TIKKURILA

FINANCIAL STATEMENTS 2018

A DEDICATED COMMUNITY OF PROFESSIONALS

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.

NORDIC QUALITY FROM START TO FINISH SINCE 1862

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.

SUSTAINABLE NORDICNESS

We create surfaces that make a difference. Our surface treatment products last time and challenging weather conditions. We are constantly creating new solutions that are safe to people and our environment. We want to be at the forefront of responsible business and do our part in fostering a cleaner environment and a more colorful planet.

TIKKURILA AT A GLANCE

- Established in 1862
- Around 2,700 dedicated professionals
- 9 production facilities in 7 countries
- Products available in more than 40 countries
- Largest markets: Sweden, Russia, Finland, Poland and the Baltic countries
- Revenue in 2018: EUR 561.5 million
- Listed on Nasdaq Helsinki

TIKKURILA
ANNUAL REVIEW 2018

FINANCIAL STATEMENTS 2018

The report provides an overview of Tikkurila's business operations and includes Financial Statements and the Corporate Governance Statement for 2018.

TIKKURILA GRI 2018

The report introduces Tikkurila's sustainability approach and the reported GRI (Global Reporting Initiative) Sustainability Reporting Standards 2016 disclosures for the reporting period 2018.

CONTENTS

TIKKURILA IN BRIEF - SURFACES THAT MAKE A DIFFERENCE

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 seven 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 exports 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.

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 the rise of middle class
- Increasing environmental awareness and climate change
- Digitalization
- Importance of home interior decoration and refurbishing
- Industrial activity level (industrial coatings)

FINANCIAL PERFORMANCE

The economic growth in Tikkurila's key markets varied between 2 and 5 percent during 2018. Economic growth was strongest in Poland and remained at a relatively low level in Russia.

Tikkurila Group's revenue was EUR 561.5 million (582.4). Revenue decreased by 3.6 percent, and increased by 3.1 percent, excluding currency effects and divestments. Unfavorable exchange rate fluctuations and the divestment of business operations in the Balkans had a negative impact on revenue. Higher sales volumes as well as price increases and product mix increased revenue.

Operating profit (EBIT) increased to EUR 26.5 (19.3) million, which accounted for 4.7 (3.3) percent of revenue. The items affecting comparability were EUR 12.3 million, which were mainly related to the discontinuation of the German business operations, relocation of production from Denmark and personnel reductions.

Adjusted operating profit totaled EUR 38.8 (28.8) million, corresponding to 6.9 (4.9) percent of revenue. The level of fixed expenses was clearly lower than in 2017 but the higher level of raw material costs continued to have an adverse impact on margins and profitability.

Tikkurila's financial position and liquidity remained at a good level during the review period. Cash flow from operations in January–December totaled EUR 47.6 (18.1) million. Cash flow after capital expenditure totaled EUR 36.3 (4.4) million at the end of the review period.

In 2018, gross capital expenditure excluding acquisitions amounted to EUR 10.4 (14.6) million.

Tikkurila's efficiency program is aiming to generate at least EUR 30 million in savings. In 2018, Tikkurila's fixed expenses savings were EUR 30 million compared to the level in 2017, out of which EUR 7 million is currency effect. The full savings are effective by the end of 2019.

REVENUE BY SEGMENT

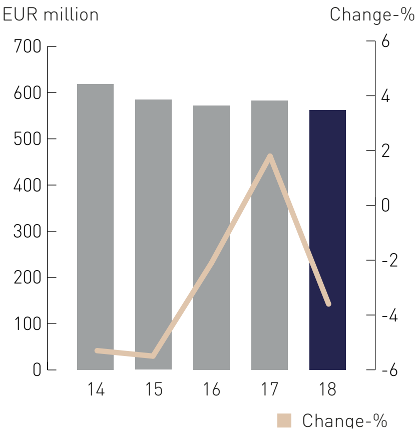
ADJUSTED OPERATING PROFIT* BY SEGMENT

* Excl. Group items

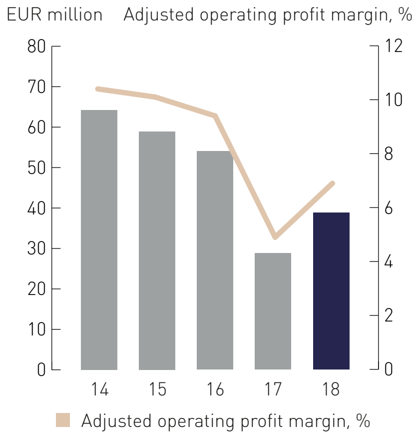
PERSONNEL BY SEGMENT

At year-end, %

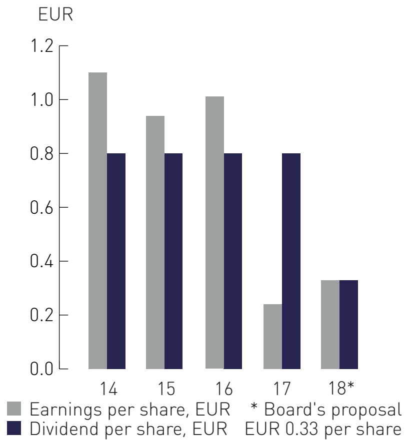
REVENUE



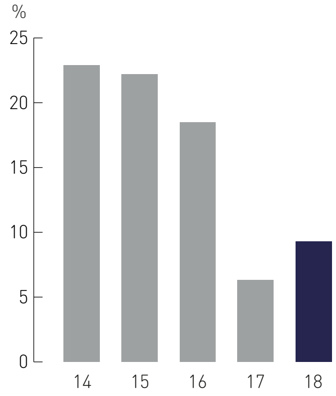
ADJUSTED OPERATING PROFIT



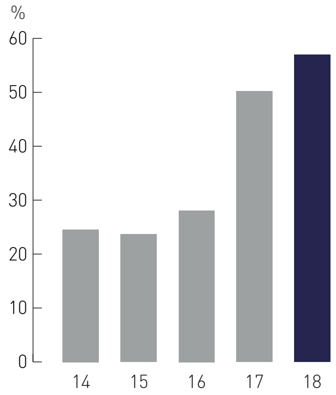
DIVIDEND



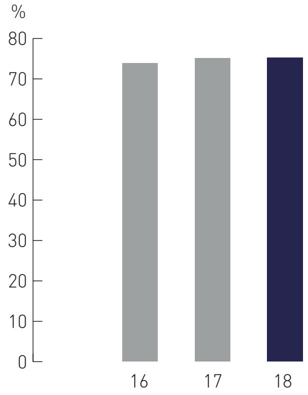
RETURN ON CAPITAL EMPLOYED (ROCE)



GEARING



SHARE OF WATER-BORNE PRODUCTS



KEY FIGURES

EUR MILLION	**2018**	**2017**
Revenue	**561.5**	582.4
Adjusted operating profit	**38.8**	28.8
Adjusted operating profit, %	**6.9%**	4.9%
Operating profit (EBIT)	**26.5**	19.3
Operating profit (EBIT) margin, %	**4.7%**	3.3%
Profit before tax	**21.0**	16.6
Net profit for the period	**14.6**	10.7
Earnings per share, EUR	**0.33**	0.24
Return on capital employed (ROCE), %, rolling	**9.3%**	6.3%
Cash flow after capital expenditure	**36.3**	4.4
Net interest-bearing debt at period-end	**85.5**	90.1
Gearing, %	**57.0%**	50.2%
Equity ratio, %	**37.6%**	42.0%
Personnel at period-end	**2,717**	3,037
Lost time accidents (LTA)	**3.9**	2.0
Share of water-borne products in production	**75.2%**	75.0%

YEAR 2018 HIGHLIGHTS

In 2018, our sustainability actions became more visible and we focused on enhancing our cost competitiveness. We proceeded with our sustainability promises to guide us to be at the forefront of responsible business, took actively part in colorful social projects and launched functional sustainable solutions.

JANUARY

Tikkurila Finngard Clean keeps the surface clean

Water-borne functional product selection answering to challenges posed by climate change. Due to the superhydrophobic surface, the product repels water and dirt, but allows structural humidity to evaporate through it.

Tikkurila efficiency program

Tikkurila divests Balkan business operations.

FEBRUARY

Sustainability promises introduced

Guiding the company sustainability initiatives and supporting the business development from the sustainability point-of-view.

MARCH

APRIL

Elisa Markula started as CEO of Tikkurila

Markula joined Tikkurila from Paulig Group where she has worked since 2010 as Managing Director of Paulig Group Coffee Business. Markula announced her short-term focus areas for the company.

MAY

Donation to New Children's Hospital in Helsinki

Eco-labeled interior paints and colors supporting well-being of small patients.

JUNE

Sustainably packaged Vivacolor paints in the Baltics

New eco-labeled interior paints with recycled plastic cans.

Swan-labeled industrial coatings for wooden claddings

In Sweden, new Pinja Protect G & Pinja Protect GM coatings to meet the stringent sustainability requirements of industrial customers.

JULY

Finland's first Swan-labeled kindergarten

Painted with Tikkurila sustainable paints.

AUGUST

Tikkurila × HEI Schools

Learning can be promoted with colors.

Tikkurila protecting the world's largest indoor ski center in Norway

Tikkurila coatings give steel structures excellent chemical and abrasion resistance and protect from weather and ultraviolet radiation.

SEPTEMBER

Tikkurila's first bio-based product in Sweden

Lower carbon footprint and packaged in recycled plastic can.

OCTOBER

Tikkurila efficiency program

The program resulted in personnel reductions and divestments or closings of production.

Tikkurila joined Indoor Air Quality Ecosystem initiative

Indoor air quality is important for people's health. IAQe develops new solutions that improve indoor air quality, brings together Finnish expertise and exports them to the international markets.

NOVEMBER

More than 20,000 customers trained annually

Tikkurila trains its customers, retailers, students and other partners in its training centers in 9 countries, in seminars and webinars.

DECEMBER

Alcro Färgfonden

The Swedish initiative within social responsibility, active in socially beneficial painting projects. Launched in 2016, in 2018 some 10 projects realized.

Tikkurila efficiency program

Tikkurila closes down a small production facility in Stary Oskol, Russia and discontinues German business operations.

STRATEGY

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

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.

Our objective is to grow profitably. The strategy is currently being updated and we will share our renewed growth strategy in 2019.

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 want to offer not only 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 meet customers' needs about more durable, functional and environmentally friendly surfaces.

SUSTAINABILITY PROMISES

In 2018, Tikkurila renewed its Corporate Responsibility program, and together with key business personnel, defined concrete sustainability promises which guide the company sustainability initiatives and support the business development from the sustainability point-of-view. The promises are:

- 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 nine 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 400.0 million
Debt EUR 249.9 million
Equity EUR 150.1 million

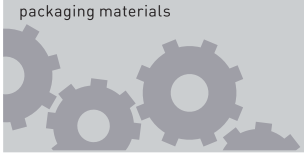
INFRASTRUCTURE
9 production units in 7 countries
11 training centers in 9 countries
7 R&D centers in 5 countries
Approx. 500 raw material and packaging material suppliers

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

HUMAN CAPITAL
2,717 employees in 12 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 47%
Professionals 35%
Industry 18%

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. The strategy will be updated during 2019.

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 *
There has been no major changes in Tikkurila's market position in its key markets.

WASTE AND EMISSIONS
Waste 6,948 tn
Direct CO_2 emissions 4,782 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 0.33 per share*
*The Board's proposal to the AGM.

IMPACT IN THE COMMUNITY
Employment: wages and compensation EUR 81.1 million
Taxes EUR 6.5 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.

FROM THE CEO

Tikkurila's profitability and cash flow improved, although raw material prices continued to rise strongly. However, the savings in fixed costs of EUR 30 million and increases in sales prices offset the effects of rising raw-material prices and adverse currency effects.

Favorable market conditions continued in almost all of Tikkurila's key market areas. Revenue increased by three percent when excluding currency effects and divestments, while Tikkurila's euro-denominated revenue for the full year of 2018 declined by more than three percent. Revenue declined due to the significant weakening of the Russian ruble and the Swedish krona, the divestment in the Balkans and the discontinuation of the German operations.

Sales volumes increased in key markets, particularly in Poland and also in the Baltic countries. Sales volumes decreased slightly in Russia, but revenue in rubles increased due to the shift from the economy segment into the premium.

Sales grew in several customer segments, especially in the professional and industrial segments.

Tikkurila is the market leader in decorative paints in Finland, Sweden, the Baltic countries and Russia, and on a strong third place in Poland. We estimate that there were no significant changes in Tikkurila's market shares in its key market areas.

SUCCESSFUL PRODUCT LAUNCHES

In 2018, we focused on growing our exterior wood product portfolio and market share by highlighting the long heritage and know-how of Tikkurila as an expert in demanding Nordic weather conditions. The Valtti brand campaign in Russia, Poland, Baltic countries and Finland was successful. Growth of the Beckers brand in Poland was supported by the premium product line launch, and in Sweden, by the package reform and the positioning of the portfolio price and value proposition.

In the professional segment, we clarified the Pro Club concept for contractors. We launched new products for the floor product portfolio, and we expanded beyond the wood and metal surfaces to industrial pre-treated materials.

In the industrial segment, we strengthened our fire protection portfolio in wood-processing products and moved the focus towards water-borne technology. The environmental friendliness of our products that protect metal surfaces from corrosion is internationally at a high level.

Our goal is to concentrate our marketing investments increasingly on our international premium brands (Tikkurila and Beckers). At the same time, we continue to harmonize our product portfolio. We develop customer-driven product and service concepts and support customer journeys from the idea or need to the decision and purchase in the key segments that are consumer, professional and industrial.

WE ADD VALUE TO OUR CUSTOMERS AND OWNERS THROUGH SUSTAINABLE, ENVIRONMENTALLY FRIENDLY SOLUTIONS AND RESPONSIBLE OPERATIONS.

THE EFFICIENCY PROGRAM PROGRESSED ACCORDING TO PLAN

With the fixed cost efficiency program, we achieved savings of EUR 30 million compared to the level in 2017 of which EUR 7 million were currency effect. The savings were made through the optimization of the production network, divestments and the personnel reduction in connection with the co-operation negotiations in the fourth quarter of 2018. The cost savings will be fully visible by the end of 2019.

In order to improve cost competitiveness, we adhere to strict cost control, even for other fixed costs. In the last two years, Tikkurila has optimized production and logistics heavily. The operations in Serbia and Macedonia have been sold, and small production facilities in Germany and Russia have been closed. Towards the end of the year, we also announced that we will start planning for the relocation of the Finnish operations in Tikkurila, Vantaa in the coming years. The head office will move to new premises in spring 2019.

Product portfolio optimization has progressed according to plan. The aim of the project is to significantly reduce the amounts of existing manufacturing formulas, raw materials and product titles. The goal is to halve the number of product titles by 2020 - without compromising customer experience.

Raw materials and packaging materials account for approximately half of Tikkurila's revenue, which is why Sourcing is its own separate function. The rising raw material costs have largely offset the targeted savings in variable costs. We seek increased savings in direct and indirect sourcing, and therefore all sourcing is centralized as a group-level function. Further, we raised sales prices in all countries as raw material prices continued to rise.

Several projects to improve net working capital were implemented. At the end of 2018, the inventory levels were already clearly lower than in the previous year. We will also continue to take measures to release net working capital further in 2019.

We also started the modernization of our customer account management with the aim of improving customer experience. The purpose is to utilize customer data more efficiently by sharing data in real time also to our customers' use and by digitalizing customer order prosesses. Also, new digital tools to improve sales efficiency were introduced. We will continue to invest more in the development of digital channels in the coming years.

INTERNAL DEVELOPMENT PROJECTS RENEW TIKKURILA

At the end of the year, the internal "Into the New" improvement program to renew Tikkurila was launched. The program aims to create common practices, build a future together by effectively implementing our strategy, and update the content of Tikkurila's values. Tikkurila operates effectively in the matrix organization to serve its customers in the best possible way. Functions are centralized, and sales and local marketing operate locally in the countries. By concentrating the functions, we can not only work efficiently, but also leverage and share our strong expertise more extensively within countries. We will also renew our growth strategy during 2019.

TIKKURILA IS HEADING "INTO THE NEW"

To drive business development, we added a new function to the Management Board: Transformation and ICT. An integrated ERP system significantly enhances the efficiency of our internal operations and reporting.

SUSTAINABILITY GUIDES OUR OPERATIONS

We at Tikkurila play our part in sustainable development. Our customers want more sustainable solutions, and we want to provide them. In the responsibility of our products, we take into account their entire lifecycle: the product should not only be as durable as possible, but also beautiful and safe for the user and the environment. I am proud of the sustainable functional products of Tikkurila, for example, the new Finngard Clean, which protects facades that are affected by climate change. Major launches were also the bio-based interior paint for the Alcro brand in Sweden, the environmentally friendly Vivacolor line of paint packaged in recycled plastic in the Baltic countries, and the first swan-labeled industrial coatings in Sweden.

Sustainability is, above all, concrete deeds. That is why our actions, all our factories and the whole supply chain have a big role to play in carrying out responsible business.

SURFACES THAT MAKE A DIFFERENCE

Our vision 'Surfaces that make a difference' guides us to develop sustainable solutions with superior customer experience. We want to be the most sustainable player in the paint industry in our key market areas.

Skilled personnel, long traditions in sustainability, strong brands and market positions are the key resources of Tikkurila.

I would therefore like to thank Tikkurila's personnel, shareholders, customers and all our stakeholders for good co-operation in 2018. We will only succeed by working together and renewing and acting responsibly to promote sustainable development.

Elisa Markula
CEO

TIKKURILA GROUP FINANCIAL STATEMENTS AND REVIEW OF BOARD OF DIRECTORS 2018

CONTENT

REVIEW OF THE BOARD OF DIRECTORS 2018

MARKET REVIEW

The economic growth in Tikkurila's key markets varied between 2 and 5 percent during 2018. Economic growth was strongest in Poland and remained at a relatively low level in Russia.

Economic growth in Sweden slowed down. Consumer confidence was falling for almost the whole year. The most significant uncertainties were related to the housing market and to the weakening of private consumption. However, the Swedish paint market is estimated to have increased slightly in value and the proportion of professional painters' demand continued to grow.

In Russia, the market situation was quite challenging. Both the increase in gross domestic product and consumer confidence began to decline. Despite the slowdown in construction growth, the paint market continued to grow slightly in value. The competitive situation remained tight and price campaigning was active.

The Finnish economy continued with modest growth and the construction industry remained brisk, just as in the year before. Despite this, consumer confidence began to decline during the year. The paint market grew slightly, and the proportion of the professional painters continued to grow due to a strong new construction market.

The Polish economy continued to grow strong. Growth in construction continued, wages increased, and unemployment declined. Consumer confidence continued to be strong despite the minor decline at the end of the year. The paint market in value grew quite well. A shift in demand into the premium products was noticeable in the paint market and the price competition was intense.

Tikkurila estimates that there were no significant changes in Tikkurila's market shares in its key market areas.

Of the currencies relevant to Tikkurila's business areas, the Russian ruble and the Swedish krona weakened significantly during the year. The Polish zloty was relatively stable.

Prices of raw materials and packaging materials continued rising to some extent. The prices of titanium dioxide and binders continued rising, however turning into a small decline at the end of the year. The oil price fluctuated during the year, but with regards to the year overall, the change was relatively small.

FINANCIAL PERFORMANCE IN 2018

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)	**1–12/2018**	1–12/2017	**1–12/2018**	1–12/2017
SBU West	**381.2**	379.8	**34.5**	18.1
SBU East	**180.3**	202.6	**9.9**	15.2
Group common and eliminations	**0.0**	0.0	**-5.6**	-4.5
Consolidated Group	**561.5**	582.4	**38.8**	28.8

Tikkurila Group's euro-denominated revenue decreased by 3.6 percent, and increased by 3.1 percent, excluding currency effects and divestments. Unfavorable exchange rate fluctuations had an effect on revenue of -5 percent, higher sales volumes had an effect of +1 percent, and the divestment of business operations in the Balkans an effect of -2 percent. Price increases and product mix had effect of +2 percent.

Adjusted operating profit totaled EUR 38.8 (28.8) million, corresponding to 6.9 (4.9) percent of revenue. The level of fixed expenses was clearly lower than in 2017 but the higher level of raw material costs continued to have an adverse impact on margins and profitability. Tikkurila received an insurance compensation of EUR 6.0 million in total, which is recognized in other operating income. The insurance compensation was regarding the fire at the Venator's titanium dioxide plant in Pori, Finland. Of the total compensation, EUR 0.5 million was booked in the second quarter and EUR 0.75 million in the third quarter of 2018. The remaining EUR 4.75 million was booked in the last quarter of 2018. The compensation is included in the adjusted operating profit for 2018. Venator's plant in Pori was an important raw material supplier for Tikkurila, and thus the fire caused significant damage and costs for the company.

Operating profit (EBIT) increased to EUR 26.5 (19.3) million, which accounted for 4.7 (3.3) percent of revenue. The items affecting comparability were mainly related to the discontinuation of the German business operations in the first quarter, relocation of production from Denmark in the fourth quarter and personnel reductions.

The net financial expenses in January–December 2018 were EUR 5.8 (2.9) million. Profit before taxes was EUR 21.0 (16.6) million. Taxes totaled EUR 6.5 (6.0) million, equaling an effective tax rate of 30.7 (35.9) percent. Earnings per share were EUR 0.33 (0.24) in the review period.

The Group's key performance indicators and share performance indicators for the financial year 2018 as well as for 2017 and 2016 are presented in the Group's consolidated financial statements on pages 27-28.

FINANCIAL PERFORMANCE BY REPORTING SEGMENTS

SBU WEST

(EUR million)	1–12/2018	1–12/2017	Change %
Revenue	**381.2**	379.8	0.4%
Adjusted operating profit	**34.5**	18.1	91.1%
Adjusted operating profit margin, %	**9.1%**	4.8%	
Operating profit (EBIT)	**22.7**	16.2	40.1%
Operating profit (EBIT) margin, %	**6.0%**	4.3%	
Capital expenditure excluding acquisitions	**5.9**	11.0	-45.9%

Financial Performance in 2018

SBU West's euro-denominated revenue increased by 0.4 percent from the comparison period while increased by 3.0 percent in comparable currencies. Higher sales volumes increased revenue by 3 percent. Adverse currency effect decreased revenue by 3 percent. The combined effect of sales price increases and the development of the sales and product mix was 0 percent. The unfavorable sales mix was due to paint distribution channel changes in Sweden and growth in the relative share of professional customers.

In Sweden, revenue decreased to EUR 127.6 (132.8) million, while in Finland revenue increased to EUR 94.4 (92.8) million, and in Poland revenue increased to EUR 84.6 (76.8) million.

The profitability of SBU West was improved by lower fixed expense level. Variable expenses were clearly higher than in the comparison period due to further increased raw material costs.

SBU EAST

(EUR million)	1–12/2018	1–12/2017	Change %
Revenue	**180.3**	202.6	-11.0%
Adjusted operating profit	**9.9**	15.2	-34.9%
Adjusted operating profit margin, %	**5.5%**	7.5%	
Operating profit (EBIT)	**9.4**	8.2	14.6%
Operating profit (EBIT) margin, %	**5.2%**	4.1%	
Capital expenditure excluding acquisitions	**4.5**	3.6	24.6%

Financial Performance in 2018

SBU East's euro-denominated revenue decreased by 11 percent from the comparison period. Excluding currency effects and divestments however the revenue increased by 3.2 percent. Lower sales volumes decreased revenue by 2 percent, adverse currency effect decreased revenue by 9 percent. Further, sales price increases and favorable sales mix increased revenue by 6 percent. Sales mix developed favorably due to the shift to premium products from economy segment products. The divestment of the Balkan business operations decreased revenue by 6 percent. In Russia, revenue decreased to EUR 134.4 (143.4) million

The profitability of SBU East in January–December weakened due to the higher raw material cost level and currency effects.

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

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

Cash flow from operations in January–December totaled EUR 47.6 (18.1) million. In the review period, the cash flow was improved by lower fixed expense level caused by the decreased ERP system implementation costs, executed strict cost discipline, decreased paid taxes and lower level of net working capital. At the end of the review period, net working capital totaled EUR 81.0 (89.7) million. The decrease in net working capital was primarily due the decrease in inventories. The net cash flow from the investing activities was EUR -11.3 (-13.7) million, when taking into account acquisitions and divestments. Cash flow after capital expenditure totaled EUR 36.3 (4.4) million at the end of the review period.

Interest-bearing debt amounted to EUR 121.0 (107.0) million at the end of the review period, and net debt was EUR 85.5 (90.1) million. At the end of the review period, cash and cash equivalents amounted to EUR 35.5 (17.0) million, and short-term interest-bearing debt totaled EUR 71.0 (57.0) million, including the company's issued commercial papers for a total nominal amount of EUR 51.0 (55.0) million. Moreover, the Group had long-term interest-bearing debt totaling EUR 50.0 (50.1) million. At the end of December, the Group had a total of EUR 90.3 (109.2) million of unused committed credit facilities or credit limits.

The Group´s net financial expenses were EUR 5.8 (2.9) million, of which interest expenses totaled EUR 0.4 (0.0) million and other financing expenses EUR 0.7 (0.5) million. The average capital-weighted interest rate of interest-bearing debt was 1.2 (0.8) percent. The net profit was negatively affected by a total of EUR 4.8 (2.4) 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 and Swedish krona 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 37.6 (42.0) percent, and gearing was 57.0 (50.2) percent. Equity ratio was lower due to decreased equity which was negatively affected by the adverse result development during the past couple of years.

PROGRESS OF THE EFFICIENCY PROGRAM

In 2017, Tikkurila initiated an extensive program to boost profitability. The program is aiming to generate at least EUR 30 million in savings. In 2018, Tikkurila's fixed expense savings were EUR 30 million compared to the level in 2017, out of which EUR 7 million is currency effect. The full savings are effective by the end of 2019. Savings derive from optimizing the production network, reduced number of personnel due to divestments and from implemented personnel reductions generated in the fourth quarter as a result of cooperation negotiations.

Regarding other fixed expenses, strict cost discipline has been executed at Tikkurila in 2018 and it will continue in 2019. Tikkurila has implemented several measures relating to further optimizing production and logistics comprising the divestment of the Balkan operations and the closing of the operations in Germany, Russia and Denmark.

A portfolio optimization project is proceeding fully according to the plan. It is aimed at significantly reducing the amounts of manufacturing formulas, raw materials and SKUs during the forthcoming years. The goal is to reduce the number of SKUs by 50% by 2020, including the divestment of business operations.

As raw materials and packaging materials account for approximately half of Tikkurila's revenue, we added a new key function, sourcing, to Tikkurila Management Team as of the beginning of June 2018. Now all indirect purchasing has been centralized. The targeted variable cost savings have to a large extent been offset by the continued increase of raw material costs in 2018.

During 2018, Tikkurila also initiated numerous initiatives to manage its net working capital more efficiently. Already at the end of 2018, the inventory levels were clearly lower than one year ago. There will be more activities implemented during 2019 with the aim of releasing more capital.

Costs and benefits of the efficiency program

In financial year 2018, restructuring activities caused a total of EUR 12.3 million of costs and impairment losses. This figure also includes the costs of the closing down operations in Germany, which was announced in the first quarter. In addition to this, during 2017 altogether EUR 9.5 million in costs and losses were recognized.

The effects of the EUR 30 million saved through the program will be visible during 2019.

CAPITAL EXPENDITURE

In 2018, gross capital expenditure excluding acquisitions amounted to EUR 10.4 (14.6) million. The Russian factory investment is still in the planning phase.

Some of the capital expenditure also relates to the modernization of filling lines in Nykvarn in Sweden and installations in Obukhovo in Russia.

The Group's depreciation, amortization and impairment losses amounted to EUR 21.6 (20.4) million in 2018. The Group performs impairment tests in accordance with the IAS 36 standard.

SALES AND MARKETING

Tikkurila invests yearly significant amount of money and resources in marketing its products and services and strengthening its brands. Tikkurila continued to actively build concrete added value for its customers by executing its vision, "Surfaces that make a Difference". Tikkurila Group's sales and marketing expenses, including personnel costs, were EUR 85.0 (97.5) million in 2018, which accounts for 15.1 (16.7) percent of its revenue.

In addition to its two international brands, Tikkurila and Beckers, Tikkurila has some 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, the Tikkurila Group's strategic brands are either the best known or among the best-known paint brands in their respective market areas.

Tikkurila develops high-quality, user-friendly and environmentally sustainable solutions, and trains its stakeholders in the durable use of its products. The target is to offer the best user experience. Tikkurila invests in developing solutions that make the selecting, purchasing and selling of paints easier, and supports its customers through every stage of their painting to ensure successful and durable end results. Tikkurila's range of services include 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, helping them choose the right products, and gives advice on the safe use of the products.

In 2018, Tikkurila initiated a project aiming at more focused brand offering and also directed investments in the global brands of Tikkurila and Beckers. Additionally, Tikkurila built up the resources for understanding the markets and customers with the aim of supporting future business development and the creation of marketing strategies. Further, sustainability promises were introduced to guide the company's sustainability initiatives and support the business's development from the sustainability point-of-view.

In 2018, Tikkurila executed an Exterior Wood -campaign focusing on the Valtti range in Russia, Poland and in the Baltics as the other exterior paints Ultra and Vinha in Finland. The campaign highlighted the long heritage and know-how of Tikkurila as an expert in demanding Nordic weather conditions. Additionally, the Beckers Designer Collection premium line was launched in Poland, and the Façade Expert for Alcro was launched in Sweden. Tikkurila also organized a "Meet the Designer" -campaign in Poland. The product portfolio was further strengthened by launching new solutions such as a bio-based interior wall paint Alcro in Sweden and functional Finngard Clean product selection answering to the challenges posed by climate change for exterior surfaces. In addition, the highlights of 2018 also include launching new eco-labeled Vivacolor interior paints with recycled plastic cans in the Baltics and first swan-labeled industrial coatings for wooden claddings in Sweden. Tikkurila announced the Colour of the Year 2019, flamingo, in November.

