

TIKKURILA

FINANCIAL STATEMENTS 2012



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BOARD OF DIRECTORS' REVIEW

MARKET REVIEW

The economic atmosphere continued to be weak towards the end of the year. No solution has been found to the economic situation in Europe, and economic growth in the emerging countries has also slowed down. The economy in the euro region is in recession, and recovery is not expected until towards the end of 2013. The overall and prolonged economic uncertainty was reflected in consumer spending in many of Tikkurila's key markets. In the developed markets in Sweden and Finland, consumer confidence was still low and unemployment increased. Consumer confidence declined in Russia as well. Economic growth in

Russia slowed down as expected at the end of the year, and growth of the entire year is estimated to be 3.5 percent. In Poland, consumer confidence declined to the lowest level of the year in December. The economy in Poland is expected to have grown by approximately 2 percent in 2012. According to preliminary estimates, the economy grew in Sweden and declined slightly in Finland last year.

Construction is estimated to have decreased in Sweden and Finland during last year. In Russia, construction remained near the previous year's level. In Poland, construction grew considerably at the beginning of 2012 but took a downward

turn as the year progressed. In many markets, the decline in construction is stabilized by renovation, which has continued to grow steadily as the building stock ages.

Among Tikkurila's key currencies, the Russian ruble and Swedish krona strengthened and the Polish zloty weakened slightly from the comparison period.

Raw material prices declined slightly during the second half of the year compared to the beginning of the year, but were still at a higher level than in the comparison period.

FINANCIAL PERFORMANCE IN JANUARY–DECEMBER 2012

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

January–December (EUR million)	Revenue		Operating profit (EBIT) excluding non-recurring items	
	1–12/2012	1–12/2011	1–12/2012	1–12/2011
SBU East	242.8	220.0	32.5	25.3
SBU Scandinavia	195.6	192.3	24.4	24.3
SBU Finland	107.9	109.2	12.7	10.9
SBU Central Eastern Europe	125.5	122.2	7.3	4.4
Group common and eliminations	0.0	0.0	-3.0	-2.3
Consolidated Group	671.8	643.7	73.9	62.7

Tikkurila Group's revenue grew by 4.4 percent in 2012. EUR 47.4 million of the total growth was due to the sales price increases and changes in the sales mix. Lower sales volumes reduced revenue by EUR 28.9 million. The positive impact of exchange rate changes was EUR 9.9 million. The acquisition of Tikkurila Zorka in July 2011 increased revenue by EUR 8.4 million. The divestment of two retail stores in Sweden at the end of 2011 decreased revenue by EUR 5.6 million. The negative impact of the divestment of the subsidiaries in Central Eastern Europe was EUR 3.1 million.

Operating profit (EBIT) excluding non-recurring items totaled EUR 73.9 (62.7) million, which accounts for 11.0 (9.7) percent of revenue.

Operating profit (EBIT) totaled EUR 66.6 (61.2) million, which accounts for 9.9 (9.5) percent of revenue. Increased revenue, streamlining of operations and favorable sales mix development in Russia, in particular, improved operating profit. Non-recurring items in the review period amounted to EUR -7.4 (-1.5) million. The majority of the non-recurring items is associated with the implementation of the streamlining program under way in the Group. In addition, impairments were carried out in Russia and Serbia.

The net financial expenses were EUR 7.4 (10.8) million. Profit before taxes was EUR 59.2 (50.7) million. Taxes totaled EUR 18.7 (15.2) million, equaling an effective tax rate of 31.5 (30.0) percent. Earnings per share were EUR 0.92 (0.80) in the review period.

The Group's key performance indicators and share performance indicators for the financial year 2012 as well as for 2011 and 2010 are presented in the Group's consolidated financial statements on pages 8-9.

FINANCIAL PERFORMANCE BY REPORTING SEGMENTS

SBU EAST

(EUR million)	1–12/2012	1–12/2011	Change %
Revenue	242.8	220.0	10.4%
Operating profit (EBIT), excluding non-recurring items	32.5	25.3	28.4%
Operating profit (EBIT) margin, excluding non-recurring items, %	13.4%	11.5%	
Operating profit (EBIT)	29.9	25.3	18.0%
Operating profit (EBIT) margin, %	12.3%	11.5%	
Capital expenditure excl. acquisitions	5.6	3.9	42.2%

FINANCIAL PERFORMANCE IN 2012

SBU East's full-year revenue increased from the comparison period. Increases in sales prices and changes in the sales mix grew revenue by EUR 26.7 million and the translation effect of exchange rate fluctuations increased it by EUR 4.2 million. The sales volumes were lower than in the comparison period and weakened revenue by EUR 8.1 million.

Despite increased cost level, operating profit excluding non-recurring items clearly increased and relative profitability improved. Profitability improved mainly driven by the increase in revenue and Tikkurila brand's increased relative share of sales. The increase in costs happened against the backdrop of increased sales and marketing investments as well as general cost inflation in Rus-

sia. The non-recurring items amounted to EUR -2.6 million and were related to the streamlining of operations and the impairments recognized on a production facility, land area and certain trademarks.

SBU SCANDINAVIA

(EUR million)	1-12/2012	1-12/2011	Change %
Revenue	195.6	192.3	1.7%
Operating profit (EBIT), excluding non-recurring items	24.4	24.3	0.4%
Operating profit (EBIT) margin, excluding non-recurring items, %	12.5%	12.6%	
Operating profit (EBIT)	23.7	24.2	-2.1%
Operating profit (EBIT) margin, %	12.1%	12.6%	
Capital expenditure excl. acquisitions	3.4	3.5	-4.8%

FINANCIAL PERFORMANCE IN 2012

SBU Scandinavia's full-year revenue increased slightly from the comparison period. The positive impact of the increased sales prices was EUR 8.7 million, and the positive impact of exchange rate

changes was EUR 7.2 million. Lower sales volumes reduced revenue by EUR 7.1 million. The negative impact of the divestment of retail stores was EUR 5.6 million.

Operating profit excluding non-recurring items and relative profitability remained at the comparison period level. The non-recurring items amounted to EUR -0.6 million and were related to the streamlining of operations.

SBU FINLAND

(EUR million)	1-12/2012	1-12/2011	Change %
Revenue	107.9	109.2	-1.2%
Operating profit (EBIT), excluding non-recurring items	12.7	10.9	16.1%
Operating profit (EBIT) margin, excluding non-recurring items, %	11.8%	10.0%	
Operating profit (EBIT)	10.7	10.8	-1.2%
Operating profit (EBIT) margin, %	9.9%	9.9%	
Capital expenditure excl. acquisitions	5.3	4.1	28.2%

FINANCIAL PERFORMANCE IN 2012

SBU Finland's full-year revenue decreased slightly from the comparison period. Lower sales volumes reduced revenue by EUR 6.6 million. The positive

impact of the sales price increases was EUR 5.4 million.

Operating profit excluding non-recurring items and relative profitability improved as a result of

the streamlining of operations. The non-recurring items of the period under review were EUR -2.0 million and were related to the streamlining program under way in the Group.

SBU CENTRAL EASTERN EUROPE (CEE)

(EUR million)	1-12/2012	1-12/2011	Change %
Revenue	125.5	122.2	2.8%
Operating profit (EBIT), excluding non-recurring items	7.3	4.4	65.4%
Operating profit (EBIT) margin, excluding non-recurring items, %	5.8%	3.6%	
Operating profit (EBIT)	5.4	3.2	69.1%
Operating profit (EBIT) margin, %	4.3%	2.6%	
Capital expenditure excl. acquisitions	3.9	3.3	17.0%

FINANCIAL PERFORMANCE IN 2012

SBU Central Eastern Europe's full-year revenue increased slightly from the comparison period. The sales volumes in the area decreased, excluding the impact of the acquisition of Tikkurila Zorka. The sales volumes were lower than in the comparison period and reduced revenue by EUR 7.2 million. The increase was due to sales price increases, which had an impact of EUR 6.7 million. The negative impact of exchange rate changes was EUR 1.5 million. The consolidation of Tikkurila Zorka in the consolidated financial statements increased SBU Central Eastern Europe's full-year revenue by EUR 8.4 million. The negative impact of the divestment of the subsidiaries in Central Eastern Europe on full-year revenue was EUR 3.1 million.

Operating profit excluding non-recurring items increased clearly from the comparison period. Profitability improved against the backdrop of revenue growth as well as the restructuring measures in the area and streamlining of operations. The non-recurring items of the review period amounted to EUR -1.9 million and were related to the restructuring measures and streamlining of operations.

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

Tikkurila's financial position and liquidity remained at a good level during the review period, and gearing decreased compared to the end of the previous financial year. Tikkurila's business is

seasonal, and thus the situation at the end of the year does not typically reflect the average full-year financial position.

Cash flow from operations in January–December totaled EUR 66.0 (37.1) million. The positive development was based on the efficiency boosting actions carried out throughout the Group, as well as on better net working capital development than in the comparison period. Net working capital totaled EUR 90.6 (96.2) million at the end of the review period. Net cash flow from the investing activities was EUR -15.7 (-23.8) million, when taking into account the acquisitions and divestments. Cash flow after capital expenditure totaled EUR 50.3 (13.3) million during the review period.

Interest-bearing debt amounted to EUR 96.6 (109.8) million and the net debt was EUR 80.6 (99.4) million at the end of the review period. Cash and cash equivalents amounted to EUR 15.9 (10.4) million at the end of the review period. The short-term interest-bearing debt totaled EUR 35.9 (49.5) million at the end of December. At that time, the Company had issued commercial papers for a total nominal amount of EUR 33.5 (11.0) million. Moreover, at the end of December, the Group had long-term interest-bearing debt totaling EUR 60.6 (60.3) million and a total of EUR 156.0 (125.3) million of unused committed credit facilities or credit limits. At the end of December, the equity ratio was 47.7 (44.1) percent, and gearing was 39.1 (51.9) percent.

The Group's net financial expenses were EUR 7.4 (10.8) million, of which net interest expenses and other financing expenses accounted for EUR 4.7 (10.0) million. The average capital-weighted interest rate of interest-bearing debt was 2.1 (4.3) percent. The average interest rate was lower than in 2011 due to the decline in market interest rate as well as due to the impact of the revised debt financing package implemented in the latter half of 2011. The net profit was negatively affected by a total of EUR 2.8 (1.0) million during the review period due to the impact of realized and unrealized exchange rate differences recognized in net finance expenses. At the end of the review period, the nominal value of Tikkurila's foreign exchange rate forward agreements was EUR 47.9 (96.2) million and the corresponding market value was EUR -0.2 (0.4) million. At the end of December 2012 the average nominal hedge ratio, based on those non-euro currencies that have cost-efficient hedging instruments and that are not tied to euro, was about 50 percent.

CAPITAL EXPENDITURE

In 2012, the gross capital expenditure excluding acquisitions amounted to EUR 18.1 (14.9) million. No major single investments were carried out during the review period. Capital expenditures in the period under review were related to, among others, the construction of training center in Russia, the modernization investments of crane systems and forklifts in the production site in Sweden, the modernization of palletizing robots in Finland, and the construction of new warehouse for packaging materials in Poland.

Various measures to secure production automation, streamlining and continuity continue in various Tikkurila units. Tikkurila estimates that the 2013 capital expenditure level will be close to the annual depreciation and amortization level.

The Group's depreciation, amortization and impairment losses amounted to EUR 25.1 (21.7) million in 2012. The Group performs impairment tests in accordance with the IAS 36 standard.

SALES AND MARKETING

In 2012, the Tikkurila Group's sales and marketing expenses, including personnel expenses, totaled EUR 90.0 (90.6) million, corresponding to 13.4 (14.1) percent of revenue.

Tikkurila continued to actively market its products and services to consumers and professionals. Tikkurila has four strategic brands – Tikkurila, Al-

cro, Vivacolor, and Teks – and several local brands. Tikkurila focuses on premium products but due to the demand structure on certain markets Tikkurila offers also medium and economy segment products. According to external studies, the strategic brands of Tikkurila Group are the best-known paint brands or among them in their respective market areas.

Tikkurila has been working actively and consistently for years in order to develop and offer environmentally sustainable and easy-to-use products in Scandinavia, in particular, where Tikkurila has the highest number of eco-labeled decorative paints. Tikkurila Group's different paint brands have been awarded several official and local eco-labels and product-specific classifications. In 2012, the products of Tikkurila were granted the EU Ecolabel in Poland, Scandinavia and Finland. Several products in Scandinavia were awarded the Swan Ecolabel, and currently more than hundred exterior and interior paints of Alcro and Beckers carry the Swan label. In addition, Tikkurila received the first Swan Ecolabels in the Baltics. Also in Finland, the amount of Swan Ecolabeled products increased. New asthma and allergy labels were awarded to Tikkurila products in Estonia, Latvia, Lithuania, and Ukraine.

Other significant events during 2012 included the expansion of the Profe service concept for professionals in Finland, and it was also introduced in Russia and Poland, the development of training center network by opening a new training facility in Obukhovo, St. Petersburg in Russia, the reform of the Teks brand in Russia and the Vivacolor brand in the Baltic countries, consumer awards received by Tikkurila in Poland, as well as the launch of the new Shop concept in Finland. In addition, Tikkurila developed its service business, and development work will also continue during the current year.

In 2012, Tikkurila launched some 40 new products for the needs of consumers and professionals.

RESEARCH AND DEVELOPMENT

In 2012, Tikkurila's research and development expenses totaled EUR 10.8 (2011: EUR 9.9 and 2010: EUR 10.2) million or 1.6 (2011: 1.5 and 2010: 1.7) percent of revenue. At the end of 2012, the unit employed 164 (173) people. Tikkurila's largest R&D units are located in Finland, Russia, Poland and Sweden.

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

In 2012, R&D function focused on product launches, product safety issues, environment sustainability of products, harmonization of the raw material portfolio, and cost savings. Important events in 2012 included, among others, the formation of Tikkurila innovation team, the introduction of the Avatint tinting system in Scandinavia, the modernization and reconstruction of the laboratory premises and equipment in Poland to fulfill the highest standards, and the implementa-

tion of a new IT tool for raw material and formula management.

CORPORATE RESPONSIBILITY

Tikkurila offers environmentally sustainable and high-quality products. The core objective of Tikkurila's corporate responsibility approach is to minimize the environmental effects and to provide environmentally sound solutions for customers. When developing and manufacturing products, Tikkurila considers the environmental and other sustainability issues of the entire life-cycle of paint, ranging from raw materials to the finished products and product disposal.

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

ENVIRONMENT

The environmental impact of paints is also reduced through legislation. One of the most significant changes in legislation in the EU region is the REACH directive, which obligates manufacturers and importers of chemicals to assess the risks related to the use of the product and to provide end users with instructions on the safe use of chemicals. Tikkurila has ensured that all raw materials used in the EU region have been or will be registered by 2018, in accordance with the schedule stated in REACH.

Other significant regulations associated with paints relate, among others, to the classification, labeling and packaging of substances and mixtures (the CLP directive). In 2013, Tikkurila will launch the preparation of new labels and safety data sheets to comply with the regulations of the CLP directive. The warning texts on paint product labels should be replaced by June 2015. The VOC directive for paints defines the maximum allowed amounts of solvents evaporating into the air from paints intended for different purposes. The biocide directive directs the use of preservatives used in paints.

In addition to the aforementioned directives, various eco-labels and markings such as the Swan Ecolabel and the EU Ecolabel as well as various allergy and asthma labels set requirements on our products regarding the environment, health and quality.

In 2012, Tikkurila invested EUR 0.3 (0.1) million into environmental protection in its units, and environmental operating costs totaled EUR 2.1 (2.1) million.

HUMAN RESOURCES

At the end of 2012, the Tikkurila Group employed 3,227 (3,551) people. The average number of employees in 2012 was 3,425 (3,676).

Tikkurila Group's number of employees at the end of each quarter is presented on next page split by SBU, starting from the first quarter of 2011.

	Q1/2011	Q2/2011	Q3/2011	Q4/2011	Q1/2012	Q2/2012	Q3/2012	Q4/2012
SBU East	1,558	1,642	1,576	1,527	1,522	1,534	1,500	1,437
SBU Scandinavia	468	514	464	422	413	447	415	408
SBU Finland	743	825	705	688	624	685	562	558
SBU CEE	750	777	940	877	848	853	845	788
Group functions	36	36	36	37	34	36	36	36
Total	3,555	3,794	3,721	3,551	3,441	3,555	3,358	3,227

Approximately half of Tikkurila's personnel work in the supply chain (production, sourcing, logistics and HSEQ) and one-third in sales, marketing and technical support. The share of temporary workers at the end of 2012 was 5.6 (6.0) percent and 39.9 (40.9) percent were blue-collar workers. 63.6 (63.7) percent of the personnel were men and 36.4 (36.3) percent women. The average age of the employees was 39.9 (39.2) years.

Performance-based salaries and compensation paid in 2012 totaled EUR 88.1 (88.8) million.

A new personnel survey tool was implemented at Tikkurila in 2012. A personnel survey model covering the entire personnel has been used since 2004, but the process was renewed to better reflect our operations and ways of working. Instead of concentrating on job satisfaction, the Tikkurila Beat survey focuses on measuring the potential of our personnel: competence, working prerequisites and motivation. The survey was conducted in November 2012, and 86.3 percent (2010: 86.3%) of Tikkurila employees responded to the survey and gave their feedback on our company, management, their own work, and the operations of their own teams. Tikkurila's overall index measured based on the results was 399, whereas the global comparable average was 420. Compared to the results from the previous years, the most positive changes included, among other things, improved respect between and collaboration of employees as well as an increased understanding among employees of their own resources, duties, and their importance to the company. Overall, employees felt that factors supporting working prerequisites and motivation were at a good level in the Group. Competence development is the area with the greatest improvement pressure.

At the end of 2011, Tikkurila launched a group-wide program. Measures aiming to improve effectiveness and carry out restructuring were launched in all business units in 2012. For the most part, HR work in 2012 focused on supporting management, supervisors and personnel in the change. In addition, engaging in dialogue and cooperation were developed at Tikkurila in 2012.

SHARES AND SHAREHOLDERS

At the end of 2012, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of 2012, Tikkurila held no treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had a total of some 23,000 shareholders on December 31, 2012. A list of the largest shareholders registered in the book-entry account system is regularly updated and is available on Tikkurila's website at

☞ www.tikkurilagroup.com/investors/share_information/shareholders.

At the end of December, the closing price of Tikkurila's share was EUR 14.72. In January–December, the volume-weighted average share price was EUR 14.13, the highest price EUR 15.45, and the lowest EUR 12.89. At the end of December, the market value of Tikkurila Oyj's shares was EUR 649.3 million. During January–December, a total of 11.8 million Tikkurila shares, corresponding to approximately 27 percent of the number of registered shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 166.8 million.

Tikkurila Board members and their interest parties held altogether 86,020 shares on December 31, 2012, which is about 0.2 percent of the share capital and votes in Tikkurila. Furthermore, Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the President and CEO in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila Management Board members and their interest parties held altogether 30,025 shares on December 31, 2012, which is about 0.1 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at

☞ www.tikkurilagroup.com/fi/corporate_governance.

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

DISCLOSURE OF CHANGES IN HOLDINGS IN 2012

Orkla ASA announced on August 16, 2012, that its holding in shares of Tikkurila had fallen below the 1/20 (5%) threshold. After the transactions, the holding of Orkla in Tikkurila shares was 0 percent. Prior to the triggering transaction, the holding of Orkla amounted to 2,876,937 Tikkurila shares, which corresponded to 6.5 percent of the total amount of shares and votes in Tikkurila.

Prudential plc and its subsidiaries announced on August 20, 2012, that their holdings in shares of Tikkurila Oyj had exceeded the 1/20 (5%) threshold due to trades executed on August 16, 2012. The direct holding of Prudential Group's companies in Tikkurila Oyj had amounted to a total of 2,248,853 shares, which corresponded to 5.10 percent of the total amount of shares and votes in Tikkurila Oyj. In addition, the indirect holding of Prudential Group's companies in Tikkurila had amounted to 9,770 shares, which corresponded to 0.02 percent of the total amount of shares and votes in Tikkurila Oyj.

Prudential plc announced on August 29, 2012, that its and its subsidiaries' (M&G Investment Management Limited, M&G Group Limited, M&G Limited) holdings in shares of Tikkurila Oyj had fallen below the 1/20 (5%) threshold due to

trades executed on August 24, 2012. After these transactions the holding of Prudential plc and its subsidiaries in Tikkurila Oyj amounted to a total of 2,168,414 shares, which corresponded to 4.92 percent of the total amount of shares in Tikkurila Oyj. According to the announcement, the voting rights of Prudential plc and its subsidiaries totaled 1,995,280 votes, which corresponded to 4.52 percent of the total amount of votes in Tikkurila Oyj.

CORPORATE GOVERNANCE STATEMENT

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

☞ www.tikkurilagroup.com/investors.

FINANCIAL TARGETS AND DIVIDEND POLICY

On November 7, 2012, the Board of Directors of Tikkurila adopted new financial targets for the Group. The targets will be measured after a five-year period (2013–2017) in 2018. In 2018, Tikkurila aims at EUR 1 billion revenue, over 12 percent operative EBIT margin, over 20 percent operative return on capital employed (ROCE), and less than 70 percent gearing.

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

Further information on financial targets and dividend policy is available on Tikkurila's website on

☞ www.tikkurilagroup.com/investors.

DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of Tikkurila Oyj approved the Financial Statements for 2011 and decided to discharge the members of the Board of Directors and the President and CEO from liability. The Annual General Meeting re-elected Eeva Ahdekivi, Riitta Mynttinen, Jari Paasikivi, Pia Rudengren and Petteri Walldén to the Board of Directors and elected Harri Kerminen and Aleksey Vlasov as new members. The AGM approved all Board

proposals. The detailed proposals are available at www.tikkurilagroup.com.

The Annual General Meeting approved a EUR 0.73 dividend per share for the financial year 2011. The rest were retained and carried further in the company's unrestricted equity. The dividend was paid to a shareholder who was registered in the company's shareholder register maintained by Euroclear Finland Ltd on the dividend record date, April 2, 2012. The dividend was paid on April 11, 2012.

The Annual General Meeting decided that the remuneration to the members of the Board of Directors was as follows: EUR 57,000 for the Chairman, EUR 37,000 for the Vice Chairman and EUR 31,000 for other members of the Board of Directors. Circa 40 percent of the annual remuneration was paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares were acquired directly on behalf of the Board members within two weeks from the release of the interim report for January 1–March 31, 2012. Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) was paid to the members of the Board of Directors as follows: EUR 600 for meetings held in the home state of a member and EUR 1,200 for meetings held outside the home state of a member. The remuneration paid for telephone meetings was EUR 600. Travel expenses were paid according to the travel policy of the company.

