUR
Name	Position	attendance	annual fees, shares	annual fees, cash	annual fees, total	meeting fees, cash	fees, total	attendance	fees, cash	attendance	fees, cash	all fees total
Eeva Ahdekivi	Member	12/12	12,791	19,209	32,000	7,200	39,200	5/5	3,000			42,200
Harri Kerminen	Member	12/12	12,791	19,209	32,000	7,200	39,200			3/3	1,800	41,000
Riitta Mynttinen	Member	11/12	12,791	19,209	32,000	11,400	43,400	5/5	5,400			48,800
Jari Paasikivi	Chairman and Chairman of Remuneration Committee	12/12	25,582	38,418	64,000	7,200	71,200			3/3	1,800	73,000
Pia Rudengren	Member and Chairman of Audit Committee	12/12	15,994	24,006	40,000	11,400	51,400	5/5	5,400			56,800
Petteri Walldén	Vice Chairman	12/12	15,994	24,006	40,000	7,200	47,200			3/3	1,800	49,000
	TOTAL	**71/72 (98.6%)**	**95,943**	**144,057**	**240,000**	**51,600**	**291,600**	**15/15 (100.0%)**	**13,800**	**9/9 (100.0%)**	**5,400**	**310,800**

In financial year 2017, the Audit Committee reviewed the Group's regular financial reports before Board meetings, discussed results guidance and guidelines related to it, reviewed internal and external audit reports and audit plans as well as prepared the election of Auditor, presented to the Annual General Meeting 2017.

REMUNERATION COMMITTEE

In March 2012, the Board of Directors of Tikkurila Oyj established the Remuneration Committee to discuss and propose remuneration of Tikkurila's Group management. In 2017, Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén and Harri Kerminen were the other members of the Committee. During 2017, the Remuneration Committee met three times (2016: once), and the average attendance rate was 100 (100) percent.

PRESIDENT AND CEO

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

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.

Erkki Järvinen was the President and CEO of Tikkurila from January 2009 until September 2017. The Board of Directors elected Group CFO, Jukka Havia, to act as the Interim President and CEO from September 21, 2017.

TIKKURILA MANAGEMENT BOARD

The Tikkurila Management Board is chaired by the President and CEO, and it assists the CEO in the management and development of Tikkurila. The President and CEO proposes the appointment of the Tikkurila Management Board members, and the Board of Directors approves the appointments as well as approves the remuneration for the members of the Management Board. Tikkurila has operations in multiple countries, and hence also has a large number of legal entities in various countries. The President and CEO is the decision-maker for any major decisions, which do not require the Board of Directors' resolution.

The composition of the Tikkurila Management Board is the following at the year-end 2017:

- Jukka Havia, Chief Financial Officer, and Interim President and CEO
- Melisa Bärholm, Senior Vice President, HR
- Petri Miettinen, Senior Vice President, Operations
- Janno Paju, Senior Vice President, Sales
- Meri Vainikka, Senior Vice President, Offering

Antti Kiuru, the Group's general legal counsel, and who also was in charge of risk management, acted as the secretary of both the Tikkurila Management Board and the Board of Directors.

During 2017 there were the following key changes in relation to the Group management team and the management model:

- in the beginning of May, Meri Vainikka (Offering) and Melisa Bärholm (HR) were elected as the new management board members, and Kenneth Sundberg discontinued in his role on the Group management team; moreover, at the same instance the Group's management model was changed:
  * by changing to a functionally led and centralized organization model
  * by discontinuing the Area Board structure, which was previously used to guide the subsidiaries;
  * by discontinuing the Business Board, which coordinated sales and marketing actions at the Group level
- by the decision of the Board of Directors, Erkki Järvinen stepped down as the President and CEO, and Jukka Havia was elected as the Interim President and CEO from September 21, 2017

REMUNERATION OF THE MANAGEMENT MEMBERS REPORTING DIRECTLY TO THE PRESIDENT AND CEO

The Board of Directors decides the remuneration as well as key employment terms for all group management members that directly report to the President and CEO.