RESEARCH, DEVELOPMENT AND INNOVATION

In 2018, Tikkurila's research and development expenses totaled EUR 9.0 (2017: EUR 10.6 and 2016: EUR 10.8) million or 1.6 (2017: 1.8 and 2016: 1.9) percent of revenue. At the end of 2018, the R&D unit employed 175 (193) people. Tikkurila's largest R&D units are located 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 2018 product development concentration continued with the decision to close product development units in Germany and Denmark. After the reorganization, product development will be located Finland, Poland, Russia, Sweden, and Estonia. The focus of R&D was on product launches, the strengthening of the product development organization with new recruitment, product safety and environmental friendliness of products, the harmonization of formulas and our raw material portfolio as well as cost savings and securing raw material yield. Major projects included optimization of indoor paint formulas, Innovatint tone management software installation to shops.

Among the most important launches of the year were the bio-based interior wall paint, various fire protection solutions for wood surfaces, protective coatings, and the strengthening of the flooring portfolio through several product launches.

SHARES AND SHAREHOLDERS

At the end of December 2018, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of 2018, 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, 2018. 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/shareholders.

At the end of December, the closing price of Tikkurila's share was EUR 12.02. In January–December, the volume-weighted average share price was EUR 15.04, the lowest price EUR 11.70, and the highest price EUR 18.96. At the end of December, the market value of Tikkurila Oyj's shares was EUR 530.2 million. During January–December, a total of 8.6 million Tikkurila shares, corresponding to approximately 19.5 percent of the number of shares, were traded on Nasdaq Helsinki Ltd. The value of the traded volume was EUR 129.4 million. Tikkurila's shares are traded also outside of Nasdaq Helsinki, but the company does not have detailed statistics available on this external trading.

Tikkurila Board members and their interest parties held altogether 120,914 shares on December 31, 2018, 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 Chairman of the Board in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila's President and CEO did not own Tikkurila's shares. Tikkurila's Interim President and CEO and his interest parties held altogether 14,000 shares on December 31, 2018, 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 www.tikkurilagroup.com/insiders.

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

MAJOR SHAREHOLDER NOTIFICATIONS

There were no notifications received regarding changes of holdings during 2018.

THE BOARD OF DIRECTORS OF TIKKURILA OYJ APPROVED NEW SHARE-BASED INCENTIVE PLANS

On June 26, 2018, the Board of Directors of Tikkurila Oyj approved two new share-based incentive plans for the Group key employees. The aim of the new plans is to align the objectives of the shareholders and the key employees to execute Company's strategic transformation in the short-term and increase the value of the Company in the long-term, as well as to retain the key employees at the Company, and to offer them a competitive reward plan based on earning and accumulating the Company's shares. Details and key terms of the share plan 2018-2022 and share plan 2018-2019 are published in the stock exchange release on June 26, 2018.

Share plan 2018-2022

The plan includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. The potential rewards from the plan will be paid partly in the Company's shares and partly in cash in 2021, 2022 and 2023.

Approximately 10 key employees, including the members of the Management Team, belong to the plan during the performance period 2018-2020. The potential reward of the plan will be based on Tikkurila's average EBITDA- and net debt- based intrinsic values for 2018-2020. The rewards amount to a maximum total of 130,000 Tikkurila Oyj shares on the performance period 2018-2020.

On December 19, 2018, the Board of Directors resolved on performance share plan amendments and details of performance period 2019-2021 in order to convert a proportion of the reward of the performance period 2019-2021 into a time-based reward. The potential performance-based rewards from the performance period 2019-2021 will be paid partly in the company´s shares and partly in cash in 2022.

Approximately 20 key employees, including the members of the Management Team, belong to the plan during the performance period 2019-2021.The potential reward of the plan 2019-2021 will be based on the Tikkurila Group´s average EBITDA-based intrinsic values for 2019-2021. The total of rewards amounts to a maximum total of 130,000 Tikkurila Oyj shares on the performance period 2019-2021.

A member of Tikkurila Management Team must hold a minimum of 50 per cent of the net number of shares received on the grounds of the plan, until his or her total shareholding in the company equals the value of his or her annual gross salary. Such number of shares must be held as long the member's employment or service in a group company continues.

Share plan 2018-2019

The plan includes one performance period, years 2018-2019. The potential reward from the plan will accrue in cash and will be paid partly in the Company's shares and partly in cash in 2020.

Approximately 30 key employees, including the members of the Management Team, belong to the target group of the plan. The potential reward of the plan will be based to the cumulative revenue and adjusted EBIT from the performance period 2018-2019. The calculable aggregate value of the plan, including portions in shares and in cash, will amount to an approximate maximum of EUR 3.2 million.

CORPORATE GOVERNANCE

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 11 at www.tikkurilagroup.com/investors.

MEMBERS OF THE NOMINATION BOARD

On June 19, 2018, the shareholders' Nomination Board of Tikkurila Oyj was appointed. The members of the Nomination Board are:

- Annika Paasikivi, President & CEO, Oras Invest Oy
- Reima Rytsölä, Deputy CEO, Investments, Varma Mutual Pension Insurance Company
- Mikko Mursula, Deputy CEO, Ilmarinen Mutual Pension Insurance Company
- Jari Paasikivi, Chairman of the Board of Directors, Tikkurila Oyj (expert member of the Nomination Board)

On May 31, 2018, Tikkurila's three largest registered shareholders were Oras Invest Oy, Varma Mutual Pension Insurance Company and Mandatum Life Insurance Company Ltd. Mandatum Life Insurance Company did not wish to use its right to appoint a member to the Nomination Board, and thus the right was passed on to the next largest shareholder which was Ilmarinen Mutual Pension Insurance Company.

TIKKURILA MANAGEMENT TEAM

At the end of December 2018, the Tikkurila Management Team consisted of the following members and responsibility areas:

- Elisa Markula, President and CEO
- Melisa Bärholm, Senior Vice President, Human Resources
- Jukka Havia, CFO

- Fredrik Linde, Senior Vice President, Operations
- Petri Miettinen, Senior Vice President, Sourcing
- Meri Vainikka, Senior Vice President, Offering

Elisa Markula, President and CEO of Tikkurila Oyj, assumed her duties on April 12, 2018. The Board of Directors of Tikkurila Oyj appointed Elisa Markula President and CEO of Tikkurila Oyj on February 12, 2018.

In May, Fredrik Linde (born 1971, M.Sc., Eng, eMBA) was appointed Senior Vice President, Operations, and a member of the Tikkurila Management Team. Operations include product care, production, logistics and HSE (Health, Safety and Environment). Petri Miettinen (born 1968, M.Sc., Econ.) Senior Vice President, Operations, was appointed Senior Vice President, Sourcing in May. Janno Paju, Senior Vice President, Sales, and a member of the Tikkurila Management Team, left the company in May.

In October, Anders Rotkirch (born 1980, M.Sc.Tech.) was appointed Senior Vice President, Transformation and ICT, and a member of Tikkurila Management Team as of January 7, 2019.

In December, it was announced that CFO Jukka Havia will take up new responsibilities outside Tikkurila. Jukka Havia acted as interim President and CEO of Tikkurila Oyj from September 21, 2017 until April 11, 2018.

DECISIONS OF THE ANNUAL GENERAL MEETING AND THE BOARD OF DIRECTORS

Decisions of the Annual General Meeting

The Annual General Meeting of Tikkurila Oyj approved the Financial Statements for 2017 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. The rest was retained and carried further in the company's unrestricted equity. The dividend was paid in two tranches. The first tranche of EUR 0.40 per share was paid to a shareholder who was registered in the company's shareholder register maintained by Euroclear Finland Ltd on the dividend record date, April 16, 2018. The dividend was paid on April 23, 2018. The second tranche EUR 0.40 per share will be paid in November 2018. The second tranche was paid to a shareholder who was 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 decided 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 was October 29, 2018 and the dividend payment date was earliest November 5, 2018.

The Annual General Meeting decided that the Board of Directors consists of seven members. Harri Kerminen, Jari Paasikivi, Riitta Mynttinen, Pia Rudengren and Petteri Walldén were re-elected and Catherine Sahlgren and Heikki Westerlund were elected as new 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, 2018. 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 is to 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.

The Annual General Meeting approved the Board of Directors' proposal to amend and update the Charter of the Nomination Board.

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, 2019.

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, 2019. As of December 31, 2018, the Board of Directors had not exercised this authorization.

Decisions by the Board of Directors

Pia Rudengren was elected as Chairman and Riitta Mynttinen and Heikki Westerlund 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 140.3 million on December 31, 2018: reserve for invested unrestricted equity totaled EUR 40.0 million and retained earnings totaled EUR 100.3 million when including the 2018 net profit. The Board proposes to the Annual General Meeting that a dividend of EUR 0.33 per share will be distributed for the year ended on December 31, 2018, and that the rest be retained in the unrestricted equity. The proposed dividend totals about EUR 14.6 million, which corresponds to approximately 100 percent of the Group's net profit for 2018.

Due to the seasonality of the business, Tikkurila will pay the dividend in two tranches. The payment of the dividend for the financial year 2018 will take place as follows: the first tranche of EUR 0.165 per share will be paid to a shareholder which is recorded at the record date for the payment of dividend on April 15, 2019 at the Company's shareholder register maintained by Euroclear Finland Oy. The proposed date of payment is April 24, 2019.

The second tranche EUR 0.165 per share will be paid in November 2019. 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 28, 2019 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 30, 2019 and the dividend payment date earliest November 6, 2019.

ANNUAL GENERAL MEETING 2019

The Annual General Meeting of Tikkurila Oyj will be held at 10:00 a.m. on Thursday, April 11, 2019 at the Finlandia Hall (address: Mannerheimintie 13, 00100 Helsinki). The report of the Board of Directors and Financial Statements will be available on week 10 at www.tikkurilagroup.com/agm.

EVENTS AFTER THE REPORTING PERIOD

On January 11, 2019, the company announced that Oskari Vidman (born 1976, M.Sc. (Econ.)) was appointed Senior Vice President, Sales, and a member of Tikkurila Management Team as of July 1, 2019, at the latest. In this position, he will be responsible for developing and driving Tikkurila sales to all customer segments: Consumers, Professionals and Industry.

On January 29, 2019, the Nomination Board of Tikkurila proposed to the Annual General Meeting, which is planned to be held on April 11, 2019, that the number of Board members would be six and that of the present members Riitta Mynttinen, Jari Paasikivi, Catherine Sahlgren, Petteri Walldén and Heikki Westerlund would be re-elected and that Lars Peter Lindfors would be elected as a new member. Harri Kerminen and Pia Rudengren have announced that they are not available for re-election. Board members' term lasts until the end of the next Annual General Meeting. All the nominees have given their consent to the position. Lars Peter Lindfors (b. 1964), Doctor of Technology with Honors, MBA, serves as Senior Vice President - Technology and member of the Executive Committee in Neste Corporation. Previously, he has had several executive positions in Neste and Perstorp AB. He is also a Board Member in several foundations for technology and science. He is a Finnish citizen. 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.

REPORTING OF NON-FINANCIAL INFORMATION

Tikkurila is a Nordic paint company whose products are manufactured of carefully chosen raw materials that meet the highest quality and safety standards. Our vision is to create surfaces that make a difference. We have been on a journey towards a more sustainable future for decades. As a pioneer of durable and safe painting, surface treatment and use of colors, Tikkurila is committed to taking concrete measures to ensure that the solutions it produces and offers to its customers are increasingly sustainable.

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

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.

In addition to Tikkurila Code of Conduct, 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 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, privacy policy, along with the company GDPR processes, competition law compliance policy and risk management policy.

In 2018, Tikkurila introduced a new management system, which helps Tikkurila to introduce and implement unified ways of working, clarified roles and responsibilities, clear decision-making processes and strong leadership to drive the company toward improved performance and efficiency and smoother internal cooperation. The management system includes key business processes, annual planning practices, common leadership practices, company policies, information and materials regarding our organization and leadership among other things.

Certified operations

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 2018, 7 of 9 production sites have a certified quality management system (ISO 9001), 6 have a certified environmental management system (ISO 14001) and 4 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 2018, internal audits were carried out in Kazakhstan, Denmark, Russia and Finland.

Tikkurila has in use a "whistle-blowing" reporting system, that enables both employees and other stakeholders report anonymously 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 and that any violations thereof and other illegalities are reported. The link to the system is available on the company intranet and on the Tikkurila Group website. In 2018, we received four announcements through the reporting system. Those were investigated and processed by Tikkurila's country management. On the grounds of the announcements, no further measures were required.

ENVIRONMENT AND SUSTAINABLE SOLUTIONS

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 high-quality sustainable solutions with minimal health and environmental impact. In our operations, we drive at better resource efficiency with quality, safety and durability as high priorities. We use natural resources sparingly, reduce emissions, material loss and waste from our production and pay thorough attention to high level of environmental protection at our production sites.

The main environmental impacts of paint products and painting are generated during the manufacture of raw materials and packaging materials; energy consumption during product manufacture; emissions and waste generated in the manufacturing and transport of raw materials, packaging materials and products; compounds evaporating (VOC emissions) from paint during the painting and drying as well as the disposal of paint waste.

Developing product and service offering based on customer needs

Climate change, urbanization, digitalization, changes in consumer behavior, rising of middle class and other megatrends are affecting all of us – with positive opportunities but also with very alarming problems. 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.

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.

We want to ensure that sustainability is fully integrated into our business operations and we have defined together with the key persons of Tikkurila the sustainable promises in order to drive strategy work.

A new Sustainability Management Team started its work at the end of 2018. The team will lead the strategic sustainability work of Tikkurila, steer development of the sustainability agenda and monitor the progress of company sustainability actions and targets. In the team, experts from Tikkurila's main market and key functions regarding sustainability are represented, such as research and development, brand management and marketing, product management, product safety, sales, production, health, safety and environment, sourcing, supply chain, communications and human resources.

Sustainable solutions

For decades, Tikkurila has perseveringly developed and promoted water-borne products and products with minimal health and 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.

Our goal is to actively develop and promote new sustainable solutions. Currently, we have more than 300 eco-labeled products that have been awarded international or national eco-label, allergy or asthma label or M1 classification. In 2018, 85 percent of our decorative paints sold were water-borne.

Our low-emission, water-borne paints are manufactured from high-quality raw materials, and the product properties are ensured with a thorough set of field and laboratory tests. A water-borne paint is a better choice for both health and the environment, because water-borne paint evaporates only water. Water-borne paints ensure better indoor air quality and lower allergy risks.

Environmental protection measures

To reduce use of energy, investments were made in LED lighting in Poland and Estonia and in insulation of buildings in Poland. A gas boiler was commissioned in Obukhovo, replacing a diesel boiler, reducing air emissions. In Debica, construction of a closed cooling system was completed. It will help to achieve reduction in water consumption. In Tallinn, a new air hose makes it possible to keep forklift gates closed during unloading in the winter, thus reducing loss of heat.

To minimize the generation of waste water, the sites use a part of the washing water in production to the extent possible without compromising quality. The sales and operations planning process was restructured, which is expected to reduce the need to dispose of obsolete products and other production waste. Strong focus on improving process hygiene has contributed to less process waste. Waste amounts are followed closely and new alternatives for recycling are being sought.

Actions to reduce environmental risks included e.g. a simulation of a large leak using water on Vantaa site, emergency exercises with local rescue services at Vantaa and Debica, and emergency preparedness trainings and exercises on many sites. A system for workplace safety cards was created to ensure the availability of the most important HSE information on hazardous chemicals at each working place.

In 2018, Tikkurila invested EUR 0.4 (0.4) million into environmental protection in its units, and environmental protection expenditures totaled EUR 1.7 million.

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.

Personnel

Tikkurila is going through a major transformation process – the company's organizational culture, strategy and management processes have been renewed. In 2018, Tikkurila put emphasis on building unified ways-of-working, clarified roles and responsibilities, clear decision-making and strong leadership, which all are crucial to help the company improve its performance and efficiency, ensure smoother cooperation and engage employees for common goals. Furthermore, the company management, together with all employees, have started to build a unified company culture and redefine its values.

In 2018, the key focus areas in Tikkurila personnel work have been leadership and culture. To support the company leaders and boost their capabilities, Tikkurila has improved current leadership practices and introduced new tools and ways to manage and communicate with teams. In addition, a new leadership training program was launched, and some 50 key business persons will join the program during 2019. The training program focuses on implementation of strategy process as well as change and performance management.

At the end of 2018, Tikkurila Group employed 2,717 (3,037) persons in 11 countries. The average number of employees in January-December 2018 was 2,908 (3,107).

Tikkurila Group's number of employees at the end of each quarter is presented on the next page, split by SBU, starting from the first quarter of 2017.

	Q1/2017	Q2/2017	Q3/2017	Q4/2017	**Q1/2018**	**Q2/2018**	**Q3/2018**	**Q4/2018**
SBU West	1,693	1,804	1,676	1,659	**1,675**	**1,754**	**1,624**	**1,583**
SBU East	1,383	1,393	1,364	1,367	**1,265**	**1,261**	**1,225**	**1,121**
Group functions	32	31	26	11	**12**	**15**	**14**	**13**
Total	3,108	3,228	3,066	3,037	**2,952**	**3,030**	**2,863**	**2,717**

The company's own production has a significant effect on Tikkurila's personnel structure and number. 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 2018 was 7.9 (7.0) percent and 33.2 (33.6) percent were blue-collar workers. 63.7 (65.3) percent of the personnel were men and 36.3 (34.7) percent women. The average age of the employees was 40.8 (41.4) years. In 2018, Tikkurila Group recruited 251 (299) new employees, and 507 (346) persons left the company.

Performance-based salaries and compensation paid in 2018 totaled EUR 81.1 (86.3) million.

Employee satisfaction and engagement

Tikkurila monitors and measures job satisfaction and well-being of its employees by conducting a personnel survey. No employee survey was implemented in 2018. Tikkurila will renew its personnel survey process in 2019.

In connection with the start of Tikkurila's new CEO in 2018, Tikkurila employees were asked to give their views and feedback in the organization culture and dialogue questionnaire. The study was launched to support the new CEO in getting acquainted with Tikkurila, its business environment and culture, and to find concrete areas for development. Every third Tikkurila employee participated in the strategy dialogue, and nearly 4,000 open comments were given. Based on the employee feedback, many internal projects and measures regarding cooperation, decision-making and leadership, as well as on project management and processes, were initiated in 2018. The key highlight from the study was that Tikkurila employees are proud of the company, its history, strong brands and high-quality of products.

Occupational safety

Safety of people is priority number one in our operations. In addition to building a safe culture and ways of working, the safety work at Tikkurila focuses on preventive measures, such as risk assessments, safety training, safety talks and rounds, reporting of health and safety observations and communications, as well as internal and external audits. Preventive safety work affects directly to company's cost-effectiveness and provides ways to improve efficiency and minimize sickness absences.

During 2018, health and safety trainings, for instance with regards to fire safety and work risk assessments, were organized at all Tikkurila production sites. In addition to assessing our employees' safety behavior in their everyday work, we also address safety issues through regular personnel development discussions, safety rounds, as well as safety talks between employees and their supervisors and colleagues. Altogether, 6,686 (6,059) safety talks and rounds were held within the Group in 2018.

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 2018, Tikkurila's accident frequency rate (LTA) was 3.9 (2.0). Each accident has been analyzed and corrective actions defined. The most common human errors were identified and addressed by trainings.

Supplier management

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

Our aim is to build long-term partnerships with our suppliers. We set high standards for the cooperation with our suppliers as well as for all purchased raw materials, other goods and services. Our aim is to ensure that all our partners operate responsibly in accordance with our Code of Conduct and fulfill our requirements on quality, safety, environmental and social responsibility. We either check that the supplier's Code of Conduct is in line with ours, or we agree that they adopt our Code of Conduct.

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 2018, 45 (43) 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 2013–2018, Tikkurila has audited 46 suppliers. The audits and evaluations look into the suppliers' order, delivery and production processes, quality control measures, as well as environmental and safety protocol.

TARGETS AND RESULTS

Topic	KPI	Target	**2018**	2017	2016
Environment	Share of water-borne decorative paints, % Share of water-borne decorative paints is calculated from the sales volumes of decorative paints, industrial products are not included.	Increasing sales volumes	**85.2**	82.3	81.4
Environment	Waste (own operations), ton	Decreasing share of waste	**6,948**	7,242	6,209
Social responsibility and employees	Employee engagement (the index of the employee survey)	Continuous improvement	**-**	-	486
Social responsibility and employees	Lost time accidents (LTA)	Decreasing trend No serious accidents	**3.9**	2.0	2.7
Respect for human rights	Human rights violations identified during 2018 (company's own operations and supplier chain)	No cases	**-**	-	-
Anti-corruption and bribery	Anti-corruption and anti-bribery cases identified during 2018 (company's own operations and supplier chain)	No cases	**-**	-	-

RISKS

Tikkurila's business involves 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 2018. 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 hazard 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:

Risks related to the industry

In the paint industry, competition has become more intense and consolidation actions are actively implemented. In certain market segments, price has become more important factor. Some companies in the construction industry or in adjacent sectors have expanded their product range to paints and coatings in order to supplement their total offering to professional customers, whose importance is increasing, therefore this may impact the future structure of Tikkurila's product portfolio and customer base, which in turn can affect profitability. 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 and are also more actively promoting their own brands. These developments 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 competitive offering.

Tikkurila sells most of its products via third-party retail and wholesale companies. During the last years, the share of professional painters has increased. In markets like Sweden and Poland, the traditional specialized paint retail has lost market share to larger-scale international big box retail chains, which increases customer concentration risks. Moreover, the new digital channels and changes in customers' buying behavior can change competitive position, pricing models and, also might require more investments.

Raw material risks

Tikkurila is dependent on the ability of its suppliers to provide the raw materials needed to manufacture paints and coatings. The prices of many raw materials and packaging materials that are vital to Tikkurila's operations have significantly increased from 2017 and the Group has not been able to fully or without delays offset cost inflation by increasing its sales prices, which has deteriorated Tikkurila's profitability. The availability of raw materials has also been tight 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 2019; even though some raw material prices have started to stabilize or trend down, it is still possible that Tikkurila cannot increase its sales prices to sufficiently or fast enough to offset cost inflation. 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 effect on profitability, market share trends, product offering or competition in general.

Operational and restructuring risks

In 2017, Tikkurila launched an extensive program to boost profitability with the aim of achieving cost savings of at least EUR 30 million. During 2017 and 2018 Tikkurila has implemented various actions, as a result of which the number of production facilities and headcount have been reduced, and organization and management models have been renewed. These actions might lead to loss of know-how and potentially to bottlenecks in certain operations. Some of the decided actions are not yet finalized, and in case the prepared activities or investments will not be carried out, there might be additional costs, write-downs or other losses. 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.

Customer credit risks

Even though Tikkurila has not encountered major credit losses, in the future, the importance of customer credit risks will be emphasized, and hence the potential realization of credit risks 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, quite concentrated customer base in several markets have increased the risk of major credit losses. Moreover, in eastern markets like Russia and Poland the creditworthiness of certain customers has in 2018 started to deteriorate and some single customers have become bankrupt. Tikkurila has in certain cases collateral arrangements, and in Poland also credit insurance coverage, and, regardless of the fact, that some bad debt has already been recognized, it is possible that additional customer or financial losses can be incurred.

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. Many of the relevant currencies to Tikkurila have had an adverse development during the last years. If this trend continues, it will have a negative impact on Tikkurila's euro-denominated revenue and operating profit, and it can also negatively affect Tikkurila's competitive position in some markets. 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 sheet's asset values change with the exchange rates.

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 2018 Consolidated Financial Statements.

OUTLOOK FOR 2019

Economic growth is estimated to be modest during 2019 in Tikkurila's key markets. Overall, consumer confidence in Tikkurila's main markets is still expected to be at a good level. Volatility in the exchange rates is expected to continue.

In the paint and coatings markets, the share of professional and business-to-business customers will continue to steadily increase, which affects the sales mix, and in certain markets, the sales channels as well. Consolidation in the paint market, as well as in the suppliers' and retailers' side is expected to continue. However, the rapid raw material and packaging material cost inflation should stabilize.

Tikkurila will continue to systematically implement the efficiency program with strict cost control, active pricing and further actions to improve cost competitiveness. Renewed growth strategy will be published during the first half of 2019. Tikkurila is well positioned to provide its customers with high-quality goods and services in all subsegments where the company operates.

GUIDANCE FOR 2019

Tikkurila's revenue is expected to remain at the same level as in 2018, and the adjusted operating profit will continue to improve.

Vantaa, February 11, 2019

TIKKURILA OYJ
BOARD OF DIRECTORS

GROUP KEY FIGURES

KEY PERFORMANCE INDICATORS

STATEMENT OF COMPREHENSIVE INCOME AND PROFITABILITY	2018	2017	2016
Revenue, EUR thousand	561,470	582,392	571,998
Foreign operations, EUR thousand	467,114	489,616	473,880
Operating profit, EUR thousand	26,534	19,310	53,110
% of revenue	4.7	3.3	9.3
Share of profit or loss of equity-accounted investees, EUR thousand	293	231	333
Financial expenses (net), EUR thousand	5,780	2,921	-3,938
% of revenue	1.0	0.5	-0.7
Interest cover	8.3	13.6	-17.7
Profit before tax, EUR thousand	21,047	16,621	57,381
% of revenue	3.7	2.9	10.0
Net profit for the period, EUR thousand	14,584	10,651	44,465
Return on investment (ROI), %	10.4	8.8	24.2
Return on equity (ROE), %	8.8	5.5	22.0
Return on capital employed (ROCE), %	9.3	6.3	18.5
Research and development expenses, EUR thousand	9,234	10,871	11,260
% of revenue	1.6	1.9	2.0

CASH FLOWS			
Cash flow from operations, EUR thousand	47,600	18,102	42,778
Disposals of businesses, PPE* and intangible assets, EUR thousand	552	1,299	327
Capital expenditure, EUR thousand	12,229	15,222	21,333
% of revenue	2.2	2.6	3.7
Cash flow after capital expenditure, EUR thousand	36,267	4,422	22,714
Cash flow return on investment (CFROI), %	15.2	5.7	14.0

STATEMENT OF FINANCIAL POSITION AND SOLVENCY			
Non-current assets, EUR thousand	179,824	196,575	206,784
Shareholders' equity (attributable to the owners of the parent), EUR thousand	150,132	179,520	208,591
Shareholders' equity including non-controlling interest, EUR thousand	150,132	179,520	208,591
Liabilities, EUR thousand	249,853	248,215	201,747
Total assets, EUR thousand	399,985	427,735	410,338
Interest-bearing financial liabilities, EUR thousand	121,004	107,049	77,204
Interest-bearing net liabilities, EUR thousand	85,518	90,090	58,673
Equity ratio, %	37.6	42.0	50.9
Gearing %	57.0	50.2	28.1
Interest-bearing financial liabilities (net) / EBITDA	1.8	2.3	0.8

PERSONNEL			
Personnel (average)	2,908	3,107	3,112
of whom in Finland	562	584	560

EXCHANGE RATES				
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	79.7153	69.3920	64.3000
Swedish Krona	EUR/SEK	10.2548	9.8438	9.5525
Polish Zloty	EUR/PLN	4.3014	4.1770	4.4103

SHARE PERFORMANCE INDICATORS			
Earnings per share, EUR, basic	0.33	0.24	1.01
Earnings per share, EUR, diluted	0.33	0.24	1.01
Dividend per share, EUR [1)]	0.33	0.80	0.80
Dividend payout ratio, % [1)]	99.8	331.3	79.4
Dividend yield, % [1)]	2.7	4.5	4.3
Equity attributable to owners of the parent per share, EUR	3.40	4.07	4.73

* Property, plant and equipment

1) The dividend 2018 is the Board of Directors' proposal to Annual General Meeting to be held on April 11, 2019.

	2018	2017	2016
Weighted average number of shares (1,000)	**44,106**	44,106	44,106
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)	**44,121**	44,111	44,110
Number of shares at the end of period, adjusted for dilutive effect (1,000)	**44,131**	44,112	44,110
Equity attributable to owners of the parent, EUR thousand	**150,132**	179,520	208,591
Price per earnings per share (P/E) ratio	**36.4**	73.8	18.7
Share price, end of period, EUR	**12.02**	17.81	18.81
Share price, year high, EUR	**18.96**	19.67	19.76
Share price, year low, EUR	**11.70**	15.32	14.29
Share price, volume-weighted year average, EUR	**15.04**	17.69	17.12
Market capitalization at the end of period, EUR million	**530.2**	785.5	829.6
Number of shares traded (1,000)	**8,607**	16,252	11,878
%, of weighted average number of shares	**19.5**	36.8	26.9

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 a more wide-ranged way the financial development of businesses.

NET DEBT

EUR thousand	2018	2017	2016
Interest-bearing non-current liabilities	**49,998**	50,083	50,091
Interest-bearing current liabilities	**71,006**	56,966	27,113
Interest-bearing liabilities, total	**121,004**	107,049	77,204
Cash and cash equivalents	**35,486**	16,959	18,531
Interest-bearing financial liabilities (net)	**85,518**	90,090	58,673

RETURN ON CAPITAL EMPLOYED (ROCE), %

Operating result + share of profit or loss of equity-accounted investees [1]	**26,827**	19,542	53,443
Capital employed [2]	**289,838**	311,371	289,103
Return on capital employed (ROCE), %	**9.3%**	6.3%	18.5%

[1] from a rolling 12-month period

[2] 12 months, in average

CAPITAL EMPLOYED 12 MONTHS, IN AVERAGE

Net working capital			
Inventories	**91,699**	89,856	84,158
Trade and other non-interest-bearing receivables	**143,299**	152,839	140,229
Non-current interest-free liabilities	**-40**	-41	-11
Current interest-free liabilities	**-113,081**	-113,002	-106,159
Net working capital	**121,878**	129,653	118,217
Intangible assets ready for use	**94,354**	99,139	86,297
Property, plant and equipment ready for use	**73,070**	81,849	83,671
Equity-accounted investees	**536**	731	918
Capital employed 12 months, in average	**289,838**	311,371	289,103

CAPITAL EMPLOYED AT END OF FINANCIAL PERIOD

Net working capital			
Inventories	**78,842**	95,984	80,220
Trade and other non-interest-bearing receivables	**97,842**	99,283	100,062
Non-current interest-free liabilities	**-107**	-142	-17
Current interest-free liabilities	**-95,606**	-105,422	-91,151
Net working capital	**80,970**	89,702	89,114
Intangible assets ready for use	**90,646**	96,657	86,299
Property, plant and equipment ready for use	**67,494**	78,308	84,921
Equity-accounted investees	**393**	491	703
Capital employed at end of financial period	**239,503**	265,158	261,037

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 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. In accordance with Tikkurila Board of Directors' judgment, significant insurance compensations, depending on their nature, may be included in items affecting comparability.