The Annual General Meeting decided that the Auditor's fees are paid against an invoice approved by the company. KPMG Oy Ab, the current auditor of the company, 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 resolved to remove from the Articles of Association section 3 determining the minimum and maximum number of the company's share capital and shares. Section 9 was amended in a way that the notice to the General Meeting will be published on the company's website. In addition to this, the Board of Directors can decide that the notice to the meeting will be published in a newspaper. A statement was decided to be added to the section whereby the Chairman of the General Meeting is to resolve the method of voting in case a matter is to be resolved by vote at the General Meeting.

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, 2013.

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 8,800,000 shares. The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment. The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or deviating from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors. The authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2013.

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 in one or more tranches limited to a maximum of 440,000 shares, deviating from the shareholders' pre-emptive subscription right, to the company's key persons as part of the share-based commitment and incentive program published on February 16, 2012. The authorization will be valid for five years from the decision.

The Annual General Meeting decided to establish 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 composition and remuneration of the Board of Directors. Representatives of the three largest shareholders will be elected to the Nomination Board. In addition, the Chairman of the Board of Directors of the company will act as an expert member of the Nomination Board.

DECISIONS OF THE BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors of Tikkurila elected from among its members Jari Paasikivi as Chairman and Petteri Walldén as Vice Chairman of the Board of Directors.

Eeva Ahdekivi was elected as Chairman and Riitta Mynttinen and Pia Rudengren as members of the Audit Committee. In addition, the Board of Directors decided to establish a Remuneration Committee as a new Board Committee. Jari Paasikivi was elected as Chairman and Harri Kerminen and Petteri Walldén as members of the Remuneration Committee.

Tikkurila Oyj's three largest registered shareholders on May 31, 2012, named their representatives for Tikkurila's Nomination Board in June 2012. The members of the Nomination Board are Pekka Paasikivi, Chairman of the Board of Directors of Oras Invest Oy; Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company; and Risto Murto, Executive Vice President of Varma Mutual Pension Insurance Company. The fourth member of the Nomination Board is Jari Paasikivi, the Chairman of the Board of Directors of Tikkurila Oyj, who acts as an expert member.

EVENTS AFTER THE REVIEW PERIOD

The Nomination Board of Tikkurila proposes to the Annual General Meeting, which is planned to be held on April 10, 2013, that the number of Board members would remain unchanged at seven and that all present members Eeva Ahdekivi, Harri Kerminen, Riitta Mynttinen, Jari Paasikivi, Pia Rudengren, Aleksey Vlasov and Petteri Walldén would be re-elected.

Furthermore, the Nomination Board proposes to the Annual General Meeting that the annual remuneration of the members of the Board of Directors will stay at the current level.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

Tikkurila Oyj's retained earnings totaled EUR 91.1 million on December 31, 2012. The Board proposes to the Annual General Meeting that a dividend of EUR 0.76 per share will be distributed for the year ended on December 31, 2012, and that the rest be retained in the unrestricted equity. The proposed dividend totals about EUR 33.5 million, which corresponds to approximately 82.6 percent of the Group's net profit for 2012. It is proposed that the record date for the payment of the dividend will be April 15, 2013, and that the dividend will be paid on April 24, 2013.

ANNUAL GENERAL MEETING 2013

The Annual General Meeting of Tikkurila Oyj will be held at 1:00 p.m. on Wednesday, April 10, 2013 at Lasipalatsi's Bio Rex (address: Mannerheimintie 22–24, 00100 Helsinki). The review of the Board of Directors and Financial Statements will be available on week 10 at www.tikkurilagroup.com.

GENERAL INFORMATION ON RISKS

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

Tikkurila's Board of Directors strives at recognizing and understanding Tikkurila's most important risks. The Board decides on the risk strategy: which risks the Group must take in order to achieve its goals, and what is the risk tolerance for specific material risks. The risk strategy is synchronized with Tikkurila's overall business strategy. The Board also decides which risks are mitigated, and to what extent and at what cost, e.g. by hedging or by business contract design. Finally, the Board oversees that proper risk control and management exists to cover normal business risks. Tikkurila's internal control, internal audit and risk management aim at decreasing to a relevant extent the adverse effects of possible materialization of risks.

Tikkurila has risks of various characters, such as strategic risks, operational risks, financial risks and hazard risks. Risks are assessed and managed according to the type and characteristics of each

risk. In Tikkurila's view the main risks are among strategic and operational risks, but all categories present risks that may have significant impact on Tikkurila's business.

DESCRIPTION OF KEY RISK CATEGORIES

Tikkurila is dependent on its suppliers' ability to deliver the *raw materials* needed for paint production. Commodity prices fluctuate based on supply-demand balances, which typically vary from cycle to cycle. Supply adjustment is typically slow and price changes can be swift. It is possible that the Group will not fully be able to transfer the changing costs to its end product prices, at least not with immediate effect. In addition, the uncertainties related to raw materials can affect market share development, the general competitive situation or the product selection.

The *competitive situation* in the paint industry or within the value chain can change quickly, especially due to new market entrants and changes in market structures or in distribution. It is possible that there will be more consolidation and fewer operators in the industry, changing the relative strength of each competitor. New suppliers can enter the business and existing competitors can expand their operations, which can have detrimental impact to Tikkurila. Customers may consolidate or organize more bargaining power. In addition, possible alterations of the company's distribution channels can cause pressure on prices or results.

The general economic development affects the demand drivers, such as construction and renovation activity, for Tikkurila's products and services. A halt or turnaround in the *macro-economic positive development within Tikkurila's operating area* or decline in *consumer or business confidence* can have a negative effect on Tikkurila's business, financial position and result.

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

Due to the international nature of Tikkurila's operations, the Group's income statement, balance sheet, and cash flows are sensitive to *foreign exchange* rate changes. Currently, the most important non-euro currencies are Russian ruble, Swedish crown and Polish zloty. Translation risks and transaction risks affect profit and loss accounts through changing currency values in i.a. raw material expenses or sales prices measured at Group level in euro, and also balance sheet when foreign subsidiaries' assets and equity are translated into euro in Group books. These risks are relative to the scope of business conducted in these countries.

Political and geographic risks exist in many of Tikkurila's operating countries. These include the possibility of high or hyperinflation, political unrest, deterioration of infrastructure, war or other disruptive conditions to business. Also business culture and governance requirements differ from

country to country, and even though Tikkurila promotes coherent application of its group-wide code of conduct, sustainability and other principles, the underlying differences can create risks for Tikkurila.

Tikkurila's business is subject to numerous *laws and regulations*, both administrative and industry-specific, within the EU area and in other countries. Changes in regulation can hamper optimal production structure or transferability of Tikkurila materials and finished products, or lead to e.g. fewer choices for raw materials, or to more expensive ones, or to an increase in warehousing costs. Risks also include new duties and levies on materials, transport or transactions. Implementation of new regulations can also increase fixed expenses.

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 operational circumstances, or there would be an accident causing environmental pollution, or if the company would decide to close-down or transfer a production facility, this might lead to obligations to clean-up or rehabilitation of 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 financial result.

Refinancing risks are not deemed to be material for Tikkurila for the short-term as Tikkurila restructured its debt facilities in 2011, and has secured external financing for three-year and five-year maturities. However, any longer-term difficulty in obtaining new long-standing financing in the volatile economic environment may affect Tikkurila's operations adversely.

Tikkurila has developed strong local and international brands over decades. It has good customer loyalty and quality reputation, according to regular external surveys, and therefore *brand and reputation risks* are important. Any changes in consumer preferences or price elasticity of demand can negatively affect demand for Tikkurila Group's branded products, which may lead to decline in *market shares in key markets*. Furthermore, it is possible that changes in the end-demand of consumers or professional customers, or changes in general fashion trends, or technological development in other product categories can increase demand for products that can fully or partially substitute paints as surface materials, which can have a detrimental impact for Tikkurila.

Scarcity of human and other resources may affect Tikkurila's long-term growth proposition, and in certain geographical areas also significantly increase cost inflation pressures. Demand for paints may grow rapidly in a positive economic environment, and Tikkurila's new revised strategy may introduce new needs for human resources and capabilities.

SHORT-TERM BUSINESS RISKS AND UNCERTAINTIES

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

OVERALL MACROECONOMIC SITUATION

Economic uncertainty has increased in the past few months in the euro region, in particular. Consumer confidence has decreased in many of Tikkurila's key market areas, unemployment has increased, and the forecast GDP growth rates have decreased. As a result, demand for the Group's products and services may decrease and the demand structure may change in favor of lower price level products. This may have an adverse effect on the average relative profitability of the Group. Because the overall economic development impacts factors influencing demand for Tikkurila's products and services, such as new construction and renovation activity, macroeconomic development halting or taking a downward turn in Tikkurila's operating area may have adverse effects on the Group's business operations, economic position, and financial performance.

COMPETITIVE SITUATION AND CHANGES IN THE VALUE CHAIN AND PRODUCT DISTRIBUTION

Competition in the paint industry has tightened in Tikkurila's main markets, and the same development is likely to continue in the near future. Tikkurila's competition includes both large multinational paint industry companies and smaller local companies. Large players have publicly announced additional investments into production capacity in Russia, for example. In addition, the industry has completed, and presumably will continue to complete, acquisitions which will result in the centralization of the industry. Smaller competitors, which often only operate in a certain area or product segment may be more cost-competitive in the future. It is also possible that new players will enter the paint industry as suppliers or distribution channels potentially expand their operations. The competitive situation may result in additional costs, for example in sales promotion, slow down the development of Tikkurila's revenue, or impact sales prices. In addition, there may be changes in distribution channels, which may have adverse effects on the structure of Tikkurila's sales or profitability. Possible changes in the product distribution of Tikkurila's sales may also have an adverse effect on profitability or increase the warranty or other risks related to products. The relative share of professionals in sales has grown in many of Tikkurila's operating countries, which may impact the Group's relative profitability or change the allocation of Tikkurila's resources.

Tikkurila's risk management principles are available on Tikkurila's website at

www.tikkurilagroup.com. Additional information is available for example in the corporate governance statement and Board of Directors review in relation to risks applicable and relevant to Tikkurila's business in both short term and long term.

Moreover, additional information on financial risks can be found in the Notes to the 2012 Financial Statements.

OUTLOOK FOR 2013

Economic development in Europe is expected to be weak in 2013. The overall uncertainty and

increasing unemployment are expected to have a negative impact on consumers' willingness to purchase and on the demand for Tikkurila's products. The GDPs in Tikkurila's key markets, in other words Russia, Sweden, Finland, and Poland, are estimated to grow an average of approximately two

percent in 2013. Raw material prices are estimated to remain stable or to decrease slightly.

Tikkurila expects its revenue and EBIT in euro excluding non-recurring items for the financial year 2013 to remain on 2012 level.

GROUP KEY FIGURES

KEY PERFORMANCE INDICATORS (EUR thousand)	2012	2011	2010
STATEMENT OF COMPREHENSIVE INCOME AND PROFITABILITY			
Revenue	671,836	643,729	588,647
Foreign operations	563,929	534,534	481,462
Operating profit	66,553	61,211	60,757
% of revenue	9.9	9.5	10.3
Share of profit or loss of associates	62	294	-87
Financial expenses (net)	7,373	10,832	8,675
% of revenue	1.1	1.7	1.5
Interest cover	12.4	7.7	9.4
Profit before tax	59,242	50,673	51,995
% of revenue	8.8	7.9	8.8
Net profit for the period	40,578	35,487	36,524
Return on investment (ROI), %	24.6	23.1	21.8
Return on equity (ROE), %	20.4	18.6	21.9
Return on capital employed (ROCE), %	21.0	19.4	19.2
Research and development expenses	10,766	9,926	10,155
% of revenue	1.6	1.5	1.7
CASH FLOWS			
Cash flow from operations	66,024	37,100	63,855
Disposals of businesses, PPE* and intangible assets	710	3,317	385
Capital expenditure	16,827	27,530	11,267
% of revenue	2.5	4.3	1.9
Cash flow after capital expenditure	50,326	13,288	51,415
Cash flow return on capital invested (CFROI), %	19.9	10.5	18.5
STATEMENT OF FINANCIAL POSITION AND SOLVENCY			
Non-current assets	228,754	228,407	228,258
Shareholders' equity (attributable to the owners of the parent)	206,085	191,500	190,038
Shareholders' equity including non-controlling interest	206,085	191,500	190,038
Liabilities	225,930	243,003	272,261
Total assets	432,015	434,503	462,299
Interest-bearing financial liabilities	96,553	109,849	147,979
Interest-bearing net liabilities	80,626	99,423	78,607
Equity ratio, %	47.7	44.1	41.1
Gearing %	39.1	51.9	41.4
Interest-bearing financial liabilities (net) / EBITDA	0.9	1.2	1.0

* Property, plant and equipment

PERSONNEL		2012	2011	2010
Personnel (average)		3,425	3,676	3,703
of whom in Finland		641	780	800

EXCHANGE RATES		2012	2011	2010
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	40.3295	41.7650	40.8200
Swedish Krona	EUR/SEK	8.5820	8.9120	8.9655
Polish Zloty	EUR/PLN	4.0740	4.4580	3.9750

SHARE PERFORMANCE INDICATORS		2012	2011	2010
Earnings per share, EUR, basic		0.92	0.80	0.83
Earnings per share, EUR, diluted		0.92	0.80	0.83
Dividend per share, EUR ¹⁾		0.76	0.73	0.70
Dividend payout ratio, % ¹⁾		82.6	90.7	84.5
Dividend yield, % ¹⁾		5.2	5.7	4.2
Equity attributable to owners of the parent per share, EUR		4.67	4.34	4.31
Weighted average number of shares (1,000)		44,108	44,108	44,108
Number of shares at the end of period (1,000)		44,108	44,108	44,108
Weighted average number of shares, adjusted for dilutive effect (1,000)		44,179	44,108	44,108
Number of shares at the end of period, adjusted for dilutive effect (1,000)		44,218	44,108	44,108
Equity attributable to owners of the parent, EUR thousand		206,085	191,500	190,038
Price per earnings per share (P/E) ratio		16.0	16.0	19.9
Share price, end of period, EUR		14.72	12.89	16.51
Share price, year high, EUR		15.45	16.92	16.95
Share price, year low, EUR		12.89	12.13	14.17
Share price, volume-weighted year average, EUR		14.13	15.26	15.56
Market capitalization at the end of period, EUR million		649.3	568.6	728.2

¹⁾ The dividend 2012 is the Board of Directors' proposal to Annual General Meeting on April 10, 2013.

DEFINITIONS OF KEY FIGURES

OPERATING PROFIT (LOSS), %

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

INTEREST-BEARING NET LIABILITIES

Interest-bearing liabilities - cash and cash equivalents

EQUITY RATIO, %

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

GEARING, %

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

INTEREST COVER

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

RETURN ON INVESTMENT (ROI), %

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

RETURN ON EQUITY (ROE), %

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

CASH FLOW RETURN ON INVESTMENT (CFROI), %

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

RETURN ON CAPITAL EMPLOYED (ROCE), %

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

INTEREST-BEARING FINANCIAL LIABILITIES (NET) / EBITDA

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

NET WORKING CAPITAL

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

DIVIDEND YIELD

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

$$\frac{\text{Equity attributable to the owners of the parent at the end of the reporting period}}{\text{Number of shares at the end of the reporting period}}$$
PRICE / EARNINGS RATIO (P/E)

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

$$\text{Number of shares at the end of period} \times \text{share price, end of period}$$

* Average of January 1, and end of the year

** Average during the period

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

(EUR thousand)	Note	Jan 1 - Dec 31, 2012	Jan 1 - Dec 31, 2011
Revenue		671,836	643,729
Other operating income	7	3,266	1,793
Change in inventories of finished goods and work in progress		-6,324	11,630
Materials and services		-338,075	-340,413
Personnel expenses	8	-115,905	-116,172
Depreciation, amortization and impairment losses	9	-25,140	-21,666
Other operating expenses	10	-123,105	-117,690
Operating profit		66,553	61,211
Financial income	12	7,652	12,485
Financial expenses	12	-15,025	-23,317
Share of profit or loss of associates	18	62	294
Profit before tax		59,242	50,673
Income tax	13	-18,664	-15,186
Net profit for the period		40,578	35,487
Other comprehensive income			
Available-for-sale financial assets		237	342
Foreign currency translation differences for foreign operations		6,248	-4,261
Income tax related to components of other comprehensive income		-68	54
Total comprehensive income for the period		46,995	31,622
Net profit attributable to:			
Owners of the parent		40,578	35,487
Non-controlling interest		-	-
Net profit for the period		40,578	35,487
Total comprehensive income attributable to:			
Owners of the parent		46,995	31,622
Non-controlling interest		-	-
Total comprehensive income for the period		46,995	31,622

(EUR thousand)	Note	Jan 1 - Dec 31, 2012	Jan 1 - Dec 31, 2011
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	14	0.92	0.80
Diluted earnings per share (EUR)	14	0.92	0.80

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

(EUR thousand)	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
Non-current assets			
Goodwill	16, 17	66,971	68,696
Other intangible assets	16	26,922	30,155
Property, plant and equipment	15	112,785	112,570
Investments in associates	18	1,070	971
Available-for-sale financial assets	21	3,281	3,028
Non-current receivables	22	10,631	7,564
Defined benefit pension assets	31	467	491
Deferred tax assets	26	6,627	4,932
Total non-current assets		228,754	228,407
Current assets			
Inventories	20	84,766	94,690
Interest-bearing current assets	23	332	63
Trade and other non-interest-bearing receivables	24	100,310	95,060
Current tax assets		1,926	963
Cash and cash equivalents	25	15,927	10,426
Non-current assets held for sale	6	-	4,894
Total current assets		203,261	206,096
Total assets		432,015	434,503
EQUITY AND LIABILITIES			
Equity			
Share capital	27	35,000	35,000
Other reserves	27	359	359
Fair value reserve	27	1,815	1,636
Reserve for invested unrestricted equity	27	40,000	40,000
Translation differences	27	-7,852	-16,281
Retained earnings		136,763	130,786
Equity attributable to owners of the parent		206,085	191,500
Non-controlling interest		-	-
Total equity		206,085	191,500

(EUR thousand)	Note	Dec 31, 2012	Dec 31, 2011
Non-current liabilities			
Interest-bearing non-current liabilities	28	60,628	60,345
Other non-current liabilities	30	1,160	2,382
Pension obligations	31	17,772	16,743
Provisions	32	924	534
Deferred tax liabilities	26	11,678	10,980
Total non-current liabilities		92,162	90,984
Current liabilities			
Interest-bearing current liabilities	29	35,925	49,504
Trade and other non-interest-bearing payables	30	95,727	94,332
Provisions	32	171	222
Current tax liabilities		1,945	7,343
Liabilities classified as held for sale	6	-	618
Total current liabilities		133,768	152,019
Total equity and liabilities		432,015	434,503

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

(EUR thousand)	Note	Jan 1 - Dec 31, 2012	Jan 1 - Dec 31, 2011
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		40,578	35,487
Adjustments for:			
Non-cash transactions			
Depreciation, amortization and impairment		25,140	21,666
Employee pension benefits		1,053	171
Change in provisions		339	255
Gain on sale of PPE* and intangible assets		-281	-199
Loss on sale of PPE* and intangible assets		1,151	294
Other items		4,169	3,543
Dividend income		-132	-120
Interest expenses and other financial expenses		5,943	11,062
Interest income and other financial income		-1,277	-1,099
Share of profit or loss of associates		-62	-294
Exchange rate differences of financing		2,839	989
Income tax for the period		18,664	15,186
Funds from operations before change in net working capital		98,124	86,941
Change in net working capital			
Change in inventories		5,837	-19,244
Change in trade and other receivables		-7,881	-10,886
Change in trade and other payables		2,284	4,709
Change in net working capital		240	-25,421

* Property, plant and equipment

(EUR thousand)	Note	Jan 1 - Dec 31, 2012	Jan 1 - Dec 31, 2011
Interest and other financial expenses paid		-6,645	-12,700
Interest and other financial income received		770	1,070
Income tax paid		-26,465	-12,790
Total cash flow from operations		66,024	37,100
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisitions of businesses, net of cash acquired	5	-	-11,930
Acquisition of other shares		-	-21
Acquisition of property, plant and equipment		-13,352	-14,119
Acquisition of intangible assets		-3,475	-1,460
Disposal of subsidiaries and businesses, net of cash disposed of	5	86	2,871
Proceeds from sale of available-for-sale financial assets		4	18
Proceeds from sale of property, plant and equipment		621	446
Proceeds from sale of intangible assets		3	-
Change in non-current loan receivables decrease (+)		283	502
Change in non-current loan receivables increase (-)		-	-239
Dividends received		132	120
Net cash used in investing activities		-15,698	-23,812
Cash flow before financing		50,326	13,288
CASH FLOW FROM FINANCING ACTIVITIES			
Change in non-current borrowings, increase (+)		-	60,000
Change in non-current borrowings, decrease (-)		-	-140,000
Current financing, increase (+)		325,945	309,140
Current financing, decrease (-)		-339,376	-268,722
Finance lease (-)		-601	-410
Profit distribution		-32,199	-30,876
Other		1,457	-1,264
Net cash used in financing activities		-44,774	-72,132
Net change in cash and cash equivalents		5,552	-58,844
Cash and cash equivalents at Jan 1	25	10,426	69,328
Effect of exchange rate fluctuations on cash held		387	-278
Cash and cash equivalents transferred in assets held for sale		-336	336
Cash and cash equivalents at Dec 31	25	15,927	10,426
Net change in cash and cash equivalents		5,552	-58,844

Reconciliation of cash and cash equivalents is disclosed in Note 25 Cash and cash equivalents.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

(EUR thousand)	Note	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity at Jan 1, 2011		35,000	359	1,350	40,000	-12,130	125,459	190,038	-	190,038
Total comprehensive income for the period	27	-	-	286	-	-4,151	35,487	31,622	-	31,622
Adjustment arising from hyperinflation		-	-	-	-	-	716	716	-	716
Dividends paid		-	-	-	-	-	-30,876	-30,876	-	-30,876
Equity at Dec 31, 2011		35,000	359	1,636	40,000	-16,281	130,786	191,500	-	191,500
Equity at Jan 1, 2012		35,000	359	1,636	40,000	-16,281	130,786	191,500	-	191,500
Total comprehensive income for the period	27	-	-	179	-	8,429	38,387	46,995	-	46,995
Adjustment arising from hyperinflation		-	-	-	-	-	-473	-473	-	-473
Share-based compensation		-	-	-	-	-	262	262	-	262
Dividends paid		-	-	-	-	-	-32,199	-32,199	-	-32,199
Equity at Dec 31, 2012		35,000	359	1,815	40,000	-7,852	136,763	206,085	-	206,085

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)

(EUR thousand)	2012	2011
Reserve for invested unrestricted equity *)	40,000	40,000
Retained earnings	47,828	40,204
Net profit for the period	43,305	39,823
Total	131,133	120,027

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

1. Accounting policies for the consolidated financial statements

BASIC INFORMATION

Tikkurila Oyj is a Finnish public limited company domiciled in Vantaa and the registered address is Kuninkaalantie 1, FI-01300 Vantaa, Finland. Tikkurila Oyj is the parent company of Tikkurila Group. Tikkurila's share is listed on NASDAQ OMX Helsinki since March 26, 2010 when the company's parent company at the time, Kemira Oyj distributed Tikkurila's shares as dividend to Kemira Oyj's shareholders.