REMUNERATION OF THE TIKKURILA MANAGEMENT BOARD IN 2017, SUMMARY

Tikkurila Management Board members were included in the 2017 annual cash-based management bonus scheme, and in the share-based commitment and incentive plans, which were established in 2012 and in 2016. The content of these incentive systems is described in more detail in the "Cash-based Annual Bonus Scheme" and "Share-based Commitment and Incentive Plans".

Summary of the Remuneration of the Tikkurila Management Board:
More detailed information about the remuneration of the Group management, and the Board of Directors, is available in the separate Remuneration Statement.

REMUNERATION IN 2017, GROSS, IN EUR

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

Group Management Board	Fixed Salary	Fringe Benefits	**Subtotal, Fixed Remuneration**	Annual Bonus (FY 2016) ***	Annual Bonus (FY 2017)	Share-Based Remuneration****	**Subtotal, Variable Remuneration**	Additional Pension	**Total Remuneration**
President and CEO									
Erkki Järvinen 1-9/2017 *	1,113,485	14,951	**1,128,435**	21,017	0	0	**21,017**	91,373	**1,240,825**
Jukka Havia (Interim CEO) 9-12/2017	68,157	3,171	**71,329**	0	0	0	**0**	0	**71,329**
Other management board members, total **	1,121,464	46,720	**1,168,185**	28,027	0	9,841	**37,868**	0	**1,206,053**
Tikkurila Management Board, total	**2,303,106**	**64,843**	**2,367,949**	**49,044**	**0**	**9,841**	**58,885**	**91,373**	**2,518,207**

* includes also the one-time termination salaries , as well as the salary of the notice period until the end of 2017
** Janno Paju and Petri Miettinen 1-12/2017; Meri Vainikka and Melisa Bärholm 5-12/2017; Kenneth Sundberg 1-6/2017; Jukka Havia (for CFO role) 1-8/2017
*** Accrual difference related to Annual Bonuses 2016, paid in year 2017
**** IFRS 2 standard based annual personnel expense as recognized in 2017 Group income statement

Moreover, there is more information about the share-based long-term incentives for management in the notes of the Group financial statements.

3. STATUTORY AUDIT, INTERNAL CONTROL, INTERNAL AUDIT AND OTHER GOVERNANCE INFORMATION

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 2017, KPMG Oy Ab was re-elected as an auditor.

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

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

The Auditor is elected by the Annual General Meeting for a one-year term of service. The Auditor reports to the Board of Directors at least once a year, and participates in Audit Committee meetings.

During 2017, the Group had a total of EUR 433 thousand (2016: EUR 448 thousand) audit-related expenses and EUR 47 (86) thousand expenses for other services provided by KPMG, Tikkurila's Auditor. During the financial year 2017, the Group companies had additional audit services from audit companies other than KPMG for a total of EUR 26 (74) thousand.

From 2017, Tikkurila has had a written pre-approval policy for non-audit services, where the Audit Committee of the Board of Directors has been specified as the body to govern this topic. The policy e.g. defines the services that may not, under any circumstances, be provided by the statutory auditor, and for those services that are permissible, pre-approval and reporting processes have been created.

INTERNAL CONTROL

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

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

Internal control is an integral part of all Tikkurila's operations and covers all levels of the Company. The entire personnel of the Company is responsible for internal control, and its effectiveness is monitored by managers as part of operational management.

The main components of internal control are:

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

Tikkurila's Values, Code of Conduct and group-level policies provide the basis for corporate governance and internal control in the Company. Every employee has the right and duty to report, anonymously if needed, to the Group's Compliance Officer or Group Internal Audit any violations of the law and the Code of Conduct. From 2012, Tikkurila has had a group-wide whistle blowing application. Via that internet-accessible software any employee or external partner can anonymously report any suspected violations. During 2017, a few reports were received and duly settled via the system, but no significant violations were reported.

FINANCIAL REPORTING PROCESS

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

A subsidiary's reporting timetable is followed on a daily basis. Local and Group controllers are responsible for ensuring that reporting is timely and correct. In addition, the Group's analytics center, which is independent of business units and functions, analyzes historical and forward-looking reporting, e.g. between reporting entities, compared to historical development and in relation to pre-set budgets or other targets. Group management and business unit management regularly visit the business units. The financial reporting of each Group company is one part of top management reporting, and hence under regular follow-up.