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

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

EBITDA
Operating profit + depreciation, amortization and impairment losses

OPERATING PROFIT (LOSS), %

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

INTEREST-BEARING NET LIABILITIES
Interest-bearing liabilities - cash and cash equivalents

INTEREST COVER

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

GEARING, %

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

INTEREST-BEARING FINANCIAL LIABILITIES (NET) / EBITDA

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

EQUITY RATIO, %

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

Advances received - see note 29

CASH FLOW RETURN ON INVESTMENT (CFROI), %

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

RETURN ON INVESTMENT (ROI), %

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

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

RETURN ON EQUITY (ROE), %

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

RETURN ON CAPITAL EMPLOYED (ROCE), %

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

NET WORKING CAPITAL

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

DIVIDEND YIELD

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

PRICE / EARNINGS RATIO (P/E)

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

EQUITY PER SHARE

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

EARNINGS PER SHARE (EPS), BASIC

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

EARNINGS PER SHARE (EPS), DILUTED

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

DIVIDEND PAYOUT RATIO

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

SHARE PRICE, VOLUME-WEIGHTED YEAR AVERAGE

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

MARKET CAPITALIZATION AT THE END OF PERIOD

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

SHARE TURNOVER, %

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

NUMBER OF SHARES AT THE END OF PERIOD

Number of shares issued - treasury shares

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

EUR thousand	Note	**Jan 1 - Dec 31, 2018**	Jan 1 - Dec 31, 2017
Revenue		**561,470**	582,392
Other operating income	7	**9,996**	3,649
Change in inventories of finished goods and work in progress		**-14,459**	10,286
Materials and services		**-292,225**	-304,916
Personnel expenses	8	**-104,100**	-111,042
Depreciation, amortization and impairment losses	9	**-21,578**	-20,391
Other operating expenses	10	**-112,570**	-140,668
Operating profit		**26,534**	19,310
Financial income	12	**2,115**	5,557
Financial expenses	12	**-7,895**	-8,478
Share of profit or loss of equity-accounted investees	18	**293**	231
Profit before tax		**21,047**	16,621
Income tax	13	**-6,463**	-5,970
Net profit for the period		**14,584**	10,651
Other comprehensive income	26		
Items that will not be reclassified to profit or loss			
Changes of equity investments at fair value through other comprehensive income		**72**	-
Remeasurements on defined benefit plans		**-223**	-2,378
Income taxes relating to items that will not be reclassified to profit or loss		**38**	507
Total items that will not be reclassified to profit or loss		**-113**	-1,871
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets		**-**	1
Foreign currency translation differences for foreign operations		**-6,631**	-2,581
Income taxes relating to items that may be reclassified subsequently to profit or loss		**-**	-
Total items that may be reclassified subsequently to profit or loss		**-6,631**	-2,580
Total comprehensive income for the period		**7,840**	6,200
Net profit attributable to:			
Owners of the parent		**14,584**	10,651
Non-controlling interest		**-**	-
Net profit for the period		**14,584**	10,651
Total comprehensive income attributable to:			
Owners of the parent		**7,840**	6,200
Non-controlling interest		**-**	-
Total comprehensive income for the period		**7,840**	6,200
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	14	**0.33**	0.24
Diluted earnings per share (EUR)	14	**0.33**	0.24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

ASSETS

EUR thousand	Note	Dec 31, 2018	Dec 31, 2017
Non-current assets			
Goodwill	16, 17	**69,825**	71,956
Other intangible assets	16	**20,970**	26,468
Property, plant and equipment	15	**70,910**	81,233
Equity-accounted investees	18	**393**	491
Other investments	20	**744**	-
Available-for-sale financial assets	20	**-**	755
Non-current receivables	21, 23	**8,870**	7,481
Defined benefit pension and other long-term employee benefit assets	30	**-**	8
Deferred tax assets	25	**8,112**	8,183
Total non-current assets		**179,824**	196,575
Current assets			
Inventories	19	**78,842**	95,984
Interest-bearing current assets	22	**983**	655
Trade and other non-interest-bearing receivables	23	**95,787**	97,817
Current tax assets		**7,504**	10,431
Cash and cash equivalents	24	**35,486**	16,959
Non-current assets held for sale	6	**1,559**	9,314
Total current assets		**220,161**	231,160
Total assets		**399,985**	427,735

EQUITY AND LIABILITIES

	Note	Dec 31, 2018	Dec 31, 2017
Equity			
Share capital	26	**35,000**	35,000
Other reserves	26	**42**	42
Fair value reserve	26	**1**	1
Reserve for invested unrestricted equity	26	**40,000**	40,000
Treasury shares	26	**-42**	-42
Translation differences	26	**-45,969**	-39,338
Retained earnings		**121,100**	143,857
Equity attributable to owners of the parent		**150,132**	179,520
Non-controlling interest		**-**	-
Total equity		**150,132**	179,520
Non-current liabilities			
Interest-bearing non-current liabilities	27	**49,998**	50,083
Other non-current liabilities	29	**107**	142
Defined benefit pension and other long-term employee benefit liabilities	30	**26,124**	27,118
Provisions	31	**608**	503
Deferred tax liabilities	25	**3,887**	4,991
Total non-current liabilities		**80,724**	82,837
Current liabilities			
Interest-bearing current liabilities	28	**71,006**	56,966
Trade and other non-interest-bearing payables	29	**95,685**	105,460
Provisions	31	**2,150**	622
Current tax liabilities		**288**	1,321
Liabilities classified as held for sale	6	**-**	1,009
Total current liabilities		**169,129**	165,378
Total equity and liabilities		**399,985**	427,735

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

CASH FLOW FROM OPERATING ACTIVITIES

Net profit for the period	Note	**Jan 1 - Dec 31, 2018**	Jan 1 - Dec 31, 2017
Adjustments for:		**14,584**	10,651
Non-cash transactions			
Depreciation, amortization and impairment		**21,578**	20,391
Employee benefits		**29**	116
Change in provisions		**1,648**	290
Gain on sale of PPE* and intangible assets		**-333**	-228
Loss on sale of PPE* and intangible assets		**79**	102
Other items		**7,554**	7,661
Dividend income		**-14**	-20
Interest expenses and other financial expenses		**2,015**	1,537
Interest income and other financial income		**-990**	-986
Share of profit or loss of equity-accounted investees		**-293**	-231
Exchange rate differences of financing		**4,769**	2,390
Income tax for the period		**6,463**	5,970
Funds from operations before change in net working capital		**57,089**	47,643
Change in net working capital			
Change in inventories		**6,552**	-25,285
Change in trade and other receivables		**-5,087**	-6,445
Change in trade and other payables		**-5**	17,823
Change in net working capital		**1,460**	-13,907
Interest and other financial expenses paid		**-5,973**	-3,522
Interest and other financial income received		**648**	679
Income tax paid		**-5,624**	-12,791
Total cash flow from operations		**47,600**	18,102
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**-12,023**	-12,659
Acquisition of intangible assets		**-206**	-2,563
Disposal of subsidiaries, net of cash disposed of	5	**153**	924
Proceeds from sale of other investments		**77**	-
Proceeds from sale of available-for-sale financial assets		**-**	75
Proceeds from sale of property, plant and equipment		**357**	373
Proceeds from sale of intangible assets		**42**	2
Repayments of loan receivables (+)		**-**	52
Loan receivables, increase (-)		**-112**	-293
Dividends received		**379**	409
Net cash used in investing activities		**-11,333**	-13,680
Cash flow before financing		**36,267**	4,422

CASH FLOW FROM FINANCING ACTIVITIES	Note	Jan 1 - Dec 31, 2018	Jan 1 - Dec 31, 2017
Proceeds from non-current borrowings (+)		-	-
Repayments of non-current borrowings (-)		-	-
Current financing, increase (+)		259,454	287,902
Current financing, decrease (-)		-245,259	-257,988
Payment of finance lease liabilities (-)		-194	-247
Dividends paid		-35,285	-35,285
Acquisition of own shares		-	-
Other		0	0
Net cash used in financing activities		**-21,284**	-5,618
Net change in cash and cash equivalents		**14,983**	-1,196
Cash and cash equivalents at Jan 1	24	16,872	18,531
Effect of exchange rate fluctuations on cash held		-2,341	-827
Cash and cash equivalents transferred in assets held for sale	6	-1,290	1,290
Cash and cash equivalents at Dec 31	24	35,486	16,872
Net change in cash and cash equivalents		14,983	-1,196

* 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

EUR thousand	Note	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestricted equity	Treasury shares	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity at Jan 1, 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

EUR thousand											
Equity at Dec 31, 2017		**35,000**	**42**	**1**	**40,000**	**-42**	**-39,338**	**143,857**	**179,520**	**-**	**179,520**
Change in accounting principles, IFRS 9, IFRS 15, and IFRS 2		-	-	-	-	-	-	-2,083	-2,083	-	-2,083
Equity at Jan 1, 2018		**35,000**	**42**	**1**	**40,000**	**-42**	**-39,338**	**141,774**	**177,437**	**-**	**177,437**
Total comprehensive income for the period	26	-	-	-	-	-	-6,631	14,471	7,840	-	7,840
Share-based compensation		-	-	-	-	-	-	140	140	-	140
Dividends paid		-	-	-	-	-	-	-35,285	-35,285	-	-35,285
Equity at Dec 31, 2018		**35,000**	**42**	**1**	**40,000**	**-42**	**-45,969**	**121,100**	**150,132**	**-**	**150,132**

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)

EUR thousand	**2018**	2017
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**85,185**	86,239
Net profit for the period	**15,127**	35,038
Total	**140,312**	161,276

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 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 2018 financial year, Tikkurila Group's revenue amounted to EUR 561.5 million and the average number of personnel was 2,908. The Group operates in 11 countries and has production facilities in 7 countries.

The Board of Directors of Tikkurila Oyj has approved the financial statements for publication at its meeting of February 11, 2019. 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, 2018. 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, assets recognized at fair value through other comprehensive income (year 2017 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, 2018, which affect the reported data or data that will be reported in the future:

- IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2018). The new standard replaced 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 an expected credit loss model for calculating impairment on financial assets. According to the IFRS 9 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. In the guidance for hedge accounting, included in IFRS 9, the types of hedge accounting are cash flow hedges, fair value hedges and net investment hedges. The requirement and strict definition of highly effective in accordance with 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.

At the adoption of IFRS 9, on January 1, 2018, the changes in classification of financial instruments have been disclosed in Note 41.

Tikkurila Group's loans and other receivables are continued to be measured at amortized cost because the cash flows arising from these items consist payments of principal and interest, and Tikkurila Group intends to hold these financial assets until to maturity.

The Group's trade receivables, classified and measured at amortized cost in accordance IFRS 9, consist the most of the Group's financial assets. The lifetime expected credit loss is recognized on trade receivables. The loss allowance is calculated by using specific expected loss rates created for each aging category. These expected loss rates are defined by grouping trade receivables based on their geographical location. For instance, historical losses and customers' payment behavior in geographical area in question are impacting to the percentages defined. As per the new expected credit loss model, Group recognized an adjustment of EUR -1.1 million in retained earnings and trade receivables as of January 1, 2018.

In accordance with IFRS 9 standard, the equity investments can be classified either as fair value through other comprehensive income or fair value through profit or loss. This election of classification can be done for every equity investment separately. Tikkurila Group's available-for-sale financial assets include equity investments, which are long-term nature investments that the Group is not intending to sell, and which Tikkurila Group has accounted for and classified as fair value through other comprehensive income. Therefore, received dividends will be recognized in profit or loss, but possible impairment losses will not be recognized in profit or loss nor the gains or losses on disposal will be reclassified to profit or loss.

When assessed the impact of IFRS 9 standard to other financial assets the Group applies the general expected credit loss model in which estimated amount of loss allowance equals to 12-month expected credit losses, if there is no significant increase in credit risk since the initial recognition. This resulted that Group recognized EUR -0.2 million adjustment in retained earnings and loan receivables as of January 1, 2018. The estimated credit loss amount of loan receivables is based on 12 month expected credit loss because no considerable increase in credit risk relates to these loan receivables.

There were no impacts resulting from the application of standard to Tikkurila's financial liabilities.

- IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after January 1, 2018). The standard replaced IAS 11 Construction contracts, IAS 18 Revenue and related interpretations. As per IFRS 15 standard's 5-step model there are the following steps: contracts with customers are identified, separate performance obligations in the contracts are identified, transaction price is determined, the transaction price is allocated to all identified performance obligations in the contract on relative stand-alone prices, and revenue is recognized when the performance obligation is satisfied.

The Group has applied this new 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 impact of IFRS 15 standard was analyzed by going through customer contracts and different contract structures and by documenting impact of sales practices.

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, in Sweden, Norway, and Denmark the Group has its own paint shops serving primarily professional customers. Revenue is generated also to a limited extent by selling paint related services and equipment.

In general, the revenue is recognized on selling the goods i.e. the performance obligations are satisfied, when the products are delivered to the customer in compliance with the contract terms. Customer specific delivery terms in purchase orders and/or frame agreements identify the point of time when the control is transferred to the customer. Application of IFRS 15 standard did not change this point of time of revenue recognition.

Warranties related to Tikkurila products are typically assurance-type warranties. They provide the customer with the assurance that the product is according to agreed standards and it will function as promised when the product is applied to surfaces it is intended to and the work stages described in the application details of the product data sheet have been followed. These warranties are not separate performance obligations which means that any obligations to these warranties are recognized in accordance with IAS 37 and are disclosed in provisions or in accrued expenses.

In customer contracts certain promises are granted on training services and on participating in sales promotion actions. The offered training services closely relate to products that Tikkurila delivers. The training is offered to wholesale customers and retailers with information on how to use Tikkurila products, and to ensure that products are used for surfaces they are intended. Typically, training is arranged by Tikkurila personnel. This kind of training is not a separate performance obligation.

In frame contracts and in shop-level contracts Tikkurila has granted certain commitments to its customers in relation to marketing and sales promotion actions. Tikkurila supplies its customers with brochures, product instructions and other marketing material which support distributors in selling Tikkurila products. Some agreements also contain obligations for Tikkurila to participate together with the customer in financing of defined and specified sales promotion actions. Such items are recognized as sales and marketing expenses. When sales promotion expenses that Tikkurila compensates to customers are not considered as a payment for distinct services purchased from a customer and no specified marketing actions have been defined, the consideration payable to the customer will be recognized, after adoption of IFRS 15 standard, as an adjustment to revenue. In financial year 2017 such items included in the Group's other operating expenses totaled approximately EUR 3.3 million. In the financial year 2018 these items decreased revenue by about EUR 3.1 million. This change had no impact on operating profit.

Tikkurila's business is based on extensive utilization of tinting, and hence Tikkurila provides often to its retailers the tinting machines needed for this. These tinting machines and some other marketing supporting by-products have been considered as separate performance obligations. As there are volume discounts on future paint sales agreed in the customer contracts in relation to these support products, therefore the transaction price has been allocated between support product in question and paint sales. As per the allocation of transaction price a total of EUR 1.0 million has been adjusted in retained earnings, net of tax. This adjustment is recognized because transaction price has been allocated to future paint sales, and that will be entered as income in the future financial years. In the figures of the financial year 2018, this change in method effected revenue around EUR 0.0 million.

The payment terms of Tikkurila Group customers vary depending on geographical location and customer-specific terms and conditions. Furthermore, in customer contracts, there are afterwards granted discounts, credits that are tied to volume and/or value of the deliveries or sales volumes of specified product groups. There are also in certain contracts penalty clauses related to on-time deliveries and supply chain reliability. The impact of the variable consideration on the transaction price requires estimation at point of time of the revenue recognition. Tikkurila has several contracts with similar characteristics and estimation of the variable consideration is updated at the end of every reporting period. In estimating the variable consideration, Tikkurila Group companies utilize experience on realization of different types of discounts on similar characteristics contracts combined with historical information on individual customer deliveries.

- 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. Some of Tikkurila's share-based payment plans have net settlement features. Thus, the Group recognized cash-settled payments directly as adjustment to the opening balance of retained earnings 2018. This impacted EUR 0.0 million to Group's retained earnings as of Jan 1, 2018.

- Annual Improvements to IFRSs 2014-2016, December 2016 (effective for financial years beginning on or after January 1, 2018). The improvements contain amendments to standards, IFRS 1 and IAS 28. These did not 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. For transaction involving multiple payments or receipts, a date of transaction should be determined for each payment or receipt. This had no impact on Group's financial statements.

- 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 had no 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. 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 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, 2018, the Group consisted of 15 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 2018 or 2017.

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 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 IFRS 9. 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 2018 nor in year 2017.

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 control. 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 on equity instruments that the Group has classified at fair value through other comprehensive income (2017 available-for sale assets) are included other comprehensive income.

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

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, in Sweden, Norway, Denmark the Group has its own paint shops serving primarily professional customers as well as a couple of retail stores in Poland. Revenue is generated also to a limited extent by selling paint related services and equipment.

Revenue is recognized when the performance obligation is satisfied, and customer obtains control of that asset. Mainly, revenue is recognized on products, when they are delivered to the customer in compliance with the contract terms, and the point of time of transferring the control is identified in customer specific delivery terms in purchase orders and/or frame agreements.

The Group has as well consignment stock arrangements with some selected distributors in SBU East. In these cases, control of the goods is transferred from the Group and the revenue is recognized as goods are taken out of the stock, distributor sells goods to its customer.

Tikkurila's paint production and marketing are based on extensive utilization of tinting, and hence Tikkurila provides often to its retailers the tinting machines needed for this. These tinting machines and some other marketing supporting by-products have been considered as separate performance obligations, in which revenue is recognized at the time of delivery when a customer obtains control of the asset in compliance with the delivery terms.

Customer contracts of Tikkurila consist also maintenance services related to tinting machines. Tikkurila's own shops serving primarily professional customers are offering also tinting services. These performance obligations are fulfilled at a point in time and revenue is recognized as service is performed.

Customer contracts include several different types of afterwards granted discounts, credits tied to volume and/or value of the deliveries or sales volumes of specified product groups. The impact of these variable considerations on the transaction price requires estimation at the point in time of the revenue recognition. Tikkurila has several contracts with similar characteristics and the estimation of the variable consideration is updated at the end of every reporting period. In estimating the variable consideration, Tikkurila Group companies utilize their experience on the realization of different types of discounts on similar characteristics contracts combined with historical information on individual customer deliveries. The impact of the variable consideration, different types of rebates, customer bonuses, is significant on the amount of recognized revenue.

Customer contracts of Tikkurila include also penalty clauses related to on-time deliveries and supply chain reliability. In estimating on the transaction price, it is required to consider the impact on those clauses. In some deliveries, customers have a right to return the goods, and thus at the time of recognizing the revenue probability of reversal of revenue is assessed. Because of products and seasonality of Tikkurila's business, this assessment has more weight, is more crucial during the financial year than at the year-end.

Tikkurila's customer contracts on tinting machines and some other marketing supporting by-products include promises of discounts on future paint sales to customers. This option for additional goods with lower price gives a customer a material right, which the customer would not obtain without entering into the previously pointed contract. This right to a discount is identified as a separate performance obligation, and as of the beginning of year 2018, part of the transaction price of support products, machines is allocated based on relative stand-alone prices also to this option. The discount on future paint sales is recognized as revenue in the future financial years, when the customer is using this option or when the right to the discount expires.

In financial year 2017, revenue was not allocated as described above, instead revenue was recognized in profit or loss when a machine and / or other marketing supporting by-products were delivered to customers and the significant risks and rewards and control were transferred to the buyer.

In frame contracts and in shop-level contracts Tikkurila has granted certain commitments to its customers in relation to marketing and sales promotion actions. When sales promotion expenses that Tikkurila compensates to customers are not considered as a payment for distinct services purchased from a customer and no specified marketing actions have been defined, the consideration payable to the customer will be recognized, after adoption of IFRS 15 standard, as an adjustment to revenue.

Warranties related to Tikkurila products are typically assurance-type warranties. They provide the customer with the assurance that the product is according to agreed standards and it will function as promised when the product is applied to surfaces it is intended to and the work stages described in the application details of the product data sheet have been followed. These warranties are not separate performance obligations which means that any obligations to these warranties are recognized in accordance with IAS 37 and are disclosed in provisions or in accrued expenses.

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

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. Other rent income is derived mostly from leased land area and leased premises. These are recognized in a straight-line method for the leasing period and recorded in other operating income.

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 adequate 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. In June 2018, the Board of Directors of Tikkurila Oyj resolved two share-based incentive plans: performance share plan 2018-2022 and share plan 2018-2019. In December 2018, the Board of Directors of Tikkurila Oyj decided to change the terms of performance share plan 2018-2022 so that part of the reward for performance period 2019-2021 will be time-based reward and the number of the participants of the plan will be increased.

The Performance Share Plan 2015-2019 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 Team, 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.

The performance share plan 2018-2022 includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. The Board of Directors will resolve the performance criteria of the plan and their targets at the beginning of each performance period. According to the decision of the Board of Directors the original group of participants, approximately 10 key employees increased to approximately 20 key employees, including the members of the Management Team. The share plan 2018-2019 includes one performance period and approximately 30 key employees, including the Management Team members belong to the target group of the plan.

All share plans' remuneration will be a combination of shares and cash, 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. The Company will pay withholding tax obligations arising from the reward to the participants in the connection with the reward payment. In these share-based payments plans that have a net settlement features, cash-settle portion is treated similarly to share-settled portion and recorded to directly to equity, retained earnings. 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.

The potential reward from the share plan 2018-2019 will accrue in cash and obligation is accounted as liability in the consolidated statement of financial position.

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

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

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 grounds 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 related to 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 2018 nor 2017. 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.

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 2018 or 2017, the Group did not have these types of asset items.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at historical cost less cumulative depreciation and any impairment losses. If an item of property, plant and equipment consists of parts with different useful lives, each part is accounted for as a separate asset. In those cases, the cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item and 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 2018 or 2017, 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 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 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 the 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 the 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 effects 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. Purchases and sales of financial assets and liabilities are recognized or derecognized using trade date accounting.

As of January 1, 2018, the Group classifies its financial assets and financial liabilities in the following measurement categories: items measured at amortized cost, items to be measured at fair value through other comprehensive income and liabilities measured at amortized cost. The classification of financial assets depends on business model and the contractual terms of the cash flows. In financial year 2017 financial assets and liabilities of Tikkurila Group were classified at initial recognition based on their purpose of use as loans and other receivables, available-for-sale financial assets and other financial liabilities (measured at amortized cost).

Financial liabilities are recognized initially at fair value, net of transaction costs incurred.

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

FINANCIAL ASSETS

Financial assets measured at amortized cost (2017 Loans and other receivables)

This category includes trade receivables, which consists of considerations from customers for goods and services sold in ordinary course of business. The objective of holding the asset is to collect the contractual cash flows. Trade receivables are recognized initially at the amount of consideration that is unconditional. The payment terms of Tikkurila Group customers vary depending on geographical location and customer-specific terms and conditions, but mainly these receivables are due for settlement within one year and thus are recognized as current assets. To a small extent, the Group has some trade receivables with maturity date greater than one year. These receivables are recognized initially at fair value. Items are discounted and the interest income of these is recognized in financial items as interest income based on the passage of time.

In addition, loan receivables are classified as financial assets measured at amortized cost. Tikkurila's objective is to collect contractual cash flows, payments of principal and interests, and Tikkurila intends to hold these assets until to maturity.

Trade receivables and loan receivables are measured subsequently at amortized costs using the effective interest method, taking into consideration the amount of expected credit losses.

In financial year 2017 loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and the Group did not hold them for trading or designated them as available-for-sale upon initial recognition. The most important individual item of the Group under this category was trade receivables. Loans and receivables were measured at amortized cost using the effective interest rate method, less any impairment losses. They were included in current assets, except for maturities greater than 12 months after the end of the reporting period.

Fair value through other comprehensive income (2017 Available-for-sale financial assets)

Tikkurila has classified into this category such equity instruments, which are not held for trading. These securities are strategic, long-term nature investments. Their fair value changes are recognized in other comprehensive income, possible impairment losses are not recognized in profit or loss nor gains of losses on disposals. On disposal of these equity investments, any related balance in fair value reserve is transferred to retained earnings.

These investments 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.

In financial year 2017, these equity investments were classified as available-for-sale financial assets. Available-for-sale financial assets were measured at fair value if it was considered that the fair value could be determined reliably. In such cases the unrealized fair value changes were recognized in other comprehensive income, net of tax. The gains and losses accumulated in equity in fair value reserve were transferred to profit or loss as a reclassification adjustment when the instrument was disposed of or when it was determined to be impaired so that an impairment loss was recognized.

These investments (in year 2017 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
Tikkurila Group applies IFRS 9 simplified approach to measure expected credit losses, in which the lifetime expected credit losses are recognized on all trade receivables. The expected loss allowance is calculated by using specific expected loss rates created for each aging category. These loss rates are defined by grouping trade receivables based on their geographical location. Historical losses, customers' payment behaviour in geographical area in question and information on macroeconomic factors, especially GDP development, are impacting to the percentages defined. Credit losses on trade receivables and contract assets are presented in other operating expenses. If a payment is later received from the impaired receivable, the received amount is recognized in profit or loss as a deduction of other operating expenses.

In addition, further expected loss allowance has been calculated for specific individual customers, if there are indicators insolvency of the debtor or a repayment plan is failed to implement. Trade receivables are written off when there is no reasonable expectation of recovery.

In relation to other financial assets the Group applies the general expected credit loss model in which estimated amount of loss allowance equals to 12-month expected credit loss, if there is no significant increase in credit risk since the initial recognition. In accordance with this model, on loan receivables, classified as financial assets measured at amortized cost, were recognized credit loss allowance. This is recorded on profit or loss in financial expenses.

Due to immateriality, the Group has not measured expected credit losses on cash and cash equivalents and not financial assets recognized on other comprehensive income.

In financial year 2017, the Group assessed 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 was recognized if there was objective evidence that a receivable would not be fully recovered. Objective evidence on impairment of trade and other receivables included, amongst others, significant financial difficulties of the debtor, and a neglect of payment due dates and payments. To define possible impairment of its trade receivables, the Group had group wide guidelines that were based on the overdue time of receivables. An impairment loss from trade receivables was recognized in consolidated statement of comprehensive income under other operating expenses. If a payment was later received from the impaired trade receivable, this received amount was 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 were recognized through profit or loss on financial items.

FINANCIAL LIABILITIES

Financial liabilities measured at amortized cost (2017 Other financial liabilities)
This category includes e.g. the Group's non-current and current interest-bearing financial liabilities and trade payables. 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 2018 and 2017, the Group has not had such acquired assets with capitalized borrowing costs. 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

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's related parties include the parent company to the Group, Tikkurila Oyj, subsidiaries and joint ventures. Related parties include members of the Board of Directors and of Tikkurila Management Team, CEO, 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. At the beginning of financial year 2018, the Group has the clarified content of items affecting comparability. In accordance with this clarification such items are significant gains and losses on disposed non-current assets, impairments of non-current assets, items concerning business reorganizations such as items related to personnel dismissals or items related to the strategic based changes in organization structure. Based on the resolution of the Board of Directors, received significant insurance compensations or their adjustments, may be included in items affecting comparability based on their nature and according to Board of Directors' judgement. In financial year 2018, costs related to the strategic changes in organization structure were borne from closing production sites in Germany, Russia and in Denmark. In financial year 2017, items affecting comparability included as well received significant insurance compensations and their adjustments, received or paid penalties or their adjustments.

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 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 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 and during year 2018 continued 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), cars as well as right of use of land area.
  The Group will apply, at the date of initial application, the simplified approach and comparative information will not be restated. In measurement of a right-of-use asset the Group chose 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.
  Mostly in the lease contracts, the discount rates used is Tikkurila's incremental borrowing rate. Group's external funding has been centralized in parent company's finance department, which is acting as an internal bank for Group companies. Therefore, the incremental borrowing rate to be used for each subsidiary in their lease contracts has been centrally defined. Denominated currency of subsidiaries and lease term of the contracts are affecting the defined, used discount rates. For the time being lease contracts, in which lessor has no termination option without consent of the lessee and in which termination would cause significant costs, the judgement is used in the estimation of the lease term. In such cases the maximum lease term used is Tikkurila's strategic period, 5 years. Similar judgement is used in the contracts in which lessor has termination option, without sanctions, but which have been continued for several years, are crucial to Tikkurila's business and would cause significant costs to Tikkurila. These contracts have been in force several years and thus the likelihood of termination without both parties' consent is considered low.
  Due to application of this standard around EUR 24.9 million lease liabilities and EUR 25.5 million of right-of-use assets are recognized on the consolidated statement of financial. Prepaid rents are decreasing the recognized value of the lease liability.

- 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 pre-payable 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.

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

- 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 IAS 19 - Plan amendment, Curtailment or Settlement (effective for financial years beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

- Amendments to IFRS 3 - Definition of a Business (effective for financial years beginning on or after 1 January 2020). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

- Amendments to IAS 1 and IAS 8 - Definition of Material (effective for financial years beginning on or after 1 January 2020). The amendments clarify the definition of material and include guidance for the definition. In addition, the explanations accompanying the definition have been improved. The amendments aim also to ensure that the definition of material is consistent across all IFRS Standards.

- 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 economic development concerning the Group's line of business has on sales and cost level. The realization of the estimates and assumptions is 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 company 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 forecast period, as well as the growth rate assumptions beyond the forecast 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 2018, impairment losses were recognized on property, plant and equipment related to the assets of the production units to be closed in Germany and Denmark. Impairment losses recognized on land area, buildings, machinery and equipment totaled EUR 1.8 million on these site closings. In addition, EUR 0.9 million impairment loss was accounted for office building in Tikkurila's site in Finland. Recognized impairment loss on goodwill is related to Tikkurila's operations in Denmark. 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 the Balkan area subsidiaries. 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 both the raw materials used in production and finished paint and coating products have a rather long preservability, unpredicted changes in demand or customer behaviour may expose Tikkurila to higher inventory obsolescence risks that needs to be estimated at the time of preparing financial statements.