Tikkurila provides consumers and professionals with user-friendly and sustainable solutions for surface protection and decoration. Tikkurila is a strong regional company, whose aim is to be the leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area as well as in Russia and other selected Eastern European countries. Tikkurila Group has organized its business operations into four strategic business units defined geographically: SBU East, SBU Scandinavia, SBU Finland and SBU

Central Eastern Europe. In the 2012 financial year, Tikkurila Group's revenue amounted to EUR 671.8 million and the average number of personnel was 3,425. The Group operates in 16 countries and has production facilities in 8 countries.

The Board of Directors of Tikkurila Oyj has approved the financial statements for publication at its meeting of February 14, 2013. In accordance with the Finnish Limited Liability Companies Act, the shareholders can approve or reject the financial statements or make a decision on altering the financial statements in the Annual General Meeting arranged after its publication. A copy of the financial statements and annual report is available from the company's headquarters at Kuninkaalantie 1, 01300 Vantaa and at www.tikkurilagroup.com.

BASIS OF PREPARATION

Tikkurila Oyj's consolidated financial statements are prepared in accordance with International

Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as well as with the related SIC and IFRIC Interpretations issued by international IASB (International Accounting Standard Board), in force as at December 31, 2012. International Financial Reporting Standards are standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also comply with the Finnish Accounting Act and Ordinance and the Finnish Limited Liability Companies Act. Tikkurila Oyj prepared its first IFRS accordant financial statements for the financial year 2008.

The consolidated financial statements are prepared under the historical cost convention except for the financial liabilities and assets recognized at fair value through profit or loss, available-for-sale financial assets and assets and liabilities classified as held for sale in accordance with IFRS 5 at the

closing date. In addition, the Group has applied in accordance with IAS 29, the index adjusted historical cost less accumulated depreciations of non-monetary items reported by its subsidiary in Belarus. These were adjusted by the change in general price index from the date of acquisition to the end of reporting period.

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

Tikkurila Group has applied the following new and revised standards and interpretations since January 1, 2012, which affect the reported data or data that will be reported in the future:

- Amendment to IFRS 7 *Financial Instruments: Disclosures - Transfer of Financial Assets* (effective on financial years beginning on or after July 1, 2011). Amendment will increase the disclosures related to transfers and derecognition of the financial assets. It will require the disclosures to be presented also on those financial assets that are derecognized in their entirety, but in which the entity has a continuing involvement. The amendment is aimed to improve users' possibilities to understand the risk exposures related to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets.
- Amendment to IAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (effective for financial years beginning on or after January 1, 2012). The amendment requires that earlier presumptions are carried by the entity what part of assets carried at fair value are expected to recover the carrying amount of the assets through use or through the sale of the asset. Amendment applies to the recognition of deferred taxes in connection with investment properties, intangible assets and property, plant and equipments that are measured using the fair value model or revaluation model.

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

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

In addition, the Group management uses its 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 in which the parent company holds directly or indirectly over 50% of the votes or otherwise exercises control. The goodwill of business combinations that have taken place prior to 2003 corresponds with the book value of the accounting standards previously adopted by the Group. On the closing date, December 31, 2012, the Group consisted of 22 companies including the parent company and the Group had investment in one associate.

SUBSIDIARIES

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

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

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

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

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

The profit or loss and the total comprehensive income for that period attributable to the owners of the parent company and non-controlling inter-

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

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

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

ASSOCIATES

Associates are companies over which the Group exercises significant influence but not control (generally accompanying a shareholding of 20–50 percent of the voting rights). Investments in associates are accounted for using the equity method. The goodwill generated from the acquisition of associates is included in the carrying amount of the investments. In financial year 2012 and 2011 one associate was included in Tikkurila Group. No goodwill is included in this investment in associate.

The Group's share of its associates' profits or losses is recognized in proportion to the Group's holdings and presented in the statement of comprehensive income as a separate line item after operating profit and financial items. The Group's share of associates' other comprehensive income is recognized as a line item in Group's other comprehensive income. Tikkurila's associate did not have these items during the financial years 2012 and 2011. When the Group's share of losses in an associate exceeds its interest in the associate, the Group does not recognize further losses, unless it has committed to settle the obligations on behalf of the associate.

JOINT VENTURES

A joint venture is an entity where the Group together with other parties has joint control based on a contractual arrangement. Joint ventures are accounted for using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses as well as cash flows of joint ventures is combined with the equivalent items in the consolidated financial statements on a line-by-line basis. In the consolidated financial statements in year 2012 and in year 2011, there was one joint venture, Alcro Parti AB, accounted for using proportionate consolidation method.

TRANSLATION OF FOREIGN CURRENCY ITEMS

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

FOREIGN CURRENCY TRANSACTIONS

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

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

Exchange 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. Exchange rate differences associated with the hedging of financing transactions and the Group's overall foreign currency position are stated in foreign exchange gains or losses under financial income and expenses. The Group does not apply hedge accounting to manage risks related to financing transactions.

TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

In preparation of the consolidated financial statements the income and expenses as well as cash flow items of the foreign entities are translated to euro using average exchange 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.

Since January 1, 2003, the fair value allocations made to the carrying amounts of the assets and liabilities of the acquired foreign entities and goodwill arising on these acquisitions are treated as assets and liabilities of the foreign entities and are translated into euros at the closing rate.

INDEX ACCOUNTING

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

Conversion factor used

2011	1.89
2012	1.20

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

In 2012 financial statement the monetary items are not restated with index, as they are translated into euro by using the exchange rate of Belarus ruble at the end of the reporting period. Other non-monetary items in the statement of financial position are restated with the index. The index conversion factor used to items of statement of comprehensive income is the index value at the end of the reporting period divided by the average of the monthly indexes during the financial year 2012. As a result of index restated effect on net monetary position, the gain or loss is recognized in financial items.

REVENUE RECOGNITION

Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership of the goods and control have been transferred to the buyer. In general, revenue is recognized at the time of delivery of the goods in compliance with the contract terms. Revenue from the services rendered is recognized in the period when the service has been performed. There are no such long-term projects in the Group for which the revenue would be recognized using the percentage-of-completion (POC) method.

Tikkurila's revenue mainly consists of selling different types of paints to retailers, industry and professional use. Revenue is also in a small extent generated from selling paint related services and equipment.

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

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

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

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

PENSION OBLIGATIONS

The Group has various pension plans in accordance with the local conditions and practices of

the countries in which it operates. Pension plans are funded through contributions to insurance companies.

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

In the Group obligations under defined benefit plans are calculated separately for each plan. The amount recognized in the statement of financial position as a defined benefit liability (or asset) equals the net total of the following amounts: the present value of the defined benefit obligation less the fair value of the plan assets, plus any actuarial gains and less any actuarial losses. Pension benefits are calculated by using the Projected Unit Credit Method and resulting pension costs are recognized as expenses over the employee's service period, using actuarial calculations. The rate used to discount the present value of post-employment benefit obligations is determined by reference to market yields on high quality corporate bonds, or government bonds.

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

SHARE-BASED PAYMENTS

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

Tikkurila Oyj's Board of Directors decided in February 2012 to establish a share-based commitment and incentive plan, which on December 31, 2012, had a total of ten participants selected by the Board. One precondition of the plan is that each participant acquires a certain amount of Tikkurila Oyj shares from the market at his/her own money and own risk. Based on whether the pre-agreed targets of the 2012–2014 period are fulfilled and subject to that the participant is employed by Tikkurila Group in spring 2015, these participants will get remuneration in spring 2015 for the financial performance of the Group. A combination of shares and cash will be used for the remuneration, and the shares can be either acquired from the market or alternatively the company can use any treasury shares it holds. The total amount of the remuneration is based on estimates of the future financial performance of the Group, and therefore, the estimated total remuneration will be updated when the forecasts will change. Moreover, the cash-settled portion will

be revalued at the end of each review period to reflect the share price at that date. The valuation of the share-settled portion is based on the share price, adjusted for estimated future dividends, at the time of the acquisition of the shares each participant has made to become eligible for the plan. When estimating the deferred taxes in relation to the share-based plan, the main principle has been to take the impact of the cash-settled portion into account immediately with applying the current Finnish corporate income tax rate, whereas the potential deferred tax impact of the share-settled portion has not been recognized at the initial stage. The estimated total expense of this plan is booked as equal installments over the period from the time of purchase of the shares of each participant until the estimate time of paying the remuneration, which is in spring 2015, even though there might be certain restrictions beyond spring 2015 in relation to some part of the share-settled remuneration.

Currently the company does not have any option schemes in force.

CURRENT TAXES AND DEFERRED TAXES

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

Deferred tax assets and deferred tax liabilities are provided in the consolidated financial statements for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which temporary differences can be utilized. The tax bases in force on the date of the preparation of the financial statements, or adopted by the statement of the financial position date for the following financial year, are used in calculating deferred tax assets and liabilities. Deferred taxes have been recognized for undistributed earnings of foreign subsidiaries only if such distribution is probable within foreseeable future causing tax implications.

INTANGIBLE ASSETS

GOODWILL

The goodwill generated in business combinations carried out after January 1, 2010 is recognized at the amount with which the consideration transferred, the share of non-controlling interest of the acquired entity and the previously purchased

share combined exceed the fair value of the Group's share of acquired net assets.

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

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

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

RESEARCH AND DEVELOPMENT COSTS

Tikkurila's research and development is steered by considerably environmental and safety aspects. A majority of research and development is connected with replacing solvent-borne paints with water-borne or low-solvent products. In addition, research and development is directed at new possible raw materials in paint production and researching of new and existing product formulas and product 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 2012 nor 2011. 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	5–10 years
Marketing channels	5 years
Software	5–8 years

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

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

Borrowing costs are capitalized at the acquisition cost of the intangible asset if the asset meets the conditions of IAS 23 Borrowing Costs. In 2012, Tikkurila did not have these types of intangible asset items.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Borrowing costs are capitalized at the acquisition cost of property, plant and equipment if the asset meets the conditions of IAS 23 Borrowing Costs. In 2012, Tikkurila did not have these types of asset items.

LEASES

THE GROUP AS LESSEE

Leases of property, plant and equipment in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are initially

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

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

THE GROUP AS LESSOR

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

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

A discontinued operation is a component of the Group's business that has been disposed of or is held for sale. It represents a separate major line

of business or geographical area of operations. The profit or loss of a discontinued operation is reported separately in the consolidated statement of comprehensive income.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

If the recoverable amount cannot be determined for individual asset items, the impairment is tested at the cash-generating unit level that is mainly independent of other units and whose cash flows can be separated and are mainly independent of the cash flows of other similar units. When testing the annual goodwill, which Tikkurila carries out each September–October and on the closing date for possible acquisitions carried out after this, the test is carried out at operating segment level, which in Tikkurila corresponds with the geographically determined so-called strategic business units. Goodwill impairment is tested by comparing the operating segment's recoverable amount with its carrying amount. The recoverable amount is defined as its value in use, which consists of the discounted future cash flows to the unit. The discount rate used is defined as WACC (the weighted average cost of capital), determined before taxes.

Paint demand typically varies in line with gross domestic product development which means that general economic trends affect paint demand. The costs related to Tikkurila's production are caused by raw materials, packaging materials, energy and wages. Changes in raw material prices affect the Group's profitability and accumulated cash flow. Tikkurila competes with a number of local, regional and international paint manufacturers. If competition tightens as a result of new players entering the market or changes in the market

structure it can affect the Group's cash flows. The company management follows general economic development, changes in markets prices and changes in the competitive situation and analyzes their effect on the business operation and the value of assets. More detailed information on impairment testing in Note 17.

INVENTORIES

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS

A financial asset is recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets are included in the original cost, unless the financial asset is recognized at fair value through profit or loss. All purchases and sales of financial assets are recognized or derecognized using trade date accounting. The Group derecognizes financial assets when it has lost its right to receive the cash flows or when it has transferred substantially all the risks and rewards to an external party.

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

In the statement of financial position, investments with maturity over 12 months are included in non-current assets and investments with maturity date within 12 months in current assets.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Financial assets at fair value through profit or loss are measured at fair value. Fair value is the

amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value changes, both realized and unrealized, are recognized in profit or loss in financial items in the period in which they arise.

Derivative assets in the category are presented under current accrued income and deferred expenses and derivative liabilities under accrued expenses and deferred income in the statement of financial position. Open derivative agreements are valued at fair value at the end of each reporting period. The fair value of derivative agreements in public trading is determined using the market prices of the day at the end of reporting period. All of Tikkurila's derivative agreements are subject to public trading. Forward exchange contracts are valued using the forward exchange market rates at the end of reporting date.

The fair value of interest rate swaps is determined using discounted future cash flows. Tikkurila Group had no interest rate swaps during the financial year 2012. The Group had interest rate swaps during the financial year 2011, but all those were closed by the end of December 2011. More information about derivative agreements in Note 34.

LOANS AND OTHER RECEIVABLES

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

The available-for-sale financial assets in Tikkurila Group mainly comprised the business supportive nature unlisted shares that are measured at cost as their fair values could not be measured reliably. The measurement of the shares for which the reliable fair value information has been available in the market, the Group has recognized the

change in fair value at the end of every reporting period. The change in fair value has been recognized in other comprehensive income, net of tax and presented in the financial statements in equity under the fair value reserve.

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

CASH AND CASH EQUIVALENTS

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

IMPAIRMENT OF FINANCIAL ASSETS

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

The impairment loss on trade receivables is recognized if there is objective evidence that a receivable will not be fully recovered. Objective evidence on impairment of trade and other receivables include, amongst others, significant financial difficulties of the debtor, and the neglect of payment due dates and payments. An impairment loss from trade receivables is recognized in consolidated statement of comprehensive income under other operating expenses.

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

FINANCIAL LIABILITIES

A financial liability is recognized initially at fair value. In the case of a financial liability measured at amortized cost, directly attributable transaction costs are included in the original cost. Tikkurila classifies financial liabilities either as financial liabilities at fair value through profit or loss or other liabilities (financial liabilities measured at amortized cost). Financial liabilities are classified as current if the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. The Group removes a financial liability (or a part of it) from its statement of financial position only when it is extinguished, i.e. when the obligation

specified in the contract is discharged or cancelled or expired. All purchases or sales of financial liabilities are recognized or derecognized using trade date accounting.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss include derivatives not fulfilling the criteria set for hedge accounting. Financial liabilities at fair value through profit or loss are measured at fair value. Fair value changes, both realized and unrealized, are recognized in profit or loss in the period in which they arise and they are included in financial income or financial expenses. In the statement of financial position, derivative receivables and liabilities are shown under accrued income and deferred expenses and accrued expenses and deferred income. More information about derivatives is stated in Note 34.

OTHER FINANCIAL LIABILITIES

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

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset under IAS 23 Borrowing costs, are capitalized as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that incurs in connection with the borrowing of funds. Tikkurila Group has not had such acquired assets with capitalized borrowing costs in the financial years 2012 and 2011.

PROVISIONS AND CONTINGENT LIABILITIES

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

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

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Exist-

ing obligation that probably does not require a settlement or which amount cannot be reliably measured, is also considered a contingent liability. Contingent liabilities are disclosed in the notes to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

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

Tikkurila follows the same commercial terms with associates, joint ventures and other related parties as with third parties. The related party transactions are presented in the Note 39.

SEGMENT REPORTING

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

- SBU East
- SBU Scandinavia
- SBU Finland
- SBU Central Eastern Europe

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

GOVERNMENT GRANTS

Tikkurila has not received any considerable government grants. Individual subsidies of expense compensation type, for instance related to training that have been granted by institutions under public law or their related parties are treated as cost adjustments.

OPERATING PROFIT

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

NON-RECURRING ITEMS

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

EQUITY

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

ADOPTING NEW AND AMENDED IFRS STANDARDS AND INTERPRETATIONS

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

New standards, amendments and interpretations approved in the EU

- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (effective for financial years beginning on or after July 1, 2012). The main change is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss in the future from those that would never be reclassified to profit or loss. Amendments will have the effect on the presentation on the Group's other comprehensive income.
 - IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after January 1, 2013). The fair value definition is provided in the standard. The standard includes disclosure requirements for fair value measurements and establishes a framework for measuring fair value. Requirements do not extend the use of fair value accounting but provide the guidance how to measure it when fair value is required or permitted by other IFRSs. The standard is not expected to have any significant effect on the Group's forthcoming financial statements. It can slightly add some disclosures to be presented.
 - IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after January 1, 2013). Standard includes the new approach definition of control. It establishes control as the basis for consolidation that is the principle also according the current standard. Standard sets out the additional guidance about the definition of control. It replaces partly the IAS 27 *Consolidated and Separate Financial Statements* as well as the SIC Interpretation 12 *Consolidation - Special Purpose Entities*. The standard is not expected to have any significant effect on the Group's forthcoming financial statements at the current organization structure.
 - IAS 27 (revised 2011) *Separate Financial Statements* (effective for financial years beginning on or after January 1, 2013). It carries forward the existing accounting and disclosure requirements for separate financial statements. Consolidation requirements included in currently effective IAS 27 are moved to IFRS 10. This is not expected to have any effect on the Group's forthcoming financial statements.
- IAS 28 (revised 2011) *Associates and joint ventures* (effective for financial years beginning on or after January 1, 2013). Revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
 - IFRS 11 *Joint Arrangements* (effective for financial years beginning on or after January 1, 2013). The proportionate consolidation for joint ventures is prohibited. Joint ventures are required to be accounted for using the equity method. Standard is more focused on the rights and obligations of the arrangement rather than its legal form when defining the accounting treatment of joint arrangements. There are two types of joint arrangement: joint operations and joint ventures. In joint operations the joint operator has rights to the certain underlying assets and obligations related to arrangement. In joint ventures the joint operator has rights to the net assets of the arrangement. Tikkurila Group's joint venture, Alcro Parti AB, will be accounted for using the equity method instead of proportionate consolidation. This will have an effect on Group's consolidated statement of financial position, consolidated statement of comprehensive income as well as consolidated statement of cash flow. The impact on Revenue 2012 is around EUR -1.4 million, impact on Ebit approximately EUR -0.3 million and the total assets will decrease approximately by EUR 0.3 million. This will not have an impact on net profit of the year 2012.
 - IAS 19 (revised 2011) *Employee Benefits* (effective for financial years beginning on or after January 1, 2013). All actuarial gains and losses shall be recognized immediately in other comprehensive income, so called corridor method approach is eliminated. The finance cost is calculated on net funding basis. Disclosure requirements are increased. Due these above mentioned changes, these amendments are estimated to have the following impacts on the Group's consolidated statement of financial position and consolidated statement of comprehensive income for financial year 2012:
 - Equity attributable to owners of the parent decreases approximately EUR 4.2 million
 - Personnel expenses decrease approximately EUR 0.2 million
 - Net profit increases approximately EUR 0.2 million
 - Total assets of the consolidated statement of the financial position will increase around EUR 0.7 million
 - Non-current liabilities will increase approximately EUR 5.0 millionIn this context, the Group has reviewed more closely other long-term employee benefits, and as following to this, it is estimated to have a negative impact to equity attributable to owners of the parent approximately EUR 2.9 million and increase the liabilities approximately EUR 3.9 million. This is not estimated to have any material impact on the Group's net result 2012.

- IFRS 12 *Disclosures of Interest in Other Entities* (effective for financial years beginning on or after January 1, 2013). Standard includes disclosure requirements related to subsidiaries, joint arrangements (joint ventures and joint operations), associates and special purpose entities and other unconsolidated entities. This standard will increase some information to be disclosed.
- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective on financial years beginning on or after January, 2013). Amendment clarifies the disclosure requirements concerning the financial instruments presented as netted in entity's statement of financial position as well as the financial instruments that are subject to enforceable master netting arrangement or similar agreements. This amendment is not expected to have any significant effect on the Group's forthcoming financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective on financial years beginning on or after January, 2014). Amendments clarify existing application issues relating to the offsetting requirements as well as increase the application guidance for offsetting. This amendment is not expected to have any significant effect on the Group's forthcoming financial statements.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective on financial years beginning on or after January, 2013). Interpretation is not expected to have any effect on the Group's forthcoming financial statements.
- IFRS 9 *Financial Instruments (as revised in 2010)* (effective for financial years beginning on or after January, 1 2015). IASB's three stage project to replace current standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first stage, issued in 2009, standard covers classification and measurement of financial assets. The classification depends on the company's business model and on the characteristics of cash flows based on agreement. IASB has however, already proposed some improvements to issued IFRS 9 and classification and measurement of financial assets. In October 2010, issued revised version covers the requirements for recognition and measurements of financial liabilities. According the new standard requirements for recognition and measurement of financial liabilities remain intact excluding the financial liabilities to which the fair value option is applied. The changes in fair value caused by these amendments to the credit risk are recognized in

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

the Group's other comprehensive income and they would not be recognized through profit or loss at a later stage either. This is the case unless it causes bookkeeping asymmetry that affects the result. Phases two and three of the financial project, being impairment of financial assets and hedge accounting phases, are still a work in process. The impact of the standard on Group's forthcoming financial statements is being assessed.

- *Annual Improvements to IFRSs 2009–2011, May 2012* (effective for financial years beginning on or after January, 1 2013). The annual improvements include amendments to five standards. This is not expected to have any significant effect on the Group's forthcoming financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment entities* (effective for financial years beginning on or after January, 1 2014). Under the amendments, an investment entity is required to measure its interests in subsidiaries at the fair value through profit or loss in accordance with IFRS 9 *Financial instruments* or IAS 39 *Financial Instruments: Recognition and Measurements*, rather than consolidate subsidiaries. This is not expected to have any effect on Group's forthcoming 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 conditional assets and liabilities presented in the notes. Revisions to accounting estimates and assumptions are recognized in the period in which the estimates and assumptions are revised and in all subsequent periods.