INTERNAL AUDIT

The internal audit provides independent appraisal and assurance for the review of operations within the Group in order to support the management and the Board of Directors in fulfilling their oversight responsibilities. The Audit Committee has confirmed the Internal Audit Charter for Tikkurila. The purpose is to evaluate and contribute to the improvement of risk management, control and governance systems in the Group. The internal audit function has complete and unrestricted access to all activities of Tikkurila. Internal audit focuses on both regular business unit auditing as well as business process audits. Annual internal audit plans are based on the assessment of each topic's importance and risks for the Tikkurila Group. Internal audit and statutory audit regularly co-operate and share information.

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

In 2017, internal audit function surveyed e.g. effectiveness of marketing activities, efficiency of research and development projects as well as control aspects of the new ERP platform. Moreover, Group-level policies and their implementation was audited, and in 2018 this audit will be continued further. During 2018, the target is to change the focus of internal audit more toward governance and control processes, and also to make country-specific audits in selected geographical areas. Tikkurila recruited from outside of the Company a new Internal Auditor, who started in February 2018.

PRINCIPLES OF RISK MANAGEMENT

The aim of risk management is to safeguard business continuity in all conditions, to optimally utilize business opportunities in a feasible way and with conscious risk-taking, as well as to gain the pre-set total risk level. The aim is also to ensure product and personnel safety, and moreover, to comply with internal policies and guidelines. Risk management is part of the Group's strategic and operational planning, and it also is linked to internal control activities.

Tikkurila tries to anticipate and systemically identify, analyze, assess and manage the key risks, which are classified into the following groups: strategic, operational, financial and hazard risks. The main principle is to have a systematic risk management process in place, so that the Company can define and attain an optimal total risk level in relation to its risk tolerance, while at the same time ensuring continuity of the business.

Tikkurila's risk management is based on the Finnish listed entities' corporate governance code, as well as on Tikkurila's risk management policy. There are also other internal policies defining in more detail the goals, segregations of duties and risk limits of the management.

The Board of Directors of Tikkurila Oyj decides on the key risk management principles and approves the risk management policy, and the Audit Committee of the Board has an oversight role to assist the Board to control the risk management processes. Group functions are in charge of the risk management inside their own scope of activities.

Tikkurila's risk management is based on the three lines of defence framework. Group functions – sales, offering, operations, finance and HR – implement a commonly agreed self-evaluation model in their own areas. The risk management process is coordinated by the Group risk management steering group, which is headed by the Group General Counsel. The results and outcome of the risk management process are regularly reported internally and externally, as part of Tikkurila Oyj's statutory reporting.

To gain cost advantages and to keep the total risk level in control, part of Tikkurila's risk management activities is centralized. For example, key investment decisions, and certain insurance and finance solutions are always decided at the Group level.

The diagram below shows the risk management layers, as well as the key bodies and persons involved in the risk management activities in Tikkurila Group:

MANAGEMENT OF INSIDER ISSUES

Upon entry into force of the Market Abuse Regulation (EU) N:o 596/2014 (MAR) on 3 July 2016, Tikkurila has amended the instructions and procedures in relation to its insider administration in order to comply with the requirements of the new regulation. New instructions and procedures relate, inter alia, to disclosure requirements, management and supervision of insider information, notification and disclosure of transactions of Managers and persons closely associated with them as well as maintenance of insider lists.