The Group is applying simplified approach in accordance with IFRS 9 to measure the life time expected credit losses on trade receivables. The expected loss allowance is calculated by using specific expected loss rates created for each aging category. These expected loss rates are defined by grouping trade receivables based on their geographical location. In addition, further expected loss allowance is recorded for specific individual customer balances if the management estimates that the carrying amount of the receivable does not correspond with its fair value. In such cases indications of a possible further impairment of trade receivables include the debtor's considerable financial difficulties, delayed payments and neglected payments. At the end of 2018, the share of past due trade receivables of the total balance in the Group was significantly lower than at the end of 2017. In comparison year, higher level of past due trade receivables was caused by difficulties in deployment of ERP system, especially in Sweden. 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. In addition, increased concentration of customers 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, such as was the case for the office building in Finland in 2018, the annual amortization/depreciation is adjusted, or an impairment is recorded. Major part of Group's tangible non-current assets is linked to the buildings, machinery and equipment of the paint factories. If 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 context of the optimization of production network in year 2018, it has been decided to close down three production units; in Denmark, Germany and in Russia. 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 the macroeconomic situation stabilized in Russia, there are still major geopolitical and economic risks in the region, including but not limited to international sanctions related restrictions. Moreover, it is often difficult to assess the counterparty risk in Russia. These aspects have an effect particularly on the valuation of assets. Tikkurila's Russian subsidiary has over the last years made preparations to build a new factory and warehouse facility, which has caused by December 31, 2018 altogether EUR 1.2 million of capitalized preparation costs recognized on the balance sheet. If the project would not eventually be carried out, part or all the capitalized expenses incurred until the date of the final decision might have to be written down. Moreover, if Tikkurila's Russian subsidiary would not purchase the land plot, currently leased, dedicated for this project, this would cause approximately EUR 0.2 million extra costs.

BUSINESS COMBINATIONS

In business combinations the net identifiable assets of the acquired companies are measured at fair value. When 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 2018 and 2017 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 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 2018, the Group reclassified the land area and building of its German subsidiary as held for sale. Carrying amounts of these assets exceed the estimated sales price and thus no impairment losses were recognized on these. However, if the negative price development in the local real estate market would take place, and thus have a lowering impact on expected sales price of assets, this could result the impairment losses to be recognized in the financial year 2019 on the assets held for sale. At the financial year-end 2017, 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 loss of EUR 0.2 million was recognized on machinery and equipment and EUR 1.0 million on other intangible assets. This divestment were expected to result in about EUR 5.6 million total loss. This estimated loss was 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.

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 several share-based commitment and incentive plans including the CEO of Tikkurila Oyj, members of Tikkurila Management Team and in some plans also other individual key employees. 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 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, 2018, the provisions amounted to EUR 2.8 million. The corresponding figure in the 2017 financial statements was EUR 1.1 million. The increase in the provisions is due to the restructuring and site closing decisions made during 2018. 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 2018 financial statements was EUR 8.1 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 the sensitivity analysis regarding the change in discount rate and its effect on the Group's defined benefit obligation is disclosed. 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 the corresponding note. In practise, level of pensions is 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 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 Team.

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

REPORTABLE SEGMENTS 2018	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
EUR thousand					
External revenue	**381,164**	**180,310**	**-**	**-4**	**561,470**
Depreciation, amortization and impairment losses	**15,124**	**6,245**	**209**	**-**	**21,578**
Operating profit (loss)	**22,730**	**9,406**	**-5,603**	**0**	**26,534**
Items affecting comparable EBIT by segment	**-11,806**	**-500**	**-**	**-**	**-12,306**
Adjusted operating profit (loss) by segment	**34,536**	**9,906**	**-5,603**	**0**	**38,840**
Non-allocated items					
Financial income					**2,115**
Financial expenses					**-7,895**
Share of profit or loss of equity-accounted investees					**293**
Profit before tax					**21,047**
Segment assets	**298,277**	**67,578**	**49,993**	**-15,863**	**399,985**
Investments in equity-accounted investees					**393**
Capital expenditure	**5,939**	**4,509**	**-**	**-**	**10,448**

REPORTABLE SEGMENTS 2017	SBU West	SBU East	Tikkurila common	Eliminations	Total
EUR thousand					
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

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

REPORTABLE SEGMENTS 2018	**SBU West**	**SBU East**	**Tikkurila common**	**Eliminations**	**Total**
EUR thousand					
Operating profit (loss) by segment	**22,730**	**9,406**	**-5,603**	**0**	**26,534**
Items affecting comparable EBIT by segment					
Divestments and changes in group structure	**-2,295**	**282**	**-**	**-**	**-2,013**
Personnel related	**-6,102**	**-782**	**-**	**-**	**-6,884**
Insurance compensation for personal injury	**-**	**-**	**-**	**-**	**0**
Impairment losses	**-3,409**	**-**	**-**	**-**	**-3,409**
Total	**-11,806**	**-500**	**-**	**-**	**-12,306**
Adjusted operating profit (loss) by segment	**34,536**	**9,906**	**-5,603**	**0**	**38,840**

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
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

PERSONNEL BY SEGMENTS DURING THE PERIOD, AVERAGE

	2018	2017
SBU West	**1,668**	1,716
SBU East	**1,226**	1,380
Tikkurila common	**14**	11
Total	**2,908**	3,107

REVENUE BY PRODUCT GROUP AND BY SEGMENT IN 2018

	Decorative paints	**Industrial coatings**
SBU West	**309,630**	**71,534**
SBU East	**153,030**	**27,280**
Eliminations	**-4**	**-**
Total	**462,656**	**98,814**

The global paint market can be divided into two main categories, decorative paints and industrial coatings, based on the end-use of the products. Revenue from contracts with customers of Tikkurila reportable segments, SBU East and SBU West, is presented using this breakdown in the table above. The relative share of industrial coatings from the revenue of SBU West is slightly higher than the corresponding share in SBU East. The revenue in the table above includes a total of EUR 0.3 million revenue other than revenue from contracts with customers according IFRS 15. This amount is mostly included in the revenue of SBU West. This share of revenue consists of rent income recognized according IAS 17.

In both reportable segments, Tikkurila sells decorative paints and painting related merchandising and services to paint wholesalers, retailers and directly to construction supply stores. In addition, Tikkurila's own stores for professional customers serve as one distribution channel in the area of SBU West.

Tikkurila sells industrial coatings either directly to customers or through Tikkurila Industrial Paint Service retailer network.

Tikkurila customer contracts include several types of retrospective discounts, rebates and refunds related to delivered volumes, value of deliveries and sales volumes of selected product groups. In assessing these, experience based on history is used. In decorative paints product group, this assessing has a relative greater significance.

ASSETS AND LIABILITIES BASED ON CUSTOMER CONTRACTS

A company of Tikkurila Group has a loyalty program, from which EUR 0.1 million included in liabilities at the beginning of the financial year 2018 and EUR 0.1 million at the end of financial year. The promise given to a customer based on the loyalty program is a separate performance obligation. This material right is valid for the customer in a period of three years. The significance of loyalty program in the Group revenue is though immaterial.

The amount in account advances received from the customers at the beginning of the financial year 2018 totaled EUR 0.7 million, which has recognized in revenue during the financial year 2018. At the end of the financial year 2018 the advances received amounted to EUR 0.5 million. Advances are used mainly in SBU East area.

In the Tikkurila customer contracts related to tinting machines and marketing supporting other merchandising, there is a promise to a customer on volume-based discounts related to future paint purchases. This promise creates to the customer a material right which the customer would not receive without entering into above mentioned contracts. The liability to the customer related to this material right is recognized in the consolidated statement of financial position line accrued expenses and deferred income and the liability totaled EUR 1.3 million at January 1, 2018. At the end of the financial year 2018 the customer contract liability recognized totaled EUR 1.3 million.

Assets related to customer contracts which fall due over one year are recognized in consolidated statement of financial position in item non-current receivables (Note 21). Assets related to customer contracts falling due within one year are recognized in item trade and other non-current non-interest-bearing receivables (Note 23). Trade receivables for which the customer has a payment time over one year include a significant financing component and the correspondent consideration has been adjusted at the time of inception of the contract to recognize this component. The amount of discounted interest is recognized in interest income over time.

REVENUE BY DESTINATION

EUR thousand	**2018**	2017
Russia	**134,360**	143,355
Sweden	**127,634**	132,805
Finland	**94,356**	92,775
Poland	**84,616**	76,763
Other countries	**120,504**	136,694
Total	**561,470**	582,392

REVENUE BY PRODUCT GROUP

EUR thousand	**2018**	2017
Decorative paints	**462,656**	478,941
Industrial coatings	**98,814**	103,450
Total	**561,470**	582,392

NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION *)

EUR thousand	**2018**	2017
Russia	**24,242**	28,272
Sweden	**77,001**	78,280
Finland	**29,232**	35,049
Poland	**17,328**	17,754
Other countries	**14,294**	20,793
Total	**162,096**	180,149

*) 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 2018

There were no acquisitions during the financial year 2018.

ACQUISITIONS 2017

There were no acquisitions during the financial year 2017.

DISPOSALS 2018

In January 2018 Tikkurila concluded the divestment of its subsidiaries in Serbia and Macedonia to Tikkurila's local management. The disposed companies continue business in names Gudmark Group d.o.o. Sabac (Serbia) and Gudmark Group DOOEL Skopje (Macedonia). Gudmark Group continues as a distributor of Tikkurila branded products in the Balkan area. Both companies were consolidated to Group until the end of January 2018.

The aggregate consideration was EUR 0.1 million. Furthermore, an interest-bearing six-year vendor loan arrangement totaling EUR 2.1 million was agreed. Tikkurila has received as pledge the shares of Gudmark Group d.o.o. Sabac -company to secure this receivable.

This divestment resulted in a total of EUR 5.5 million loss in the Group. From this loss EUR 5.6 million was recognized in the financial year 2017 and after finalized the sale, EUR 0.1 million was recognized as a decrease of loss on sale in financial year 2018. Furthermore, in financial year 2018 in operating EBIT the loss was decreased by EUR 0.2 million as the accumulated exchange rate differences were reclassified from equity to profit or loss. Thus, this divestment resulted in a positive impact of EUR 0.4 million in operating EBIT in financial year 2018. At the end of financial year 2017, assets and liabilities of these divested subsidiaries were presented as held for sale items.

The combined revenue of Serbian and Macedonian companies was approximately EUR 12 million in 2017, and the number of employees totaled 133.

DISPOSALS 2017

There were no disposals during the financial year 2017.

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

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND BUSINESSES

EUR thousand	**2018**	2017
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	**50**	-
Cash inflow from the previous years' disposals	**1,068**	924
Recognized as receivable at the date of disposal	**-**	-
Cash and cash equivalents in disposed companies	**-965**	-
Net cash effect	**153**	924

Assets and liabilities disposed of	**2018**	2017
PPE** and intangible assets	**2,660**	-
Deferred tax assets	**14**	-
Interest-bearing receivables	**-**	-
Inventory	**2,082**	-
Trade receivables and other interest-free receivables	**2,965**	-
Non-current assets held for sale	**39**	
Cash and cash equivalents	**981**	-
Total assets	**8,741**	-
Deferred tax liabilities	**-**	-
Interest-bearing liabilities	**2,095**	-
Trade and other payables	**1,143**	-
Total liabilities	**3,238**	-
Total net assets and liabilities of disposal	**5,503**	-
Loss on disposal in equity	**-5,453**	-
Total	**50**	-

At the table of assets and liabilities disposed of subsidiaries' balances are presented at the exchange rate of disposal date.
** Property, plant and equipment

6. NON-CURRENT ASSETS HELD FOR SALE

Land area and building owned by Tikkurila's German subsidiary, were classified as held for sale assets in financial year 2018. These assets are measured at carrying amounts, as the estimation of sales price of a local real estate agency exceeds the carrying amounts.

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 was concluded in January 2018. At year-end 2017, assets and liabilities of these subsidiaries were disclosed as held for sale. These were included in balances of SBU East.

The revenue of companies totaled in 2017 some EUR 12 million and they employed 133 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	**2018**	2017
PPE	**1,559**	2,658
Other investments	**-**	39
Deferred tax assets	**-**	14
Inventory	**-**	2,185
Trade receivables and other interest-free receivables	**-**	3,128
Cash and cash equivalents	**-**	1,290
Total assets	**1,559**	9,314
Liabilities classified as held for sale		
Interest-bearing liabilities	**-**	12
Trade and other payables	**-**	997
Total liabilities	**-**	1,009

** Property, plant and equipment

7. OTHER OPERATING INCOME

EUR thousand	**2018**	2017
Gains on sale of non-current assets	**333**	228
Gains on sale of available-for-sale financial assets	**-**	0
Insurance compensation	**6,272**	237
Rental income	**380**	339
Income on services provided to joint venture	**958**	978
Other income from operations	**2,053**	1,867
Total	**9,996**	3,649

In financial year 2018, majority of gains on sales of non-current assets concluded sale of machinery and equipment of closed-down production facility of Tikkurila GmbH. In addition, gains mainly resulted sales of vehicles.

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

Insurance compensations comprise total of EUR 6 million compensation due to fire at the Venator's titanium dioxide plant in Pori, Finland in January 2017. The plant in Pori was an important raw material supplier for Tikkurila, and thus the fire caused significant damage and costs for the company.

8. PERSONNEL EXPENSES

EUR thousand	**2018**	2017
Wages and salaries	**-81,095**	-86,306
Share-based payments	**-222**	-25
Pension expenses for defined contribution plans	**-10,904**	-11,196
Pension expenses for defined benefit plans	**-953**	-1,249
Other personnel expenses	**-10,926**	-12,267
Total	**-104,100**	-111,042

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	**2018**	2017
Personnel in Finland, average	**562**	584
Personnel outside Finland, average	**2,346**	2,523
Total	**2,908**	3,107
Personnel at year-end	**2,717**	3,037

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

9. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

EUR thousand	**2018**	2017
Depreciation and amortization		
Intangible assets	**-4,867**	-5,257
Property, plant and equipment		
Buildings and constructions	**-2,850**	-3,187
Machinery and equipment	**-8,161**	-9,372
Other property, plant and equipment	**-1,394**	-1,377
Total	**-17,272**	-19,193
Impairment losses		
Intangible assets		
Other intangible assets	**-1**	-963
Goodwill	**-1,585**	-
Property, plant and equipment		
Machinery and equipment	**-803**	-234
Buildings and constructions	**-1,870**	-
Land and water	**-47**	-
Total	**-4,306**	-1,197
Total depreciation, amortization and impairment losses	**-21,578**	-20,391

In financial year 2018 recognized impairment losses on intangible assets and property, plant and equipment mostly relate to the Group production restructuring, where operations in German company has been decided to discontinue and to decision to close-down a production site in Denmark.

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.

10. OTHER OPERATING EXPENSES

EUR thousand	**2018**	2017
Rents	**-11,584**	-12,928
Other voluntary personnel expenses	**-3,700**	-4,607
Sales and marketing	**-22,570**	-27,152
Repair and maintenance	**-8,385**	-9,111
IT and communication	**-4,504**	-5,681
Freights for goods sold	**-16,323**	-17,869
Professional fees	**-5,558**	-5,802
Transportation and travel	**-8,114**	-9,136
Energy, heating and water	**-4,770**	-4,800
Insurances excl. personnel insurances	**-957**	-1,079
Office expenses	**-1,695**	-1,981
Representation and membership fees	**-2,259**	-2,534
External services	**-17,502**	-24,262
Authority fees and environmental tax	**-1,158**	-1,192
Credit losses	**-470**	-1,647
Other expenses	**-3,021**	-10,887
Total	**-112,570**	-140,668

Audit fees: [1]		
KPMG	**-447**	-433
Other audit firms	**-36**	-26
Tax advisory, KPMG	**-12**	-31
Other services, KPMG	**-6**	-16
Total	**-501**	-506

[1] Includes possibly invoiced out-of-the-pocket fees, like travelling expenses.
Other than audit fees invoiced by KPMG Oy Ab amounted to EUR 5 (24) thousand.

ITEMS AFFECTING COMPARABILITY

EUR thousand	**2018**	2017
Expenses		
Wages and salaries	**-5,414**	-1,680
Other personnel expenses	**-662**	-533
Defined benefit and contribution pension expenses	**-710**	-85
Other	**-2,111**	-5,977
Impairment losses:		
Goodwill	**-1,586**	-
Other intangible assets	**-1**	-963
Property, plant and equipment	**-1,822**	-234
Total	**-12,306**	-9,472

In financial year 2018, "Other" items affecting comparability comprise costs of closing-down the production sites in Russia, Denmark and Germany.

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 was realized when transaction was concluded.

11. RESEARCH AND DEVELOPMENT EXPENSES

EUR thousand	**2018**	2017
Research and development expenses total	**-9,234**	-10,871

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

12. FINANCIAL INCOME AND EXPENSES

EUR thousand	**2018**	2017
Financial income		
Dividend income	**14**	20
Interest income from loans and other receivables	**974**	983
Other interest income	**16**	3
Exchange rate gains		
Exchange rate gains from loans and other receivables	**1,101**	4,087
Exchange rate gains from financial liabilities measured at amortized cost	**10**	464
Other financial income	**-**	-
Total	**2,115**	5,557

EUR thousand	**2018**	2017
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	**-1,312**	-1,004
Other interest expenses	**-42**	-13
Exchange rate losses		
Exchange rate losses from loans and other receivables	**-5,865**	-6,850
Exchange rate losses from financial liabilities measured at amortized cost	**-15**	-91
Other financial expenses	**-585**	-520
Change in loss allowance of financial assets measured at amortized cost	**-76**	-
Total	**-7,895**	-8,478
Total financial income and expenses	**-5,780**	-2,921

Dividends are received from equity instruments classified at fair value through other comprehensive income. In financial year 2017 these investments were classified available-for-sale financial assets.

Change in loss allowance of financial assets measured at amortized cost is recognized on loan receivables, in which the Group has recorded 12-month expected credit losses. Credit risk on these assets has not significantly increased during the financial year 2018. Financial items were included in classifications loans and other receivables in year 2017 and no impairment losses were recognized on these assets in financial year 2017.

Reclassification of financial instruments on adoption of IFRS 9 and impacts on the Group's statement of financial position January 1, 2018 are disclosed in Note 41.

	2018	2017
Net financial expenses as a percentage of revenue	**1.0**	0.5
Net interests as a percentage of revenue	**0.1**	0.0

EUR thousand	**2018**	2017
Exchange rate gains and losses in financing items		
Realized	**-2,112**	-266
Unrealized	**-2,657**	-2,124
Total	**-4,769**	-2,390
Exchange rate gains and losses in operating profit		
Revenue	**10**	-38
Materials and services	**-2,374**	-1,970
Total	**-2,364**	-2,008

13. INCOME TAXES

EUR thousand	**2018**	2017
Current income tax charge	**-7,168**	-7,788
Adjustments for prior years	**20**	45
Deferred taxes	**685**	1,773
Total	**-6,463**	-5,970

Income taxes recognized in other comprehensive income	**2018**	2017
Items that will not be reclassified to profit or loss		
Deferred taxes		
Remeasurements on defined benefit plans	**38**	507
Total tax items that will not be reclassified to profit or loss	**38**	507
Items that may be reclassified subsequently to profit or loss		
Deferred taxes		
Net investment in foreign operations	**-**	-
Total tax items that may be reclassified subsequently to profit or loss	**-**	-
Total income taxes recognized in other comprehensive income	**38**	507

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

EUR thousand	**2018**	2017
Tax at parent's tax rate	**-4,210**	-3,324
Effect of different tax rates in foreign subsidiaries	**521**	-234
Tax-exempt income	**209**	36
Non-deductible expenditure	**-1,794**	-1,862
Effect of changes in tax rates	**-46**	-2
Used tax losses, previously unrecognized	**-**	5
Current year losses for which no deferred tax asset was recognized	**-1,528**	-369
Taxes from previous financial years	**20**	45
Changes of deferred taxes related to previous years and current year temporary difference which no deferred taxes were recognized	**208**	-231
Effect of result of equity-accounted investees	**64**	51
Other items	**93**	-85
Total taxes in the statement of comprehensive income	**-6,463**	-5,970

The Norwegian corporate tax rate decreases from 23% to 22% as of January 2019. In financial statements 2018 the Norwegian deferred taxes are measured by using the enacted corporate tax rate for year 2019.

In accordance with the resolution of the Swedish parliament, The Swedish corporate tax rate decreases from 22% to 21.4% as of January 2019 and will be further decreased to 20.6% as of January 2021. In financial statements 2018 the Swedish deferred taxes are measured by using the substantially enacted corporate tax rate (21.4%).

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%.

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 incentive program for the Group key employees, that was launched at the beginning of financial year 2016. This program consists of three performance periods 2015-2017, 2016-2018 and 2017-2019. In addition, incentive plan consists a matching share plan 2016-2018.

In accordance with the decision of the Board of Directors, the group has also a matching share plan 2017-2019.

In June 2018, the Board of Directors of Tikkurila Oyj decided two new share-based incentive plans for Group key employees; share plan 2018-2022 and share plan 2018-2019. Share plan 2018-2022 includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. Share plan 2018-2019 includes one performance period, calendar years 2018-2019. Payment of the rewards is conditional to that a participant is employed at the time of the payment.

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.

	2018	2017
Profit for the period attributable to the owners of the parent, EUR thousand	**14,584**	10,651
Weighted average number of ordinary shares (1,000)	**44,106**	44,106
Basic earnings per share (EUR / share)	**0.33**	0.24
Profit for the period attributable to the owners of the parent, EUR thousand	**14,584**	10,651
Weighted average number of ordinary shares (1,000)	**44,106**	44,106
Effect of share-based incentive plan (1,000)	**15**	5
Weighted average number of ordinary shares, adjusted for dilutive effect (1,000)	**44,121**	44,111
Diluted earnings per share (EUR / share)	**0.33**	0.24

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 financial year 2018, and at the end of previous year 44,108,252. The Group held 2,461 treasury shares on December 31, 2018. At the end of year 2017, the Group held 2,461 treasury shares.

15. PROPERTY, PLANT AND EQUIPMENT

EUR thousand	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2018 Total
Acquisition cost at Jan 1, 2018	5,779	109,173	183,350	11,064	2,926	**312,292**
Other increases	-	786	6,495	867	2,093	**10,241**
Other decreases	-	-8	-829	-435	-	**-1,272**
Disposal of businesses and subsidiaries	-	-	1	-	-1	**-**
Transfer to held for sale assets	-620	-2,090	-3,036	-204	-	**-5,950**
Other changes	-	-	-56	-2	-24	**-82**
Reclassifications	-	293	-23	1,077	-1,350	**-3**
Exchange rate differences	-119	-3,484	-4,244	-991	-228	**-9,066**
Cost at Dec 31, 2018	**5,040**	**104,670**	**181,658**	**11,376**	**3,417**	**306,160**
Accumulated depreciation and impairment losses at Jan 1, 2018	-75	-72,146	-151,064	-7,774	-	**-231,059**
Accumulated depreciation relating to decreases and transfers	-	8	753	408	-	**1,169**
Depreciation during the financial year	-	-2,850	-8,161	-1,394	-	**-12,405**
Impairment losses	-47	-1,870	-803	-	-	**-2,720**
Disposal of businesses and subsidiaries	-	-	-	-	-	**-**
Transfer to held for sale assets	-	1,164	3,034	193	-	**4,391**
Exchange rate differences	11	1,568	3,075	721	-	**5,374**
Accumulated depreciation and impairment losses at Dec 31, 2018	**-112**	**-74,127**	**-153,166**	**-7,847**	**-**	**-235,251**
Net carrying amount at Jan 1, 2018	**5,703**	**37,027**	**32,286**	**3,290**	**2,926**	**81,233**
Net carrying amount at Dec 31, 2018	**4,928**	**30,543**	**28,492**	**3,530**	**3,417**	**70,910**

EUR thousand	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current 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**

*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 2018 majority of prepayments and non-current assets comprised a project of a new production plant in Russia and projects related to installation of paint manufacturing department and store concept in Poland.
The new production plant project in Russia amounts to EUR 1.2 million in prepayments and non-current assets. In case, the project is not carried out that would cause a need to write down the capitalized expenses of the project at the time of decision via income statement.

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

Other projects in process related to maintenance and upgrading of buildings and production technology in year 2018 and 2017.

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, 2018			
Acquisition cost	1,125	-	**1,125**
Accumulated depreciation	932	-	**932**
Net carrying amount	**193**	**-**	**193**
Dec 31, 2017			
Acquisition cost	1,214	1	1,215
Accumulated depreciation	804	1	804
Net carrying amount	411	0	411

16. INTANGIBLE ASSETS

EUR thousand	Goodwill	Other intangible assets	Prepayments and non-current assets under construction	**2018 Total**
Acquisition cost at Jan 1, 2018	72,704	71,145	1,767	**145,616**
Other increases	-	35	171	**206**
Other decreases	-	-50	-	**-50**
Disposal of businesses and subsidiaries	-	-10	-	**-10**
Transfer to held for sale assets	-	-	-	**-**
Other changes	-	-34	-12	**-46**
Reclassifications	-	1,772	-1,771	**1**
Exchange rate differences	-547	-1,155	-6	**-1,708**
Cost at Dec 31, 2018	**72,157**	**71,703**	**149**	**144,009**
Accumulated amortization and impairment losses at Jan 1, 2018	-748	-46,445	-	**-47,193**
Accumulated amortization relating to decreases and transfers	-	7	-	**7**
Amortization during the financial year	-	-4,867	-	**-4,867**
Impairment losses	-1,585	-1	-	**-1,586**
Disposal of businesses and subsidiaries	-	-	-	**-**
Transfer to held for sale assets	-	-	-	**-**
Exchange rate differences	1	424	-	**425**
Accumulated amortization and impairment losses at Dec 31, 2018	**-2,332**	**-50,882**	**-**	**-53,214**
Net carrying amount at Jan 1, 2018	**71,956**	**24,700**	**1,767**	**98,424**
Net carrying amount at Dec 31, 2018	**69,825**	**20,821**	**149**	**90,795**

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**

The carrying amounts of equity-accounted investee in 2018 or 2017 did not include goodwill. The Group did not have intangible assets with indefinite useful lives in 2018 or earlier financial periods.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 5.2 million (2017: EUR 6.7 million), as well as marketing channels and customer connections acquired in business combinations in total of EUR 0.4 million (2017: EUR 1.1 million). Other intangible assets include also carrying amount of software in total of EUR 15.2 million (2017: EUR 16.9 million).

There were no capitalized borrowing costs in 2018 or 2017. The average interest rate of external borrowings for each month would be applied as the capitalization rate.

In financial year 2018, prepayments and assets under construction consist mostly of costs for e-commerce program platform. In financial year 2017, the amount of development cost of the enterprise resource planning was EUR 1.1 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. In financial year 2018, an impairment loss on property, plant and equipment was recognized in Denmark in consequence of a decision to close the production unit.

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 the 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	**2018** **Carrying amount**	**of which Goodwill**	2017 Carrying amount	of which Goodwill
Finland	**34,930**	**-**	45,442	-
Scandinavia	**101,171**	**66,930**	105,324	68,630
East	**54,281**	**2,895**	64,301	3,326
Central Europe	**42,987**	**-**	47,347	-
South-East Europe	**7,908**	**-**	11,945	-

Annually, 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 2018 varied between 6.3% - 11.8% 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 2018 calculation of WACC was used the same peer group of benchmark companies operating in the same industry which was re-specified and expanded in 2017. The basis in the definition of the risk-free interest rate 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 added with the inflation differential between Germany and the country in question. The German government bond is used because Germany is an AAA-rated country. Hence, 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 2018 impairment test, for the forecasting period from 2019 to 2021, the revenue is expected to grow absolutely the highest in Area Scandinavia. The relative growth in the same period is estimated to be the highest in Area South-East Europe as it was also in the previous three-year forecasting period from 2018 to 2020. However, the estimated level of revenue in Area South-East Europe is on lower level in this forecasting period 2019-2021 due to the divestment realized. Also, the pace of revenue growth has been reviewed. Area CE revenue exceeded in 2018 clearly the expected level of revenue which was estimated for 2018 in previous three-year forecasting period, and because of that in the forecasting period 2019-2021 the pace of revenue growth has been reviewed. From the end of 2016 raw material and packaging material prices have significantly increased. Even though inflation is expected to slow down, and maybe prices to stabilize during 2019, anyway raw material and packaging materials prices are most likely going to be very volatile beyond 2018. In financial year 2018, some cost cutting actions have been implemented which are expected to improve profitability in the future. In 2018 has been conducted discontinuation of three production sites, shut down the operations of a subsidiary in Germany and lay off a significant number of personnel due to reorganizing operations by eliminating overlaps of operations. In addition, decision-making and responsibilities have been clarified. Other measures in process are, for instance, optimizing the logistic network in the Group, harmonizing product portfolio and number of used raw materials.

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.

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 2017 to year 2018 occurred in the operating area East. The decrease is mainly caused by the decrease of the Beta coefficient, risk free interest rate and inflation. 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Estimate parameters used										
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	**12.3**	10.2	**12.2**	14.2	**15.5**	11.2	**17.8**	23.9	**14.0**	11.7
Discount rate, pre-tax, %	**7.3**	8.1	**14.1**	15.4	**8.3**	9.7	**9.2**	9.9	**7.9**	8.4
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	**176,046**	71,746	**47,882**	43,394	**169,326**	32,983	**90,790**	153,935	**112,596**	69,412

At the end of 2018, there are three cash-generating units - Scandinavia, Central Europe and Finland – where the recoverable amount increased compared to the end of 2017, which was affected by:
1) decrease in the discount rate, based on changes in interest rates and market risk premiums and
2) future estimated improvement in operating profit margin, which is based on the effects of the major structural changes and cost savings carried out during the last years, as well as on the assumed future sales structure.
On the other hand, the recoverable amount of the GGU South East Europe has decreased from the previous year-end due to the divestment of the Tikkurila's Balkan business.

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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Change in key assumptions										
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	**-6.6**	-2.9	**-4.2**	-4.5	**-10.4**	-2.8	**-14.5**	-20.2	**-8.8**	-5.7
Change in pre-tax discount rate, % -units	**9.5**	4.5	**10.5**	9.2	**26.8**	5.7	**55.5**	58.1	**18.8**	10.1
Change in growth post forecast period, % -units	**-13.5**	-5.7	**-18.3**	-15.6	**-71.8**	-8.1	**n/a**	n/a	**-35.3**	-14.5

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 the 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 the carrying amount, assuming the 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	**2018**	2017
Carrying amount at Jan 1	**491**	703
Share of profit or loss of equity-accounted investees	**293**	231
Dividends	**-366**	-381
Other comprehensive income	**-6**	-36
Exchange rate differences	**-20**	-26
Carrying amount at Dec 31	**393**	491

Associates
During year 2018 or 2017 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 2018 or 2017, 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.