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

By the time of the publication of the financial statements the Group is not aware of such major sources of estimation uncertainty at the end of the reporting period nor of such key assumptions

concerning the future that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

IMPAIRMENT OF ASSETS AND ESTIMATES RELATED TO VALUATION OF ASSETS

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

In year 2012 recognized impairments of property, plant and equipment relate to land area and buildings in Cheljabinsk as well as production facility located in Russia. Impairments of intangible assets and goodwill relate to trademarks, enterprise resource planning -program as well as the assets acquired from Zorka Color. The Group management assessed the decrease in the carrying amounts to be recognized due the changes in organization structure. In year 2011 recognized impairments of intangible assets and goodwill related to the non-current assets classified as held

for sale. The Group management assessed that the carrying value of the non-current assets classified as held for sale is higher than the asset's fair value less costs to sell. Therefore impairments of these non-current assets were recognized in the context of the classification of assets as held for sale. The impairments have been presented in the Note 9. Depreciation, amortization and impairment losses.

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

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

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

The management also uses estimates when determining the useful life of property, plant and equipment and intangible assets for Tikkurila Group. If the useful life differs from the original estimate the annual amortization, depreciation is adjusted or impairment is recorded.

BUSINESS COMBINATIONS

In business combinations the net identifiable assets of the acquired companies are measured at fair value. Taking into account Tikkurila Group's geographical operating area and the nature of its operations, it is possible that the fair value of the acquired companies or business operations and the related assets and liabilities cannot be reliably determined and that the value determination involves a lot of estimated items. In the case of a major acquisition, the estimated fair values of property, plant and equipment and intangible assets acquired and their estimated useful lives may have a significant effect on Tikkurila's result and statement of financial position. The net assets acquired in business combinations are disclosed in Note 4 Business combinations and disposals of businesses.

When evaluating the contingent consideration of the business operations acquired the Tikkurila Group management has to use estimations and assumptions on the future financial performance of the business operations acquired. If the assumptions as per which the contingent consideration has been valued at fair value at the time of acquisition changes, these changes are recognized in profit or loss at the time of review. The contingent consideration is discounted to the

present value at time of review using the target company specific WACC (weighted average cost of capital). The components arising from the changes in discount rate factors are recognized in Group in financing items.

If the Group plans to divest a business operation or sell some asset items, the management has to use consideration in determining 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.

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, 2012, the provisions amounted to EUR 1.1 million. The corresponding figure in the 2011 financial statements was EUR 0.8 million. Provisions have been described in Note 32.

INCOME TAXES

For the recognition of deferred tax assets on tax losses and other items, management assesses the probability of a future taxable profit against which tax assets can be utilized. The Group has subsidiaries in several countries with different types of tax regulations. Estimating the total amount of income taxes at Group level requires significant consideration. Actual profits may differ from the forecasts and, in such case, the change will affect the taxes in future periods. The amount of deferred taxes in the 2012 financial statements was EUR 6.6 million and the amount of confirmed tax losses carried forward from prior periods for which no deferred tax asset has been recognized was EUR 6.2 million.

PENSION OBLIGATIONS

In connection with the Group's defined benefit pension plans, the management has to estimate the liability (or receivable) recognized in the statement of financial position so that several estimates have to be made in terms of the present value calculation applied and to determine actuarial items. Assumptions include the discount rates used to measure assets and liabilities related to the plans, wage increase assumptions and life expectations. Some of the estimates used in the calculation are based on information from external actuaries. The actual outcome may differ from the original estimates and assumptions and these are recognized in terms of defined benefit pension plans as actuarial gains and losses using the corridor method over the average remaining working lives of the participating employees.

3. Operating segments

Tikkurila's business activities are organized in four reporting segments based on its strategy to be the leading provider of paint-related architectural solutions for consumers and professionals in the Nordic area as well as in Russia and other selected Eastern European countries. The discrepancy of these operating environments and overall management's strategies of the Group have been taken into account while establishing these reporting segments. These reporting segments are also named as Strategic Business Units (SBU). Revenue arises from the sales of various paints that are sold to retailers, industry and for professional use.

Some insignificant revenue is received from the sales of auxiliary services related to paints. Common administrative items and transactions from Treasury function of the Group are presented as Tikkurila common section.

The evaluation of profitability and decision making concerning resource allocation are based on segmental operating profit. The valuation principles concerning segments assets and liabilities are disclosed in Note 1 Accounting policies for the consolidated financial statements. Segment assets are items of the statement of financial position that the segment employs in its business ac-

tivities or which can reasonably be allocated to a segment. Segment assets and external revenue are presented according to the location of the assets and customer. Inter-segment pricing is determined on an arm's length basis. External revenue accumulates from large number of customers.

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

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

Operating segments 2012 (EUR thousand)	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila common	Elimination	Total
External revenue	242,840	195,551	107,906	125,539	-	-	671,836
Depreciation, amortization and impairment losses	8,929	5,843	3,737	6,631	-	-	25,140
Operating profit (loss)	29,897	23,737	10,671	5,355	-3,107	-	66,553
Non-allocated items							
Financial income							7,652
Financial expenses							-15,025
Share of profit or loss of associates							62
Profit before tax							59,242

Operating segments 2012 (EUR thousand)	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila common	Elimination	Total
Segment assets	127,062	162,298	74,159	82,202	45,826	-59,532	432,015
Investments in associates							1,070
Capital expenditure	5,558	3,365	5,290	3,903	-	-	18,115
Operating segments 2011 (EUR thousand)	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila common	Elimination	Total
External revenue	220,041	192,347	109,182	122,158	-	-	643,729
Depreciation, amortization and impairment losses	6,230	6,035	3,640	5,761	-	-	21,666
Operating profit (loss)	25,343	24,237	10,804	3,166	-2,340	-	61,211
Non-allocated items							
Financial income							12,485
Financial expenses							-23,317
Share of profit or loss of associates							294
Profit before tax							50,673
Segment assets	125,048	163,710	78,708	88,872	41,280	-63,115	434,503
Investments in associates							971
Capital expenditure	3,908	3,534	4,126	14,395	-	-	25,963

* Sweden, Norway, Denmark

** Russia, Kazakhstan, Belarus, Ukraine, Armenia, Azerbaijan, Georgia, Mongolia, Moldova, Kirgistan, Tadjikistan, Turkmenistan, Uzbekistan

*** Poland, Estonia, Latvia, Lithuania, China, Czech Republic, Hungary, Romania, Germany, Slovakia, Serbia, Macedonia and export activity to other countries than mentioned above

PERSONNEL BY SEGMENTS DURING THE PERIOD, AVERAGE

	2012	2011
East	1,517	1,577
Scandinavia	423	473
Finland	610	746
Central Eastern Europe	839	845
Tikkurila common	36	35
Total	3,425	3,676

REVENUE BY DESTINATION

(EUR thousand)	2012	2011
Russia	216,398	192,991
Sweden	154,760	155,528
Finland	107,906	109,182
Poland	60,492	60,994
Other countries	132,280	125,034
Total	671,836	643,729

REVENUE BY PRODUCT GROUP

(EUR thousand)	2012	2011
Decorative paints	564,370	538,779
Industrial coatings	107,466	104,950
Total	671,836	643,729

NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION *)

(EUR thousand)	2012	2011
Russia	56,751	56,851
Sweden	87,714	87,714
Finland	28,412	29,789
Poland	11,853	10,582
Other countries	23,018	27,457
Total	207,748	212,393

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

4. Business combinations and disposals of businesses

ACQUISITIONS 2012

There were no acquisitions during the financial period 2012.

DISPOSALS 2012

Tikkurila concluded on February 29, 2012 the divestment of its subsidiaries in Hungary, Czech Republic, Slovakia and Romania to Dejmark Group, a Czech company established by Tikkurila's local management. Dejmark Group continues the retail of Tikkurila's products in all of the four countries. The assets and liabilities of the Hungarian, Czech and Slovakian subsidiaries were classified as held for sale in financial statements 2011.

The aggregate consideration for the sold shares was EUR 0.6 million, from which EUR 0.2 million was received as cash at the closing. Consideration of EUR 0.4 million will be received during years 2013–2017.

As of disposal the EUR 0.9 million loss was recognized in Tikkurila Group. The loss in result was increased by EUR 0.1 million as accumulated exchange differences were reclassified from equity to profit or loss.

Furthermore, an interest-bearing five-year vendor loan arrangement totaling EUR 3.7 million at the date of sale, was agreed. Tikkurila has received as pledge, the shares of disposed subsidiaries in Hungary, Czech Republic and Slovakia, to secure this receivable.

Tikkurila sold on July 31, 2012 the shares in its Polish subsidiary, Kujot Sp.zo.o, former Tikkurila

Coatings Sp.zo.o. The consideration was PLN 2.7 million, corresponding to about EUR 0.7 million, of which EUR 0.3 million was received in cash at the closing. The rest of the consideration will be received during the years 2013–2014. The buyer, Baltchem Spółka Akcyjna Zakłady Chemiczne, handed a promissory note to Tikkurila as a security for the outstanding consideration.

As of disposal the EUR 0.1 million gain was recognized in Tikkurila Group. The gain in result was decreased by EUR 0.1 million as accumulated exchange differences were reclassified from equity to profit or loss.

ACQUISITIONS 2011

ACQUISITION OF THE BUSINESS OPERATIONS OF THE PAINT COMPANY ZORKA COLOR

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

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

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

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

TOTAL PURCHASE CONSIDERATION

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

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

RECOGNIZED AMOUNTS OF IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

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

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

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

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

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

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

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

At the date of acquisition, the fair value of contingent consideration was EUR 2,148 thousand, by using a discount rate of 16.4%. At December 31, 2011 the contingent consideration had increased to EUR 2,382 thousand. Discount rate used for fair

value of contingent consideration at the end of reporting period 2011 was 15.3%. The assumptions used to recognize the amount of contingent consideration in financial statements 2011 were not changed from the acquisition date.

At December 31, 2012 the fair value of contingent consideration of acquisition of Zorka Color was re-evaluated based on the actual financial performance in year 2012, updated estimates of future financial performance, which take into account the changes in the macro economic development in the business area in question, assumed changes in the competitive situation in the paint markets and customer structure as well as other background information based on the estimates by the management. Based on the re-evaluation, the fair value of the contingent consideration decreased compared to the closing date of December 31, 2011. This impact, totaling EUR 1,853 thousand, has been recognized through profit or loss in other operating income. The decline in the fair value was due to the changes in the economic development in the business operations in the 2012 financial year, compared to previous forecasts as well as the changed outlook for future economic development.

At December 31, 2012 the discount rate used for fair value of contingent consideration was 15.1%. The effect of discounting has been recognized in financial items. The fair value of the contingent consideration in financial statements 2012 is EUR 902 thousand and undiscounted value is EUR 1,222 thousand. The fair value of contingent consideration is assumed to be paid in March 2015. Tikkurila Group management has to use estimations and assumptions on the future financial performance while assessing the fair value of the contingent consideration and therefore the actual final amount of contingent consideration may differ from the expected value.

In relation to the change of the fair value of the contingent consideration, the Group management assessed the carrying amounts of the acquired assets in business combination. The carrying amounts of the assets were estimated to exceed their recoverable amounts by EUR 1,853 thousand, and an equal amount of impairment loss was recognized in profit or loss in December 2012. The carrying amount of goodwill and other intangible assets were impaired by that amount.

DISPOSALS 2011

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

The remaining part of the consideration, 10 million Swedish crown, will be received during the years 2014–2016.

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

The divested two retail shops continue selling Group's products.

Tikkurila completed the sale of a Russian subsidiary, OOO Tikkurila Powder Coatings, to Teknos Group Oy during the financial period 2011. Total consideration received amounted to EUR 1,760 thousand. Sales agreement was signed in December 2010 and the transaction was completed on January 26, 2011.

The revenue of the divested subsidiary was EUR 2.4 million in year 2010 and the number of personnel was about 50 at the year-end 2010. After

the disposal of OOO Tikkurila Powder Coatings, Tikkurila Group has no powder coatings related operations.

The assets and liabilities of OOO Tikkurila Powder Coatings were classified as held for sale in financial statements 2010. Gain on sale of subsidiary is recognized in other operating income.

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

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND BUSINESSES

(EUR thousand)	2012	2011
Acquisition of businesses		
Total purchase consideration	-	14,078
Contingent consideration, fair value at the date of acquisition	-	-2,148
Cash and cash equivalents at acquisition date	-	-
Cash flow on acquisition net of cash acquired	-	11,930
Proceeds from the disposals of businesses and subsidiaries		
Proceeds from the disposals	1,137	4,541
Recognized receivable at the date of disposal *)	-608	-1,122
Cash and cash equivalents in disposed companies / businesses	-443	-548
Cash inflow	86	2,871

*) Undiscounted value of the receivable recognized on disposed subsidiaries in financial year 2012 amounted to EUR 724 thousand. EUR 116 thousand is recognized as interest income based on the passage of time.

(EUR thousand)	2012	2011
Assets and liabilities disposed of		
PPE* and intangible assets	1,085	3,203
Goodwill	65	1,129
Deferred tax assets	293	-
Interest-bearing receivables	1	61
Inventory	1,452	698
Trade receivables and other interest-free receivables	2,795	618
Cash and cash equivalents	443	548
Total assets	6,134	6,258
Deferred tax liabilities	69	675
Interest-bearing liabilities	3,104	110
Trade and other payables	1,012	1,065
Total liabilities	4,185	1,850
Total net assets and liabilities of disposed subsidiaries and businesses	1,949	4,408
Loss / gain on disposals in equity	-812	133
Total	1,137	4,541

* Property, plant and equipment

6. Non-current assets held for sale

There were no assets held for sale at the year-end 2012 in the Group. During the year 2012, the assets and liabilities of the Polish subsidiary, Kujot Sp.zo.o, were classified as held for sale.

In year 2011, assets held for sale considered the assets and liabilities of three sales companies; Tikkurila Kft in Hungary, Tikkurila Slovakia s.r.o. in Slovakia and the Tikkurila s.r.o. in Czech Republic. The revenue of the companies totaled in 2011 EUR 11.9 million and they employed some 60 persons. Tikkurila signed in November 2011 a letter of in-

tent to sell the entire share capital of these three sales companies to Dejmark Group, a company established by Tikkurila's local management.

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

(EUR thousand)	2012	2011
Non-current assets held for sale		
Intangible assets	-	236
Property plant and equipment	-	587
Deferred tax assets	-	99
Inventories	-	1,119
Interest-bearing receivables	-	2
Trade receivables and other interest-free receivables	-	2,515
Cash and cash equivalents	-	336
Total	-	4,894
Liabilities classified as held for sale		
Deferred tax liabilities	-	68
Trade and other payables	-	550
Total	-	618

7. Other operating income

(EUR thousand)	2012	2011
Gains on sale of non-current assets	278	187
Change in fair value of contingent consideration	1,853	-
Gains on sale of available-for-sale financial assets	3	12
Insurance compensation	125	66
Rental income	540	975
Other income from operations	467	553
Total	3,266	1,793

Gains on sales of non-current assets in 2012 and 2011 consist mainly of sales of machinery and equipment.

Change in fair value of contingent consideration is related to acquisition of the business of the Serbian company, Zorka Color.

Rental income is received mainly from leasing of premises in year 2012.

8. Personnel expenses

(EUR thousand)	2012	2011
Remunerations of Board of Directors and Managing Directors	-3,438	-4,041
Wages and salaries	-84,659	-84,758
Share-based payments	-520	-
Pension expenses for defined contribution plans	-12,566	-13,764
Pension expenses for defined benefit plans	-1,686	-1,526
Other personnel expenses	-13,036	-12,083
Total	-115,905	-116,172

Employee benefits of Boards of Directors and CEO of Tikkurila Oyj are disclosed in Note 39 Related parties.

Pension expenses for defined benefit plans are disclosed in Note 31 Pension obligations.

Personnel, average	2012	2011
Personnel in Finland, average	641	780
Personnel outside Finland, average	2,784	2,896
Total	3,425	3,676
Personnel at year-end	3,227	3,551

Average number of personnel in joint venture consolidated with the proportionate method was 6 (6).

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

9. Depreciation, amortization and impairment losses

(EUR thousand)	2012	2011
Depreciation and amortization		
Intangible assets	-5,081	-5,328
Property, plant and equipment*		
Buildings and constructions	-4,011	-3,987
Machinery and equipment	-10,915	-10,185
Other property, plant and equipment	-1,094	-1,216
Total	-21,102	-20,716
Impairment losses		
Intangible assets		
Goodwill	-1,737	-386
Other intangible assets	-876	-564
Property, plant and equipment*		
Land and water	-79	-
Buildings and constructions	-1,346	-
Total	-4,038	-950
Total depreciation, amortization and impairment losses	-25,140	-21,666

In year 2012 impairment losses recognized on property, plant and equipment were related to a land area and buildings in Chelyabinsk as well as a production facility located in Russia. In comparison year no impairment losses were recognized on PPE*.

In financial year 2012 impairment losses of intangible assets were related to certain trademarks

and enterprise resource planning -program, which carrying amount was decreased due the changes in Group functions. In addition, the carrying amount of the intangible rights measured at fair value at the acquisition date of Zorka Color business as well as goodwill, were impaired. Carrying values were estimated to exceed their recoverable amounts by EUR 1.9 million.

Impairment losses recognized on intangible assets in year 2011 were related to assets classified as held for sale. The carrying amount of the assets classified as held for sale was impaired to the amount that equals the estimated fair value less costs to sell.

10. Other operating expenses

(EUR thousand)	2012	2011
Rents	-12,959	-12,908
Other voluntary personnel expenses	-4,763	-3,927
Sales and marketing	-26,832	-27,991
Repair and maintenance	-8,634	-7,403
IT and communication	-3,979	-3,850
Freights for goods sold	-19,045	-18,088
Professional fees	-3,074	-3,624
Transportation and travel	-10,294	-9,975
Energy, heating and water	-5,678	-6,014
Insurances excl. personnel insurances	-1,044	-1,149
Office expenses	-1,465	-1,485
Representation and membership fees	-2,785	-2,384
External services	-11,377	-10,736
Authority fees and environmental tax	-1,824	-2,089
Credit losses	-1,551	-828
Other expenses	-7,801	-5,239
Total	-123,105	-117,690

(EUR thousand)	2012	2011
Audit fees:		
KPMG	-353	-402
Other audit firms	-136	-68
Tax advisory, KPMG	-33	-41
Tax advisory, other audit firms	-22	-43
Other services, KPMG	-22	-208
Other services, other audit firms	-65	-116
Total	-631	-878

NON-RECURRING ITEMS IN FINANCIAL STATEMENTS

(EUR thousand)	2012	2011
Expenses		
Wages and salaries	-2,090	-331
Other personnel expenses	-904	-21
Defined benefit and contribution pension expenses	-708	-64
External services	-69	-130
Other	-1,394	-5
Impairment losses:		
Other intangible assets	-876	-564
Goodwill	-1,737	-386
Property, plant and equipment	-1,425	-
Total	-9,203	-1,501
Income		
Other operating income	1,853	-
Total	1,853	-
Total non-recurring items	-7,350	-1,501

The non-recurring items in year 2012 and 2011 were mainly related to implementation of the streamlining program started in Group at the end of 2011. In addition, in financial year 2012 the impairment on land area and buildings in Russia

were recognized. Impairment losses were recognized on other intangible assets and goodwill identified in relation of Zorka Color acquisition. The certain carrying amounts of trademarks and enterprise resource planning -program were impaired.

Non-recurring items in other operating income include the change in fair value of contingent consideration.

11. Research and development expenses

(EUR thousand)	2012	2011
Research and development expenses total	-10,766	-9,926

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

12. Financial income and expenses

(EUR thousand)	2012	2011
Financial income		
Dividend income from available-for-sale financial assets	132	120
Interest income from loans and other receivables	694	444
Interest income from assets at fair value through profit or loss	91	388
Other interest income	10	7
Exchange rate gains		
Exchange rate gains from financial assets at fair value through profit or loss	2,397	8,190
Exchange rate gains from loans and other receivables	3,621	2,179
Exchange rate gains from financial liabilities measured at amortized cost	225	897
Gain on net monetary position	482	260
Total	7,652	12,485
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	-3,381	-6,118
Interest expenses from financial liabilities at fair value through profit or loss	-1,562	-2,566
Other interest expenses	-1	-99
Exchange rate losses		
Exchange rate losses from financial liabilities at fair value through profit or loss	-5,034	-5,565
Exchange rate losses from loans and other receivables	-2,453	-3,338
Exchange rate losses from financial liabilities measured at amortized cost	-1,595	-3,352
Other financial expenses	-999	-2,279
Total	-15,025	-23,317
Total financial income and expenses	-7,373	-10,832

	2012	2011
Net financial expenses as a percentage of revenue	1.1	1.7
Net interests as a percentage of revenue	0.6	1.2

Exchange rate gains and losses in financing items (EUR thousand)	2012	2011
Realized	-995	463
Unrealized	-1,844	-1,452
Total	-2,839	-989

Exchange rate gains and losses in operating profit (EUR thousand)	2012	2011
Revenue	76	94
Materials and services	-345	-2,585
Total	-269	-2,491

13. Income taxes

(EUR thousand)	2012	2011
Current income tax charge	-20,086	-16,696
Adjustments for prior years	-2	135
Deferred taxes	1,424	1,375
Total	-18,664	-15,186

(EUR thousand)	2012	2011
Income taxes recognized in other comprehensive income		
Deferred taxes		
Available-for-sale financial assets, fair value changes	-58	-56
Net investment in foreign operations	-25	-
Current taxes		
Net investment in foreign operations	15	110
Total income taxes recognized in other comprehensive income	-68	54

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

Taxes at enacted tax rates by countries	-14,436	-12,817
Tax-exempt income	222	84
Non-deductible expenditure	-1,398	-998
Effect of changes in tax rates	386	121
Used tax losses, previously unrecognized	21	54
Current year losses for which no deferred tax asset was recognized	-811	-1,458
Taxes from previous financial years	-2	135
Changes of deferred taxes related to previous years	-1,743	24
Impairment of goodwill	-198	-73
Tax reliefs	582	168
Effect of associate's result	16	77
Non-credited foreign withholding taxes	-408	-420
Other items	-895	-83
Total taxes in the statement of comprehensive income	-18,664	-15,186

During the year 2012 tax rate was decreased in Ukraine from 23% to 21%. The Swedish corporate income tax rate change was approved in November 2012. The Swedish tax rate decreased from 26.3% to 22% as of January 2013. In financial statements the Swedish deferred taxes are measured by using the substantially enacted corporate

tax rate (22%). The Serbian tax rate increased from 10% to 15% as of January 2013. In financial statements the Serbian deferred taxes are measured by using this substantially enacted corporate tax rate. The corporate tax rate decreased from 24% to 18% in Belarus as of January 2013.