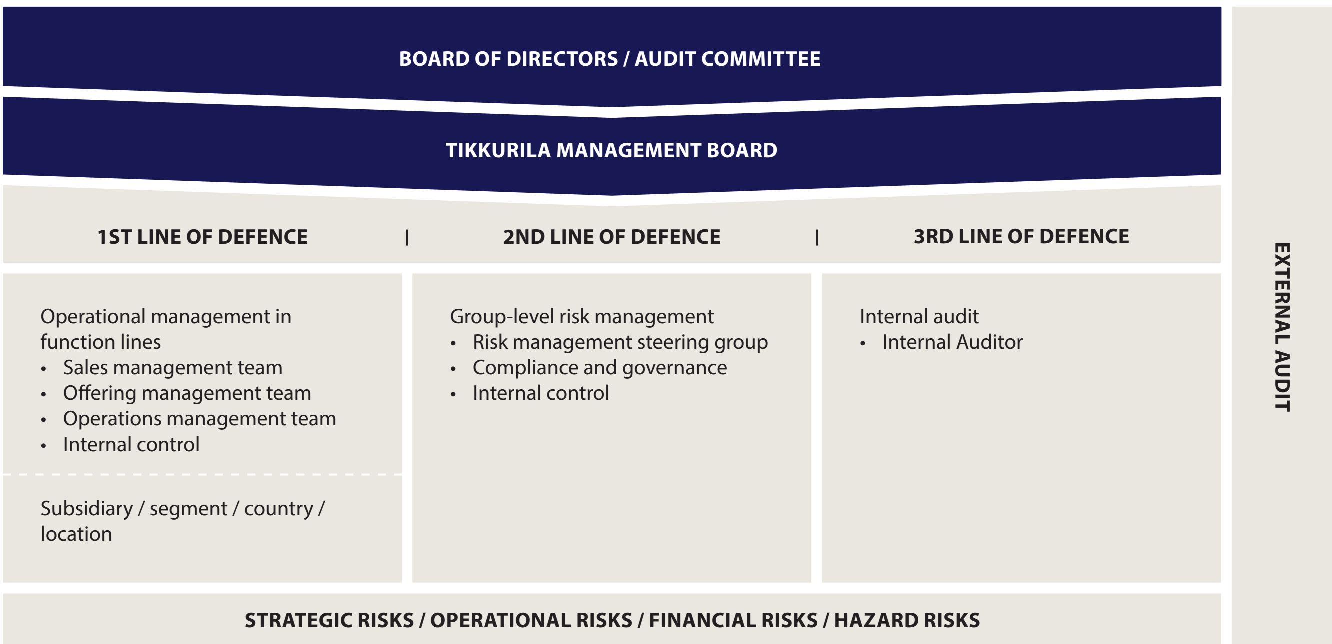
The Company establishes and maintains project-specific insider lists as the need arises. Currently, the Company does not have a list for permanent insiders. Upon entry into force of the Market Abuse Regulation, Tikkurila has updated its Disclosure Policy.

Managers in Tikkurila, and persons closely associated with them, have the obligation to notify the Company and the Finnish Financial Supervisory Authority ("FIN-FSA") of transactions with Tikkurila's financial instruments.

Tikkurila has determined the following persons as Managers:
- Members of the Board of Directors;
- CEO
- CFO

Closely associated persons include, in respect of each Manager, a spouse or a registered partner or a common-law spouse, a dependent child, a relative who has shared the same household for at least one year on the date of the transaction concerned and a legal person, trust or partnership, the managerial responsibilities of which are discharged by a Manager or by a closely association person mentioned above, which is directly or indirectly controlled by such a person, which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

Tikkurila Oyj complies with the relevant legislation and e.g. 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.



More detailed information about the risks relevant to Tikkurila is presented in the Review of the Board of Directors, which is part of the official financial statements for financial year 2017.

Accordingly, and based on the Group insider policy, persons defined to be Managers under these regulations and also persons, as specified by the Company, that have access to financial information 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 half-year report, business review (Q1 and Q3) or financial statement bulletin; and in any way, these limitations starting at least 30 days prior to the announcement of such information.

MANAGEMENT OF RELATED PARTY ISSUES

Tikkurila's related party consists of the members of the Board of Directors of the Group's parent company, Group Management Board, and the members of the Boards and management of key subsidiaries. Moreover, also subsidiaries, associated companies and major shareholders of the parent company are considered related parties. Also, entities controlled by and the close relatives of the members of the Board of Directors and of the Management Board are considered related parties. Tikkurila has a specific group-level policy on related parties, which governs the management and reporting of related party issues. The Company also has a written list of related parties.

As a general rule, transactions with related parties are carried out at market-based terms and conditions, and potential conflicts of interest shall be avoided. Either Tikkurila's Board of Directors or the shareholders' meeting of Tikkurila has to give their prior written consent for any significant related party transaction.