EUR thousand	**2018**	2017
Non-current assets	**1,205**	1,759
Current assets excluding cash and cash equivalents	**785**	1,533
Cash and cash equivalents	**646**	971
Total assets	**2,636**	4,263
Non-current financial liabilities	**-**	-
Other non-current liabilities	**820**	796
Current financial liabilities excluding trade payables	**-**	-
Other current liabilities including trade payables	**1,030**	2,484
Total liabilities	**1,850**	3,280
Net assets	**786**	983
Group's share of net assets (50%)	**393**	491
Revenue	**8,176**	8,902
Depreciation and amortization	**-**	-
Interest income	**2**	-
Interest expenses	**0**	0
Income taxes	**-171**	-164
Profit for the period	**586**	463
Other comprehensive income	**-12**	-72
Total comprehensive income for the period	**574**	391
Group's share of total comprehensive income for the period	**287**	196
Dividends received by Group	**366**	381
Personnel during the period, average	**9**	10

EUR thousand	**2018**	2017
Group's share of net assets at Jan 1	**491**	703
Group share of net profit	**293**	232
Dividends received	**-366**	-381
Other comprehensive income	**-6**	-36
Translation differences	**-20**	-26
Carrying amount at Dec 31	**393**	491

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

19. INVENTORIES

EUR thousand	**2018**	2017
Materials and supplies	**25,448**	27,421
Work in progress	**2,474**	2,792
Finished goods	**50,746**	64,887
Prepayments	**175**	885
Total	**78,842**	95,984

Inventory write-downs amounting to EUR 9.4 million (EUR 6.7 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 2018, also reversals of inventory write-down amounting to EUR 2.0 million were recognized (EUR 1.0 million). The amount of cost recognized as expense was EUR 292.2 million (EUR 294.6 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 2018 was EUR 3.0 million (EUR 1.3 million). In the Group the value of the right-to-return goods including in inventory value is EUR 0.0 million.

20. OTHER INVESTMENTS

EUR thousand	**2018**	2017
Carrying amount at Jan 1	**755**	822
Additions	**-**	-
Disposals	**-5**	-75
Change in valuation	**-**	1
Other changes / Transfers	**-**	-
Exchange rate differences	**-6**	7
Carrying amount at Dec 31	**744**	755

Other investments include 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 these equity investments were classified as available-for-sale financial assets. Unrealized fair value changes were recognized in other comprehensive income, net of tax. Realized gain or losses resulted at the disposal of these investments were recognized in profit or loss as well as possible impairment losses. In financial year 2017, no impairment losses were recognized for other investments. In financial year 2017 loss on disposal EUR 0 thousand and gain on sale EUR 0 thousand were recorded in other operating income and expenses.

In adoption of IFRS 9 standard, Tikkurila has classified these equity instruments as fair value through other comprehensive income. In financial year 2018 received dividends on these investments are recognized in profit or loss but possible impairment losses will not be recognized in profit or loss nor the gains or losses on disposal will be reclassified to profit or loss. In financial year 2018, EUR 72 thousand gain on sale of these shares was recognized in other comprehensive income.

21. NON-CURRENT RECEIVABLES

EUR thousand	**2018**	2017
Loan receivables	**6,598**	5,701
Prepayments	**164**	162
Accrued income and deferred expenses	**121**	202
Other receivables	**1,987**	1,416
Total non-current assets	**8,870**	7,481
Other receivables		
Trade receivables and hire-purchases	**1,874**	1,416
Other non-current non-interest-bearing receivables	**113**	-
Total other receivables	**1,987**	1,416

Trade receivables and loan receivables are classified as financial assets at amortized cost. The impact from changes in accounting principles to classification of financial assets due to adoption of IFRS 9 is disclosed in Note 41 and details about the Group's calculation of the loss allowance are provided in Note 33.

22. CURRENT INTEREST-BEARING RECEIVABLES

EUR thousand	2018	2017
Loan receivables	983	655
Total interest-bearing receivables	**983**	655

23. TRADE AND OTHER NON-INTEREST-BEARING RECEIVABLES

EUR thousand	2018	2017
Trade receivables	84,745	88,070
Accrued income and deferred expenses	5,714	6,142
Other receivables	5,328	3,605
Total current non-interest-bearing receivables	**95,787**	97,817

Trade receivables and loan receivables are classified as financial assets at amortized cost. The impact from changes in accounting principles to classification of financial assets due to adoption of IFRS 9 is disclosed in Note 41 and details about the Group's calculation of the loss allowance are provided in Note 33.

Other receivables include VAT receivables amounting to EUR 2.8 million (EUR 3.2 million).

EUR thousand	2018	2017
Accrued income and deferred expenses		
Items related to net revenue and purchases	1,782	2,682
Employee benefit expenses	536	446
Insurances	151	479
Leases	1,418	1,288
Interests	97	112
Other	1,851	1,337
Total	**5,835**	6,344

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	2018	2017
Cash	35,486	16,959
Cash equivalents (bank deposits, maturity less than 3 months)	-	-
Total cash and cash equivalents	**35,486**	16,959

EUR thousand	2018	2017
Cash and cash equivalents according to cash flow:		
Cash	35,486	16,959
Cash equivalents (bank deposits, maturity less than 3 months)	-	-
Bank overdrafts	-	-87
Total cash and cash equivalents	**35,486**	16,872

25. DEFERRED TAX ASSETS AND LIABILITIES

Balance at Dec 31, 2018

2018 EUR thousand	Net balance at Jan 1, 2018	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	217	-18	28	-	-	-	-	227	227	-
Defined benefit pension plans	2,397	-91	-156	36	-	-	-	2,186	2,186	-
Provisions	141	-3	229	-	-	-	-	367	367	-
Inventory profit	910	-36	-166	-	14	-	-	722	722	-
Cumulative depreciation difference	-2,538	95	758	-	-	-	-	-1,685	584	-2,269
Fair value measurement of PPE* and intangible asset in business combinations	-1,626	144	315	-	-	-	-	-1,167	-	-1,167
Other temporary differences	3,691	-323	-323	-	-	-	531	3,576	4,026	-451
Net tax liabilities (assets)	3,191	-232	685	36	14	-	531	4,225	8,112	-3,887

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
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

* 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 8.3 million at December 31, 2018 (EUR 3.0 million) for which no deferred tax asset was recognized. The unlimited right to carry forward the tax losses concerns 89 (73) percent of the tax losses. Tax losses with the limited right expire in 2019–2026. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which deferred tax assets can be utilized.

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

However, from 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, 2017	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**
Acquisition of treasury shares	-	-	-
Disposal of treasury shares as part of Tikkurila's share-based incentive plan	-	-	-
Total at December 31, 2018	**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, 2018 (EUR 35 million) and it is fully paid. On December 31, 2018, the number of shares was 44,108,252 including 2,461 treasury shares. At the end of year 2017, 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

As of a financial year 2018, the Group classified the equity investments as financial assets at fair value through other comprehensive income. The change in fair value of these investments is recognized in fair value reserve. On disposal any related balance within the fair value reserve is reclassified to retained earnings.

In financial year 2017, fair value reserve included accumulated fair value changes of available-for-sale financial assets until the assets were 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 years 2018 or 2017 TIkkurila did not purchase or disposed any treasury shares without any consideration. At the year-end 2018, 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 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.

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 2018 in two equal installments, in April and in November. In year 2017, 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 0.33 per share, totaled EUR 14,555 thousand, will be distributed of the year 2018. Total amount informed here is calculated for number of shares outstanding as end of financial year 2018.

EUR thousand	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	**Total**
Other comprehensive income 2018						
Items that will not be reclassified to profit or loss:						
Changes in equity investments - gain / loss on disposals	-	-	72	72	-	**72**
Remeasurements on defined benefit plans	-	-	-216	-216	-	**-216**
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	-8	-8	-	**-8**
Income taxes relating to items that will not be reclassified to profit or loss	-	-	36	36	-	**36**
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	2	2	-	**2**
Total items that will not be reclassified to profit and loss, net of tax	**-**	**-**	**-113**	**-113**	-	**-113**
Items that may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	-	-6,614	-	-6,614	-	**-6,614**
Foreign currency translation differences for equity-accounted investees	-	-17	-	-17	-	**-17**
Total items that may be reclassified subsequently to profit or loss, net of tax	**-**	**-6,631**	**-**	**-6,631**	**-**	**-6,631**
Other comprehensive income 2018, net of tax	**-**	**-6,631**	**-113**	**-6,744**	**-**	**-6,744**

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**

27. NON-CURRENT INTEREST-BEARING LIABILITIES

EUR thousand	**2018**	2017
Loans from financial institutions	**49,932**	49,900
Finance lease liabilities	**66**	183
Total non-current interest-bearing liabilities	**49,998**	50,083
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	**2018**	2017
Finance lease liabilities - total minimum lease payments		
Within one year	**127**	197
After one year and not later than five years	**68**	188
Later than five years	**-**	-
Total	**195**	386
Finance lease liabilities - present value of the minimum lease payments		
Within one year	**121**	188
After one year and not later than five years	**65**	183
Later than five years	**-**	-
Total	**186**	371
Future finance charges	**9**	14
Total finance lease liabilities	**195**	386

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	**2018**	2017
Loans from financial institutions	**20,009**	1,881
Commercial paper program	**50,876**	54,897
Finance lease liabilities	**120**	187
Other interest-bearing current liabilities	**-**	-
Total interest-bearing current liabilities	**71,006**	56,966

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 2018 was 1.2% (0.8%). *)

Interest-bearing liabilities by currency (in euro):

EUR thousand	**2018**	2017
EUR	**121,004**	105,155
CNY	**-**	1,784
Other	**-**	110
Total	**121,004**	107,049

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

29. TRADE AND OTHER NON-INTEREST-BEARING PAYABLES

EUR thousand	**2018**	2017
Non-current accrued expenses and deferred income	**107**	142
Other non-current interest-free liabilities	**-**	-
Total other non-current liabilities	**107**	142
Trade payables	**46,342**	51,492
Other non-interest-bearing payables	**5,225**	4,087
Advances received	**503**	675
Accrued expenses and deferred income	**43,615**	49,208
Total current non-interest-bearing payables	**95,685**	105,460
Accrued expenses and deferred income		
Share-based payments	**107**	37
Employee benefit expenses	**12,639**	14,933
Items related to revenue and purchases	**28,889**	24,482
Interests	**78**	39
Other	**2,009**	9,858
Total	**43,722**	49,350

At the end of financial year 2018, line "Other" includes accruals of other expenses, like IT expenses. 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.

The line “Items related to revenue and purchases” includes liabilities from contracts with customers (contract liabilities): EUR 58 thousand of an accrual on unredeemed customer loyalty points, EUR 6 thousand of refund liability on sale with a right of return and EUR 20.8 million of different types of discounts, rebates and refunds related to customer contracts. In addition, item consists EUR 1.3 million promises of discounts on future purchase of paints as per customer contracts in relation to tinting machines and some other marketing supporting by-products.

Net liabilities	**2018**	2017
Interest-bearing non-current liabilities	**49,998**	50,083
Interest-bearing current liabilities	**71,006**	56,966
Cash and cash equivalents		
Cash	**-35,486**	-16,959
Cash equivalents (bank deposits, maturity less than 3 months)	**-**	-
Total	**85,518**	90,090

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. Pension commitments of Tikkurila GmbH pension plan were amended in December 2018. A higher yearly increase to pension payments are guaranteed to participants, but on the other hand the benefits are only paid up to the age of 90 years instead of benefits being paid for the whole lifetime.

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.

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	**2018**	2017
Defined benefit pension obligations (net)	**25,125**	25,965
Other long-term employee benefits including social costs	**999**	1,145
Pension obligations and other long-term employee benefits	**26,124**	27,110
Defined benefit pension obligations		
Items recognized in the statement of financial position:		
Present value of funded obligations	**2,024**	1,952
Present value of unfunded obligations including Swedish payroll tax liability	**25,071**	25,973
Fair value of plan assets	**-1,970**	-1,960
Net defined benefit liability	**25,125**	25,965

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
EUR thousand	**2018**	2017	**2018**	2017	**2018**	2017
Balance at Jan 1	**25,927**	24,657	**-1,960**	-2,156	**23,967**	22,501
Included in profit or loss: 1)						
Current service cost	**590**	631	**-**	-	**590**	631
Interest expense / (income)	**613**	627	**-44**	-55	**569**	572
Plan amendments	**-172**	-	**-**	-	**-172**	-
Administrative expenses	**-**	-	**0**	5	**0**	5
	1,031	1,257	**-44**	-50	**987**	1,207
Included in other comprehensive income: 2)						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from						
Experience adjustment	**370**	76	**-**	-	**370**	76
Demographic assumptions	**-1,146**	-	**-**	-	**-1,146**	-
Financial assumptions	**945**	1,743	**-**	-	**945**	1,743
Return on plan assets, excluding amounts included in interest expense/(income)	**-**	-	**39**	112	**39**	112
Effect of movements in exchange rates	**-938**	-799	**24**	169	**-914**	-630
	-769	1,021	**63**	281	**-706**	1,302
Other:						
Contributions paid by						
Employer	**-**	-	**-92**	-110	**-92**	-110
Payments from the plans:						
Benefits payments	**-974**	-995	**63**	75	**-911**	-920
Obligations transfers and other changes	**-13**	-13	**-**	-	**-13**	-13
Balance at Dec 31	**25,202**	25,927	**-1,970**	-1,960	**23,232**	23,967

1) In addition, the Swedish payroll tax related defined benefit pension is included as expenses of defined benefit pensions EUR -32 thousand (EUR 42 thousand) in profit or loss.

2) Loss of EUR 8 thousand (loss of EUR 401 thousand) on Swedish payroll tax is recognized in other comprehensive income.

In addition, actuarial loss of EUR 8 thousand (actuarial loss EUR 36 thousand), net of tax, is recognized in other comprehensive income regarding equity-accounted investees.

EUR thousand	**2018**	2017
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	**177**	2,220
Return on plan assets, excluding amounts included in interest expense/(income)	**39**	112
Change in income taxes related to remeasurements for defined benefit plans	**-36**	-497
Actuarial gains / losses recognized from equity-accounted investees, net of tax	**6**	36
Total	**185**	1,871
Plan assets include		
Assets in insurance companies *	**1,970**	1,960
Total	**1,970**	1,960

* 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 2019.

The significant actuarial assumptions	**2018**	2017
Discount rate	**0.8-2.6%**	0.9-2.5%
Inflation	**2.0%**	1.9-2.0%
Forthcoming increases in wages and salaries	**2.5-2.8%**	2.5%
Forthcoming increases in pensions	**0.8-3.0%**	0.5-2.0%

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 22,236 thousand (EUR 22,838 thousand). In addition, the value of the payroll tax related to this defined benefit obligation was EUR 1,894 thousand (EUR 1,998 thousand) at year-end 2018. The most significant actuarial assumptions regarding this plan were as following: discount rate 2.35% (2.50%), inflation 2.00% (1.90%), 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 24 years and for a 65-year-old man, 22 years.

At December 31, 2018, the weighted-average duration of the defined benefit pension obligation was 17.3 years (2017: 16.3 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, 2018**		Dec 31, 2017	
Change in assumption	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**-2,400**	**2,730**	-2,449	2,786

	31.12.2018		31.12.2017	
Sensitivity analyses on Group's most significant plan, Swedish defined benefit pension plan	**Increase**	**Decrease**	Increase	Decrease
One-year change in life expectancy	**1,168**	**-1,156**	1,130	-1,119
Inflation (0.5% movement)	**2,052**	**-1,846**	1,919	-1,822

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. Terms of the plan are similar as in previous financial year 2017, due to restructuring of Finnish operations in year 2018 number of participants decreased. This impact is disclosed as curtailment of the other long-service benefit plan.

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	**2018**	2017
Other long-term employee benefits		
Items recognized in the statement of financial position:		
Present value of long-service benefit plan	**799**	916
Social costs	**200**	229
Liability of long-service benefit plan including social costs	**999**	1,145
Balance		
Other long-service benefit obligation at Jan 1	**916**	1,000
Included in profit or loss:		
Current service cost	**67**	74
Interest cost	**7**	9
Actuarial losses (gains) arising from		
Experience adjustment	**-63**	-74
Demographic assumptions	**-**	-
Financial assumptions	**-20**	35
Curtailment of the other long-service benefit plan	**-44**	-66
	-54	-23

EUR thousand	2018	2017
Other:		
Payments from the plans:		
Benefits payments	**-63**	-61
Long-service benefit obligation at Dec 31	**799**	916

	2018	2017
Actuarial assumptions		
Discount rate	**1.1%**	0.8%
Inflation	**1.5%**	1.5%
Forthcoming increases in wages and salaries	**1.9%**	1.9%
Employee turnover	**3.0%**	3.0%

Tikkurila Oyj expects to pay EUR 67 thousand of contributions into the long-service benefit plan during the year 2019.
At December 31, 2018, the weighted-average duration of the long-service benefit obligation was 9 years (2017: 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, 2018		Dec 31, 2017	
Change in assumption	**Increase**	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**-31**	**34**	-36	38
Salary growth rate (0.5% movement)	**34**	**-32**	38	-35

31. PROVISIONS

EUR thousand	Environmental provisions	Restructuring	Other provisions	2018 Total
2018				
Non-current provisions				
Balance at Jan 1, 2018	-	61	442	**503**
Exchange rate differences	-	-	-13	**-13**
Provisions made during the period	-	120	54	**174**
Provisions used during the period	-	-7	-	**-7**
Provisions reversed during the period	-	-	-4	**-4**
Reclassifications	-	-45	-	**-45**
Non-current provisions at Dec 31, 2018	**-**	**129**	**479**	**608**
Current provisions				
Balance at Jan 1, 2018	151	169	302	**622**
Exchange rate differences	-	-	-1	**-1**
Provisions made during the period	157	3,734	2	**3,893**
Provisions used during the period	-190	-1,907	-	**-2,097**
Provisions reversed during the period	-	-112	-200	**-312**
Reclassifications	-	45	-	**45**
Current provisions at Dec 31, 2018	**118**	**1,929**	**103**	**2,150**

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 released 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

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

At the end of financial year 2018 a total of EUR 118 thousand is recognized as current provision for cost related to clean up and rehabilitate the land which relates to closing of a production facility in Germany. The lease agreement of land area, in which production facility is located, expired in December 2018.

RESTRUCTURING PROVISIONS

As per previous years and year 2018 concluded co-operation negotiations related to Tikkurila's Finnish site the restructuring provisions have been recognized concerning the deduction of personnel. At the end of the financial year 2018, these provisions amounted to EUR 239 thousand, from which the EUR 110 thousand is presented as current provisions. The accurate timing of realization of these provisions is uncertain.

As per closing the German operations a restructuring provision is recognized concerning expenses arising from the deduction of personnel as well as other expenses from closing the site. At end of the financial year 2018 the provision amounted to EUR 1,191 thousand. Costs for which provision is recognized is expected to be realized during the year 2019.

A restructuring provision for the deduction of personnel relates to closing of a Danish production unit. At end of financial year 2018 EUR 628 thousand is recognized as a current provision.

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 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 had recognized in 2017 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 at end of 2017. At the end of financial year 2018 the provision recognized was EUR 79 thousand. To the Ministry of Environment of Lithuania has been presented a proposal agreement together with many other companies in the same situation to decrease the payable Environment Tax significantly. This agreement has not been signed because the change of the Minister. If this agreement will not be accepted the participating companies intend to prove in legal means the decision in this case been illegal since the companies would be held accountable for third party actions contrary to the agreement.

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

EUR thousand	Note	Fair value through profit or loss items	Amortized cost items	Fair value through other comprehensive income items	**Total carrying amounts**	**Fair value level 1**	**Fair value level 2**	**Fair value level 3**	**Total fair values**
2018									
Financial assets measured at fair value									
Non-current financial assets									
Other investments	20	-	-	744	**744**	**-**	**-**	**744**	**744**
		-	**-**	**744**	**744**				
Financial assets not measured at fair value									
Non-current receivables	21								
Loan receivables		-	6,598	-	**6,598**	**-**	**6,598**	**-**	**6,598**
Other receivables		-	1,874	-	**1,874**	**-**	**1,874**	**-**	**1,874**
Current financial assets									
Interest-bearing receivables	22	-	983	-	**983**				
Cash equivalents	24	-	35,486	-	**35,486**				
Trade and other non-interest-bearing receivables	23	-	84,745	-	**84,745**				
		-	**129,686**	**-**	**129,686**				
Financial liabilities not measured at fair value									
Non-current financial liabilities									
Finance lease liabilities	27	-	66	-	**66**	**-**	**66**	**-**	**66**
Loans from financial institutions	27	-	49,932	-	**49,932**	**-**	**49,968**	**-**	**49,968**
Current financial liabilities									
Current interest-bearing liabilities	28	-	71,005	-	**71,005**				
Trade payables	29	-	46,342	-	**46,342**				
		-	**167,345**	**-**	**167,345**				

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				

The impact of the change in accounting policy following the adoption of IFRS 9 on the classification of financial assets is disclosed in Note 41.

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 2017 the discount rate used was 0.80%.

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.

Other investments 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 FAIR VALUE MEASURED FINANCIAL ASSETS AND LIABILITIES

EUR thousand	**2018**	2017
	Other investments	Available-for-sale financial assets
Carrying amount at Jan 1	**755**	822
Translation differences in other comprehensive income	**-6**	7
Additions	**-**	-
Change in valuation	**-**	1
Other changes / Transfers	**-**	-
Disposals	**-5**	-75
Carrying amount at Dec 31	**744**	755

In year 2017, there was recognized gain of EUR 0 thousand and loss of EUR 0 thousand on other investments in fair value hierarchy level 3. 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 other investments classified in level 3.

In year 2018, there is recognized gain on sale of equity instruments as fair value through other comprehensive income amounting EUR 72 thousand.
In financial year 2018, no impairment loss was recognized on equity instruments as fair value.

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

Other investments in level 3 include unquoted shares that are measured at cost or at cost less impairment if value has been impaired below the cost. These shares are of business supportive nature and 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 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.

In financial year 2017 these equity investments were classified as available-for-sale financial assets. Unrealized fair value changes were recognized in other comprehensive income, net of tax. Realized gain or loss resulted at the disposal of these investments were recognized in profit or loss as well as possible impairment losses.

In adoption of IFRS 9 standard, Tikkurila has classified these equity instruments as fair value through other comprehensive income. In financial year 2018 received dividends on these investments are recognized in profit or loss but possible impairment losses will not be recognized in profit or loss nor gains or losses on disposal.

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 Team 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.

In certain countries where the Group operates there are local exchange control regulations that restrict the cash and money movements abroad. At the year-end 2018 cash and cash equivalents held by Tikkurila in China amounted to EUR 4,598 thousand. At the end of financial year 2017, corresponding figure amounted to EUR 2,093 thousand in Serbia, Macedonia and China. The European Union and the United States have set, and might set further, sanctions against Russia or Russian counterparties. Since Russia is a significant market area for Tikkurila, these sanctions can have adverse effects on Tikkurila's business and/or investments, 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, 2018 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, also changes in general economic development have an impact on Tikkurila's business both directly and indirectly e.g. via interest rate changes. 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 matter has to be taken into account when analyzing items on the consolidated statement of financial position and financial risks. Typically, the highest level of net working capital is reached during summer. 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. During recent years, the currencies of states in SBU East, especially Russian ruble, have significantly fluctuated. Moreover, the depreciation of the Swedish crown has adversely affected Group revenue and operating profit. As per decision of the Board of Directors Tikkurila Group does not carry out any forward agreements, so 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 to relevant extent in both purchase and sales contracts

TRANSACTION RISKS

During 2018 and 2017 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 presented 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, and any changes can be in effect only after a long-time lag.

EUR thousand

Transaction risk position	KZT	SEK	NOK	DKK	PLN	RSD	RUB	MKD	CNY	Other
Dec 31, 2018										
Bank accounts	-509	3,654	419	2,924	5,885	-	23,592	-	-	169
Loans and deposits	2,453	2,925	275	-	-	-	-	-	3,809	-
Trade receivables and payables	1,804	4,076	594	68	1,715	-	2,610	-	2,134	-468
Open position	3,748	10,655	1,288	2,992	7,600	-	26,202	-	5,943	-299

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

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 must 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:

	2018					2017				
EUR thousand	**RUB**	**SEK**	**CNY**	**KZT**	**PLN**	RUB	SEK	CNY	KZT	PLN
Impact of 10% weakening of currency	**-2,382**	**-969**	**-540**	**-341**	**-691**	-2,799	-549	-330	-267	-509
Impact of 10% strengthening of currency	**2,911**	**1,184**	**660**	**416**	**844**	3,421	671	404	326	623

In financial year 2017 the impact of currency rate changes to profit before taxes regarding RSD was disclosed separately. As Tikkurila sold its subsidiary in Serbia at the beginning of financial year 2018, RSD was replaced by CNY in this table.

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	CNY	Other
Dec 31, 2018					
Equity	30,008	4,871	34,274	5,327	4,438
Impact of 10% strengthening of currencies on equity	3,334	541	3,808	592	493
Impact of 10% weakening of currencies on equity	-2,728	-443	-3,166	-484	-403

EUR thousand	RUB	SEK	PLN	CNY	Other
Dec 31, 2017					
Equity	30,532	4,630	32,822	5,489	4,697
Impact of 10% strengthening of currencies on equity	3,392	514	3,647	610	522
Impact of 10% weakening of currencies on equity	-2,776	-421	-2,984	-499	-427

INTEREST RATE RISKS

Tikkurila Group had following interest-bearing assets and liabilities during 2018 and/or 2017:

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 gets weaker 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 are presented in the following table. The financial instrument has been defined as a fixed when the interest rate is fixed for the whole duration of the instrument regardless of whether the instrument is short- or long-term.

EUR thousand	**Dec 31, 2018**	Dec 31, 2017
Fixed rate		
Financial assets *	**1,490**	1,382
Financial liabilities	**-51,072**	-55,365
Net	**-49,582**	-53,983
Floating rate		
Financial assets	**6,091**	4,974
Financial liabilities	**-69,932**	-51,684
Net	**-63,841**	-46,710

* Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 85.5 (90.1) million net debt position on December 31, 2018, the impact of each one percentage point increase in interest rates to next financial year's profit before tax would be EUR -0.8 (-0.7) million. The sensitivity analysis is based on the 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 2019 would be at the average level of 2018, calculated as the average of actual month-end balances, and consequently equal about EUR 128 million, then applying the abovementioned assumptions and principles one percentage point increase in interest rates would increase Group's interest expense in 2019 by about EUR 0.7 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% (6%) of revenue in 2018 took place using advance payments.

Credit insurance is used in Poland where about 76% (85%) of trade receivable as of December 31, 2018 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, 2018	Dec 31, 2017
Financial assets at fair value through profit or loss	23,33	-	-
Loans and other receivables	21, 22, 23, 24	129,686	112,801
Total		**129,686**	112,801

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

EUR thousand	Dec 31, 2018	Dec 31, 2017
EUR	37,836	31,202
SEK	22,133	19,397
RUB	31,247	30,095
PLN	20,225	16,084
DKK	4,541	3,511
RSD	-	-
CNY	8,742	8,007
Other	4,962	4,505
Total	**129,686**	112,801

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.

The Group's trade receivables, classified and measured at amortized cost in accordance IFRS 9, consist the most of the Group's financial assets. In financial year 2017, guidance on estimating the loss allowance was based on time categories when the trade receivables have fallen due. From the beginning of 2018 Tikkurila Group has applied IFRS 9 simplified approach to measure expected credit losses. New expected credit loss model considers lifetime expected loss allowance for all outstanding trade receivables. The expected loss allowance is calculated by using specific expected loss rates created for each aging category. These expected loss rates are defined by grouping trade receivables based on their geographical location. Historical losses, customers' payment behavior in geographical area in question and information on macroeconomic factors, especially GDP development, are impacting to the percentages defined. As Tikkurila Group operates in several different economic environments the range of expected credit loss rates varies inside the Group. In addition, further expected loss allowance may have been calculated for specific individual customers. Trade receivables are written off when there is no reasonable expectation of recovery. In adoption of the new expected credit loss model, Group recognized an adjustment of EUR -1.1 million in retained earnings and trade receivables as of January 1, 2018.

31.12.2018	Not past due	Past due 1 - 90 days	Past due 91 - 180 days	Past due 181 - 365 days	Past due over 365 days	Total
Expected loss rate range	0.03%-1.5%	0.4%-15.5%	1.0%-32.1%	50.0%	100.0%	
Gross carrying amount- trade receivables	85,086	1,930	647	506	3,666	91,835
Loss allowance	**-174**	**-705**	**-91**	**-355**	**-3,890**	**-5,215**

1.1.2018	Not past due	Past due 1 - 90 days	Past due 91 - 180 days	Past due 181 - 365 days	Past due over 365 days	Total
Expected loss rate range	0.03%-1.5%	0.4%-15.5%	1.0%-32.1%	50.0%	100.0%	
Gross carrying amount- trade receivables	79,642	8,121	1,646	1,278	3,611	94,298
Loss allowance	**-51**	**-128**	**-250**	**-841**	**-3,540**	**-4,810**

Movement of allowance for impairment of trade receivables

EUR thousand	**Dec 31, 2018**	Dec 31, 2017
Balance at beginning of year	**4,810**	5,226
Amounts restated through opening retained earnings	**1,106**	-
Exchange rate differences	**-413**	-136
Additions	**1,423**	2,537
Realized	**-641**	-1,423
Acquisition / disposal of business	**-**	-
Reclassified to assets held for sale	**-**	-890
Decreases, unused amount	**-1,060**	-504
Total	**5,225**	4,810

The ageing of loans and other receivables at December 31:

EUR thousand	**Carrying amount Dec 31, 2018**	Carrying amount Dec 31, 2017
Not past due	**127,979**	102,906
Past due 1 - 90 days	**1,225**	7,993
Past due 91 - 180 days	**556**	1,396
Past due 181 - 365 days	**150**	436
Past due over 365 days	**-224**	70
Total	**129,686**	112,801

In financial year 2017, the Group recognized impairment loss on loan receivables when there was objective evidence that a financial asset or group of financial assets was impaired. The debtor's significant financial difficulties, payment delays and neglect can be considered as such objective evidence. In year 2017 impairment losses on loan receivables was not recognized. In adaption of IFRS 9 at the beginning of the financial year 2018 loan receivables are classified as financial assets at amortized cost. From these estimated amounts of loss allowance equals to 12-month expected credit losses, if there is no significant increase in credit risk since the initial recognition. This resulted that Group recognized EUR -0.2 million adjustment in retained earnings and loan receivables as of January 1, 2018. There was no indication in credit risks for the Group's loan receivables during the financial year 2018 and thus loss allowance is based on 12-month expected credit losses. The Group has not recognized loss allowance for cash and cash equivalents, nor equity instruments classified at fair value though other comprehensive income as these are considered to be immaterial.