The Finnish tax rate decreased from 26% to 24.5% as of January 2012. In financial statements 2011 the Finnish deferred taxes were measured by using the substantially enacted corporate tax rate (24.5%). During the year 2011 the tax rate decreased from 25% to 23% in Ukraine.

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.

When calculating the dilution effect, it has been assumed that the payments under the performance period 2012–2014 of the share-based commitment and incentive plan would be paid at the maximum possible levels, which might not

be the final outcome, and that all the remuneration to be paid in shares, would be based on new shares issued, even though it is also possible that those shares might be bought from the markets.

	2012	2011
Profit for the period attributable to the owners of the parent, EUR thousand	40,578	35,487
Weighted average number of ordinary shares (1000)	44,108	44,108
Basic earnings per share (EUR / share)	0.92	0.80
Profit for the period attributable to the owners of the parent, EUR thousand	40,578	-
Weighted average number of ordinary shares, adjusted for dilutive effect (1000)	44,179	-
Diluted earnings per share (EUR / share)	0.92	-

Tikkurila Oyj has one class of shares that has no nominal value. The number of shares was 44,108,252 at end of the reporting period 2012, at the end of year 2011 44,108,252.

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	2012 Total
Acquisition cost at Jan 1, 2012	8,182	118,217	177,740	8,495	7,061	319,695
Other increases	-	1,710	7,496	969	4,465	14,640
Disposal of businesses and subsidiaries	-	-	-183	-	-	-183
Other decreases	-	-104	-3,862	-454	-	-4,420
Transfer to held for sale assets	-	-596	-1,750	-1	-	-2,347
Other changes	-	-	-141	-35	-14	-190
Reclassifications	-31	3,222	3,801	370	-6,409	953
Exchange rate differences	3	2,593	3,475	233	179	6,482
Cost at Dec 31, 2012	8,154	125,042	186,576	9,577	5,282	334,630
Accumulated depreciation and impairment losses at Jan 1, 2012	-	-71,502	-130,842	-4,781	-	-207,125
Accumulated depreciation relating to decreases and transfers	-	49	3,531	389	-	3,969
Depreciation during the financial year	-	-4,011	-10,915	-1,094	-	-16,020
Impairment losses	-79	-1,346	-	-	-	-1,425
Disposal of businesses and subsidiaries	-	-	73	-	-	73
Transfer to held for sale assets	-	596	1,743	-	-	2,339
Other changes	-	-	96	-	-	96
Reclassifications	-	-187	187	-	-	-
Exchange rate differences	1	-1,142	-2,502	-109	-	-3,753
Accumulated depreciation and impairment losses at Dec 31, 2012	-78	-77,543	-138,629	-5,595	-	-221,845
Net carrying amount at Jan 1, 2012	8,182	46,715	46,898	3,714	7,061	112,570
Net carrying amount at Dec 31, 2012	8,076	47,499	47,946	3,982	5,282	112,785

(EUR thousand)	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2011 Total
Acquisition cost at Jan 1, 2011	8,154	119,277	174,241	8,229	4,204	314,105
Acquisition through business combinations	-	-	3,222	-	51	3,273
Other increases	-	460	7,769	480	4,713	13,422
Disposal of businesses and subsidiaries	-	-	-318	-3	-	-321
Other decreases	-	-114	-3,605	-105	-7	-3,831
Transfer to held for sale assets	-	-195	-1,162	-222	-3	-1,582
Other changes	-	-	-304	-	-	-304
Reclassifications	-	336	773	290	-1,718	-319
Exchange rate differences	28	-1,547	-2,876	-174	-179	-4,748
Cost at Dec 31, 2011	8,182	118,217	177,740	8,495	7,061	319,695

(EUR thousand)	Land and water	Buildings and constructions	Machinery and equipment	Other property, plant and equipment*	Prepayments and non-current assets under construction	2011 Total
Accumulated depreciation and impairment losses at Jan 1, 2011	-	-68,413	-127,018	-3,939	-	-199,370
Accumulated depreciation relating to decreases and transfers	-	112	3,211	94	-	3,417
Depreciation during the financial year	-	-3,987	-10,185	-1,216	-	-15,388
Disposal of businesses and subsidiaries	-	-	176	-	-	176
Transfer to held for sale assets	-	37	793	165	-	995
Other changes	-	-	327	23	-	350
Exchange rate differences	-	749	1,854	91	-	2,694
Accumulated depreciation and impairment losses at Dec 31, 2011	-	-71,502	-130,842	-4,781	-	-207,125
Net carrying amount at Jan 1, 2011	8,154	50,864	47,223	4,290	4,204	114,736
Net carrying amount at Dec 31, 2011	8,182	46,715	46,898	3,714	7,061	112,570

*Other property, plant and equipment include for example shelters and pavements.

Contractual commitments for the acquisition of property, plant and equipment is disclosed in Note 37 Commitments and contingent liabilities.

Prepayments and non-current assets under construction comprise as biggest separate projects power capacity increase for a Russian production site and implementation of Polish new shop concept.

Other projects in process relate to maintenance and upgrading of buildings and production technology.

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, 2012			
Acquisition cost	1,023	1,522	2,545
Accumulated depreciation	447	689	1,136
Net carrying amount	576	833	1,409
Dec 31, 2011			
Acquisition cost	1,200	611	1,811
Accumulated depreciation	145	550	695
Net carrying amount	1,055	61	1,116

16. Intangible assets

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2012 Total
Acquisition cost at Jan 1, 2012	69,082	62,246	-	1,918	133,246
Other increases	-	240	-	3,235	3,475
Disposal of subsidiaries and businesses	-	-8	-	-	-8
Other decreases	-	-966	-	-	-966
Transfer to held for sale assets	-65	-805	-	-	-870
Reclassifications	-	610	-	-1,530	-920
Exchange rate differences	77	677	-	19	773
Cost at Dec 31, 2012	69,094	61,994	-	3,642	134,730

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2012 Total
Accumulated amortization and impairment losses at Jan 1, 2012	-386	-34,009	-	-	-34,395
Accumulated amortization relating to decreases and transfers	-	964	-	-	964
Amortization during the financial year	-	-5,081	-	-	-5,081
Impairment losses	-1,737	-876	-	-	-2,613
Disposal of subsidiaries and businesses	-	7	-	-	7
Transfer to held for sale assets	-	676	-	-	676
Exchange rate differences	-	-395	-	-	-395
Accumulated amortization and impairment losses at Dec 31, 2012	-2,123	-38,714	-	-	-40,837
Net carrying amount at Jan 1, 2012	68,696	28,237	-	1,918	98,850
Net carrying amount at Dec 31, 2012	66,971	23,280	-	3,642	93,892

(EUR thousand)	Goodwill	Other intangible assets	Development costs	Prepayments	2011 Total
Acquisition cost at Jan 1, 2011	68,386	60,054	-	1,165	129,605
Acquisition through business combinations	1,605	6,182	-	-	7,787
Other increases	-	431	-	1,029	1,460
Disposal of subsidiaries and businesses	-787	-2,312	-	-	-3,099
Other decreases	-	-293	-	-	-293
Transfer to held for sale assets	-	-2,027	-	-	-2,027
Reclassifications	-	594	-	-257	337
Exchange rate differences	-122	-383	-	-20	-524
Cost at Dec 31, 2011	69,082	62,246	-	1,918	133,246

Accumulated amortization and impairment losses at Jan 1, 2011	-	-30,674	-	-	-30,674
Accumulated amortization relating to decreases and transfers	-	103	-	-	103
Amortization during the financial year	-	-5,328	-	-	-5,328
Impairment losses	-386	-564	-	-	-950
Disposal of subsidiaries and businesses	-	659	-	-	659
Transfer to held for sale assets	-	1,791	-	-	1,791
Exchange rate differences	-	4	-	-	4
Accumulated amortization and impairment losses at Dec 31, 2011	-386	-34,009	-	-	-34,395
Net carrying amount at Jan 1, 2011	68,386	29,379	-	1,165	98,930
Net carrying amount at Dec 31, 2011	68,696	28,237	-	1,918	98,850

The carrying amounts of investments in associates in 2012 or 2011 do not include goodwill. The Group did not have intangible assets with indefinite useful lives.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 18.2 million (2011: EUR 19.4 million), as

well as marketing channels and customer connections acquired in business combinations in total of EUR 1.6 million (2011: EUR 2.4 million). Other intangible assets include also carrying amount of Enterprise Resource Planning -program (M3) total of EUR 1.1 million (2011: EUR 2.1 million).

Prepayments comprise development of software and computer tools, of which the most significant is the Russian enterprise resource planning (ERP) system.

17. Impairment test

Goodwill is tested for impairment annually and always when there is an indication that goodwill or any other asset may be impaired. Impairment tests are performed by comparing the carrying amounts of those cash generating units that include goodwill with their expected recoverable amounts. An impairment loss is recognized if the recoverable amount of the asset is less than

its carrying amount. The recoverable amount is measured at value in use by discounting the estimated future cash flows using the Discounted Cash Flow (DCF) method.

Tikkurila has four cash-generating units that equal to operating segments (see Note 3). Operating segments in Tikkurila are also referred as Strategic Business Units (SBUs). At the end of financial

year goodwill has been allocated to the following cash generating units: Scandinavia and East in 2012 and Scandinavia, East and Central Eastern Europe in 2011.

The carrying amounts of the tested units and goodwill are presented on next page.

Cash-generating units: (EUR thousand)	2012		2011	
	Carrying amount	of which Goodwill	Carrying amount	of which Goodwill
Finland	35,143	-	37,679	-
Scandinavia	102,658	60,937	107,440	60,937
East	98,831	6,034	102,582	6,088
Central Eastern Europe	56,628	-	58,585	1,671

Annually, close the end of the summer season, during the strategic analysis, Tikkurila Management Board and members of Board of Directors define the objectives for the next three years. In setting objectives the management's judgment takes a centre 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. These objectives are later on approved by Tikkurila's Board of Directors. The Strategic Business Unit cash flow forecasts over a three year period are a result of this process. These cash flows are used in impairment tests. Capital expenditure for expansion investments have not been taken into account in these estimates. The terminal value is the net present value of the third year's estimate that has been extrapolated by using zero growth.

The discount rate used varies between 8.4% - 18.0% depending on the cash-generating unit in 2012. The discount rates are defined as WACC (weighted average cost of capital) which reflects the total cost of equity and debt while taking the specific risks involving the assets into consideration.

The cash flows and discount rates are determined before taxes.

SIGNIFICANT ASSUMPTIONS AND SENSITIVITY ANALYSIS OF THE IMPAIRMENT TESTS

The forecasted cash flows reflect the Tikkurila management's perception of the development

in sales and costs during the three year's forecast period. The significant assumptions used in the impairment tests relate thus to the development of sales and profitability that are change in revenue and change in the EBITDA (operating profit before depreciations, amortizations and impairment losses). The significant assumptions relating to the discount rate are risk-free interest, capital structure and beta coefficient.

In 2012 impairment test, the pace of the growth of revenue is expected to stabilize during the forecasting period from 2013 to 2015 for SBU East and Central Eastern Europe areas, compared to the previous three years forecasted development, when in SBU Finland and Scandinavia areas the growth of revenue is expected to stay on the same level compared to the previous forecasted development. The greatest growth is expected in the SBU Central Eastern Europe area. The raw material prices are expected to remain on the same level in 2013 as they were in prior year. However the raw material price fluctuations are expected to be strong during the whole forecasted period. As per the latest strategy streamlining, cutting out overlapping and harmonizing of group activities as well as thorough expense control are expected to maintain Group's competitiveness and to improve profitability.

In 2011 impairment test, the pace of the growth of revenue was expected to stabilize during the forecasting period from 2012 to 2014 for SBU Finland and SBU Central Eastern Europe whereas the pace of the growth was expected to accelerate for SBU East and SUB Scandinavia areas compared to the previous forecasted development. The great-

est growth was expected in the SBU East. The raw material prices were expected to increase at the same pace as during the previous years. The streamlining of group actions were expected to improve profitability from previous years.

The main assumptions relating to the discount rates are based on the same principles each year, but the values of the key assumptions are defined separately for each SBU and each testing period in order to reflect the corresponding market information. The discount rates have been changed mainly due to the changes in the main assumptions underlying them, which are risk free rate, capital structure and Beta coefficient. The increase in the interest rate in SBU Scandinavia from 2011 to 2012 is mainly caused by the increase in the cost of debt and the Beta coefficient. The decrease in the interest rate in SBU Central Eastern Europe from 2011 to 2012 is mainly caused by the decrease in the risk-free interest. The average market-based ratio between equity and liabilities of benchmark companies and the branch is considered as capital structure.

The chart below shows the estimated parameters used in testing during the three-year forecasting period and for the terminal period in 2012 and 2011.

	Scandinavia		East		Central Eastern Europe		Finland	
	2012	2011	2012	2011	2012	2011	2012	2011
Estimate parameters used								
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	14.3	16.6	11.8	14.2	8.4	11.3	14.4	15.1
Discount rate, pre-tax, %	8.4	7.5	18.0	17.9	12.2	13.5	8.7	8.1
Growth post forecast period, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The amount at which the present value of the cash flow exceeds the carrying amount, EUR thousands	207,191	273,217	23,296	87,042	8,245	31,987	119,563	120,341

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

	Scandinavia 2012	2011	East 2012	2011	Central Eastern Europe 2012	2011	Finland 2012	2011
Change in key assumptions								
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	-7.8	-9.1	-1.4	-5.1	-0.7	-2.5	-8.5	-8.1
Change in pre-tax discount rate, % -units	13.8	14.1	3.3	11.6	1.5	5.7	23.9	19.4
Change in growth post forecast period, % -units	-31.6	-31.0	-5.7	-29.4	-2.1	-9.7	-46.5	-38.3

The chart above presents those changes in the key assumptions that would cause the net present value of the cash generating unit to be equal to its carrying amount – assuming no changes in the other assumptions. For example, when a

change in the discount rate (per percentage unit) would incur the recoverable amount of the assets to be equal to its carrying amount, assuming that other components remain unchanged. Respectively, for example, it also presents when a change

in a single percentage unit relating the operating profit before depreciation, amortization and impairment or the growth post forecast period would incur the recoverable amount to be equal to the carrying amount.

18. Investments in associates

(EUR thousand)	2012	2011
Carrying amount at Jan 1	971	668
Share of profit or loss of associates	62	294
Exchange rate differences and other changes	37	9
Net carrying amount at Dec 31	1,070	971

ASSOCIATES AND SUMMARIZED FINANCIAL INFORMATION OF ASSOCIATES:

(EUR thousand)	Domicile	Assets	Liabilities	Revenue	Net profit for the period	Group holding (%)
2012						
Happy Homes i Sverige AB	Sweden	14,058	11,792	72,687	138	45.1
2011						
Happy Homes i Sverige AB	Sweden	15,162	12,693	65,279	652	45.1

Intra-group balances and transactions with associates are disclosed in Note 39 Related parties.

19. Joint ventures

In year 2012 or 2011, there were no changes in ownership of joint ventures, Alcro Parti AB was the only joint venture owned by the Group.

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

(EUR thousand)	2012	2011
Non-current assets	13	14
Current assets	1,266	1,135
Total assets	1,279	1,149
Non-current liabilities	243	221
Current liabilities	213	234
Total liabilities	456	455

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

(EUR thousand)	2012	2011
Revenue	3,748	3,569
Expenses	-3,492	-3,306
Income taxes	-71	-71
Net profit for the period	185	192
Personnel during the period, average	6	6

Intra-group balances and transactions with joint ventures are disclosed in Note 39 Related parties.

20. Inventories

(EUR thousand)	2012	2011
Materials and supplies	24,232	29,032
Work in progress	1,746	1,273
Finished goods	57,540	64,337
Prepayments	1,248	48
Total	84,766	94,690

Inventory write-downs amounting to EUR 4.2 million (EUR 2.7 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-downs, since mostly there are no explicit methods in assessing the fair value of the inventories.

The amount of write-downs of inventories to net realizable value and all losses in inventories are recognized as an expense in the consolidated statement of comprehensive income under "Materials and services" and "Change in inventories of finished goods and work in progress". During the financial year 2012 reversals of inventory

write-down amounting to EUR 0.4 million were recognized (EUR 0.0 million). The amount of cost recognized as expense was EUR 344.4 million (EUR 328.8 million) and it is presented in the consolidated statement of comprehensive income, line-items "Materials and services" and "Change in inventories of finished goods and work in progress".

Carrying amount of inventories carried at fair value less costs to sell in year 2012 was EUR 735 thousand (EUR 715 thousand).

21. Available-for-sale financial assets

(EUR thousand)	2012	2011
Carrying amount at Jan 1	3,028	2,694
Additions	-	21
Disposals	-1	-10
Change in valuation	237	342
Exchange rate differences	17	-19
Carrying amount at Dec 31	3,281	3,028

Available-for-sale financial assets include mainly unquoted shares that are measured at amortized cost. These shares are of business supportive nature, related to personnel's recreational activities and environment maintenance related long-term investments that Tikkurila is not intending to sell. These shares have no quoted market price in an active market and their fair values cannot be measured reliably as the change range for reasonable measurements is significant and the prob-

abilities of various measurements cannot be reasonably estimated. Shares of Ekokem are quoted in OTC-list and that information is used to determine their fair value. Unrealized fair value changes are recognized in other comprehensive income, net of tax and these are included in fair value reserve in equity. These shares are recognized in fair value hierarchy level 2 (Note 33).

No impairment losses were recognized for available-for-sale financial assets during the years 2012 or 2011.

Gains on sale of available-for-sale financial assets amounted to EUR 3 (12) thousand and loss amounted to EUR 0 (4) thousand. Gains or losses on the sales of these assets are included in other operating income or expense.

22. Non-current receivables

(EUR thousand)	2012	2011
Loan receivables	5,859	2,954
Prepayments	2,763	2,890
Accrued income and deferred expenses	2	-
Other receivables	1,998	1,709
Finance lease receivables	9	11
Total non-current assets	10,631	7,564
Prepayments		
Pre-rent of the logistic centre area in Moscow	2,492	2,479
Pre-rent of the production site in Serbia	130	238
Other prepayments	141	173
Total prepayments	2,763	2,890
Other receivables		
Trade receivables and hire-purchases	888	966
Non-current interest-bearing receivables	781	743
Other non-current non-interest-bearing receivables	329	-
Total other receivables	1,998	1,709

(EUR thousand)	2012	2011
Finance lease receivables - maturity		
Within one year	3	4
After one year and not later than five years	10	12
Later than five years	-	-
Total	13	16
Finance lease receivables - present value of the minimum lease payments		
Within one year	3	3
After one year and not later than five years	9	11
Later than five years	-	-
Total	12	14
Unearned finance income	1	2
Total finance lease receivables	13	16

23. Current interest-bearing receivables

(EUR thousand)	2012	2011
Finance lease receivables	3	3
Loan receivables	329	60
Total interest-bearing receivables	332	63

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

24. Trade and other non-interest-bearing receivables

(EUR thousand)	2012	2011
Trade receivables	85,418	83,139
Accrued income and deferred expenses	10,361	8,606
Other receivables	4,531	3,315
Total current non-interest-bearing receivables	100,310	95,060

To define the fair value of trade receivables the management estimates as per customer specific indications the need and amount of impairment. Tikkurila Group sells certain trade receivables to a financing company. The credit risks and contractual rights relating these financial assets are transferred to the financing company at the time of the sale. Arrangement fees are recognized as financial expenses.

Other receivables include VAT receivables amounting to EUR 3.6 million (EUR 2.7 million) and prepayments of EUR 23 thousand (EUR 69 thousand).

(EUR thousand)	2012	2011
Accrued income and deferred expenses		
Items related to net revenue and purchases	2,793	1,468
Employee benefit expenses	1,264	441
Insurances	590	296
Leases	2,473	2,357
Interests	42	6
Derivatives	386	1,275
Other	2,813	2,763
Total	10,361	8,606

25. Cash and cash equivalents

(EUR thousand)	2012	2011
Cash	15,927	10,426
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	-	-
Total cash and cash equivalents	15,927	10,426

Cash and cash equivalents according to cash flow:

Cash	15,927	10,426
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	-	-
Bank overdrafts	-	-
Total cash and cash equivalents	15,927	10,426

26. Deferred tax assets and liabilities

2012 (EUR thousand)	Jan 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Acquisitions / disposals	Transfer to held for sale	Dec 31, 2012
Deferred tax assets						
Internal margin of inventories	948	-132	-	-	-	816
Provisions and accruals	2,972	1,402	-	-	-16	4,358
Tax losses carried forward	59	-13	-	-	-2	44
Defined benefit plans	256	91	-	-	-	347
Other	697	538	-	-	-172	1,063
Deferred tax assets in the statement of financial position	4,932	1,885	-	-	-190	6,627

2012 (EUR thousand)	Jan 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Acquisitions / disposals	Transfer to held for sale	Dec 31, 2012
Deferred tax liabilities						
Cumulative depreciation difference	-6,265	868	-	-	-	-5,397
Available-for-sale financial assets	-531	-	-58	-	-	-589
Fair value measurement of PPE* and intangible assets in business combinations	-3,348	-516	-	-	-	-3,864
Defined benefit plans	-	-51	-	-	-	-51
Other	-836	-916	-25	-	-	-1,777
Deferred tax liabilities in the statement of financial position	-10,980	-615	-83	-	-	-11,678

2011 (EUR thousand)	Jan 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Acquisitions / disposals	Transfer to held for sale	Dec 31, 2011
Deferred tax assets						
Internal margin of inventories	919	60	-	-	-31	948
Provisions and accruals	2,181	735	-	86	-30	2,972
Tax losses carried forward	20	77	-	-	-38	59
Defined benefit plans	338	-82	-	-	-	256
Other	257	-21	-	461	-	697
Deferred tax assets in the statement of financial position	3,715	769	-	547	-99	4,932

Deferred tax liabilities						
Cumulative depreciation difference	-6,073	-217	-	2	23	-6,265
Available-for-sale financial assets	-475	-	-56	-	-	-531
Fair value measurement of PPE* and intangible assets in business combinations	-3,861	679	-	-211	45	-3,348
Defined benefit plans	-52	52	-	-	-	-
Other	-848	12	-	-	-	-836
Deferred tax liabilities in the statement of financial position	-11,309	526	-56	-209	68	-10,980

* 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 9.4 million at December 31, 2012 (EUR 8.6 million) for which no deferred tax asset was recognized. Unlimited right to carry forward the tax losses concerns 37 (32) percent of the tax losses. Tax losses with the limited right expire in 2013–2021. 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.