SILENT PERIOD

Tikkurila observes a silent period (closed window) before it publishes financial statements and half-year financial report and business reviews (Q1 and Q3). From the beginning of July 2016, based on the new regulations of the EU's Market Abuse Directive, the silent period begins thirty days before financial statements or half-year financial report or business reviews for quarterly performance for the period in question have been published. During the silent period, Tikkurila's spokespersons are not available for meetings with capital market representatives and may not discuss Tikkurila's performance or market development.

GUIDANCE

Tikkurila gives guidance in the form of an official outlook statement published in the half-year financial report, business reviews (Q1 and Q3), financial statements and the review of the Board of Directors. Tikkurila will provide outlook statements only for a period for which the Company has reasonable visibility. The outlook includes 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 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.

COMMUNICATIONS

Tikkurila is committed to transparency, which means that the Company communicates in a proactive, open, credible, consistent, unbiased and timely manner.

Tikkurila's shares are listed on the Nasdaq Helsinki stock exchange. Tikkurila will strictly adhere to all regulatory disclosure requirements for listed companies. Tikkurila complies with the Finnish Corporate Governance Code ("Corporate Governance Code") issued by the Finnish Securities Market Association. In addition, Tikkurila's internal policies, such as Corporate Responsibility and Code of Conduct, guide communication activities.

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

APPLICATION OF THE FINNISH CORPORATE GOVERNANCE CODE

On October 1, 2015, a revised Governance Code was accepted by the Finnish Securities Market Association. This revised code came into force for financial year 2016, and Tikkurila has applied these revised recommendations since 2016. The Code is based on the so-called "comply or explain" principle. Tikkurila fully complies with the recommendations in the Code.

4. MORE DETAILED INFORMATION ABOUT THE MEMBERS OF THE BOARD OF DIRECTORS AND OF THE MANAGEMENT BOARD

INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS

Jari Paasikivi
Born 1954, M.Sc. (Econ.)
CEO, Oras Invest Ltd, since 2006

Chairman of the Board since 2010, Vice Chairman of the Board 2008-2010
Chairman of the Remuneration Committee since 2012
Expert member of the Nomination Board since 2011
Independent of the company, not independent of a significant shareholder
Finnish citizen
Tikkurila shares on Dec 31, 2017: 78,762 (Dec 31, 2016: 77,356)

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

Positions of trust
- Kemira Oyj, Vice Chairman of the Board of Directors since 2012, Chairman of the Board of Directors since 2014
- Kemira Oyj, Member of the Nomination Committee since 2009
- Oras Ltd, Member of the Board of Directors since 1982, Chairman of the Board of Directors since 2013
- Varma Mutual Pension Insurance Company, Vice Chairman of the Board of Directors 2014-2016, Chairman of the Board of Directors since 2017

Petteri Walldén
Born 1948, M.Sc. (Eng.)

Vice Chairman of the Board since 2010, Member of the Board since 2008
Member of the Remuneration Committee since 2012
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2017: 8,898 (Dec 31, 2016: 8,019)

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

Positions of trust
- Componenta Oyj, Chairman of the Board of Directors since 05/2017
- Savonlinna Opera Festival Patrons' Association, Chairman of the Board of Directors since 2015
- Savonlinna Opera Festival Ltd., Chairman of the Board of Directors since 2015
- Efla Oy, Member of the Board of Directors since 2014
- Kuusakoski Group Oy, Member of the Board of Directors since 2007
- Alteams Oy, Member of the Board of Directors since 2007
- Staffpoint Holding Oy, Member of the Board of Directors 2012–11/2017
- Nokian Tyres plc., Chairman of the Board of Directors since 2006

Eeva Ahdekivi
Born 1966, M. Sc. (Econ.), DBA
Managing Director, Hartwall Capital Oy Ab, since 2015

Member of the Board since 2009
Member of the Audit Committee since 2010, Chairman until April 4, 2017
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2017: 7,538 (Dec 31, 2016: 6,835)

Career history
- Investment Director, Solidium Ltd, 2009–2015
- Senior Financial Specialist, Government Ownership Steering Department of the Prime Minister's Office, 2007–2009
- Director, Pohjola Asset Management Ltd, 2004–2006
- Partner, Conventum Oyj, 1997–2003
- Director, Merita Corporate Finance Oy, 1995–1997