	31.12.2018	31.12.2017
Closing loss allowance as at Dec 31, 2017	**-**	**-**
Amounts restated through opening retained earnings	**228**	-
Opening loss allowance as at 1 January 2018	**228**	-
Increase in the allowance recognized in profit or loss during the period	**76**	-
Closing loss allowance as at Dec 31, 2018	**304**	-

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 included an option to extend the maturity as total for additional two years at banks' consent, but Tikkurila decided not to exercise the extension option. 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 2018, Tikkurila had unused a EUR 80 (100) million revolving credit facility and EUR 10 (9) million committed credit facilities. A total of EUR 51 (55) 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 35 (17) million.

The Group uses rolling cash flow estimates to manage liquidity risks. In addition, the funding is split into several different funding sources (equity, debt), different instruments, different maturities to reduce refunding risk, and if needed to several currencies and counterparties. The operative business units use various netting and pooling arrangements in order to make sure that funds are efficiently transferred, 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, and to optimize the total cash balances, Tikkurila is using 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 2018. 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, 2018 EUR thousand	Carrying amount	Contractual cash flows	2019	2020	2021	2022	2023	>2023
Loans from financial institutions	69,941	70,899	20,459	407	50,033	-	-	-
Commercial papers	50,876	51,000	51,000	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Finance lease liabilities	186	195	127	52	12	4	-	-
Trade payables	46,342	46,342	46,342	-	-		-	-
Guarantees	9,144	9,144	9,144	-	-	-	-	-
Total	**176,489**	**177,580**	**127,072**	**459**	**50,045**	**4**	**-**	**-**

31.12.2017 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**	**-**

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 adequate, 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 11, 2019, that Tikkurila would pay EUR 0.33 per share dividend, which is about 60% of Group's 2018 net profit, excluding items affecting comparability, net of tax.

EUR thousand	**31.12.2018**	Dec 31, 2017
Equity	**150,132**	179,520
Non-controlling interest	**-**	-
Total	**150,132**	179,520
Non-current interest-bearing liabilities	**49,998**	50,083
Current interest-bearing liabilities	**71,006**	56,966
Cash and cash equivalents	**35,486**	16,959
Net debt	**85,518**	90,090
Gearing, %	**57.0%**	50.2%
Equity ratio, %	**37.6%**	42.0%
EBITDA	**48,112**	39,701
Net debt/EBITDA	**1.78**	2.27
Capital employed		
Goodwill	**69,825**	71,956
Investments in equity-accounted investees	**393**	491
Property, plant and equipment ready for use and intangible assets ready for use (excluding goodwill)	**88,315**	103,009
Net working capital	**80,970**	89,702
Total capital employed	**239,503**	265,158

EUR thousand		Cash flows					
Reconciliation of liabilities arising from financing activities	**Dec 31, 2017**	**Proceeds and repayments**	**Foreign exchange rates**	**Other non-cash changes**	**Reclassification to held for sale asset and liabilities**	**New leases**	**Dec 31, 2018**
Non-current borrowings from financial institutions	**49,900**	-	-	32	-	-	**49,932**
Current borrowings from financial institutions	**1,794**	18,215	0	-	-	-	**20,009**
Finance lease liabilities	**370**	-194	-	-	-	8	**184**
Commercial papers	**54,897**	-4,020	-	-	-	-	**50,877**
	106,962	**14,001**	**0**	**32**	**-**	**-**	**121,003**

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	**2018**	2017
Within one year	**8,986**	9,631
After one year and not later than five years	**14,074**	11,432
Later than five years	**7,944**	14,140
Total	**31,004**	35,204

Tikkurila's Russian subsidiary has a short-term lease agreement in St. Petersburg area related to an industrial land plot on which a new production facility and warehouse is being planned to be built. There is a call option in this lease agreement granting Tikkurila's Russian subsidiary the right to purchase the land plot with pre-agreed terms and conditions. If Tikkurila would not exercise this purchase option, it would cause about EUR 0.2 million additional costs for Tikkurila based on this lease agreement.

GROUP AS LESSOR

Lease payments are mainly received from leased land area and re-leasing of own premises.

Non-cancellable operating lease rentals are receivable as follows:

EUR thousand	**2018**	2017
Within one year	**244**	362
After one year and not later than five years	**473**	500
Later than five years	**320**	416
Total	**1,037**	1,278

35. COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand	**2018**	2017
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	**403**	606
On behalf of others	**1,283**	1,322
Other obligations on own behalf	**94**	6,455
Rent obligations	**31,004**	35,204
Total contingent liabilities	**32,784**	43 587

CONTRACTUAL COMMITMENTS:
Tikkurila Group had contractual commitments in relation to the purchase of property, plant and equipment total of EUR 3.9 million (EUR 0.9 million in 2017) at the end of financial year 2018. Contractual commitments for purchase of intangible assets totaled EUR 0.0 million (EUR 0.0 million) at the end of year 2018.

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 0.1 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 2018, Tikkurila Group companies had customer agreements, which are valid beyond December 31, 2018, 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. Several companies subject to this decision have together proposed to the environment authorities an agreement with lower environment tax amount. If the environment authority will not accept the proposed agreement the companies together strive for proving in court that the original decision of the environment authority was illegal.

A competition law case in Poland has been pending since 2008. In December 2014, the Polish Competition Court at the first instance lowered the penalty to Tikkurila judged by the competition authority from PLN 9.3 million (about EUR 2.2 million) to PLN 1.8 million (about EUR 0.4 million). Tikkurila's Polish subsidiary has already paid this lowered amount of penalty to the authorities. The Court of Appeals didn't change this judgement in 2016. The Supreme Court decided on 30 January 2019 to cancel the 2016 judgement of the Court of Appeals. Therefore, the case will be re-considered in Court of Appeals, but it doesn't mean that the judgement will be changed and based on the understanding of the company it is not probable that there would be any adverse changes in the rulings based on this latest development.

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 2018	Financial year 2017
Shares, pcs	**7,279**	5,273
Purchase price of the shares, eur thousand	**109**	96

In 2018 there were altogether seven Board members to whom the shares were granted – in 2017 there were six Board members.

SHARE-BASED COMMITMENT AND INCENTIVE PLAN OF MANAGEMENT

Tikkurila has several share-based commitment and incentive plans of management. All plans included CEO of Tikkurila Oyj, members of Tikkurila Management Team and other individual key employees. Plans and their terms are disclosed in following paragraphs.

RESOLUTIONS OF THE BOARD OF DIRECTORS OF TIKKURILA IN 2016-2018 ON SHARE-BASED INCENTIVE PLANS

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.

In June 2018, the Board of Directors of Tikkurila Oyj decided two new share-based incentive plans for Group key employees; performance share plan 2018-2022 and share plan 2018-2019.

In December 2018, the Board of Directors of Tikkurila Oyj decided to change the terms of performance share plan 2018-2022 so that part of the reward for performance period's 2019-2021 will be a time-based reward and the number of the participants of the plan will be increased.

PERFORMANCE SHARE PLAN 2015-2019

Originally approximately 10 key employees, including the members of the Management Team, belonged 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. At the end of year 2018, the target group of performance period 2016-2018 amounted to 3 key employee and the performance period 2017-2019 amounted to 6 key employees.

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 would have amounted to an approximate maximum total of 250,000 Tikkurila Oyj shares.

As per the performance period 2016-2018 of the plan no reward will be paid since the criteria defined for the period were not reached. 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 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. No reward was paid on performance period 2015-2017 as the intrinsic value for the period of plan did not reach in advance set level.

PERFORMANCE SHARE PLAN 2018-2022

The Performance Share Plan includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022.

The target group of performance period 2018-2020 include approximately 10 key employees, including the members of the Management Team. The potential reward of the plan from the performance period 2018-2020 will be based on the Tikkurila Group's average EBITDA and net debt based intrinsic values for 2018-2020. The rewards to be paid on the grounds of the performance period 2018-2020 will amount to an approximate maximum total of 130,000 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 will be paid in 2021.

According to the decision of the Board of Directors in December 2018, the participants of the performance period 2019-2021 was increased and a proportion of the reward of this performance period was converted into a time-based reward. Approximately 20 key employees, including the members of the Management Team, belong to the target group of the plan during the performance period 2019-2021. The potential reward of the plan from the performance period 2019-2021 will be based on the Tikkurila Group´s average EBITDA-based intrinsic values for 2019-2021. The rewards to be paid on the grounds of the performance period 2019-2021 will amount to an approximate maximum total of 130,000 Tikkurila Oyj shares. The potential performance-based rewards from the performance period 2019-2021 will be paid partly in the company´s shares and partly in cash in 2022. The time-based reward will be paid in two tranches, in 2020 and 2022. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participants.

As a rule, no reward will be paid, if a participant´s employment or service ends before the reward payment. The reward amounts earned through the plan will be capped if the upper limits set by the Board of Directors for the payable reward are exceeded.

SHARE PLAN 2018-2019

Approximately 30 key employees, including the members of the Management Team, belong to the target group of the plan. The plan includes one performance period.

The calculable aggregate value of the plan will amount to an approximate maximum of EUR 3.2 million. The potential reward of the plan will be based to the cumulative revenue and adjusted EBIT from the performance period 2018-2019. The potential reward from the plan will accrue in cash and will be paid partly in the Company's shares and partly in cash in 2020. Payment of the reward is conditional to that a participant is employed at the time of the 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 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 1.1.2018 - 31.12.2018

Plan	Matching Share Plan 2016-2018	Matching Share Plan 2017-2019	Performance Share Plan 2015-2019		Performance Share Plan 2018-2022	Extra STI 2018-2019
Type	Matching share, Initial investment	Matching share, Initial investment	Share		Share	Share
Instrument	**MSP 16-18**	**MSP 17-19**	**PSP 16-18**	**PSP 17-19**	**PSP 18-20**	**STI 18-19**
Grant dates	28.4.2016	7.8.2017	28.4.2016	30.6.2017	26.6.2018	26.6.2018
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity
Beginning of earning period	1.1.2016	1.1.2017	1.1.2016	1.1.2017	1.1.2018	1.1.2018
End of earning period	31.3.2019	31.3.2020	31.12.2018	31.12.2019	31.12.2020	31.12.2019
Vesting conditions	Share ownership	Share ownership	Average Intrinsic Value	Average Intrinsic Value	Average Intrinsic Value	Cumulative Adjusted EBIT and Revenue
	Employment until the end of the ownership period	Employment until the end of the ownership period	Employment until the end of the restriction period	Employment until the end of the restriction period	Employment until the end of the restriction period	Employment until the end of the restriction period
Estimated end of restriction/ownership period	31.3.2019	31.3.2020	31.3.2019	31.3.2020	31.3.2021	31.3.2020
Maximum contractual life, years	0.0	3.2	3.2	3.2	3.2	2.2
Remaining contractual life, years	0.0	1.2	0.2	1.2	2.2	1.2
Number of persons at 31.12.2018	0	4	6	9	10	24
The calculable aggregate maximum value of the plan						EUR 3.2 million
Granted in currency						Reward will accrue in cash and will be paid partly in shares and cash

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 investment	Matching share, Initial investment	Share		
Instrument	**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	Share ownership	Average Intrinsic Value	Average Intrinsic Value	Average Intrinsic Value
	Employment until the end of the ownership period	Employment until the end of the ownership period	Employment until the end of the restriction period	Employment until the end of the restriction period	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

No payments were made from performance period 2015-2017, as the intrinsic value for the period of plan did not reach in advance set level.

Changes during the period 2018	**MSP 16-18**	**MSP 17-19**	**PSP 15-17**	**PSP 16-18**	**PSP 17-19**	**PSP 18-20**
1.1.2018						
Outstanding at the beginning of the reporting period, pcs	2,000	4,500	58,000	58,000	84,000	-
Changes during the period						
Granted	-	-	-	-	-	118,000
Awarded	-	-	-	-	-	-
Forfeited	2,000	-	58,000	28,000	28,000	8,000
Expired	-	-	-	-	-	-
31.12.2018						
Outstanding at the end of the period	-	4,500	-	30,000	56,000	110,000

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

FAIR VALUE DETERMINATION

Valuation parameters for instruments granted during period 2018

The fair value of share-based incentives has been determined at grant date and the fair value is expensed until vesting. The pricing of the share-based incentives granted during the period 2018 was determined by the following inputs and had the following effect:

	PSP 18-20
Share price at grant, EUR	14.62
Share price at reporting period end, EUR	12.02
Holding period, years	2.76
Expected dividends (discounted), EUR	1.46
FMV of equity component, EUR	13.16
Fair value 31 Dec 2018, EUR thousand	**863**

Valuation parameters for instruments granted during period 2017

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

	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 thousand	**155**	**0**

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

	2018	2017
Expenses for the financial year, share-based payments	237	32
Expenses for the financial year, share-based payments, equity-settled	221	13
Liabilities arising from share-based payments 31 December	26	37

	2018
Future cash payment to be paid to the tax authorities from share-based payments, estimated at the end of the period	305

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 members of Tikkurila Management Team, 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
2018					
Joint ventures	**4,955**	**959**	**-**	**433**	**19**
2017					
Joint ventures	5,312	958	-	2,049	30

The dividends received from joint ventures amounted to EUR 366 thousand (EUR 381 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 2018 or 2017.

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. The sale was concluded in January 2018.

EUR thousand	**2018**	2017
Management employee benefits [1)]		
Wages, salaries and other short-term employee benefits	**1,848**	2,230
Benefits related to termination of employment	**86**	497
Post-employment benefits	**252**	387
Share-based incentive plan	**154**	10
Total	**2,340**	3,125

[1)] Includes remuneration paid to members of the Management Team (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	**2018**	2017
CEO (since April 12, 2018)		
Elisa Markula		
Fixed salary (fringe benefits included)	**286**	-
Bonuses	**54**	-
Share-based incentive plan	**47**	-
Total	**388**	-
Statutory pension expenses	**59**	-

EUR thousand	2018	2017
Interim CEO (period from September 21, 2017 to April 11,2018) [1)]		
Jukka Havia		
Fixed salary (fringe benefits included)	75	71
Total	75	71
Statutory pension expenses	13	12
CEO (until September 21, 2017)		
Erkki Järvinen		
Fixed salary (fringe benefits included)	-	706
Bonuses	-	21
Benefits related to termination of employment	-	422
Share-based incentive plan	-	-
Total	-	1,149
Voluntary, supplementary pension payments	-	91
Statutory pension expenses	-	124
Other Management Team members		
Fixed salary (fringe benefits included)	945	1,093
Bonuses	141	28
Benefits related to termination of employment	86	75
Share-based incentive plan	107	10
Total	1,279	1,206
Statutory pension expenses	179	160
Board compensation		
Board members [2)]		
Jari Paasikivi, Chairman of the Board	72	73
Petteri Walldén, Vice chairman of the Board	48	49
Eeva Ahdekivi, member of the Board until April 12, 2018	2	42
Pia Rudengren, member of the Board	56	57
Riitta Mynttinen, member of the Board	49	49
Harri Kerminen, member of the Board	40	41
Catherine Sahlgren, member of the Board as of April 12, 2018	39	-
Heikki Westerlund, member of the Board as of April 12, 2018	39	-
Total	346	311

[1)] Tikkurila Oyj's Board of Directors has appointed CFO Jukka Havia as Tikkurila's Interim CEO starting from September 21, 2017. He acted in this position until the new CEO, Elisa Markula, started at Tikkurila. Jukka Havia has been a member of the Tikkurila Management Team and his employee benefits until September 21, 2017 and after April 12, 2018 is disclosed as part of the Other Management Team members' remuneration.

[2)] 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 109 (96) thousand in year 2018 and included in figures presented above.

Elisa Markula, CEO of Tikkurila starting from April 12, 2018 has a notice period of 6 months. If the Company terminates the agreement the CEO will receive a severance pay equaling 6-month salary. The retirement age of the CEO is specified in accordance with the legislation.

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.

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 Team 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 the Board of Tikkurila Oyj, the criteria for annual management bonus scheme for the financial year 2018 for the Tikkurila Management Team consist four bonus criteria: The Tikkurila Group adjusted operating profit, SKU reduction, cash flow from operations and personnel expenses for the 2018 financial year. CEO's annual cash-based bonus may not exceed 58.33% of CEO's annual salary. Other management Team 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 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 Team members' annual cash-based bonus may not exceed 48.33% of their annual salary.

Share holdings of Tikkurila Board of Directors and Management Team are stated in page 117, 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 %
2018				
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 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 %
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

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2018				
Alcro Parti AB	Stockholm	Sweden	50	-
2017				
Alcro Parti AB	Stockholm	Sweden	50	-

39. CHANGES IN GROUP STRUCTURE

CHANGES IN THE GROUP STRUCTURE DURING 2018

Tikkurila concluded in January 2018 a divestment of its subsidiaries in Serbia and Macedonia to company Gudmark.

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.

40. EVENTS AFTER THE END OF REPORTING PERIOD

On January 11, 2019, the company announced that Oskari Vidman (born 1976, M.Sc. (Econ.)) was appointed Senior Vice President, Sales, and a member of Tikkurila Management Team as of July 1, 2019, at the latest. In this position, he will be responsible for developing and driving Tikkurila sales to all customer segments: Consumers, Professionals and Industry.

On January 29, 2019, the Nomination Board of Tikkurila proposed to the Annual General Meeting, which is planned to be held on April 11, 2019, that the number of Board members would be six and that of the present members Riitta Mynttinen, Jari Paasikivi, Catherine Sahlgren, Petteri Walldén and Heikki Westerlund would be re-elected and that Lars Peter Lindfors would be elected as a new member. Harri Kerminen and Pia Rudengren have announced that they are not available for re-election. Board members' term lasts until the end of the next Annual General Meeting. All the nominees have given their consent to the position. Lars Peter Lindfors (b. 1964), Doctor of Technology with Honors, MBA, serves as Senior Vice President - Technology and member of the Executive Committee in Neste Corporation. Previously, he has had several executive positions in Neste and Perstorp AB. He is also a Board Member in several foundations for technology and science. He is a Finnish citizen. 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.

41. CHANGES IN IFRS STANDARDS

From the beginning of 2018 Tikkurila Group has applied the following new and revised standards and amendments: IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and amendments to standard IFRS 2 Share-based payments. The impacts resulting from the application of these new, revised or amended standards, change the Group’s opening balances as presented in the table below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Dec 31, 2017	Adjustment	Jan 1, 2018
ASSETS			
Non-current assets			
Goodwill	71,956		71,956
Other intangible assets	26,468		26,468
Property, plant and equipment	81,233		81,233
Equity-accounted investees	491		491
Other investments	755		755
Non-current receivables	7,481	-198	7,283
Defined benefit pension and other long-term employee benefit assets	8		8
Deferred tax assets	8,183	532	8,715
Total non-current assets	**196,575**	**334**	**196,909**

Current assets	**Dec 31, 2017**	**Adjustment**	**Jan 1, 2018**
Inventories	95,984		95,984
Interest-bearing receivables	655	-30	625
Non-interest-bearing receivables	108,248	-1,106	107,142
Cash and cash equivalents	16,959		16,959
Non-current assets held for sale	9,314		9,314
Total current assets	**231,160**	**-1,136**	**230,024**
Total assets	**427,735**	**-802**	**426,933**

EQUITY AND LIABILITIES	Dec 31, 2017	Adjustment	Jan 1, 2018
Share capital	35,000		35,000
Other reserves	42		42
Fair value reserve	1		1
Reserve for invested unrestricted equity	40,000		40,000
Treasury shares	-42		-42
Translation differences	-39,338		-39,338
Retained earnings	143,857	-2,083	141,774
Equity attributable to owners of the parent	**179,520**	**-2,083**	**177,437**
Non-controlling interest	-	-	-
Total equity	**179,520**	**-2,083**	**177,437**
Non-current liabilities			
Interest-bearing non-current liabilities	50,083		50,083
Other non-current liabilities	142	-27	115
Defined benefit pension and other long-term employee benefit liabilities	27,118		27,118
Provisions	503		503
Deferred tax liabilities	4,991		4,991
Total non-current liabilities	**82,837**	**-27**	**82,810**
Current liabilities			
Interest-bearing current liabilities	56,966		56,966
Non-interest-bearing current liabilities	106,781	1,308	108,089
Provisions	622		622
Liabilities classified as held for sale	1,009		1,009
Total current liabilities	**165,378**	**1,308**	**166,686**
Total equity and liabilities	**427,735**	**-802**	**426,933**

AMENDMENTS TO IFRS 2 SHARE-BASED PAYMENTS (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2018)

The Group has adopted amendments to IFRS 2 as of January 1, 2018. Amendments 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. Some of Tikkurila's share-based payment plans have net settlement features. Thus, the Group recognized cash-settled payments directly as adjustment to the opening balance of retained earnings 2018. This impacted EUR 0.0 million to Group's retained earnings as of Jan 1, 2018.

APPLICATION OF STANDARD IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The standard replaced IAS 11 Construction contracts, IAS 18 Revenue and related interpretations. As per IFRS 15 standard's 5-step model there are the following steps: contracts with customers are identified, separate performance obligations in the contracts are identified, transaction price is determined, the transaction price is allocated to all identified performance obligations in the contract on relative stand-alone prices, and revenue is recognized when the performance obligation is satisfied.

The Group has applied this new 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 impact of IFRS 15 standard was analyzed by going through customer contracts and different contract structures and by documenting impact of sales practices.

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, in Sweden, Norway, and Denmark the Group has its own paint shops serving primarily professional customers. Revenue is generated also to a limited extent by selling paint related services and equipment.

In general, the revenue is recognized on selling the goods i.e. the performance obligations are satisfied, when the products are delivered to the customer in compliance with the contract terms. Customer specific delivery terms in purchase orders and/or frame agreements identify the point of time when the control is transferred to the customer. Application of IFRS 15 standard did not change this point of time of revenue recognition.

Warranties related to Tikkurila products are typically assurance-type warranties. They provide the customer with the assurance that the product is according to agreed standards and it will function as promised when the product is applied to surfaces it is intended to and the work stages described in the application details of the product data sheet have been followed. These warranties are not separate performance obligations which means that any obligations to these warranties are recognized in accordance with IAS 37 and are disclosed in provisions or in accrued expenses.

In customer contracts certain promises are granted on training services and on participating in sales promotion actions. The offered training services closely relate to products that Tikkurila delivers. The training is offered to wholesale customers and retailers with information on how to use Tikkurila products, and to ensure that products are used for surfaces they are intended. Typically, training is arranged by Tikkurila personnel. This kind of training is not a separate performance obligation.

In frame contracts and in shop-level

contracts Tikkurila has granted certain commitments to its customers in relation to marketing and sales promotion actions. Tikkurila supplies its customers with brochures, product instructions and other marketing material which support distributors in selling Tikkurila products. Some agreements also contain obligations for Tikkurila to participate together with the customer in financing of defined and specified sales promotion actions. Such items are recognized as sales and marketing expenses. When sales promotion expenses that Tikkurila compensates to customers are not considered as a payment for distinct services purchased from a customer and no specified marketing actions have been defined, the consideration payable to the customer will be recognized, after adoption of IFRS 15 standard, as an adjustment to revenue. In financial year 2017 such items included in the Group's other operating expenses totaled approximately EUR 3.3 million. In the financial year 2018 these items decreased revenue by about EUR 3.1 million. This change has no impact on operating profit.

Tikkurila's business is based on extensive utilization of tinting, and hence Tikkurila provides often to its retailers the tinting machines needed for this. These tinting machines and some other marketing supporting by-products have been considered as separate performance obligations. As there are volume discounts on future paint sales agreed in the customer contracts in relation to these support products, therefore the transaction price has been allocated between support product in question and paint sales. As per the allocation of transaction price a total of EUR 1.0 million has been adjusted in retained earnings, net of tax. This adjustment is recognized because transaction price has been allocated to future paint sales, and that will be entered as income in the future financial years. The estimated amount of this adjustment stated in the financial statements 2017 was EUR 1.2 million and it was re-defined afterwards. In the figures of the financial year 2018, this change in method effected revenue around EUR 0.0 million.

The payment terms of Tikkurila Group customers vary depending on geographical location and customer-specific terms and conditions. Furthermore, in customer contracts, there are afterwards granted discounts, credits that are tied to volume and/or value of the deliveries or sales volumes of specified product groups. There are also in certain contracts penalty clauses related to on-time deliveries and supply chain reliability. The impact of the variable consideration on the transaction price requires estimation at point of time of the revenue recognition. Tikkurila has several contracts with similar characteristics and estimation of the variable consideration is updated at the end of every reporting period. In estimating the variable consideration, Tikkurila Group companies utilize experience on realization of different types of discounts on similar characteristics contracts combined with historical information on individual customer deliveries.

IFRS 9 FINANCIAL INSTRUMENTS (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2018)

The new standard replaced 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 other comprehensive income and fair value through profit or loss. The classification depends on the company's business model and on the characteristics of cash flows based on agreement. The standard includes also an expected credit loss model for calculating impairment on financial assets. According to the IFRS 9 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. In the guidance for hedge accounting, included in IFRS 9, the types of hedge accounting are cash flow hedges, fair value hedges and net investment hedges. The requirement and strict definition of highly effective in accordance with 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.

At the adoption of IFRS 9, on January 1, 2018, the changes in classification of financial instruments have been disclosed in the following table. Tikkurila Group's loans and other receivables are continued to be measured at amortized cost because the cash flows arising from these items consist payments of principal and interest, and Tikkurila Group intends to hold these financial assets until to maturity.

The Group's trade receivables, classified and measured at amortized cost in accordance IFRS 9, consist the most of the Group's financial assets. The whole lifetime expected credit loss will be recognized of trade receivables. The Group has followed group wide guidelines to calculate credit loss. The guidelines are based on time categories when the trade receivables have fallen due. As applying IFRS 9 the guidelines have been 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. For instance, historical losses and customers' payment behavior in geographical area in question are impacting to the percentages defined. As per the new expected credit loss model, Group recognized an adjustment of EUR -1.1 million in retained earnings and trade receivables as of January 1, 2018.

When assessed the impact of IFRS 9 standard to other financial assets the Group applies the general expected credit loss model in which estimated amount of loss allowance equals to 12-month expected credit losses, if there is no significant increase in credit risk since the initial recognition. This resulted that Group recognized EUR -0.2 million adjustment in retained earnings and loan receivables as of January 1, 2018. The estimated credit loss amount of loan receivables is based on 12 month expected credit loss because no considerable increase in credit risk relates to these loan receivables.

In accordance with IFRS 9 standard, the equity investments can be classified either as fair value through other comprehensive income or fair value through profit or loss. This election of classification can be done for every equity investment separately. Tikkurila Group's available for sale financial assets include equity investments, which are long-term nature investments that the Group is not intending to sell, and which Tikkurila Group has accounted for and classified as fair value through other comprehensive income. Therefore, received dividends will be recognized in profit or loss, but possible impairment losses will not be recognized in profit or loss nor the gains or losses on disposal will be reclassified to profit or loss.

There are no impacts resulting from the application of standard to financial liabilities.