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

27. Capital and reserves

Tikkurila Oyj has one class of shares. The share has no nominal value. The share capital was EUR 35 million at December 31, 2012 (EUR 35 million) and it is fully paid. The number of shares was 44,108,252 at the end of year 2012. At the end of year 2011, number of shares was 44,108,252.

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

FAIR VALUE RESERVE

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

RESERVE FOR INVESTED UNRESTRICTED EQUITY

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

OTHER RESERVES

Other reserves include the funded portion of retained earnings.

TRANSLATION RESERVE

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

DIVIDENDS

Dividend of EUR 0.73 per share, totaled EUR 32,199 thousand was distributed in year 2012. In year 2011, dividend of EUR 0.70 per share, totaled EUR 30,876 thousand was distributed. After the

respective reporting date The Board of Directors proposes that a dividend of EUR 0.76 per share, totaled EUR 33,522 thousand, will be distributed of the year 2012.

(EUR thousand)	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Other comprehensive income 2012						
Total exchange differences on translating foreign operations	-	6,507	-	6,507	-	6,507
Income taxes on net investment to foreign subsidiary	-	-10	-	-10	-	-10
Exchange differences reclassified to profit or loss on disposal of foreign operations	-	-259	-	-259	-	-259
Reclassifications	-	2,191	-2,191	-	-	-
Available-for-sale financial assets, fair value changes	237	-	-	237	-	237
Deferred taxes on fair value changes of available-for-sale financial assets	-58	-	-	-58	-	-58
Other comprehensive income 2012	179	8,429	-2,191	6,417	-	6,417

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

28. Non-current interest-bearing liabilities

(EUR thousand)	2012	2011
Loans from financial institutions	59,787	59,729
Finance lease liabilities	841	616
Total non-current interest-bearing liabilities	60,628	60,345

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

(EUR thousand)	2012	2011
Finance lease liabilities - total minimum lease payments		
Within one year	545	480
After one year and not later than five years	841	658
Later than five years	-	-
Total	1,386	1,138

(EUR thousand)	2012	2011
Finance lease liabilities - present value of the minimum lease payments		
Within one year	489	427
After one year and not later than five years	777	616
Later than five years	-	-
Total	1,266	1,043
Future finance charges	120	95
Total finance lease liabilities	1,386	1,138

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

29. Current interest-bearing liabilities

(EUR thousand)	2012	2011
Loans from financial institutions	2,076	32,084
Commercial paper program	33,302	10,957
Finance lease liabilities	545	426
Other interest-bearing current liabilities	2	6,037
Total interest-bearing current liabilities	35,925	49,504

Other interest-bearing current liabilities include deposit made in personnel services office in total of EUR 6.0 million in 2011. Personnel services office of Tikkurila Oyj was closed down at the beginning of year 2012 and therefore there are none of the deposits in the end of year 2012 left. Specification of finance lease liabilities is disclosed in Note 28 Non-current interest-bearing liabilities.

AVERAGE INTEREST RATE AND CURRENCY DISTRIBUTION OF INTEREST-BEARING LIABILITIES

Average interest rate for current and non-current loans at December 31, 2012 was 2.1% (4.3%).*)

Interest-bearing liabilities by currency (in euro):

(EUR thousand)	2012	2011
EUR	93,697	107,749
RUB	2	-
CNY	2,068	2,084
Other	786	16
Total	96,553	109,849

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

30. Trade and other non-interest-bearing payables

(EUR thousand)	2012	2011
Other non-current liabilities *)	902	2,382
Non-current accrued expenses and deferred income	258	-
Total other non-current liabilities	1,160	2,382
Trade payables	43,515	41,215
Other non-interest-bearing payables	6,965	6,975
Prepayments	176	156
Accrued expenses and deferred income	45,071	45,986
Total current non-interest-bearing payables	95,727	94,332

*) Contingent consideration, Note 4

(EUR thousand)	2012	2011
Accrued expenses and deferred income		
Share-based payments	258	-
Employee benefit expenses	17,034	18,230
Items related to revenue and purchases	23,219	22,196
Interests	362	581
Derivatives	593	924
Other	3,863	4,055
Total	45,071	45,986
Net liabilities		
Interest-bearing non-current liabilities	60,628	60,345
Interest-bearing current liabilities	35,925	49,504
Cash and cash equivalents		
Cash	-15,927	-10,426
Total	80,626	99,423

31. Pension obligations

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

Tikkurila Group has defined benefit pension plans in Sweden, Norway and in Germany. The defined benefit pension plans are funded in insurance companies and the benefits vary by countries. Mainly the benefits are related to the retirement age and pension level.

In defined benefit pension plans the amount of pension is determined based on certain factors such as salary and 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.

In financial statements 2012 the corridor method is applied in recognizing the actuarial gains

and losses. According the new revised IAS 19 the corridor method approach is eliminated. Revised IAS 19 is applied as of 1.1.2013 retrospectively. The impact of revised IAS 19 on the Group's financial information and pension obligations is presented in accounting policies for the consolidated financial statements, under headline adopting new and amended IFRS standards and interpretations.

Tikkurila Group's Swedish subsidiaries have pension benefit plans in Swedish insurance company Alecta. The pensions funded in Alecta are determined as defined benefit pension plans according to IAS 19. However, as Alecta cannot provide the required information in order to calculate the pension obligation; the Group's pensions funded in Alecta are accounted for as defined contribution plans. In addition, the Group has also a pension plan under its own responsibility in the Netherlands. Also this is accounted for as defined contribution plans. Tikkurila Coatings B.V is under

liquidation process that is expected to be final during the first half of 2013.

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

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

(EUR thousand)	2012	2011
Items recognized in the statement of financial position:		
Present value of funded obligations	2,189	2,167
Present value of unfunded obligations	22,535	21,169
Fair value of plan assets	-1,922	-1,755
Present value of pension obligation	22,802	21,581
Unrecognized actuarial gains (+) / losses (-)	-5,497	-5,388
Net liability (+)	17,305	16,193
In the statement of financial position		
Liability arising from the defined benefit plans	17,772	16,684
Receivable arising from defined benefit plans	-467	-491
Net liability	17,305	16,193
Liability arising from the defined contribution plans	-	59
Total pension obligations in the statement of financial position (net)	17,305	16,252

(EUR thousand)	2012	2011
Recognized in the statement of comprehensive income:		
Current service costs	558	427
Interest costs	903	836
Expected return on plan assets	-93	-92
Actuarial gains (-) / losses (+) for the period	276	318
Other changes	42	37
Total defined benefit plans	1,686	1,526
Obligation transferred	-	-477
Defined contribution plan expenses	-	11
Total pension obligations in the statement of comprehensive income	1,686	1,537
Movements in the present value of the defined benefit obligation		
Defined benefit obligations at Jan 1	23,336	20,702
Current service costs	558	427
Interest costs	903	836
Actuarial gains (-) / losses (+)	12	1,978
Exchange rate differences on foreign plan	901	149
Benefits paid by the plan	-958	-896
Obligation transferred	-28	140
Defined benefit obligations at Dec 31	24,724	23,336
Movement in the present value of plan assets		
Fair value of plan assets at Jan 1	1,755	1,555
Expected return on plan assets	93	92
Contributions paid into the plan	184	256
Actuarial gains (+) / losses (-)	-152	-132
Exchange rate differences on foreign plan	97	7
Benefits paid by the plan	-38	-23
Other changes	-17	-
Fair value of plan assets at Dec 31	1,922	1,755
Realized return on pension plan	-59	0
Realized return on plan assets	-59	0
Actuarial presumptions		
Discount rate	2.7–3.8%	3.3–4.3%
Expected return on plan assets	4.0%	4.8%
Inflation	2.0%	2.0%
Forthcoming increases in wages and salaries	3.0–3.3%	3.0–3.8%
Forthcoming increases in pensions	0.2–2.0%	0.7–3.0%
Plan assets include		
Assets in insurance companies *	1,922	1,755
Total	1,922	1,755

* 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 1.0 million of contributions into the defined benefit plans during the year 2013.

(EUR thousand)

At Dec 31	2012	2011	2010	2009	2008
Liability arising from the defined contribution plans	-	59	547	495	451
Present value of defined benefit plans	24,724	23,336	20,702	17,866	21,146
Fair value of plan assets	1,922	1,755	1,555	1,343	5,702
Settlement of the obligation	-	-	-	-	112
Actuarial gains (+) / losses (-)	-5,497	-5,388	-3,548	-2,890	-3,159
Deficit / surplus	17,305	16,252	16,146	14,128	12,848
Experience adjustments - plan liabilities	8	105	-	-1	-459
Experience adjustments - plan assets	74	14	-	-1	-69

32. Provisions

(EUR thousand)	Restructuring	Site restoration	Other provisions	2012 Total
2012				
Non-current provisions				
Balance at Jan 1, 2012	108	-	426	534
Exchange rate differences	-	-	8	8
Provisions made during the period	406	-	123	529
Provisions reversed during the period	-	-	-38	-38
Reclassifications	-68	-	-41	-109
Non-current provisions at Dec 31, 2012	446	-	478	924
Current provisions				
Balance at Jan 1, 2012	74	130	18	222
Exchange rate differences	-	12	2	14
Provisions made during the period	94	-	4	98
Provisions used during the period	-76	-142	-54	-272
Reclassifications	68	-	41	109
Current provisions at Dec 31, 2012	160	-	11	171
(EUR thousand)	Restructuring	Site restoration	Other provisions	2011 Total
2011				
Non-current provisions				
Balance at Jan 1, 2011	182	17	-	199
Exchange rate differences	-	-2	-	-2
Provisions made during the period	-	-	58	58
Reclassifications	-74	-15	368	279
Non-current provisions at Dec 31, 2011	108	-	426	534
Current provisions				
Balance at Jan 1, 2011	-	302	-	302
Exchange rate differences	-	-33	-	-33
Provisions made during the period	-	55	-	55
Provisions used during the period	-	-209	-29	-238
Reclassifications	74	15	47	136
Current provisions at Dec 31, 2011	74	130	18	222

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

RESTRUCTURING PROVISIONS

At the beginning of year 2012, restructuring provision was recognized in Tikkurila Group as a result of ended co-operation negotiations related to Tikkurila's Finnish site. For majority of this provision the accurate timing of realization is not known,

but major part is estimated to be used after year 2013.

Restructuring provision recognized in year 2009 in Tikkurila Group amounted to EUR 106 (182) thousand at the year-end. This provision is related to Tikkurila's Finnish site. Accurate timing of the provision cannot be stated.

SITE RESTORATION PROVISIONS

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

Clean-up work was finished during the financial year 2012 and therefore no provision was left related to this obligation at the year-end.

OTHER PROVISIONS

Other provisions arise from retirement one-time payments to employees by the company at the time of retirement. Such provision is in Serbia, Macedonia and Poland. The amount of payment

equals approximately two - three months salary of the person at the time of retirement. These plans are based on legal requirements in above mentioned countries. Company has no future obligations related to these plans after payment is settled. The provision of Poland was presented earlier in pension liabilities. This provision includes also jubilee provision. The jubilee provision is established by pattern of past practice.

33. Carrying amounts and fair values of financial assets and financial liabilities by categories

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amounts	Total fair values
2012							
Non-current financial assets							
Available-for-sale financial assets	21	-	-	3,281	-	3,281	3,281
Non-current receivables	22	-	7,866	-	-	7,866	7,866
Current financial assets							
Interest-bearing receivables	23	-	332	-	-	332	332
Derivatives	24,34	386	-	-	-	386	386
Cash equivalents	25	-	15,927	-	-	15,927	15,927
Trade and other non-interest-bearing receivables	24	-	85,726	-	-	85,726	85,726
Total		386	109,851	3,281	-	113,518	113,518
Non-current financial liabilities							
Non-current interest-bearing liabilities	28	-	-	-	60,628	60,628	60,818
Current financial liabilities							
Current interest-bearing liabilities	29	-	-	-	35,925	35,925	35,925
Derivatives	30,34	593	-	-	-	593	593
Contingent consideration	30	-	-	-	902	902	902
Trade payables	30	-	-	-	43,515	43,515	43,515
Total		593	-	-	140,970	141,563	141,753

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amounts	Total fair values
2011							
Non-current financial assets							
Available-for-sale financial assets	21	-	-	3,028	-	3,028	3,028
Non-current receivables	22	-	4,674	-	-	4,674	4,674
Current financial assets							
Interest-bearing receivables	23	-	63	-	-	63	63
Derivatives	24,34	1,275	-	-	-	1,275	1,275
Cash equivalents	25	-	10,426	-	-	10,426	10,426
Trade and other non-interest-bearing receivables	24	-	83,139	-	-	83,139	83,139
Total		1,275	98,302	3,028	-	102,605	102,605

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amounts	Total fair values
2011							
Non-current financial liabilities							
Non-current interest-bearing liabilities	28	-	-	-	60,345	60,345	60,666
Current financial liabilities							
Current interest-bearing liabilities	29	-	-	-	49,504	49,504	49,504
Derivatives	30,34	924	-	-	-	924	924
Contingent consideration	30	-	-	-	2,382	2,382	2,382
Trade payables	30	-	-	-	41,215	41,215	41,215
Total		924	-	-	153,446	154,370	154,691

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 1.74%. In year 2011 the discount rate used was 2.51%.

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

Available-for-sale financial assets are mostly investments in shares with no quoted market price in an active market. The fair values cannot be reliably measured and therefore they are measured at cost. In addition, available-for-sale financial assets

include shares that are quoted in OTC-list. These shares are measured at fair value in each reporting period. The fair value changes are recognized in other comprehensive income net of tax, and they are included in fair value reserve in equity until the assets are disposed, at which time the cumulative gain or loss is reclassified from equity in profit or loss as a reclassification item.

FAIR VALUE HIERARCHY

(EUR thousand)

2012	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	2,505	776	3,281
Derivatives (in assets)	-	386	-	386
	-	2,891	776	3,667
Derivatives (in liabilities)	-	593	-	593
<hr/>				
2011	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	2,268	760	3,028
Derivatives (in assets)	-	1,275	-	1,275
	-	3,543	760	4,303
Derivatives (in liabilities)	-	924	-	924

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

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

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

RECONCILIATION OF LEVEL 3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

(EUR thousand)

	2012	2011
	Available-for-sale financial assets	Available-for-sale financial assets
Carrying amount at Jan 1	760	768
Translation differences in other comprehensive income	17	-19
Acquisitions	-	21
Disposals	-1	-10
Carrying amount at Dec 31	776	760

In year 2012, gain on sales of available-for-sale financial assets were recognized EUR 3 (12) thousand and loss on sale amounted to EUR 0 (4) thousand. Gains on sales of these assets are included in other operating income and loss is recognized in other operating expenses.

34. Derivative instruments

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

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

In addition, the Group has hedged during the reporting period 2011 some of the future cash flows arising from the interest rate payments of its non-current loans with interest rate derivatives. Hedge accounting (IAS 39) was not applied, so fair value changes were recognized in profit or loss under financial items.

According the new financial management policy, approved in December 2011, Tikkurila does not use interest rate derivatives to hedge interest rate risk. Therefore there were no interest rate

derivatives in financial year 2012 nor there were interest rate derivatives at the end of December 2011, as all were closed.

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

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

FAIR VALUES AND NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

2012 (EUR thousand)	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	240	-446	-206	47,919

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

Derivative instruments in the comprehensive income (EUR thousand)	2012	2011
Financial income	2,488	8,534
Financial expenses	-6,596	-8,131

Derivative instruments in the statement of financial position (EUR thousand)	2012	2011
Accrued income and deferred expenses	386	1,275
Accrued expenses and deferred income	593	924

35. Financial risk management

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

INTERNATIONAL NATURE OF THE BUSINESS

Tikkurila operates in a geographically wide area with sales in about 40 countries. Due to special features of each geographical area, the business is exposed to various financial risks and, up to a certain extent, to restrictions set by local legislation. Because major part of the Group revenue is generated outside the euro area, foreign exchange rate risks have a significant impact on Tikkurila's revenue, result and statement of financial position, as well as on consolidated euro cash flows.

SEASONALITY

Since the sale of paints and other products of the Group typically correlates with GDP development, changes in general economic development have an impact on Tikkurila's business. Tikkurila's sales are exposed to intra-year seasonality: usually, the second and third quarters have the most significant influence on sales volume and profitability, which also impacts the timing of operative cash flows. The peak period of outdoor painting during summer months causes this seasonality especially in the Nordic countries, where weather conditions make it difficult to carry out painting or even fully prevent painting during winter time.

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

Due to seasonality, the year-end statement of financial position is not equal to an average statement of financial position, among others in relation to net working capital and cash, which has to be taken into account when analyzing items on the consolidated statement of financial position and financial risks.

THE OBJECTIVE AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

Financial risk management targets to lower the fluctuations in profitability and to increase the predictability of the business. Tikkurila Oyj's treasury acts as an internal bank for Group companies offering both short- and long-term funding, taking deposits and being responsible for Group cash management. The treasury is responsible for

executing external financial transactions and subsidiaries are conducting their financial operations with parent company's treasury unless local law or other constraints prohibit it.

The objective of financial risk management is to hedge, 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. The aim is to keep the creditworthiness of Tikkurila Oyj at a good level. Tikkurila's financing and financial risk management is controlled by policies accepted by the Board of Directors. The operative organization manages financial risks based on these authorizations and policies. Treasury department regularly reports the most important financial risks to the Tikkurila Management Board and to the Board of Directors of the parent company.

FINANCIAL INSTRUMENTS AND THEIR SIGNIFICANCE AND TREATMENT

The most significant items in Tikkurila's statement of financial position December 31, 2012 are 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. Currency forwards are used to hedge foreign

exchange rate risks. The aim is to partly hedge the net risk position based on the hedging policy defined by the Board of Directors. Tikkurila does not apply the IFRS hedge accounting. The treatment of financial instruments is described in more detail in "Accounting policies for the consolidated financial statements". The Group has not used any commodity derivatives during 2011 or 2012.

FOREIGN EXCHANGE RATE RISKS

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

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

The key methods used for managing exchange rate risks are:

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

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

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

TRANSACTION RISKS

During 2012 and 2011 about 80% 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 followed and managed mainly for a 12-month pe-

riod because the reliability of longer forecasts is weak. Group companies report their 12-month currency exposures monthly, and the parent company's treasury consolidates Group's net currency exposure.

Transaction risks are hedged in the first place by matching currency denominated income and expenses and after that by commercial agreements (currency clauses). The remaining estimated 12-month net risk position is hedged by foreign exchange rate forward agreements. The Board of Directors approved new financial risk management policy in December 2011. According to the policy the average hedge ratio of net exposure shall be 50%. At the end of year 2012, the hedge ratio, based on the estimated future 12 months net flows, was about 50% (48%).

The Group purchases raw materials from several international suppliers and it can at least partly affect which currency is used at purchase contracts, or contracts might include currency clauses or similar conditions. In some countries, the Group has a possibility to change sales prices if exchange rates change; although these changes are partly discretionary or require negotiations with customers.

(EUR thousand)

Transaction risk position	USD	SEK	NOK	DKK	PLN	RSD	RUB	BYR	UAH	Other
Dec 31, 2012										
Bank accounts	7	-12,617	-	1	-	-223	-	-	-	-59
Loans and deposits	-	-	-1,437	2,734	-	16,200	12,894	4,460	9,322	1,388
Trade receivables and payables	-360	837	1,274	1,326	1,491	-2,078	3,775	977	5,808	304
Estimated currency flow	-16,545	26,650	22,145	9,437	11,717	-2,330	71,520	4,290	3,749	10,810
Currency forwards	7,958	-13,983	-10,887	-	-6,136	-	-	-	-	-
Position after hedges	-8,940	887	11,095	13,498	7,072	11,569	88,189	9,727	18,879	12,443
Sales-related currency clauses*	-	-	-	-	-	-	-70,389	-	-	-
Open position	-8,940	887	11,095	13,498	7,072	11,569	17,800	9,727	18,879	12,443

(EUR thousand)

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

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

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

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

The impact of currency rate changes to profit before tax based on items in statement of financial position December 31, 2012:

(EUR thousand)	2012					2011				
	RUB	SEK	RSD	UAH	NOK	RUB	SEK	RSD	UAH	NOK
Impact of 10% weakening of currency	-1,515	2,342	-1,264	-1,375	1,005	-31	1,680	-1,228	-1,102	892
Impact of 10% strengthening of currency	1,852	-2,863	1,544	1,681	-1,228	38	-2,053	1,501	1,347	-1,090

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 in December 2011 translation risks are not hedged. Translation differences arising from converting subsidiaries' equity are recognized in equity in translation differences.

NET INVESTMENTS MADE IN FOREIGN CURRENCIES

(EUR thousand)	RUB	SEK	PLN	Other
Dec 31, 2012				
Equity	55,281	40,736	23,611	10,809
Impact of 10% strengthening of currencies on equity	6,142	4,526	2,623	1,201
Impact of 10% weakening of currencies on equity	-5,026	-3,703	-2,146	-983
Dec 31, 2011				
Equity	49,194	38,307	23,024	14,698
Impact of 10% strengthening of currencies on equity	5,466	4,256	2,558	1,633
Impact of 10% weakening of currencies on equity	-4,472	-3,482	-2,093	-1,336

INTEREST RATE RISKS

Tikkurila Group had following interest-bearing assets and liabilities during 2012 and/or 2011:

Interest-bearing assets:

- cash
- time deposits
- investments in short-term interest-bearing securities of banks and corporates
- 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
- long-term loans from pension institution
- term loans
- other interest-bearing debt

Tikkurila's interest-bearing net debt is exposed to cash flow risk. The business cycle of Tikkurila follows in principle the overall economic development; therefore the business cash flow is stronger when the economic cycle is strong and typically also interest rates are higher. On the other hand, when the economic cycle weakens and interest rates are lower, the cash flow is also weaker. Therefore, the duration of interest-bearing liabilities is kept short so that the cash flow and interest rate

change follow the same cycle. According the new financial management policy, approved in December 2011, Tikkurila does not use any interest rate derivatives to hedge interest rate risks.