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

Riitta Mynttinen
Born 1960, B.Sc. (Chem. Eng.), MBA
Independent Advisor, since 2014

Member of the Board since 2011
Member of the Audit Committee since 2012
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2017: 5,258 (Dec 31, 2016: 4,555)

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

Positions of trust
- Boreal Plant Breeding Ltd, Chairman of the Board since 2016

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

Member of the Board since 2009
Member of the Audit Committee since 2010, Chairman from April 4, 2017
Independent Board member
Swedish citizen
Tikkurila shares on Dec 31, 2017: 6,207 (Dec 31, 2016: 5,328)

Career history
- Executive Vice President, W Capital Management AB, 2001–2005
- Chief Financial Officer, Member of the Management Group, Investor AB, 1998–2001

Positions of trust
- WeMind AB, Member of the Board of Directors since 12/2017
- AcadeMedia AB, Member of the Board of Directors since 11/2017
- Boliden AB, Member of the Board of Directors since 05/2017
- Kappahl AB, Member of the Board of Directors since 2013
- Social Initiative Norden AB, Member of the Board of Directors since 2008, Chairman of the Board of Directors since 2011
- Duni AB, Member of the Board of Directors since 2007
- Swedbank AB, Member of the Board of Directors, 2009–04/2017

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

Member of the Board since 2012
Member of the Remuneration Committee since 2012
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2017: 4,510 (Dec 31, 2016: 3,807)

Career history
- President and CEO, Kemira Oyj, 2008–2012
- President, Kemira Pulp & Paper business area of Kemira Oyj, 2006–2007
- President, Kemira Specialty business area, 2000–2006
- Managing Director, Kemira Pigments Oy, 2002–2003
- Vice President, Human Resources, Kemira Chemicals Oy, 1996–2000
- Manager, Oulu plant of Kemira Oyj, 1994–1996
- Production Manager, Kemira Kemi AB, 1990
- Project Manager, plant construction projects in Finland, Sweden, Belgium and the US, Kemira Oy/Kemira Oyj, 1989–1994

Positions of trust
- Spinverse Group, Chairman of the Board of Directors since 2015
- SK Spice Holdings S.A.R.L, Member of the Board of Directors since 2015
- LUT, Lappeenranta University of Technology, Member of the Advisory Board since 2015
- Harjavalta Oy, Vice Chairman of the Board of Directors since 2014
- Magsort Oy, Chairman of the Board of Directors since 2014
- Metgen Oy, Chairman of the Board of Directors, 2012–2017
- Normet Oy, Member of the Board of Directors since 2012

Jari Paasikivi

Petteri Walldén

Eeva Ahdekivi

Riitta Mynttinen

Pia Rudengren

Harri Kerminen

INFORMATION ON THE MEMBERS OF THE TIKKURILA MANAGEMENT BOARD

Erkki Järvinen
Born 1960, M.Sc. (Econ.)
President and CEO from 2009 until September 21, 2017

Chairman of the Management Board from 2009 until September 21, 2017
Finnish citizen

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

Positions of trust
- YIT Oyj, Member of the Board of Directors since 2013
- CEPE (European Council of Paint, Printing Ink and Artists' Colours Industry), Member of the Board of Directors, 2013–09/2017
- Snellman Ltd, Member of the Board of Directors since 2011, Vice Chairman of the Board since 2013
- East Office of Finnish Industries Ltd, Member of the Board of Directors, 2011–11/2017
- Association of Finnish Paint Industry, Member of the Board of Directors since 2009, Chairman of the Board, 2016–09/2017
- Chemical Industry Federation of Finland, Member of the Board of Directors since 2009
- Association of Finnish Advertisers, Member of the Board of Directors since 2009
- Helsinki Chamber of Commerce, Member of the Board of Directors since 2013
- Helsinki Chamber of Commerce, Vantaa Regional Office, Member of the Board of Directors since 2010, Chairman of the Board of Directors since 2013
- Economic Information Office, Member of the Board of Directors since 2007
- Confederation of Finnish Industries (EK) in Helsinki, Member of the Regional Offices since 2011