Reclassification of financial instruments on adoption of IFRS 9 and impacts on the Group's statement of financial position January 1, 2018

	Measurement category		Carrying amount		
EUR thousand	**Original (IAS 39)**	**New (IFRS 9)**	**IAS 39**	**IFRS 9**	**Change**
Non-current financial assets					
Available-for-sale-financial assets -unquoted shares	Available-for-sale-financial assets	Fair value through other comprehensive income	755	755	-
Loan receivables	Loans and other receivables (amortized cost)	Amortized cost	5,701	5,503	-198
Other receivables	Loans and other receivables (amortized cost)	Amortized cost	1,416	1,416	-
Current financial assets					
Interest-bearing receivables	Loans and other receivables (amortized cost)	Amortized cost	655	625	-30
Cash equivalents	Loans and other receivables (amortized cost)	Amortized cost	16,959	16,959	-
Trade and other non-interest-bearing receivables	Loans and other receivables (amortized cost)	Amortized cost	88,070	86,964	-1,106
Total financial assets			**113,556**	**112,222**	**-1,334**
Non-current financial liabilities					
Finance lease liabilities	Other financial liabilities (amortized cost)	Amortized cost	183	183	-
Loans from financial institutions	Other financial liabilities (amortized cost)	Amortized cost	49,900	49,900	-
Current financial liabilities					
Current interest-bearing liabilities	Other financial liabilities (amortized cost)	Amortized cost	56,966	56,966	-
Trade payables	Other financial liabilities (amortized cost)	Amortized cost	51,492	51,492	-
Total financial liabilities			**158,541**	**158,541**	**-**

TIKKURILA OYJ INCOME STATEMENT (FAS)

EUR thousand	Note	**Jan 1 - Dec 31, 2018**	Jan 1 - Dec 31, 2017
Revenue	2	**189,446**	190,197
Change in inventories of finished goods and work in progress	4	**-5,264**	4,280
Other operating income	3	**23,181**	21,251
Materials and services	4	**-109,857**	-114,403
Personnel expenses	5	**-34,152**	-35,734
Depreciation, amortization and impairment losses	7	**-6,751**	-5,535
Other operating expenses	4,6	**-48,210**	-55,110
Operating profit		**8,393**	4,947
Financial income and expenses	8	**6,567**	30,931
Profit before appropriations and taxes		**14,960**	35,878
Appropriations	7,9	**1,802**	682
Income taxes	10	**-1,635**	-1,522
Net profit for the period		**15,127**	35,038

TIKKURILA OYJ BALANCE SHEET (FAS)

EUR thousand	Note	**Dec 31, 2018**	Dec 31, 2017
ASSETS			
Non-current assets	11		
Intangible assets		**15,066**	17,877
Tangible assets		**14,576**	17,365
Investments			
Holdings in Group companies		**185,933**	187,603
Other shares and holdings		**540**	540
Total investments		**186,473**	188,143
Total non-current assets		**216,116**	223,385
Current assets			
Inventories	12	**26,293**	32,243
Non-current receivables	13	**14,926**	10,844
Current receivables	13	**61,328**	76,604
Cash and cash equivalents		**25,043**	11,749
Total current assets		**127,590**	131,440
Total assets		**343,705**	354,825
EQUITY AND LIABILITIES			
Equity	14		
Share capital		**35,000**	35,000
Reserve for invested unrestricted equity		**40,000**	40,000
Retained earnings		**85,185**	86,239
Net profit for the period		**15,127**	35,038
Total equity		**175,312**	196,276
Appropriations	15	**2,054**	3,856
Provisions	16	**239**	230
Liabilities	17		
Non-current liabilities		**50,198**	50,142
Current liabilities		**115,902**	104,321
Total liabilities		**166,100**	154,463
Total equity and liabilities		**343,705**	354,825

TIKKURILA OYJ CASH FLOW (FAS)

EUR thousand	**Jan 1 - Dec 31, 2018**	Jan 1 - Dec 31, 2017
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before appropriations and taxes	**14,960**	35,878
Adjustments:		
Unrealized exchange gains and losses	**2,651**	2,322
Depreciation, amortization and impairment losses	**6,751**	5,535
Interest income	**-3,800**	-5,202
Interest expenses	**1,161**	819
Dividend income	**-12,196**	-31,774
Other adjustments	**160**	-122
Write-down of non-current investments	**1,620**	2,000
Write-down of non-current loan receivables	**1,841**	519
Other financial items	**300**	245
Funds from operating activities before change in net working capital	**13,447**	10,220
Change in net working capital		
Change in inventories	**5,950**	-7,460
Change in current receivables	**4,489**	3,448
Change in interest-free current liabilities	**-3,402**	8,473
Change in net working capital, total	**7,037**	4,462
Interest and other financial expenses paid	**-1,434**	-1,149
Interest and other financial income received	**4,849**	5,475
Income taxes paid	**277**	-3,307
Dividends received	**12,196**	31,774
Total cash flow from operating activities	**36,372**	47,475
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	**-1,186**	-5,556
Investments in Group companies	**-**	-2,371
Disposal of Group companies	**50**	-
Change in loan receivables	**1,751**	-10,963
Proceeds from sales of tangible and intangible assets	**-**	4
Net cash used in investing activities	**615**	-18,887
Cash flow before financing	**36,987**	28,588
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in non-current loans (+)	**-**	-
Decrease in non-current loans (-)	**-**	-
Change in current financing increase (+)	**258,587**	285,568
Change in current financing decrease (-)	**-246,994**	-274,310
Dividends paid	**-35,285**	-35,285
Net cash used in financing activities	**-23,692**	-24,027
Net change in cash and cash equivalents	**13,296**	4,561
Cash and cash equivalents at Dec 31	**25,043**	11,747
Cash and cash equivalents at Jan 1	**11,747**	7,186
Change in cash and cash equivalents	**13,296**	4,561

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - TIKKURILA OYJ

Tikkurila Oyj is a Finnish public limited company which share is listed on Nasdaq 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 of the original cost using the straight-line method based on the assets' estimated useful lives.

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 direct acquisition cost is defined through weighted average cost method. Manufacturing and sourcing related fixed costs, depreciations and indirect variable costs are 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.

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

COMPARABILITY OF FINANCIAL YEAR 2018 TO FINANCIAL YEAR 2017
To improve profitability, co-operation negotiations were carried out in autumn 2018 in the company as part of the efficiency program. Altogether 24 persons were given notice as a consequence of negotiations. Organizational changes were also carried out during the financial year. Due to dismissals non-recurring expenses of EUR 1.4 million were recognized in the personnel expenses. In the comparison year the corresponding expenses were EUR 1.2 million.

Tikkurila Oyj´s business is based on extensive utilization of tinting, and hence company provides often to its retailers the tinting machines needed for this. These sales include volume-based discounts for future paint sales. As a result, the accounting principle has been changed in revenue recognition and the transaction price has been allocated between support product in question and paint sales. Paint sales will be entered as income in the future financial years.

Comparison period´s information is not adjusted. The impact of the change in the accounting principles on the opening balance is presented in the table below.

TIKKURILA OYJ BALANCE SHEET

EUR thousand	Dec 31, 2017	Adjustment	Jan 1, 2018
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	17,877		17,877
Tangible assets	17,365		17,365
Investments	188,143		188,143
Total non-current assets	**223,385**		**223,385**
CURRENT ASSETS			
Inventories	32,243		32,243
Non-current receivables	10,844	202	11,045
Current receivables	76,604		76,604
Cash and cash equivalents	11,749		11,749
Total current assets	**131,440**	**202**	**131,642**
Total assets	**354,825**	**202**	**355,027**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	35,000		35,000
Reserve for invested unrestricted equity	40,000		40,000
Retained earnings	121,276	-807	120,470
Total equity	**196,276**	**-807**	**195,470**
APPROPRIATIONS	**3,856**		**3,856**
PROVISIONS	**230**		**230**
LIABILITIES			
Non-current liabilities	50,142		50,142
Current liabilities	104,321	1,008	105,329
Total liabilities	**154,463**	**1,008**	**155,472**
Total equity and liabilities	**354,825**	**202**	**355,027**

In the year 2018, the impact of the change in the accounting principle reduced net sales by EUR 93 thousand.

The disclosing of sales promotion expenses has been clarified. When sales promotion expenses that Tikkurila Oyj compensates to its customers are not considered as a payment for a distinct service and no specified marketing actions have been defined, they were recognized as an adjustment to revenue from January 1, 2018.

In the financial year 2017 such items were included in the other operating expenses.

2. REVENUE

	2018	2017
Revenue by geographical segment, % of total revenue	**%**	%
Finland	**50**	48
Other EU countries	**28**	26
Other Europe	**18**	19
Other countries	**4**	6
Revenue by geographical segment, total	**100**	100

3. OTHER OPERATING INCOME

EUR thousand	2018	2017
Gains on sale of non-current assets	**0**	4
Other income from operations	**23,180**	21,248
Other operating income, total	**23,181**	21,251

Other operating income from operations includes EUR 2.9 million of insurance compensation related to raw material sourcing and EUR 0.7 million compensation as per arbitration proceeding in 2018.

Additionally, other operating income includes intercompany service charges and intercompany charges regarding intangible asset licenses, rights to use in total of EUR 18.7 (20.1) million.

4. OTHER OPERATING EXPENSES

EUR thousand	2018	2017
Change in inventories of finished goods and work in progress	**-5,264**	4,280
Materials and services		
Materials and supplies		
Purchases during the financial year	**-108,816**	-116,848
Change in inventories of materials and supplies	**-687**	3,182
External services	**-355**	-736
Total materials and services	**-109,857**	-114,403
Personnel expenses	**-34,152**	-35,734
Rents	**-1,221**	-1,315
Other expenses and expense reimbursement	**-46,989**	-53,795
Total other operating expenses	**-197,483**	-200,966

The disclosing of sales promotion expenses has been clarified. When sales promotion expenses that Tikkurila Oyj compensates to its customers are not considered as a payment for a distinct service and no specified marketing actions have been defined, they were recognized as an adjustment to revenue from January 1, 2018.

In comparison year, those expenses have been recognized in line other expenses and expense reimbursement. In the financial year these expenses are EUR 533 (1,092) thousand.

The significant change in other expenses and expense reimbursement is due to the actions of efficiency program.

5. PERSONNEL EXPENSES AND NUMBER OF PERSONNEL

EUR thousand	**2018**	2017
Wages and salaries	**-27,777**	-29,000
Pension expenses	**-5,138**	-5,526
Other personnel expenses	**-1,237**	-1,208
Total personnel expenses	**-34,152**	-35,734
Fringe benefits (tax value)	**-1,353**	-1,410

In financial year 2018 personnel expenses include EUR 1.4 (1.2) million one-time expenses as a result of the personnel dismissals due to co-operation negotiations and changes of organization structure.

Management remunerations	**2018**	2017
Members of the Board of Directors, CEO and other Management Team members	**-2,016**	-2,734

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 Team 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 TEAM

In the following table remuneration of CEO is presented on accrual basis in year 2018 and 2017.

EUR thousand	**2018**	2017
CEO Elisa Markula (since April 12, 2018)		
Fixed salary, fringe benefits included	**-286**	-
Bonuses	**-54**	-
Share-based incentive plan	**-25**	-
Total	**-365**	-
Statutory pension expenses	**-59**	-

Elisa Markula, CEO of Tikkurila starting from April 12, 2018 has a notice period of 6 months. If the Company terminates the agreement the CEO will receive a severance pay equaling 6-month salary. The retirement age of the CEO is specified in accordance with the legislation.

Interim CEO Jukka Havia (period from September 21, 2017 to April 11, 2018)	**2018**	2017
Fixed salary, fringe benefits included	**-75**	-71
Total	**-75**	-71
Statutory pension expenses	**-13**	-12

Tikkurila Oyj's Board of Directors has appointed CFO Jukka Havia as Tikkurila's Interim CEO starting from September 21, 2017. He acted in this position until the new CEO, Elisa Markula, started at Tikkkurila. Jukka Havia has been a member of the Tikkurila Management Team and his employee benefits until September 21, 2017 and after April 12, 2018 are disclosed as part of the Other Management Team 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 would 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.

EUR thousand	**2018**	2017
CEO Erkki Järvinen (until September 21, 2017)		
Fixed salary, fringe benefits included *)	-	-1,128
Bonuses	-	-21
Total	-	-1,149
Voluntary, supplementary pension payments	-	-91
Statutory pension expenses	-	-124

*) 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 was paid. In addition, he had a supplementary pension held by insurance company, which is based on a defined contribution plan and thus the Group had no obligation in relation to it after termination of employment.

EUR thousand	**2018**	2017
Other Management Team members 1)		
Fixed salary, fringe benefits included *)	**-1,031**	-1,168
Bonuses	**-141**	-28
Share-based incentive plan	**-57**	-6
Total	**-1,229**	-1,202
Statutory pension expenses	**-179**	-160
Statutory pension is a defined contribution plan.		

1) EUR 333 thousand is not included in income statement line wages and salaries in year 2018. The comparison year EUR 178 thousand was not included in wages and salaries.
*) In addition, the reported salaries include severance payment of EUR 86 (75) thousand as per ended employment of Management Team member.

The retirement age of the other Management Team 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.

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS *)

EUR thousand	**2018**	2017
Jari Paasikivi, Chairman of the Board	**-72**	-73
Petteri Walldén, Vice chairman of the Board	**-48**	-49
Harri Kerminen, member of the Board	**-40**	-41
Pia Rudengren, member of the Board	**-56**	-57
Eeva Ahdekivi, member of the Board until April 12, 2018	**-2**	-42
Riitta Mynttinen, member of the Board	**-49**	-49
Catherine Sahlgren, member of the Board as of April 12, 2018	**-39**	-
Heikki Westerlund, member of the Board as of April 12, 2018	**-39**	-
Total	**-346**	-311

*) 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 109 (96) thousand in year 2018. This is included in figures presented above.

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2018 or in 2017.

Number of personnel	**2018**	2017
Average number of white-collar employees	**360**	368
Average number of blue-collar employees	**202**	216
Personnel (average)	**562**	584

6. AUDITOR'S FEES

EUR thousand	**2018**	2017
KPMG Oy Ab, Authorized Public Accountants		
Audit fees	**-179**	-173
Tax consultancy	**-1**	-18
Other auditing	**-57**	-6
Other fees	**-4**	-
Auditing fees, total	**-240**	-197

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

EUR thousand	**2018**	2017
Depreciation according to plan and impairment losses		
Intangible asset		
Other intangible assets	**-3,324**	-2,885
Tangible assets		
Buildings and constructions	**-701**	-751
Impairment of buildings and constructions	**-898**	-
Machinery and equipment	**-1,815**	-1,891
Other tangible assets	**-14**	-8
Total depreciation, amortization and impairment losses	**-6,751**	-5,535
Change in depreciation difference		
Other intangible assets	**42**	-92
Buildings and constructions	**1,003**	81
Machinery and equipment	**751**	694
Other tangible assets	**5**	-1
Total	**1,802**	682

8. FINANCIAL INCOME AND EXPENSES

EUR thousand	**2018**	2017
Financial income		
Dividend income		
Dividend income from Group companies	**12,196**	31,774
Dividend income from others	**-**	0
Total dividend income	**12,196**	31,774
Interest income		
Interest income from Group companies	**3,514**	4,973
Interest income from others	**287**	229
Total interest income	**3,800**	5,202
Other financial income		
Other financial income from Group companies	**128**	107
Total other financial income	**128**	107
Exchange gains		
Exchange gains from Group companies	**724**	309
Exchange gains from others	**347**	3,713
Total exchange gains	**1,072**	4,022
Total financial income	**17,197**	41,105
Write-down of non-current investments		
From holdings in Group companies	**-1,620**	-2,000
Total write-down of non-current investments	**-1,620**	-2,000
Financial expenses	**2018**	2017
Interest expenses		
Interest expenses to Group companies	**-6**	-4
Interest expenses to others	**-1,155**	-815
Total interest expenses	**-1,161**	-819
Other financial expenses		
Other financial expenses to Group companies *)	**-1,841**	-519
Other financial expenses to others	**-428**	-352
Total other financial expenses	**-2,269**	-872
Exchange losses		
Exchange losses to Group companies	**-1,801**	-727
Exchange losses to others	**-3,779**	-5,756
Total exchange losses	**-5,580**	-6,483
Total financial expenses	**-9,010**	-8,174
Total financial income and expenses	**6,567**	30,931

*) A write-down of subsidiary loan receivables of EUR 1,841 (519) thousand.

Majority of the exchange rate losses recognized in financial year 2018 and the comparison year are resulted from weakening of Russian ruble.

EUR thousand	2018	2017
Exchange gains and losses		
Realized	**-1,857**	-139
Unrealized	**-2,651**	-2,322
Total exchange gains and losses	**-4,508**	-2,461

9. CHANGE IN APPROPRIATIONS

EUR thousand	2018	2017
Change in depreciation difference	**1,802**	682
Total change in appropriations	**1,802**	682

10. INCOME TAXES

EUR thousand	2018	2017
Income tax for current year	**-1,486**	-1,496
Income tax for previous years	**0**	0
Change in deferred taxes	**-149**	-25
Total income taxes	**-1,635**	-1,522

11. NON-CURRENT ASSETS

INTANGIBLE ASSETS

EUR thousand	2018	2017
Other intangible assets		
Acquisition cost at beginning of year	**28,349**	11,106
Increase	**2,122**	17,243
Decrease	**-35**	-
Acquisition cost at year end	**30,436**	28,349
Accumulated amortization at beginning of year	**-12,112**	-9,227
Amortization during the financial year	**-3,324**	-2,885
Accumulated amortization and impairment losses at year end	**-15,435**	-12,112
Carrying amount at year end	**15,001**	16,237
Advance payments and assets under construction		
Acquisition cost at beginning of year	**1,640**	16,213
Change during the year	**-1,575**	-14,573
Carrying amount at year end	**65**	1,640
Total intangible assets	**15,066**	17,877

Prepayments and assets under construction in year 2017 comprised EUR 1,003 thousand of project related expenses of the enterprise resource planning. These expenses were transferred to item "Other intangible assets" when project was completed.

TANGIBLE ASSETS

EUR thousand	2018	2017
Land and water		
Acquisition cost at beginning of year	**1,512**	1,512
Carrying amount at year end	**1,512**	1,512
Buildings and constructions		
Acquisition cost at beginning of year	**24,107**	23,937
Increase	**23**	169
Acquisition cost at year end	**24,130**	24,107
Accumulated depreciation at beginning of year	**-18,228**	-17,477
Depreciation during the financial year	**-701**	-751
Impairment loss	**-898**	-
Accumulated depreciation and impairment losses at year end	**-19,827**	-18,228
Carrying amount at year end	**4,303**	5,879

The impairment loss of EUR 898 thousand was recognized on an office building.

Machinery and equipment	2018	2017
Acquisition cost at beginning of year	**44,608**	43,521
Increase	**662**	1,087
Acquisition cost at year end	**45,269**	44,608
Accumulated depreciation at beginning of year	**-34,994**	-33,102
Depreciation during the financial year	**-1,815**	-1,891
Accumulated depreciation and impairment losses at year end	**-36,809**	-34,994
Carrying amount at year end	**8,460**	9,614

The carrying amount of production machinery and equipment is EUR 7,202 thousand (EUR 8,194 thousand).

EUR thousand	2018	2017
Other tangible assets		
Acquisition cost at beginning of year	**1,024**	958
Increase	**-**	66
Acquisition cost at year end	**1,024**	1,024
Accumulated depreciation at beginning of year	**-770**	-762
Depreciation during the financial year	**-14**	-8
Accumulated depreciation at year end	**-784**	-770
Carrying amount at year end	**240**	254
Advance payments and assets under construction		
Acquisition cost at beginning of year	**106**	185
Change during the year	**-46**	-80
Carrying amount at year end	**60**	106
Total tangible assets	**14,576**	17,365

INVESTMENTS

EUR thousand	2018	2017
Holdings in Group companies		
Acquisition cost at beginning of year	**187,603**	185,834
Increase	**-**	3,769
Write-down	**-1,670**	-2,000
Decrease	**-**	-
Carrying amount at year end	**185,933**	187,603

In year 2018, investments in Group company shares included increase of EUR 9,219 which was impaired during the financial year. Correspondingly, reversal of impairment on a loan receivable from subsidiaries was recognized with the same amount.

EUR thousand	2018	2017
Other shares and holdings		
Acquisition cost at beginning of year	**540**	540
Decrease	**-**	0
Carrying amount at year end	**540**	540
Total investments	**186,473**	188,143

12. INVENTORIES

EUR thousand	2018	2017
Materials and supplies	**10,929**	11,616
Work in progress	**2,034**	1,608
Finished goods	**13,330**	19,019
Total inventories	**26,293**	32,243

13. RECEIVABLES

EUR thousand	2018	2017
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	**6,262**	3,339
Loan receivables from others	**6,411**	5,760
Total non-current interest-bearing receivables	**12,673**	9,098
Non-current interest-free receivables		
Trade receivables from others	**1,882**	1,440
Deferred expenses and accrued income from others	**148**	250
Other receivables from others	**114**	-
Total non-current interest-free receivables	**2,144**	1,690
Deferred tax assets	**108**	56
Total non-current receivables	**14,926**	10,844

EUR thousand	**2018**	2017
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	**1,043**	2,797
Current interest-bearing receivables from Group companies	**30,631**	42,043
Total current interest-bearing receivables	**31,674**	44,840
Current interest-free receivables		
Other current receivables from others	**4,473**	27
Trade receivables		
Trade receivables from Group companies	**11,304**	14,819
Trade receivables from others	**10,743**	10,419
Total trade receivables	**22,046**	25,238
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	**429**	1,474
Deferred expenses and accrued income from others	**2,705**	5,025
Total deferred expenses and accrued income	**3,135**	6,498
Total current interest-free receivables	**29,654**	31,764
Total current receivables	**61,328**	76,604
Total receivables	**76,254**	87,448
Deferred expenses and accrued income		
Interest income	**367**	1,287
Income taxes	**825**	2,737
Personnel expenses	**499**	395
IT services	**738**	853
Others	**854**	1,475
Total deferred expenses and accrued income	**3,283**	6,748

Deferred expenses and accrued income "Others" include withdrawal costs of a loan EUR 190 (EUR 304) thousand.
These expenses have been accrued for the period of repayment schedule.

14. EQUITY

EUR thousand		2018	2017
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
Confirmed financial statement December 31, 2017	121,276		
Adjustment due to change in accounting policy to the period January 1, 2017 - December 31, 2017	-807	**120,470**	
Dividends		**-35,285**	-35,285
Retained earnings at December 31		**85,185**	86,239
Net profit for the period		**15,127**	35,038
Retained earnings and net profit for the period at December 31		**100,312**	121,276
Total unrestricted equity		**140,312**	161,276
Total equity at December 31		**175,312**	196,276

EUR thousand	2018	2017
Distributable funds at December 31		
Reserve for invested unrestricted equity	**40,000**	40,000
Retained earnings	**121,276**	121,523
Adjustment to do change in accounting policy to the period January 1, 2017 - December 31, 2017	**-807**	-
Dividends	**-35,285**	-35,285
Net profit for the financial year	**15,127**	35,038
Distributable funds	**140,312**	161,276

Changes in treasury shares	EUR thousand	Number of shares
Acquisition cost / Number of pieces at January 1	**42**	**2,461**
Change	**-**	**-**
Carrying amount / Number of pieces at December 31, 2018	**42**	**2,461**

Changes in treasury shares	EUR thousand	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	2018	2017
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and constructions	**-3,635**	-2,631
Machinery and equipment	**5,269**	6,020
Other tangible assets	**21**	26
Other intangible assets	**391**	434
Intangible rights	**7**	7
Total accumulated depreciation difference	**2,054**	3,856
Change in depreciation difference		
Depreciation difference at January 1	**3,856**	4,537
Change in depreciation difference in income statement	**-1,802**	-682
Depreciation difference at December 31	**2,054**	3,856

16. PROVISIONS

EUR thousand	2018	2017
Other provisions	**239**	230

17. LIABILITIES

EUR thousand	2018	2017
Non-current liabilities		
Loans from financial institutions	**50,000**	50,000
Other non-current liabilities to others	**198**	142
Total non-current liabilities	**50,198**	50,142
Maturity of non-current liabilities		
Maturity		
2020 (2019)	**137**	129
2021 (2020)	**50,062**	13
2022 (2021)	**-**	50,000
2023 (2022)	**-**	-
2024 (2023)	**-**	-
Total non-current liabilities	**50,198**	50,142
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	**3,674**	8,061
Other interest-bearing liabilities to others	**70,876**	54,897
Total other interest-bearing liabilities	**74,550**	62,957
Total current interest-bearing liabilities	**74,550**	62,957
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	**2,512**	3,135
Trade payables to others	**16,031**	17,271
Total trade payables	**18,543**	20,406
Accrued expenses and deferred income		
Accrued expenses and deferred income to Group companies	**1,780**	2,989
Accrued expenses and deferred income to others	**17,594**	17,045
Total accrued expenses and deferred income	**19,373**	20,035
Other interest-free liabilities		
Other interest-free liabilities to Group companies	**2,423**	-
Other interest-free liabilities to others	**1,012**	923
Total other interest-free liabilities	**3,435**	923
Total current interest-free liabilities	**41,352**	41,364
Total current liabilities	**115,902**	104,321
Accrued expenses and deferred income		
Personnel expenses	**6,122**	6,000
Related to sales	**9,495**	7,899
Other	**3,955**	6,136
Total accrued expenses and deferred income	**19,572**	20,035

18. CONTINGENT LIABILITIES

EUR thousand	**2018**	2017
Lease liabilities		
Maturity within one year	**706**	929
Maturity later than one year	**701**	1,056
Total lease liabilities	**1,408**	1,986
Operating lease liabilities		
Maturity within one year	**353**	2
Maturity later than one year	**797**	-
Total lease liabilities	**1,150**	2

MORTGAGES

The company has real estate mortgages EUR 99 (EUR 99) million, which are held by Tikkurila Oyj.

EUR thousand	**2018**	2017
Guarantees		
On own behalf	**33**	33
On behalf of Group companies	**25,501**	26,441
Total guarantees	**25,533**	26,474

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 1.1 (1.2) million.

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 2018, 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 2018, Tikkurila held 2,461 treasury shares.

BOARD AUTHORIZATIONS

On April 12, 2018, the Annual General Meeting authorized the Board of Directors of Tikkurila to decide on the repurchase of the company's own shares and the share issue.

AUTHORIZATION TO REPURCHASE 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, 2019.

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, 2019.

As of December 31, 2018, the Board of Directors had not exercised this authorization.

MARKET CAPITALIZATION AND TRADING

The trading of Tikkurila Oyj's shares began on Nasdaq Helsinki on March 26, 2010.

At the end of December, the closing price of Tikkurila's share was EUR 12.02. In January–December, the volume-weighted average share price was EUR 15.04, the lowest price EUR 11.70, and the highest price EUR 18.96. At the end of December, the market value of Tikkurila Oyj's shares was EUR 530.2 million. During January–December, a total of 8.6 million Tikkurila shares, corresponding to approximately 19.5 percent of the number of shares, were traded on Nasdaq Helsinki Ltd. The value of the traded volume was EUR 129.4 million. Tikkurila's shares are traded also outside of Nasdaq 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 120,914 shares on December 31, 2018, 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 Chairman of the Board in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila's President and CEO did not own Tikkurila's shares. Tikkurila's Interim President and CEO and his interest parties held altogether 14,000 shares on December 31, 2018, 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 www.tikkurilagroup.com/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 and key terms of the share-based incentive plans

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. On June 26, 2018, the Board of Directors of Tikkurila Oyj approved two new share-based incentive plans, performance share plan 2018-2022 and share plan 2018-2019, for the Group key employees. The aim of the new plans is to align the objectives of the shareholders and the key employees to execute Company's strategic transformation in the short-term and increase the value of the Company in the long-term, as well as to retain the key employees at the Company, and to offer them a competitive reward plan based on earning and accumulating the Company's shares. On December 19, 2018, the Board of Directors of Tikkurila Oyj decided the details of performance period 2019-2021 and to change the terms of plan in order to convert a proportion of the reward of the performance period 2019-2021 into a time-based reward.

Performance Share Plan 2015-2019

Originally 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. At the end of 2018 the target group of performance period 2016-2018 included approximately 3 key employees, and the target group of performance period 2017-2019 included approximately 6 key employees.

The rewards to be paid on a basis of the performance periods 2015-2017 and 2016-2018 would amount to an approximate maximum total of 250,000 Tikkurila Oyj shares. No payments were made from performance period 2016-2017, as the intrinsic value for the period of plan did not reach in advance set level. 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.

Performance share plan 2018-2022

Share plan 2018-2022 includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. The potential rewards from the plan will be paid partly in cash and partly in shares of Tikkurila Oyj in year 2021, 2022 and 2023. The cash proportion is to cover taxes and tax-related costs arising from the reward to the participants.

The target group of performance period 2018-2020 includes approximately 10 key employees, including the members of the Management Board. The potential reward of the plan from the performance period 2018-2020 will be based on the Tikkurila Group's average EBITDA and net debt based intrinsic values for 2018-2020. The rewards to be paid on the basis of the performance period 2018-2020 will amount to an approximate maximum total of 130,000 Tikkurila Oyj shares.

On December 19, 2018, the Board of Directors of Tikkurila decided changes of share-based plans and details of performance period 2019-2021. The Board of Directors changed the terms of performance share plan 2018-2022 so that part of the reward for the performance period 2019-2021 will be a time-based reward and the number of the participants of the plan was increased. Possible rewards from performance period 2019-2021 will be paid partly in cash and partly in the Company's shares in year 2022.

Approximately 20 key employees, including the members of the Management Team, belong to the target group of the plan during the performance period 2019-2021. The potential reward of the plan will be based on the Tikkurila Group´s average EBITDA-based intrinsic values for 2019-2021. The rewards to be paid on the basis of the performance period 2019-2021 will amount to an approximate maximum total of 130,000 Tikkurila Oyj shares.

A member of Tikkurila Management Team must hold a minimum of 50 per cent of the net number of shares received on the basis of the plan, until his or her total shareholding in the company equals the value of his or her annual gross salary. Such number of shares must be held as long the member's employment or service in a group company continues.

Share plan 2018-2019

Share plan 2018-2019 includes one performance period, calendar years 2018-2019 and the potential reward will be paid partly in cash and partly in shares of Tikkurila Oyj.

Approximately 30 key employees, including the members of the Management Board, belong to the target group of the plan. The potential reward of the plan will be based to the cumulative revenue and adjusted EBIT from the performance period 2018-2019. The calculated aggregate value of the plan will amount to an approximate maximum of EUR 3.2 million.

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 11, 2019, that a dividend of EUR 0.33 per share will be distributed for the year ended on December 31, 2018. The proposed dividend corresponds to approximately 60 percent of adjusted net profit.

SHAREHOLDERS

According to Euroclear Finland Oy's register, Tikkurila had approximately 20,000 shareholders on December 31, 2018, 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/shareholders.

DISCLOSURE OF CHANGES IN HOLDINGS

There were no notifications received regarding changes of holdings during 2018.

Breakdown by shareholder category on December 31, 2018

19.7% Private companies
7.2% Financial and insurance institutions
9.6% Public sector organizations
12.7% Households
2.2% Non-profit organizations
49.2% Foreigners and Nominee registered

Tikkurila's largest shareholders on December 31, 2018

		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	Mandatum Life Insurance Company Ltd.	1,668,681	3.8
4	Ilmarinen Mutual Pension Insurance Company	1,136,036	2.6
5	Kaleva Mutual Insurance Company	650,000	1.5
6	ODIN Finland	514,693	1.2
7	The State Pension Fund	507,000	1.2
8	Nordea Nordic Small Cap Fund	452,648	1.0
9	Pekka Paasikivi	195,241	0.4
10	Esr Seligson & Co Phoebus	155,000	0.4
	10 largest registered shareholders total	**15,742,376**	**35.7**
	Nominee registered shares	21,074,256	47.8
	Other shares	7,291,620	16.5
	Total	**44,108,252**	**100.0**

Lannebo Fonder from Sweden has informed the company in January 2019 to own altogether 1,537,781 Tikkurila shares, which represents about 3.5% of all shares; these shares are included in the nominee-registered shares category.

Breakdown of share ownership on December 31, 2018

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	10,327	52.3	474,822	1.1
101–1,000	8,429	42.7	2,670,059	6.1
1,001–10,000	898	4.6	2,106,962	4.8
10,001–100,000	64	0.3	1,933,312	4.4
100,001–1,000,000	8	0.0	2,697,814	6.1
over 1,000,000	6	0.0	34,225,283	77.6
Total	**19,732**	**100.0**	**44,108,252**	**100.0**

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The distributable funds of Tikkurila Oyj, the parent of Tikkurila Group, are EUR 140,311,879.45 of which EUR 15,126,985.84 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.33 per share will be distributed as dividend from the net profit for the year. The total dividend would amount to EUR 14,554,911.03. EUR 125,756,968.42 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 11, 2019

Jari Paasikivi
Chairman of the Board

Petteri Walldén
Vice Chairman of the Board

Pia Rudengren
Member of the Board

Riitta Mynttinen
Member of the Board

Catherine Sahlgren
Member of the Board

Harri Kerminen
Member of the Board

Heikki Westerlund
Member of the Board

Elisa Markula
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, 2018. 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 (€ 70 million) and other intangible assets (€ 21 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 involved our valuation specialists to address the valuation risk of goodwill and other intangible assets. In connection with 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 the 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 assets.