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

(EUR thousand)	Dec 31, 2012	Dec 31, 2011
Fixed rate		
Financial assets *	2,342	2,649
Financial liabilities	-36,766	-44,085
Net	-34,424	-41,436
Floating rate		
Financial assets	4,639	1,122
Financial liabilities	-59,787	-65,764
Net	-55,148	-64,642

* Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 80.6 (99.4) million net debt position on December 31, 2012, the impact of each one percentage point increase in interest rates to next financial year's profit before tax would be EUR -0.7

(-0.9) million. Decline of interest rates by one percentage points would have a positive impact of similar magnitude on profit before tax. The sensitivity analysis is based on an assumption that the interest rate changes will happen at the beginning of the year and that the changes are parallel

over the yield curve. In addition, it is assumed that the net debt position remains unchanged and the impact of foreign exchange rates would be zero. Current loans are assumed to be renewed at due dates. Regarding non-current loans with floating interest rates, the effect of the interest rate change

is taken into account from the date of rate fixing. Net debt includes cash and cash equivalents, but the interest rates on cash are expected to remain unchanged or any changes to take place only after the next financial year. Because of the seasonality of Tikkurila's business, the year-end net debt level is not typical for entire year, so interest rate sensitivity changes during the year. If the average net debt in 2013 would be at the average level of 2012, calculated as the average of actual month-end balances, and consequently equal about EUR 114 million, then applying the abovementioned assumptions and principles one percentage point increase in interest rates would increase Group's interest expense in 2013 by about EUR 1.2 million. And interest rate decrease by one percentage point would decrease the interest expense accordingly by the same amount.

CREDIT RISKS

Credit risk is a risk that occurs when a counterparty fails to meet its obligations, so credit risks are counterparty risks. At Tikkurila, the most signifi-

cant items that are exposed to credit risk are trade receivables, short-term investments and cash.

The principles of managing credit risk of trade receivables are defined in the credit risk policy. The management of credit risk of trade receivables is decentralized to business units, but the parent company's treasury unit monitors the risk. Tikkurila's large and geographically divergent clientele reduces concentration of credit risk, although some 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 12% (11%) of revenue in 2012 took place using advance payments.

Credit insurance is used in Poland where about 78% (93%) of trade receivable as of December 31, 2012 was insured. According to terms of the insur-

ance Tikkurila is entitled to get 90% of the nominal amount, if the customer is not able to pay the invoice.

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

Credit 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 deposit their surplus liquidity to the parent company.

The carrying amounts of the financial assets correspond to their maximum credit risk.

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

(EUR thousand)	Note	Dec 31, 2012	Dec 31, 2011
Available-for-sale financial assets	21	3,281	3,028
Financial assets at fair value through profit or loss	24,34,25	386	1,275
Loans and other receivables	22, 23, 24, 25	109,851	98,302
Total		113,518	102,605

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

(EUR thousand)	Dec 31, 2012	Dec 31, 2011
EUR	22,691	17,103
SEK	27,700	25,773
RUB	23,501	21,499
PLN	13,764	12,054
DKK	3,875	3,740
RSD	3,951	3,476
UAH	3,861	4,841
Other	10,508	9,816
Total	109,851	98,302

Movement of allowance for impairment of trade receivables

(EUR thousand)	Dec 31, 2012	Dec 31, 2011
Balance at beginning of year	9,220	9,172
Exchange rate differences	104	-238
Additions	2,533	1,880
Realized	-479	-622
Acquisition / disposal of business	-12	394
Decreases	-1,502	-1,366
Total	9,864	9,220

The ageing of loans and other receivables at December 31:

(EUR thousand)	Carrying amount Dec 31, 2012	Carrying amount Dec 31, 2011
Not past due	96,790	86,478
Past due 0–90 days	10,075	8,971
Past due 91–180 days	1,795	1,694
Past due 181–365 days	752	663
Past due over 365 days	439	496
Total	109,851	98,302

The Group recognizes impairment loss on receivables when there is objective evidence that a financial asset or group of financial assets is impaired. The debtor's significant financial difficulties, payment delays and neglect can be considered as such objective evidence. Tikkurila recognized a credit loss of EUR 1.6 (0.8) million on past due loans and other receivables during the financial year 2012.

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

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

frame agreement, which has a EUR 100 million nominal capacity between 1 to 364 days.

At the end of 2012, Tikkurila had unused a EUR 145 (115) million revolving credit facility and EUR 10 (10) million committed credit facilities. A total of EUR 33.5 (11) 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 16 (10) million.

The Group uses rolling cash flow estimates to manage liquidity risks. In addition, the funding is split into several different funding sources (equity, debt), different instruments, different maturities to reduce refunding risk, and if needed to several currencies and counterparties.

The operative business units use various netting and pooling arrangements in order to make sure that funds are transferred efficiently and the Group has a good visibility over cash flows. This is not yet possible in all areas where the Group is operating, mainly in SBU East.

Contractual maturities of liabilities at December 31, 2012:

(EUR thousand)	Carrying amount	Contractual cash flows	2013	2014	2015	2016	>2016
Dec 31, 2012							
Loans from financial institutions	61,863	65,659	3,013	882	882	60,882	-
Commercial papers	33,302	33,500	33,500	-	-	-	-
Other interest-bearing liabilities	2	2	2	-	-	-	-
Finance lease liabilities	1,386	1,507	601	480	265	125	35
Trade payables	43,515	43,515	43,515	-	-	-	-
Contingent consideration	902	1,222	-	-	1,222	-	-
Guarantees	2,666	2,666	2,666	-	-	-	-
Total	143,636	148,071	83,297	1,362	2,369	61,007	35
Maturity of derivative financial assets / liabilities							
Currency forwards							
inflow	22,842	22,842	22,842	-	-	-	-
outflow	-23,048	-23,048	-23,048	-	-	-	-
Total	-206	-206	-206	-	-	-	-

(EUR thousand)

Dec 31, 2011	Carrying amount	Contractual cash flows	2012	2013	2014	2015	>2015
Loans from financial institutions	91,813	100,499	33,859	1,660	1,660	1,660	61,660
Commercial papers	10,957	11,000	11,000	-	-	-	-
Other interest-bearing liabilities	6,037	6,037	6,037	-	-	-	-
Finance lease liabilities	1,042	1,138	479	373	229	42	15
Trade payables	41,215	41,215	41,215	-	-	-	-
Contingent consideration	2,382	3,288	-	1,509	-	1,779	-
Guarantees	3,845	3,845	3,845	-	-	-	-
Total	157,291	167,022	96,435	3,542	1,889	3,481	61,675

Maturity of derivative financial assets / liabilities							
Currency forwards							
inflow	1,197	33,705	33,705	-	-	-	-
outflow	-847	-33,354	-33,354	-	-	-	-
Total	351	351	351	-	-	-	-

The figures are undiscounted.

PRICE RISK OF LONG-TERM INVESTMENTS

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

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

CAPITAL MANAGEMENT

The aim of capital management is to secure that Tikkurila has adequate capital for conducting its business both in the short-term and long-term, taking into consideration the risk factors in the

operational environment, e.g. risk related to availability and price of funding. In addition, the capital management is linked to growth targets, possible changes in new businesses and in geographical split, and maintaining the flexibility to react to the changes in competitive environment. When analyzing the need for and management of capital, demands from external interest groups are taken into account, such as owners' requirements for profit distribution and requirements of authorities or restrictions related to equity ratio of Group companies.

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

During the autumn of 2012 the Board of Directors of Tikkurila Oyj set new long-term targets for the Group's gearing and return for capital employed (ROCE-%): in 2018 gearing shall be be-

low 70% and return for capital employed shall be above 20%.

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

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

The Board of Directors of Tikkurila Oyj has given a guideline for dividend distribution. The targeted dividend payout should be 40% of annual net profit excluding the impact of non-recurring items. The Board of Directors proposes to the annual general meeting, which will be held April 10, 2013, that Tikkurila would pay EUR 0.76 per share dividend, which is about 72% of Group's 2012 net profit, excluding non-recurring items, net of tax.

(EUR thousand)

	Dec 31, 2012	Dec 31, 2011
Equity	206,085	191,500
Non-controlling interest	-	-
Total	206,085	191,500
Non-current interest-bearing liabilities	60,628	60,345
Current interest-bearing liabilities	35,925	49,504
Cash and cash equivalents	15,927	10,426
Net debt	80,626	99,423
Gearing, %	39.1%	51.9%
Equity ratio, %	47.7%	44.1%
EBITDA	91,693	82,877
Net debt/EBITDA	0.88	1.20

(EUR thousand)	Dec 31, 2012	Dec 31, 2011
Capital employed		
Goodwill	66,971	68,696
Investments in associates	1,070	971
Property, plant and equipment and intangible assets	139,707	142,725
Net working capital	90,553	96,202
Total	298,301	308,594

36. 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)	2012	2011
Within one year	10,151	10,743
After one year and not later than five years	18,511	22,517
Later than five years	12,521	6,030
Total	41,183	39,290

GROUP AS LESSOR

Lease payments are mainly received from re-leasing of own and rental premises.

Non-cancellable operating lease rentals are receivable as follows:

(EUR thousand)	2012	2011
Within one year	459	608
After one year and not later than five years	469	416
Later than five years	995	1,098
Total	1,923	2,122

37. Commitments and contingent liabilities

(EUR thousand)	2012	2011
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	230	946
On behalf of others	2,436	2,899
Rent obligations	41,183	39,290
Total contingent liabilities	43,849	43,135

CONTRACTUAL COMMITMENTS:

Tikkurila Group had contractual commitments in relation to the purchase of property, plant and equipment total of EUR 1.4 million (EUR 3.8 million in 2011) at the end of financial year 2012.

Contractual commitments for purchase of intangible assets totaled EUR 0.0 million (EUR 0.0 million) at the end of year 2012.

OTHER COMMITMENTS AND LITIGATIONS

In addition, Tikkurila Group has certain future commitments which are related to personnel's years in service as well as retiring. These commitments are not mandatory, but are rather estab-

lished by a pattern of past practice. The amount of the obligation cannot be measured with sufficient reliability.

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 operational circumstances, or there would be an accident causing environmental pollution, or if the company would decide to close-down or transfer a production facility, this might lead to obligations to clean-up or rehabilitation of the land. Moreover, if any changes by authorities into environmental laws and regulations would cause more obliga-

tions to the Group, these could have a material adverse effect on Group's financial result.

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

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

As the timing and amount of these potential obligations are uncertain, management estimates are applied.

Tikkurila Oyj is defendant on a claim, raised at the District Court of Vantaa, where an ex-customer of Tikkurila SBU Finland requires a total of about EUR 0.3 million for damages. In Tikkurila's opinion, the claim has no grounds.

At the beginning of 2013 Tikkurila received two claims for a total amount of approximately EUR 1.0 million in relation to a potential product defect case stemming for 2012 deliveries. The parties involved are in the process of investigating the liability issues, and hence at the time of publishing the 2012 financial statements the final outcome of these investigations and the potential liability of Tikkurila were unknown.

38. Share-based payments

RESOLUTION OF THE BOARD OF DIRECTORS IN FEBRUARY 2012

In order to commit and motivate key personnel, the Board of Directors of Tikkurila Oyj decided in February 2012 on a new share-based plan. Previously the company did not have any share-based remuneration for management.

The new share-based plan includes three performance periods: financial years 2012–2014, 2013–2015 and 2014–2016. The Board of Directors of the company will decide on the performance criteria of the plan and their targets at the beginning of each performance period. The prerequisite for participation in the plan and receipt of reward provides that a key employee purchases Tikkurila's shares from the market in accordance with the terms and conditions of the plan. The potential reward from the performance period 2012–2014 is based on the Tikkurila Group's operative earnings before interest, taxes, depreciation and amortization (EBITDA) and net debt. Furthermore, a key employee will have a possibility to earn a reward, which is tied to the validity of employment or service relationship. The amount of rewards depends on the number of purchased shares, validity of the employment or service relationship and the fulfillment of the performance criteria during each performance period. Rewards will be paid after each performance period partly in the company's shares and partly in cash. No reward will be paid if a key employee's employment or service contract terminates before the reward payment.

On December 31, 2012, a total of 10 key employees selected by the Board participated in the share-based plan.

KEY TERMS AND FINANCIAL TARGETS OF THE PERFORMANCE PERIOD 2012–2014

MAXIMUM AMOUNT OF SHARES FOR EACH PARTICIPANT

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

RESTRICTED SHARE REWARD

If a participant still owns the purchased shares and a participant's employment or service is in force upon reward payment, the participant shall, as restricted share reward, receive the value of one share for one purchased share purchased before January 1, 2013 in spring 2015. The reward shall be paid so that one half is paid in shares and one half in cash.

PERFORMANCE-BASED SHARE AWARD

A participant shall, besides restricted share reward, have a possibility to earn shares as reward from a performance period for achieving targets established for the performance criteria of the performance period. The Board of Directors shall decide on the performance criteria for the performance-based share reward and on targets to be established for the performance criteria separately for each performance period. Achieving the targets established for the performance criteria shall determine the proportion out of the maximum

reward that shall be paid to a participant. The Board of Directors shall be entitled to adjust the targets established for the performance criteria in case of substantial extraordinary events during a performance period. The reward shall be paid so that one half is paid in shares and one half in cash. For the performance period 2012–2014 the financial targets are the Group operative EBITDA and net debt, in relation to a pre-set scale.

OWNERSHIP OBLIGATION

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

OTHER KEY TERMS

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

BOOKKEEPING VALUE OF THE PLAN'S 2012–2014 PERFORMANCE PERIOD

PURCHASED SHARES BY PARTICIPANTS, HOLDINGS AS OF DECEMBER 31, 2012

At the end of financial year 2012, on December 31, the purchased shares under the plan's performance period 2012–2014 were the following:

Position	Number of persons	Shares	% of maximum
President and CEO of Tikkurila Oyj	1	14,000	100%
Other members of Tikkurila Management Board	4	16,000	100%
Other persons	5	14,000	100%
Total	10	44,000	100%

Based on the abovementioned shareholdings and on the terms of the share-based commitment and incentive plan, the maximum total value of rewards corresponds to the value of 220,000 Tikkurila shares, of which half will be paid in cash and half in shares.

AGGREGATE BOOKKEEPING VALUE

Based on the terms of the share-based commitment and incentive plan and of its performance period 2012–2014, and on expected future financial performance, on Tikkurila Oyj share price on December 31, 2012, and assuming that every participant in the plan would be employed by Tikkurila Group and would also keep all their purchased shares, the aggregate bookkeeping value of the performance period 2012–2014 was EUR 2.4 million. A total of EUR 0.5 million was booked during 2012 as personnel expenses and EUR -0.1 million as deferred taxes into the consolidated income

statement, which resulted in EUR 0.5 million negative impact on 2012 net profit. Correspondingly, if underlying assumptions would not change, and participants' shareholdings and employment would stay intact, and moreover Tikkurila's share price would be flat at the level of December 31, 2012, closing price, then the estimated full-year 2013 personnel expenses would be about EUR 0.8 million, and post-tax impact on Group's net profit would be about EUR -0.7 million. There were about EUR 0.3 million non-interest bearing liability and EUR 0.1 million deferred tax asset on the 31.12.2012 Group consolidated statement of financial position on this share-based plan.

The aggregate bookkeeping value of the share-based plan changes whenever the underlying parameters change. Therefore, for example, when the share price of Tikkurila Oyj changes, the cash-settled portion of the awards changes affecting the corresponding liability and expense bookings,

and moreover, the value of the performance-based share awards changes when the future financial forecasts are updated. The final value is determined only at the end of the performance period.

DECISIONS IN RELATION TO FUTURE PERFORMANCE PERIODS

The Remuneration Committee of the Board of Directors will prepare, and the Board will decide on the principles and criteria of the future performance periods of the share-based commitment and incentive plan. On February 15, 2013, at the time of publishing the 2012 Financial Statements Release, the Board of Directors of Tikkurila Oyj had not made any decision for any share-based remuneration for future performance periods after the 2012–2014 period.

39. Related parties

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

the Group (Tikkurila Oyj), subsidiaries, associates and joint ventures.

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

The terms and conditions of related party transactions are determined on an arm's length basis. Related party companies are disclosed in Note 40 Group's ownership in shares and participations.

Related party transactions are presented below:

(EUR thousand)	Sales	Purchases	Receivables	Liabilities
2012				
Associates	20,274	1,261	3,151	-
Joint ventures	2,351	-	119	13
2011				
Associates	20,229	1,244	3,780	-
Joint ventures	2,248	-	125	13

The related party transactions relating to the financial items are presented in the notes that relate to the particular financial item.

LOANS, GUARANTEES AND OTHER COLLATERALS GRANTED TO RELATED PARTIES

No loans, guarantees or other collaterals have been granted to the management in 2012 nor 2011.

DISPOSAL OF BUSINESSES TO FORMER MEMBER OF RELATED PARTY

Tikkurila Group sold on February 29, 2012 its subsidiaries in Hungary, Czech Republic, Slovakia and in Romania to company, Dejmark Group, established by Tikkurila's local management. (Note 4.)

Tikkurila Group sold in December 2011 all shares of totally owned company Färgglädje

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

(EUR thousand)	2012	2011
Management employee benefits ¹⁾		
Wages, salaries and other short-term employee benefits	1,813	1,851
Termination benefits	-	102
Post-employment benefits	213	158
Share-based incentive plan	345	-
Total	2,371	2,111

¹⁾ Includes members of the Management Board (including CEO) and members of the Board of Directors.

Remunerations presented in this note are on accrual basis.
Share-based incentive plan is disclosed in Note 38.

(EUR thousand)	2012	2011
Executive remuneration		
CEO		
Erkki Järvinen		
Fixed salary (fringe benefits included)	430	417
Bonuses	221	60
Share-based incentive plan	159	-
Total	810	477
Supplementary pension payments	58	55
Other Management Board members		
Fixed salary (fringe benefits included)	621	993
Termination benefits	-	102
Bonuses	225	146
Share-based incentive plan	186	-
Total	1,033	1,241
Supplementary pension payments	155	103
Board compensation		
Board members ^{*)}		
Jari Paasikivi, Chairman of the Board	65	66
Petteri Walldén, Vice Chairman of the Board	45	42
Eeva Ahdekivi, member of the Board	42	39
Pia Rudengren, member of the Board	45	47
Riitta Mynttinen, member of the Board from March 31, 2011	46	39
Harri Kerminen, member of the Board from March 28, 2012	36	-
Aleksey Vlasov, member of the Board from March 28, 2012	36	-
Ove Mattsson, member of the Board until March 31, 2011	-	2
Total	315	236

^{*)} 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 100 (75) thousand in year 2012. This is included in figures presented above.

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

The age of retirement for the CEO is 63 years. CEO has the supplementary pension insurance, as

defined contribution plan. The aimed level of pension remuneration for the CEO would correspond 65 percent of the salary used in pension calculation, which is the base salary of year 2009.

The retirement age of the other Management Board members is between 63–65 years.

Tikkurila Group has a management bonus scheme for 2012, approved on February 15, 2012

by Board of Directors of Tikkurila Oyj. Participants are the members of the Tikkurila Management Board, employees on the management team level of business units and functions, managing directors of the companies belonging to the Tikkurila Group as well as selected managers and experts in specific positions in companies belonging to the Tikkurila Group. Number of participants was

altogether 110 persons in year 2012. The bonuses to CEO and other Management board members, on accrual basis, amounted to EUR 446 thousand in 2012. These bonuses shall be paid in March 2013.

Tikkurila Group had a management bonus scheme for 2011. Total of 137 persons were included in that bonus scheme. Accrued amount for CEO and other members of Management Board totaled EUR 206 thousand in 2011. These were paid in March 2012.

Share holdings of Tikkurila Board of Directors and Management Board are stated in page 73, Shares and shareholders.

40. 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 %
2012				
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 AB	Stockholm	Sweden	100	100
Tikkurila Coatings B.V. ¹⁾	Rozenburg	The Netherlands	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
IP Tikkurila	Minsk	Belarus	100	100
TOO Tikkurila	Almaty	Kazakhstan	100	100
TOV Tikkurila	Kiev	Ukraine	100	99
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila Zorka d.o.o.	Sabac	Serbia	100	100
Tikkurila dooel	Skopje	Macedonia	100	-
Tikkurila Sverige AB ²⁾	Stockholm	Sweden	100	100
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Pigrol Farben GmbH	Ansbach	Germany	100	-

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2011				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
SIA Tikkurila	Riga	Latvia	100	100
Kujot Sp.zo.o ³⁾	Debica	Poland	100	100
Tikkurila AB	Stockholm	Sweden	100	100
Tikkurila Coatings B.V. ¹⁾	Rozenburg	The Netherlands	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
IP Tikkurila	Minsk	Belarus	100	100
TOO Tikkurila	Almaty	Kazakhstan	100	100
TOV Tikkurila	Kiev	Ukraine	100	99
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Kft ⁴⁾	Budapest	Hungary	100	100
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila Zorka d.o.o.	Sabac	Serbia	100	100
Tikkurila dooel	Skopje	Macedonia	100	-

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2011				
Tikkurila s.r.o. ⁴⁾	Prague	Czech Republic	100	100
Tikkurila Slovakia s.r.o. ⁴⁾	Martin	Slovakia	100	100
Tikkurila Sverige AB ²⁾	Stockholm	Sweden	100	100
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Pigrol Farben GmbH	Ansbach	Germany	100	-
Tikkurila Romania s.r.l.	Pantelimon City	Romania	100	100

¹⁾ Company is in liquidation process.

²⁾ Former Alcro-Beckers AB

³⁾ Former Tikkurila Coatings Sp.zo.o

⁴⁾ Assets and liabilities of the company are classified as held for sale in Financial statements 2011.

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2012				
Alcro Parti AB	Stockholm	Sweden	50.0	-
2011				
Alcro Parti AB	Stockholm	Sweden	50.0	-

Associates	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2012				
Happy Homes i Sverige AB	Stockholm	Sweden	45.1	-
2011				
Happy Homes i Sverige AB	Stockholm	Sweden	45.1	-

41. Changes in group structure

CHANGES IN THE GROUP STRUCTURE DURING 2012

Tikkurila Group sold all the shares of its Polish subsidiary, Kujot Sp.zo.o., former Tikkurila Coatings Sp.zo.o. on July 31, 2012. The assets and liabilities

of this company were classified as held for sale in interim report end of June 2012.

Tikkurila concluded the divestment of its three sales subsidiaries in Hungary, Czech Republic and Slovakia to Dejmark Group on February 29, 2012.

Moreover, Tikkurila sold all the shares in its Romanian subsidiary to the same buyer.

CHANGES IN COMPANY NAMES:

Former name:	New name:
Alcro-Beckers AB	Tikkurila Sverige AB
Tikkurila Coatings Sp.zo.o.	Kujot Sp.zo.o.

CHANGES IN GROUP STRUCTURE DURING 2011

Tikkurila Group sold all the shares in a Russian subsidiary, OOO Tikkurila Powder Coatings. The sales agreement was signed in December 2010. The transaction was completed in January 2011.

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

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

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

Tikkurila Zorka d.o.o. established in June 2011 a Macedonian subsidiary, Tikkurila dooel. Tikkurila

Zorka d.o.o. owns the whole share capital of Tikkurila dooel.