Jukka Havia
Born 1968, M. Sc. (Econ.)
Chief Financial Officer (CFO) since 2010, and Interim President and CEO from September 21, 2017

Member of the Management Board since 2010, Chairman from September 21, 2017
Finnish citizen
Joined Tikkurila in 2010
Tikkurila shares on Dec 31, 2017: 14,000 (Dec 31, 2016: 14,000)

Career history
- Deputy Chief Executive Officer, Ruukki Group plc., 2008–2010
- Chief Financial Officer, Ruukki Group plc., 2005–2008
- Director of Finance, Student Union of the Helsinki School of Economics, 2001–2005
- Managing Director, KY-Palvelu Oy, 2001–2005
- Financial Director, RSL Com Finland Oy, 1997–2001
- Controller, Oy Canon Ab, 1995–1997

Positions of trust
- Lapti Group Oy, Member of the Board of Directors since November 2017
- East Office of Finnish Industries Oy, Member of the Board of Directors since November 2017
- Leipurin Oyj, Member of the Board of Directors since 2014
- Student Union of Aalto University, Member of the Finance Committee since 2010, Chairman since 2016

Melisa Bärholm
Born 1967, M. Sc. (Psychology)
Senior Vice President, Human Resources since May 1, 2017

Member of the Management Board since May 1, 2017
Finnish citizen
Joined Tikkurila in 2017
Tikkurila shares on Dec 31, 2017: 2,000

Career history
- HR Director, Tikkurila, BU Finland 01/2017–04/2017
- Founder & Consultant, MBM Coaching Oy, 2014–2016
- Vice President, HR, Rovio Entertainment Ltd, 2012–2014
- HR Director, Suunto Oy, 2007–2011
- HR Director, Sako Oy, 2004–2007
- HR Director, Itella Oyj, 2002–2004
- Development Manager, Nokia Oyj, 1999–2002
- HR Consultant, Nokia Networks, 1996–1999

Janno Paju
Born 1971, Degree in Economics
Chief Commercial Officer since 2012 until April 30, 2017, whereafter Senior Vice President, Sales

Member of the Management Board since 2000
Estonian citizen
Joined Tikkurila in 1993
Tikkurila shares on Dec 31, 2017: 14,300 (Dec 31, 2016: 14,300)

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

Petri Miettinen
Born 1968, M.Sc. (Econ.)
Senior Vice President, Supply Chain Management & HSEQ since 2007 until April 30, 2017, whereafter Senior Vice President, Operations

Member of the Management Board since 2007
Finnish citizen
Joined Tikkurila in 2007
Tikkurila shares on Dec 31, 2017: 14,000 (Dec 31, 2016: 14,000)

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

Positions of trust
- Katu-Karhu Oy, Member of the Board since 2016

Kenneth Sundberg
Born 1965, M.Sc. (Eng.), Doctor of Technology, eMBA
Senior Vice President, Research, Development and Innovation (RDI) since 2010, until June 23, 2017

Member of the Management Board since 2010, until June 23, 2017
Finnish citizen

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

Positions of trust
- Johan Gadolin Process Chemistry Centre – PCC at Åbo Akademi University, Member of Forum of Society since 2015

Meri Vainikka
Born 1971, M. Sc. (Econ.)
Senior Vice President, Offering since May 1, 2017

Member of the Management Board since May 1, 2017
Finnish citizen
Joined Tikkurila in 2017
Tikkurila shares on Dec 31, 2017: 2,000

Career history
- Marketing and Communications Director, Tikkurila, BU Finland, 01/2017-04/2017
- Marketing Director, Non-Alcohol drinks, Hartwall Oy, 2016
- Marketing Director, Alcohol drinks, Hartwall Oy, 2015
- Category Marketing Manager, Hartwall Oy, 2012–2014
- Division Marketing Manager, L'Oréal Finland Oy, 2010–2011
- Marketing Manager, Mars Finland Oy, 2008-2010 and 1998–2003
- Program Manager, South Karelia University of Applied Sciences, Business Administration 2004–2008


Jukka Havia


Melisa Bärholm


Janno Paju


Petri Miettinen


Meri Vainikka

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