Accuracy of revenue (€ 561 million) (Notes 1, 2, 3 and 41)

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.
- A level of management judgement is 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 testing of controls within the sales process a.m. controls over recording of sales transactions and approval of price chances.
- 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 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.
- We have evaluated and tested the documentation prepared by the Company on the assessment of the effect of IFRS 15 Revenue from Contracts with Customers, which was effective as of January 1, 2018.

Valuation of Inventory (€ 79 million) (Notes 1, 2 and 19)

Valuation of inventory is a Key Audit Matter due to the following:
- The inventory amounts a significant part of the total assets (being 20 % of total assets)
- There is management judgement involved in assessing the level of inventory provision required in respect of slow moving and obsolete inventory, therefore, there is a risk that slow moving and obsolete inventory has not been adequately provided for.
- Our group audit instructions highlighted inventory valuation as a focus area. Auditors of significant components were instructed to carry out appropriate controls testing and substantive procedures.

- We have assessed a provisioning policy for obsolete and slow-moving items established by the management.
- We have inquired about the methods used for identifying slow moving and obsolete inventory.
- We have reviewed the calculation of inventory provision for slow moving and obsolete inventory made by the management and evaluated the compliance with the Group accounting principles.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about 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 the 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 8 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 11, 2019
KPMG Oy Ab
TONI AALTONEN
Authorized Public Accountant, KHT

CORPORATE GOVERNANCE STATEMENT 2018

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 2018 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 Oy;
- Helsinki Takeover Code, issued by the Securities Market Association; and
- other legislation or regulations applicable to Tikkurila's business.

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

As a major part of Tikkurila'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 Tikkurila's operations. Furthermore, Tikkurila has issued 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:

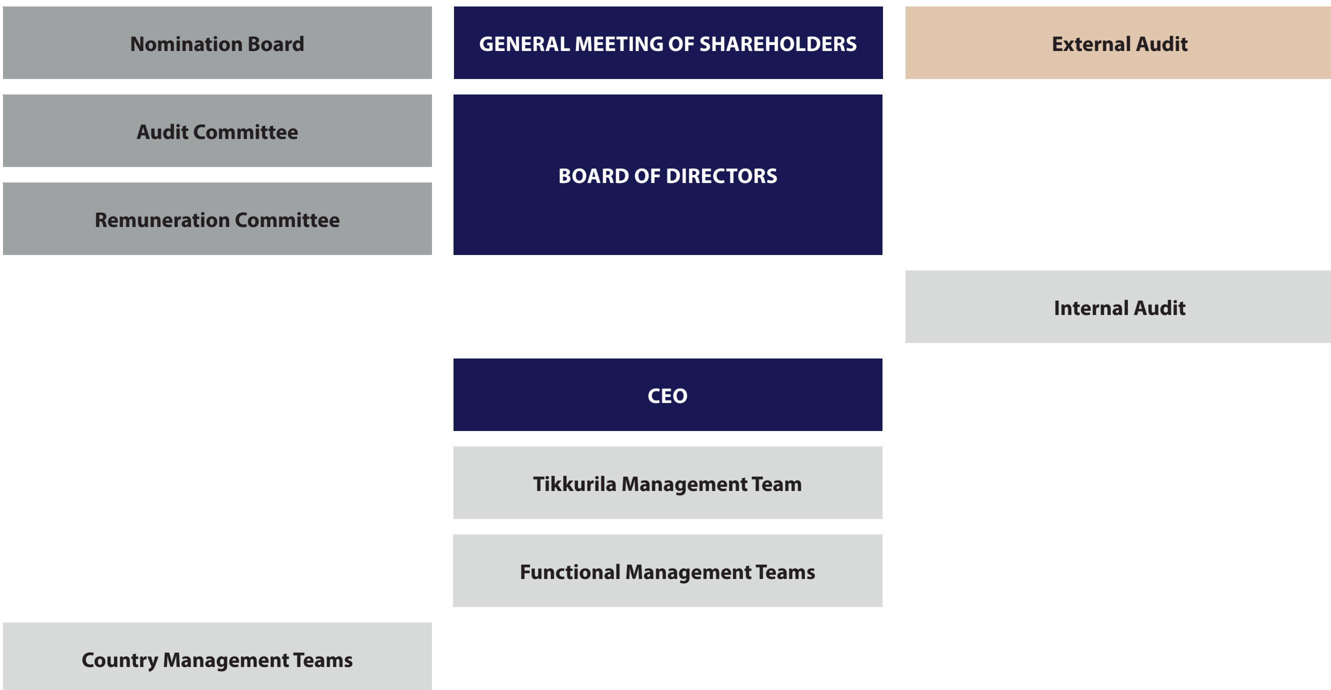
ANNUAL GENERAL MEETING OF SHAREHOLDERS (AGM)

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 CEO;
- any proposals by the Board of Directors or by the shareholders or group of shareholders related to e.g. authorizations granted to the Board, share buy-backs or granting of special rights related to shares; and
- any changes in the Articles of Association.

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

The decisions of the 2018 Annual General Meeting of shareholders are presented in the 2018 Board of Directors' report, and the meeting materials and key decisions are published on the company's web page. The 2019 Annual General Meeting will be held on April 11, 2019.



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 Tikkurila 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 of May 31, 2017 and May 31, 2018 respectively) as shareholders in the shareholders' register maintained by Euroclear Finland Ltd were requested to appoint one member to the Nomination Board. In addition, the Chairman of the Board of Directors of Tikkurila acted as an expert member of the Nomination Board.

During 2018, the Nomination Board had the following members: Annika Paasikivi, President & CEO, Oras Invest Oy; Reima Rytsölä, Deputy CEO, Investments, Varma Mutual Pension Insurance Company; and Mikko Mursula, Deputy CEO, Investments, Ilmarinen Mutual Pension Insurance Company. Moreover, Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj, acted as the expert member of the Nomination Board.

During 2018, the Nomination Board had three (2017: two) meetings, and the attendance rate was 100 (100) percent.

PREPARATION PROCESS FOR THE BOARD NOMINATION AND THE DIVERSITY OF THE BOARD OF DIRECTORS

Nomination Board, consisting of shareholders or their representatives, annually prepares proposals for the Annual General Meeting in relation to the number of 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, the Nomination Board of Tikkurila assesses the composition from the viewpoint of the company's current and future business needs, while taking into account the diversity of the Board.

The diversity of the Board of Directors will be assessed from various viewpoints. Tikkurila's Board of Directors shall have sufficient and complementary experience and expertise in the key industries and markets relevant to Tikkurila's business. In addition, an essential element is the personal characteristics of the members and their diversity.

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
- age
- personality
- culture

The company's aim is that the Board of Directors represents expertise in different industries and markets, diverse professional and educational background, diverse age distribution and both genders. 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 Tikkurila;
- to decide on long-term financial and operational goals;
- to approve major 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 appoint and dismiss the CEO, and to confirm the appointment and remuneration of the members of the Tikkurila Management Team;
- to monitor and evaluate the performance of the 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 CEO and the CFO of Tikkurila attend the Board meetings presenting the issues being discussed or decided upon, and the General Counsel or CFO acts as the Secretary of the Board.

During the financial year 2018, Tikkurila Oyj's Board of Directors had the following five members for the full year:

- 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

At the shareholders meeting on April 12, 2018, one Board member decided to discontinue her Board membership:

- Eeva Ahdekivi, member of the Board continuously from 2009

At the shareholders meeting on April 12, 2018, two new Board members were elected:

- Catherine Sahlgren
- Heikki Westerlund

At the end of 2018, the Board had altogether seven members. All of the Board members are independent of the company, and other members than Jari Paasikivi are also independent of major shareholders. Chairman of the Board, Jari Paasikivi, is the Chairman of the Board of Oras Invest Oy, and hence he is not independent of the key shareholders, as 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 CEO.

During 2018, the Board had 11 (2017: 12) meetings, and the average attendance rate was 100 (99) percent.

REMUNERATION OF THE BOARD OF DIRECTORS

The Annual General Meeting decided in April 2018 on the remuneration to be paid to the members of the Board. According to that decision, the Board remuneration in 2018 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 Tikkurila shares: either from shares already owned by Tikkurila or, if this is not possible, in shares acquired from the market, and 60 percent was paid in cash.

In addition, a meeting-specific fee was paid for the amount of:

- EUR 600 per meeting to members living in Finland; and
- EUR 1,200 per meeting to members living in other countries.

Moreover, EUR 600 was decided to be paid per telephone or video meeting. The meeting-specific fee was also paid for any committee meetings. Members' travel expenses related to meetings were compensated in accordance with Tikkurila's Group travel policy. The meeting-specific fees were paid to members' bank accounts.

There were no employment relationships or service contracts between the Board members and Tikkurila.

AUDIT COMMITTEE

In 2018, Pia Rudengren was the Chairman of the Audit Committee. Moreover, Riitta Mynttinen acted as the Audit Committee member for the full financial year, Eeva Ahdekivi until April 12, 2018, and Heikki Westerlund from April 12, 2018.

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, internal control, audit processes, and for monitoring compliance with laws, regulations and internal policies.

The Audit Committee of Tikkurila does not have any executive power. The Audit Committee is responsible for preparing and handling issues, such as:

- to assess and oversee the preparation of financial statements, half-year financial reports and business reviews, as well as statutory non-financial reporting, 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 audit and internal audit;
- to prepare the election of auditors;
- to pre-approve the non-audit services of the external audit firm or grant mandate to management to do so within pre-set limits; and
- to review the corporate governance statement.

During 2018, the Audit Committee met 6 (2017: 5) times. The attendance rate was 100 (100) percent. CFO Jukka Havia acted as the secretary of the Committee, and Tikkurila's principal auditor Toni Aaltonen was present in the meetings and presented reports to Audit Committee. In addition, Tikkurila's internal auditor Juha Halonen reported audit findings to the

SUMMARY OF THE ATTENDANCE AND REMUNERATION OF THE BOARD OF DIRECTORS, 2018

		Board of Directors	Audit Committee	Remuneration Committee	Total gross remuneration
Name	**Position**	**# of meetings attendance**	**# of meetings attendance**	**# of meetings attendance**	**EUR all fees total**
Eeva Ahdekivi	Member (until 12.4.2018)	3/3	1/1		1,800
Harri Kerminen	Member	11/11		5/5	40,400
Riitta Mynttinen	Member	11/11	6/6		48,800
Jari Paasikivi	Chairman and Chairman of Remuneration Committee	11/11		5/5	72,400
Pia Rudengren	Member and Chairman of Audit Committee	11/11	6/6		56,200
Catherine Sahlgren	Member (from 12.4.2018)	8/8			39,200
Heikki Westerlund	Member (from 12.4.2018)	8/8	5/5		39,200
Petteri Walldén	Vice Chairman	11/11		5/5	48,400
TOTAL		**74/74 (100%)**	**18/18 (100%)**	**15/15 (100%)**	**346,400**

Audit Committee.

In financial year 2018, the Audit Committee reviewed Tikkurila'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, to be presented to the Annual General Meeting.

REMUNERATION COMMITTEE

Remuneration Committee discusses and proposes remuneration of Tikkurila CEO and other members of Tikkurila Management Team as well as any share-based incentive schemes. In 2018 Jari Paasikivi was the Chairman of the Remuneration Committee, and Petteri Walldén and Harri Kerminen were the other members of the Committee. During 2018 the Remuneration Committee met five times (2017: three), and the average attendance rate was 100 (100) percent.

CHIEF EXECUTIVE OFFICER (CEO)

The Board of Directors appoints the CEO and decides upon his/her remuneration and other benefits. The CEO is in charge of the day-to-day management of Tikkurila. The 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 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.

The Board of Directors elected Elisa Markula as the new CEO, and she started on April 12, 2018. Group CFO Jukka Havia acted as the Interim CEO in the beginning of 2018 until that date.

TIKKURILA MANAGEMENT TEAM

The Tikkurila Management Team is chaired by the CEO, and it assists the CEO in the management and development of Tikkurila. The CEO proposes the appointment of the Tikkurila Management Team members, and the Board of Directors approves the appointment as well as approves the remuneration for the members of the Tikkurila Management Team. Tikkurila has operations in multiple countries, and hence also has legal entities in various countries. The CEO is the decision-maker for any major decisions, which do not require the Board of Directors' resolution.

The composition of Tikkurila Management Team is the following at the year-end 2018:

- Elisa Markula, CEO
- Jukka Havia, CFO
- Melisa Bärholm, Senior Vice President, HR
- Fredrik Linde, Senior Vice President, Operations
- Petri Miettinen, Senior Vice President, Sourcing
- Meri Vainikka, Senior Vice President, Offering

Anders Rotkirch, Senior Vice President, Transformation and ICT started as a new member of Tikkurila Management Team, on January 1, 2019. In addition, Oskari Vidman has been elected, to start on July 1, 2019, as the Senior Vice President, Sales.

During 2018 there were the following key changes in relation to the Tikkurila Management Team:

- Elisa Markula was elected by the Board of Directors as the CEO from April 12, 2018;
- Janno Paju, Senior Vice President, Sales, left Tikkurila on May 7, 2018;
- Fredrik Linde, Senior Vice President, Operations, was elected as Tikkurila Management Board member as from June 1, 2018;
- The role of Petri Miettinen, Senior Vice President, changed from Operations to Sourcing as from June 1, 2018

REMUNERATION OF THE MANAGEMENT MEMBERS REPORTING DIRECTLY TO THE CEO

The Board of Directors decides the remuneration as well as key employment terms for all group management members that directly report to the CEO.

REMUNERATION OF THE TIKKURILA MANAGEMENT TEAM IN 2018, SUMMARY

Tikkurila Management Team members were included in the 2018 annual cash-based management bonus scheme, and in the share-based commitment and incentive plans, which were established in 2016 and in 2018. The content of these incentive systems is described in more detail in a separate Remuneration Statement.

Summary of the Remuneration of the Tikkurila Management Team:

REMUNERATION IN 2018, GROSS, IN EUR

accruals basis, i.e. not presented on cash basis

Konsernin johtoryhmä	Fixed Salary	Fringe Benefits	**Subtotal, Fixed Remuneration**	Annual Bonus	Share-Based Remuneration**	**Subtotal, Variable Remuneration**	**Total Remuneration**
CEO							
Elisa Markula 4-12/2018	275,784	10,438	**286,221**	54,164	47,262	**101,426**	**387,648**
Jukka Havia (Interim CEO) 1-4/2018	71,635	3,375	**75,011**	0	0	**0**	**75,011**
Other management Team members, total *	979,237	51,654	**1,030,891**	141,485	106,669	**248,154**	**1,279,045**
Tikkurila Management Team, total	**1,326,656**	**65,467**	**1,392,123**	**195,650**	**153,931**	**349,581**	**1,741,704**

* Melisa Bärholm, Petri Miettinen and Meri Vainikka 1-12/2018; Janno Paju 1-5/2018; Fredrik Linde 6-12/2018, Jukka Havia (for CFO role) 5-12/2018
** IFRS 2 standard based annual personnel expense as recognized in 2018 Group income statement. In year 2018, no payments were made based on share-based incentive plans.

More detailed information about the remuneration of the Group management, and the Board of Directors, is available at the separate Remuneration Statement. Moreover, there is more information about the share-based long-term incentives for management at the notes to 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 2018, KPMG Oy Ab was re-elected as the auditor.

The Audit Committee of the Board prepares the election process of auditors. The aggregate duration of the principal auditor cannot exceed seven years. The current principal auditor, Toni Aaltonen from KPMG Oy Ab has started in the role of the principal auditor in 2012, and therefore the seven-year tenure for Toni Aaltonen will be reached at the Annual General Meeting in April 2019.

The auditor has a statutory responsibility to audit Tikkurila Oyj's accounting (based on Finnish accounting legislation), consolidated Group 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. 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 are consistent with the financial statements.

The auditor is elected by the Annual General Meeting for one year's term of service. The auditor reports to the Board of Directors at least once a year, and participates in Audit Committee meetings.

During 2018 the Group had a total of EUR 447 thousand (2017: EUR 433 thousand) audit related expenses and EUR 18 (47) thousand expenses for other services provided by KPMG, the Auditor of Tikkurila. During the financial year 2018, the Group companies had additional audit services from other audit companies than KPMG for a total of EUR 36 (26) 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 at 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.

FINANCIAL REPORTING PROCESS

Every Tikkurila Group subsidiary reports on a monthly basis income statement, balance sheet, cash flow statement and forward-looking estimates and forecasts in accordance with IFRS principles and based on 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.

Subsidiaries' reporting timetable is followed on a daily basis. Local and group controllers are responsible for ensuring that reporting is timely and correct. In addition business controllers at countries and at functions analyze historical and forward-looking reporting. Group management and functional management regularly visits 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 an 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 the 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 Tikkurila. 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 reports to the Audit Committee of the Board of Directors. In 2018 internal audit function surveyed sales and sourcing activities in multiple countries, and made country audits in e.g. in China and Sweden. The current internal auditor Juha Halonen started on February 1, 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 not to exceed 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 Group's strategic and operational planning, and it also is linked to internal control activities.

Tikkurila tries systemically to anticipate, identify, analyze, assess and manage the key risks, which are classified into the following categories: 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, segregation 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 defense framework. Group functions – sales, offering, operations, sourcing, ICT, finance and HR – implement commonly agreed self-evaluation model in their own areas. The results and outcome of the risk management process is 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; e.g. 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:

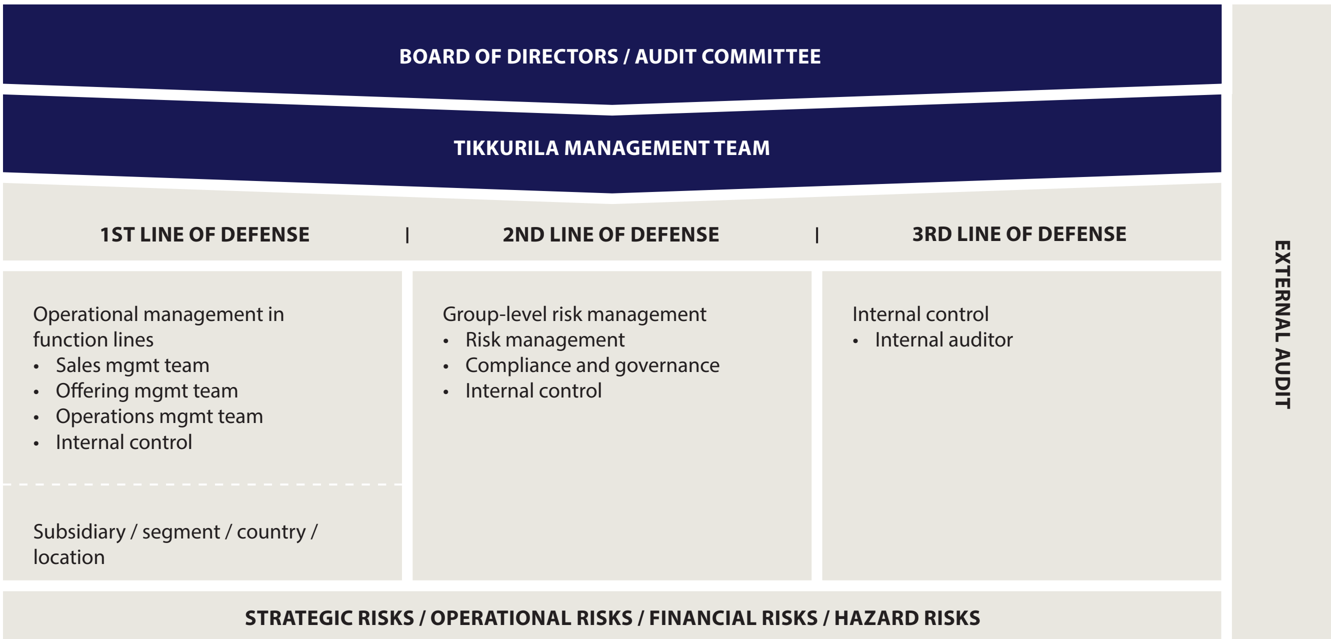
MANAGEMENT OF INSIDER ISSUES

Upon entry into force of the Market Abuse Regulation (EU) N:o 596/2014 (MAR) on 3 July 2016 Tikkurila 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.

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



More detailed information about the risks relevant to Tikkurila is presented at the Review of the Board of Directors, which is part of the official financial statements for financial year 2018.

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 Helsinki Oy, according to which insiders should trade in company shares only at a time when the marketplace has the fullest possible information on circumstances influencing the value of the company's share. Accordingly, and based on the 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 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 start 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 group's parent company, members of Tikkurila Management Team, and the members of the Board 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 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. 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 the Board of Directors of Tikkurila 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 has been published. During the silent period, Tikkurila's spokespersons are not available for meetings with capital market representatives and may not discuss Tikkurila's performance or market development.

GUIDANCE

If and when Tikkurila provides guidance to the market, this guidance is published in the form of an official outlook statement published in 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 a reasonable visibility. The outlook includes management's descriptive estimate on revenue and profitability. The estimate may also include other elements. No other forward-looking statements or answers to questions concerning the future performance are given unless the company decides to update the guidance and publish a stock exchange release regarding the update. Any such updates are published without undue delay.

COMMUNICATIONS

Tikkurila is committed to transparency, which means that it 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 publicly listed companies. Tikkurila complies with the Finnish Corporate Governance Code issued by the Finnish Securities Market Association. In addition, Tikkurila's internal policies, such as Corporate Responsibility and Code of Conduct, guide communication activities.

The aim of Tikkurila communications is to support 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, 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 TIKKURILA MANAGEMENT TEAM

INFORMATION ON THE MEMBERS OF THE BOARD OF DIRECTORS

Jari Paasikivi
Born 1954, M.Sc. (Econ.)
Chairman of the Board, Oras Invest Ltd, since 2018 (CEO of Oras Invest Ltd 2006-2018)

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, 2018: 80,475 (Dec 31, 2017: 78,762)

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, 2018: 9,969 (Dec 31, 2017: 8,898)

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 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
- Alteams Oy, Member of the Board of Directors since 2007
- Nokian Tyres plc., Chairman of the Board of Directors since 2006
- Efla Oy, Member of the Board of Directors 2014 - 2018

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, 2018: 6,114 (Dec 31, 2017: 5,258)

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
- Terrafame Ltd., Member of the Board since 2018

Pia Rudengren
Born 1965, M.Sc. (BA & Econ.)

Member of the Board since 2009
Member of the Audit Committee since 2010, Chairman from 2017
Independent Board member
Swedish citizen
Tikkurila shares on Dec 31, 2018: 7,278 (Dec 31, 2017: 6,207)

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
- AcadeMedia AB, Member of the Board of Directors since 2017
- Boliden AB, Member of the Board of Directors since 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

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, 2018: 5,366 (Dec 31, 2017: 4,510)

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 since 2012
- Normet Oy, Member of the Board of Directors since 2012

Catherine Sahlgren
Born 1962, M. Sc. (BA and Econ.)
CEO, Teknikmagasinet AB since 2016

Member of the Board since 2018
Independent Board Member
Swedish citizen
Tikkurila shares on Dec 31, 2018: 856

Career history
- Managing Director Northern Europe, Selecta Group 2006-2016
- Managing Director, Nordic Area, Selecta Group 2004-2006
- Managing Director, Scandinavia, Selecta Group 2001-2004
- Chief Executive Officer, Euroseek.com 2000-2001
- Managing Director, Pressbyrån 1998-2000

Positions of trust
- Future, Member of the Board of Directors since 2015
- Arkitektkopia, Member of the Board of Directors since 2006

Heikki Westerlund
Born 1966, M. Sc. (Econ.)
Member of the Board since 2018
Member of the Audit Committee since 2018
Independent Board member
Finnish citizen
Tikkurila shares on Dec 31, 2018: 10,856

Career history
- CEO, CapMan Plc, 2013-2017
- Chairman, CapMan Plc, 2010-2013
- CEO, CapMan Plc, 2005-2010
- Head of CapMan Buyout team, 2002-2005

Positions of trust
- Kemppi Oy, Member of the Board of Directors since 2018
- Duuri Oy, Member of the Board of Directors since 2018
- Orion Oyj, Chairman of the Board of Directors since 2017
- Kasvuryhmä, Chairman of the Nomination Committee since 2017

Eeva Ahdekivi (until April 12, 2018)
Born 1966, M. Sc. (Econ.), DBA
Managing Director, Hartwall Capital Oy Ab, 2015-2018

Member of the Board 2009-2018
Member of the Audit Committee 2010-2018, Chairman 2010-2017
Independent Board member
Finnish citizen

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

Jari Paasikivi

Petteri Walldén

Riitta Mynttinen

Pia Rudengren

Harri Kerminen

Catherine Sahlgren

Heikki Westerlund

INFORMATION ON THE MEMBERS OF THE TIKKURILA MANAGEMENT TEAM

Elisa Markula
Born 1966, M.Sc. (Econ.)
Chief Executive Officer (CEO) from April 12, 2018

Chairman of the Tikkurila Management Team from April 12, 2018
Finnish citizen
Joined Tikkurila in 2018
Tikkurila shares on Dec 31, 2018: No shares.

Career history
- Senior Vice President, Paulig Group, Managing Director, Oy Gustav Paulig Ab (Coffee division) 2010-2018
- Country Manager, Oy Suomen LEGO Ab (Finland) 2006-2009
- Sales Director, Oy Snellman Ab 2003-2006
- Key Account Manager and Trade Marketing Manager, Oy SCA Hygiene Products Ab 2000-2003
- Brand Manager, Oy SCA Hygiene Products Ab 1998-1999
- Area Marketing Manager, Fazer Chocolates Ltd 1993-1998

Positions of trust
- Olvi Oyj, Member of the Board, since 2015
- The Association of Finnish Advertisers (Mainostajien liitto), Member of the Board, since 2014
- The Chemical Industry Federation of Finland, Member of the Board, since 2018
- Finnish-Russian Chamber of Commerce (FRCC), Member of the Board, since 2018
- Association of Finnish Paint industry (VTY), Member of the Board, since 2018

Jukka Havia
Born 1968, M. Sc. (Econ.)
Chief Financial Officer (CFO) since 2010

Member of Tikkurila Management Team since 2010
Finnish citizen
Joined Tikkurila in 2010
Tikkurila shares on Dec 31, 2018: 14,000 (Dec 31, 2017: 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 2017
- Leipurin Oyj, Member of the Board of Directors since 2014
- Student Union of Aalto University, Member of the Finance Committee 2010-2018, Chairman 2016-2018

Melisa Bärholm
Born 1967, M. Sc. (Psychology)
Senior Vice President, Human Resources since May 1, 2017

Member of Tikkurila Management Team since May 1, 2017
Finnish citizen
Joined Tikkurila in 2017

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

Fredrik Linde
Born 1971, M. Sc. (Eng), eMBA
Senior Vice President, Operations since June 1, 2018

Member of Tikkurila Management Team since June 1, 2018
Swedish citizen
Joined Tikkurila in 2009

Career history
- Vice President, Supply Chain Planning, Tikkurila Oyj 2017-2018
- General Manager, Kefa Drytech AB (acquired by Tikkurila in 2014), 2014-2016
- Vice President, Supply Chain Scandinavia, Tikkurila Oyj/Tikkurila Sverige AB 2010–2017
- Vice President, Head of Production & Logistics, Alcro-Beckers AB 2009-2010
- Director, API Production, AstraZeneca Sweden 2008-2009
- Associate Director, API Production, AstraZeneca Sweden 2007-2008

Petri Miettinen
Born 1968, M.Sc. (Econ.)
Senior Vice President, Sourcing since June 1, 2018

Member of Tikkurila Management Team since 2007
Finnish citizen
Joined Tikkurila in 2007

Career history
- Senior Vice President, Operations, from May 1, 2017, until May 30, 2018, Tikkurila
- Senior Vice President, Supply Chain Management & HSEQ since 2007 until April 30, 2017, Tikkurila
- 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

Meri Vainikka
Born 1971, M. Sc. (Econ.)
Senior Vice President, Offering since May 1, 2017

Member of Tikkurila Management Team since May 1, 2017
Finnish citizen
Joined Tikkurila in 2017

Career history
- Marketing and Communications Director, Tikkurila, BU Finland, 01/2017-04/2017
- Marketing Director, Non-Alcohol drinks, Hartwall Oy, 03/2016-12/2016
- Marketing Director, Alcohol drinks, Hartwall Oy, 2015-2016
- Marketing Manager, Hartwall Oy, 2012-2014
- Marketing Manager, L'Oréal Finland Oy, 2010-2012
- Marketing Manager, Mars Finland Oy, 2008-2010 and 1998-2003
- Program Manager, South Karelia University of Applied Sciences, Business Administration 2004-2008

Anders Rotkirch (since January 1, 2019)
Born 1980, M. Sc. (Tech.)
Senior Vice President, Transformation and ICT

Member of the Management Team since January 1, 2019
Finnish citizen
Joined Tikkurila in 2019

Career history
- Finance Director, Coffee Division of Paulig Group, 2015–2018
- Group Business Controller, Paulig Group, 2013–2015
- Business Controller, Paulig Group, 2011–2013
- Manager, Ernst & Young, Advisory Services, 2011
- Senior Consultant, Ernst & Young, Advisory Services, 2010–2011
- Consultant, Ernst & Young, Advisory Services, 2007-2009

Janno Paju (until May 7, 2018)
Born 1971, Degree in Economics
Chief Commercial Officer since 2012 until April 30, 2017, where after Senior Vice President, Sales until May 7, 2018

Member of Tikkurila Management Team from 2000 until 2018
Estonian citizen
Employed by Tikkurila 1993-2018

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


Elisa Markula


Jukka Havia


Melisa Bärholm


Fredrik Linde


Petri Miettinen


Meri Vainikka


Anders Rotkirch

Tikkurila Oyj
P.O. Box 53, Kuninkaalantie 1
FI-01301 Vantaa
Finland
Tel. +358 20 191 2000
www.tikkurilagroup.com

Investors online
www.tikkurilagroup.com/investors

Investor relations contacts
Tikkurila Communications
communications.tikkurila@tikkurila.com

Format of e-mail addresses: firstname.lastname@tikkurila.com