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

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

CHANGES IN COMPANY NAMES:

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

42. Events after the end of reporting period

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

TIKKURILA OYJ INCOME STATEMENT (FAS)

(EUR thousand)	Note	Jan 1 - Dec 31, 2012	Jan 1 - Dec 31, 2011
Revenue	2	220,390	224,903
Change in inventories of finished goods and work in progress	4	-5,874	5,570
Other operating income	3	1,652	94
Materials and services	4	-108,481	-119,486
Personnel expenses	5	-42,321	-45,069
Depreciation, amortization and impairment losses	7	-6,255	-6,295
Other operating expenses	4,6	-33,394	-33,021
Operating profit		25,717	26,696
Financial income and expenses	8	22,979	17,534
Profit before extraordinary items		48,696	44,229
Profit before appropriations and taxes		48,696	44,229
Appropriations	7,9	1,718	2,290
Income tax	10	-7,108	-6,696
Net profit for the period		43,306	39,823

TIKKURILA OYJ BALANCE SHEET (FAS)

(EUR thousand)	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
Non-current assets	11		
Intangible assets		4,271	4,565
Tangible assets		23,565	24,871
Investments			
Holdings in Group companies		175,834	181,698
Other shares and holdings		651	652
Total investments		176,484	182,349
Total non-current assets		204,320	211,785

(EUR thousand)	Note	Dec 31, 2012	Dec 31, 2011
Current assets			
Inventories	12	24,776	31,665
Non-current receivables	13	32,644	24,833
Current receivables	13	51,869	57,247
Cash and cash equivalents		8,703	3,387
Total current assets		117,993	117,131
Total assets		322,313	328,916
EQUITY AND LIABILITIES			
Equity			
	14		
Share capital		35,000	35,000
Reserve for invested unrestricted equity		40,000	40,000
Retained earnings		47,828	40,204
Net profit for the period		43,306	39,823
Total equity		166,133	155,027
Appropriations			
	15	5,667	7,385
Provisions			
	16	607	182
Liabilities			
	17		
Non-current liabilities		60,000	60,000
Current liabilities		89,906	106,322
Total liabilities		149,906	166,322
Total equity and liabilities		322,313	328,916

TIKKURILA OYJ CASH FLOW (FAS)

(EUR thousand)	Jan 1 - Dec 31, 2012	Jan 1 - Dec 31, 2011
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before extraordinary items	48,696	44,229
Adjustments to operating result:		
Unrealized exchange gains and losses	449	-600
Depreciation, amortization and impairment losses	6,255	6,295
Interest income	-4,862	-3,989
Interest expenses	4,658	7,911
Dividend income	-28,362	-29,302
Other adjustments	790	599
Write-down of non-current assets	3,700	6,778
Other financial items	1,438	1,668
Total funds from operating activities before change in net working capital	32,761	33,591
Change in net working capital		
Change in inventories	6,889	-5,959
Change in current receivables	-1,900	-816
Change in non-interest-bearing current liabilities	-1,415	-1,110
Change in net working capital, total	3,574	-7,884

(EUR thousand)	Jan 1 - Dec 31, 2012	Jan 1 - Dec 31, 2011
Interest and other financial expenses paid	-6,798	-11,279
Interest and other financial income received	5,432	4,311
Income taxes paid	-7,740	-3,983
Dividends received	25,935	9,017
Total cash flow from operating activities	53,165	23,773
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	-4,789	-3,906
Investments in Group companies	-	-4,578
Investments in other shares	-	-10
Proceeds from sales of other shares	1	-
Proceeds from sales of Group companies	1,765	-
Change in non-current loan receivables increase (-), decrease (+)	733	-2,636
Proceeds from sales of tangible and intangible assets	167	-
Dividends received	132	120
Net cash used in investing activities	-1,991	-11,010
Cash flow before financing	51,175	12,763
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in non-current loans	-	60,000
Decrease in non-current loans	-	-140,000
Change in current financing increase (+), decrease (-)	-13,660	42,147
Dividends paid	-32,199	-30,876
Net cash used in financing activities	-45,859	-68,729
Net change in cash and cash equivalents	5,316	-55,965
Cash and cash equivalents at Dec 31	8,703	3,387
Cash and cash equivalents at Jan 1	3,387	59,352
Change in cash and cash equivalents	5,316	-55,965

1. Summary of significant accounting policies - Tikkurila Oyj

Tikkurila Oyj is a Finnish public limited company which share is listed on NASDAQ OMX Helsinki since March 26, 2010 when the company's parent company at the time, Kemira Oyj, distributed Tikkurila's shares as dividend to Kemira Oyj's shareholders. Tikkurila Oyj domiciled in Vantaa and the registered address is Kuninkaalantie 1, FI-01300 Vantaa, Finland. Tikkurila Oyj is the parent company of Tikkurila Group.

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

FOREIGN CURRENCY TRANSACTIONS

In the day-to-day accounting, Tikkurila Oyj translates foreign currency transactions into its functional currency at the exchange rates quoted on the transaction date. In preparation of financial statements monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate of end of reporting period.

Exchange 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, FINANCIAL LIABILITIES AND DERIVATIVES

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

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

Investments in commercial papers are measured at fair value.

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.

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTIZATION

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

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

buildings and constructions	8–25 years
machinery and equipment	3–15 years
intangible assets	5–10 years

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

INVENTORIES

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

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

RESEARCH AND DEVELOPMENT COSTS

Research and development costs have been expensed. Development expenses have not been

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

LEASE

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

2. Revenue

	2012	2011
Revenue by geographical segment, % of total revenue	%	%
Finland	49	48
Other EU countries	22	24
Other Europe	24	25
Other countries	5	2
Revenue by geographical segment, total	100	100

3. Other operating income

(EUR thousand)	2012	2011
Gains on sale of non-current assets	52	-
Gains on sale of Group company shares	670	-
Liquidation of a Group company	815	-
Other income from operations	115	94
Other operating income, total	1,652	94

4. Other operating expenses

(EUR thousand)	2012	2011
Change in inventories of finished goods and work in progress	-5,874	5,570
Materials and services		
Materials and supplies		
Purchases during the financial year	-106,777	-119,184
Change in inventories of materials and supplies	-1,014	389
External services	-690	-691
Total materials and services	-108,481	-119,486
Personnel expenses	-42,321	-45,069
Rents	-1,699	-1,716
Loss on sales of non-current assets	-1,087	-
Other expenses and expense reimbursement	-30,608	-31,305
Total other operating expenses	-190,071	-192,006

5. Personnel expenses and number of personnel

(EUR thousand)	2012	2011
Wages and salaries	-33,238	-35,255
Pension expenses	-6,589	-7,224
Other personnel expenses	-2,494	-2,590
Total personnel expenses	-42,321	-45,069

Management remunerations

Members of the Board of Directors and CEO	-919	-1,453
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REMUNERATION OF CEO

(EUR thousand)	2012	2011
Fixed salary, fringe benefits included	-430	-417
Bonuses	-174	-800
Total	-604	-1,217
Supplementary pension payments	-58	-55

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

The age of retirement for the CEO is 63 years. CEO has a supplementary pension insurance. The aimed level of pension remuneration for the CEO would correspond 65 percent of the salary used in pension calculation, which is the base salary of year 2009.

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS *)

(EUR thousand)	2012	2011
Jari Paasikivi	-65	-66
Petteri Walldén	-45	-42
Harri Kerminen as from March 28, 2012	-36	-
Pia Rudengren	-45	-47
Eeva Ahdekivi	-42	-39
Aleksey Vlasov as from March 28, 2012	-36	-
Riitta Mynttinen as from March 31, 2011	-46	-39
Ove Mattsson until March 31, 2011	-	-2
Total	-315	-236

*) 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 100 (75) thousand in year 2012. This is included in figures presented above.

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2012 or in 2011.

Number of personnel	2012	2011
Average number of white-collar employees	371	417
Average number of blue-collar employees	270	363
Personnel (average)	641	780

6. Auditor's fees

(EUR thousand)	2012	2011
KPMG Oy Ab, Authorized Public Accountants		
Audit fees	-142	-84
Tax consultancy	-6	-12
Other fees	-14	-125
Other audit firms		
Other fees	-46	-101
Auditing fees, total	-207	-323

7. Depreciation, amortization and impairment losses

(EUR thousand)	2012	2011
Depreciation according to plan		
Intangible asset		
Goodwill	-953	-948
Other capitalized expenditure	-1,073	-1,042
Tangible assets		
Buildings and structures	-1,637	-1,771
Machinery and equipment	-2,567	-2,508
Other tangible assets	-24	-26
Total depreciation and amortization	-6,255	-6,295
Change in depreciation difference		
Intangible assets	0	-5
Other capitalized expenditure	639	664
Buildings and structures	876	959
Machinery and equipment	178	646
Other tangible assets	24	26
Total	1,718	2,290

There were no impairments included in depreciations in year 2012, neither in year 2011.

8. Financial income and expenses

(EUR thousand)	2012	2011
Financial income		
Dividend income		
Dividend income from Group companies	28,230	29,182
Dividend income from others	132	120
Total dividend income	28,362	29,302
Interest income		
Interest income from non-current investments from others	3	7
Interest income from current investments from Group companies	4,568	3,511
Interest income from current investments from others	291	470
Total interest income	4,862	3,989

(EUR thousand)	2012	2011
Other financial income		
Other financial income from Group companies	219	-
Total other financial income	219	-
Exchange gains		
Exchange gains from Group companies	3,016	905
Exchange gains from others	1,408	7,298
Total exchange gains	4,424	8,203
Total financial income	37,868	41,494
Write-down of non-current investments		
From holdings in subsidiaries	-3,700	-6,778
Total write-down of non-current investments	-3,700	-6,778
Financial expenses		
Interest expenses		
Interest expenses to Group companies	-436	-610
Interest expenses to others	-4,222	-7,301
Total interest expenses	-4,658	-7,911
Other financial expenses		
Other financial expenses to others	-758	-2,203
Total other financial expenses	-758	-2,203
Exchange losses		
Exchange losses to Group companies	-1,580	-1,732
Exchange losses to others	-4,194	-5,336
Total exchange losses	-5,773	-7,068
Total financial expenses	-11,189	-17,182
Total financial income and expenses	22,979	17,534
Exchange gains and losses		
Realized	-900	535
Unrealized	-449	600
Total exchange gains and losses	-1,349	1,135

9. Change in appropriations

(EUR thousand)	2012	2011
Change in depreciation difference	1,718	2,290
Total change in appropriations	1,718	2,290

10. Income taxes

(EUR thousand)	2012	2011
Income tax for current year	-7,275	-6,723
Income tax for previous years	0	35
Change in deferred taxes	167	-7
Total income taxes	-7,108	-6,696

11. Non-current assets

INTANGIBLE ASSETS

(EUR thousand)	2012	2011
Goodwill		
Acquisition cost at beginning of year	10,291	10,291
Carrying amount at year end	10,291	10,291
Accumulated amortization at beginning of year	-9,347	-8,404
Amortization during the financial year	-943	-943
Accumulated amortization at year end	-10,291	-9,347
Carrying amount at year end	0	943
Other capitalized expenditure		
Acquisition cost at beginning of year	9,040	8,683
Increase	610	357
Acquisition cost at year end	9,650	9,040
Accumulated amortization at beginning of year	-6,448	-5,401
Amortization during the financial year	-1,083	-1,047
Accumulated amortization at year end	-7,531	-6,448
Carrying amount at year end	2,119	2,592
Advance payments and assets under construction		
Acquisition cost at beginning of year	1,029	257
Change during the year	1,123	773
Carrying amount at year end	2,153	1,029
Total intangible assets	4,271	4,565

TANGIBLE ASSETS

(EUR thousand)	2012	2011
Land and water		
Acquisition cost at beginning of year	2,020	2,020
Transfers	-31	-
Carrying amount at year end	1,990	2,020
Buildings and constructions		
Acquisition cost at beginning of year	34,492	34,225
Increase	637	267
Decrease	-48	-
Acquisition cost at year end	35,081	34,492
Accumulated depreciation at beginning of year	-26,713	-24,942
Accumulated depreciation related to decrease	36	-
Depreciation during the financial year	-1,637	-1,771
Accumulated depreciation at year end	-28,314	-26,713
Carrying amount at year end	6,766	7,779

(EUR thousand)	2012	2011
Machinery and equipment		
Acquisition cost at beginning of year	53,466	52,511
Increase	3,879	955
Decrease	-1,458	-
Transfers	31	-
Acquisition cost at year end	55,918	53,466
Accumulated depreciation at beginning of year	-40,324	-37,816
Accumulated depreciation related to decrease	1,344	-
Depreciation during the financial year	-2,567	-2,508
Accumulated depreciation at year end	-41,547	-40,324
Carrying amount at year end	14,371	13,143

The carrying amount of production machinery and equipment was EUR 13,262 thousand (EUR 9,199 thousand).

(EUR thousand)	2012	2011
Other tangible assets		
Acquisition cost at beginning of year	1,094	1,094
Acquisition cost at year end	1,094	1,094
Accumulated depreciation at beginning of year	-884	-858
Depreciation during the financial year	-24	-26
Accumulated depreciation at year end	-909	-884
Carrying amount at year end	185	209
Advance payments and assets under construction		
Acquisition cost at beginning of year	1,720	165
Change during the year	-1,467	1,554
Carrying amount at year end	253	1,720
Total tangible assets	23,565	24,871

INVESTMENTS

(EUR thousand)	2012	2011
Holdings in Group companies		
Acquisition cost at beginning of year	181,698	183,898
Increase	-	4,581
Write-down	-3,700	-6,778
Decrease	-2,164	-3
Carrying amount at year end	175,834	181,698
Other shares and holdings		
Acquisition cost at beginning of year	652	642
Increase	-	10
Decrease	-1	-
Carrying amount at year end	651	652
Total investments	176,484	182,349

12. Inventories

(EUR thousand)	2012	2011
Materials and supplies	9,196	10,262
Work in progress	334	282
Finished goods	15,246	21,120
Advance payments	-	0
Total inventories	24,776	31,665

13. Receivables

(EUR thousand)	2012	2011
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	29,072	24,230
Loan receivables from others	3,341	115
Total non-current interest-bearing receivables	32,413	24,346
Non-current interest-free receivables		
Loan receivables from Group companies	-	602
Total non-current interest-free receivables	-	602
Deferred tax assets	231	64
Total non-current receivables	32,644	25,012
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	2,155	1,160
Current interest-bearing receivables from Group companies	22,888	30,031
Total current interest-bearing receivables	25,043	31,192
Current interest-free receivables		
Loan receivables from others	615	60
Other current receivables from others	24	26
Trade receivables		
Trade receivables from Group companies	11,784	12,254
Trade receivables from others	8,439	8,741
Total trade receivables	20,223	20,995
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	1,759	1,240
Deferred expenses and accrued income from others	4,206	3,555
Total deferred expenses and accrued income	5,965	4,795
Total current interest-free receivables	26,827	25,876
Total current receivables	51,870	57,068
Total receivables	84,514	82,080

(EUR thousand)	2012	2011
Deferred expenses and accrued income		
Interest income	485	207
Derivatives	428	1,276
Insurances	52	75
Personnel related	1,089	-
Purchases	2,089	1,427
IT services	1,032	782
Others	789	1,029
Total deferred expenses and accrued income	5,965	4,795

14. Equity

(EUR thousand)	2012	2011
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	80,027	71,079
Dividends	-32,199	-30,876
Retained earnings at December 31	47,828	40,204
Net profit for the period	43,306	39,823
Retained earnings and net profit for the period at December 31	91,133	80,027
Total unrestricted equity	131,133	120,027
Total equity at December 31	166,133	155,027
Distributable funds at December 31		
Reserve for invested unrestricted equity	40,000	40,000
Retained earnings	47,828	40,204
Net profit for the financial year	43,306	39,823
Distributable funds	131,133	120,027

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

15. Appropriations

(EUR thousand)	2012	2011
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and structures	-2,734	-1,878
Machinery and equipment	7,361	7,560
Other tangible assets	68	92
Other capitalized expenditure	967	1,606
Intangible rights	5	5
Total accumulated depreciation difference	5,667	7,385

(EUR thousand)	2012	2011
Change in depreciation difference		
Depreciation difference at January 1	7,385	9,675
Change in depreciation difference in income statement	-1,718	-2,290
Depreciation difference at December 31	5,667	7,385

16. Provisions

(EUR thousand)	2012	2011
Other provisions	607	182

17. Liabilities

(EUR thousand)	2012	2011
Non-current liabilities		
Loans from financial institutions	60,000	60,000
Other non-current liabilities to group companies	0	0
Total non-current liabilities	60,000	60,000
Maturity of non-current liabilities		
Maturity		
2014 (2013)	-	-
2015 (2014)	-	-
2016 (2015)	60,000	-
2017 (2016)	-	60,000
2018 (2017)	-	-
Total non-current liabilities	60,000	60,000

The company has no debentures or other bond loans.

(EUR thousand)	2012	2011
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	22,751	22,719
Other interest-bearing liabilities to others	33,301	46,993
Total other interest-bearing liabilities	56,052	69,712
Total current interest-bearing liabilities	56,052	69,712

Other interest-bearing current liabilities include deposit made in personnel services office in total of EUR 6.0 million in 2011. Personnel services office of Tikurila Oyj was closed down at the beginning of year 2012 and therefore there are none of the deposits left in the end of year 2012.

(EUR thousand)	2012	2011
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	734	788
Trade payables to others	13,248	13,575
Total trade payables	13,982	14,363
Accrued expenses and deferred income		
to Group companies	8	36
to others	19,864	21,062
Total accrued expenses and deferred income	19,872	21,097
Other interest-free liabilities to others	-	1,150
Total current interest-free liabilities	33,854	36,610
Total current liabilities	89,906	106,322
Accrued expenses and deferred income		
Personnel expenses	9,566	9,907
Related to sales	7,536	7,352
Interest	369	506
Income taxes	859	1,732
Derivatives	592	925
Other	950	676
Total accrued expenses and deferred income	19,872	21,097

18. Contingent liabilities

(EUR thousand)	2012	2011
Lease liabilities		
Maturity within one year	1,180	1,170
Maturity later than one year	1,520	1,669
Total lease liabilities	2,699	2,839
Other contingent liabilities		
Material contractual commitment for acquisition of PPE	570	888
Guarantees		
On own behalf	107	-
On behalf of Group companies	23,851	21,981
Total guarantees	23,958	21,981

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 4.2 million.

19. Derivative instruments

(EUR thousand)	2012		2011	
	Nominal value	Fair value	Nominal value	Fair value
Currency derivatives				
Currency forwards	47,919	-206	96,237	351

SHARES AND SHAREHOLDERS

SHARES AND SHARE CAPITAL

At the end of 2012, 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 2012, Tikkurila held no treasury shares.

BOARD AUTHORIZATIONS

On March 28, 2012, the Annual General Meeting authorized the Board of Directors of Tikkurila to decide on the repurchase of the company's own shares and the share issue.

AUTHORIZATION TO REPURCHASE THE COMPANY'S OWN SHARES

The Annual General Meeting authorized the Board of Directors to decide upon the repurchase of a maximum of 4,400,000 company's own shares with assets pertaining to the company's unrestricted equity in one or more tranches. The proposed maximum amount of the authorization corresponds to approximately 10 percent of all the shares in the company.

The company's own shares may be repurchased through public trading, due to which the repurchase will take place in directed manner, i.e. not in proportion to the shareholdings of the shareholders. The shares will be repurchased in public trading on the NASDAQ OMX Helsinki Ltd at the market price quoted at the time of the repurchase. The shares will be repurchased and paid in accordance with the rules of NASDAQ OMX Helsinki Ltd and Euroclear Finland Ltd.

The consideration payable for the repurchase of the shares shall be based on the market price of the company's share in public trading. The minimum consideration of the repurchase of the company's own shares is the lowest market price of the share quoted in public trading during the authorization period and, correspondingly, the maximum price is the highest market price of the share quoted in public trading during the authorization period.

The shares may be repurchased to be used for financing or implementing possible mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the company. For the aforementioned purposes, the company may retain, transfer further or cancel the shares. The Board of Directors will decide upon other terms related to repurchase of shares.

The repurchase authorization is valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2013. As of December 31, 2012, the Board of Directors had not exercised this authorization.

AUTHORIZATION TO ISSUE SHARES

GENERAL ISSUE AUTHORIZATION

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 in one or more tranches limited to a maximum of 8,800,000 shares. The proposed maximum aggregate amount of the authorization corresponds to approximately 20 percent of all the existing shares in the company.

The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment. The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or deviating from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors. Upon the issuance of the new shares, the subscription price of the new shares shall be recorded to the invested unrestricted equity reserves. In case of a transfer of the company's own shares, the price payable for the shares shall be recorded to the invested unrestricted equity reserves.

The Board of Directors would decide upon other terms related to share issues. The authorization is valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2013. As of December 31, 2012, the Board of Directors had not exercised this authorization.

AUTHORIZATION TO DECIDE ON THE SHARE ISSUE RELATED TO THE IMPLEMENTATION OF THE SHARE-BASED COMMITMENT AND INCENTIVE PROGRAM

The Board of Directors proposes that the Annual General Meeting authorize the Board of Directors to decide to transfer Company's own shares held by the company or to issue new shares in one or more tranches limited to a maximum of 440,000 shares, deviating from the shareholders' pre-emptive subscription right, to the Company's key persons as part of the share-based commitment and incentive program released on February 16, 2012. The proposed maximum aggregate amount of the authorization corresponds to approximately one percent of all the existing shares in the company.

The company's own shares held by the company may be transferred and the new shares may be issued without payment to the key persons who have purchased the company's shares in accordance with the terms of the share-based commitment and incentive program decided by the Board of Directors and released by the company

on February 16, 2012. The implementation of the share-based commitment and incentive program constitutes a weighty financial reason for the company to deviate from the shareholders' pre-emptive subscription right.

The Board of Directors would decide upon other terms related to share issues. The authorization would be valid for five (5) years from the decision. As of December 31, 2012, the Board of Directors had not exercised this authorization.

MARKET CAPITALIZATION AND TRADING

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

At the end of 2012, the closing price of Tikkurila's share was EUR 14.72. In January–December, the volume-weighted average share price was EUR 14.13, the highest price EUR 15.45, and the lowest EUR 12.89. At the end of December, the market value of Tikkurila Oyj's shares was EUR 649.3 million. During January–December, a total of 11.8 million Tikkurila shares, corresponding to approximately 27 percent of the number of registered shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 166.8 million.

HOLDINGS OF TIKKURILA'S BOARD OF DIRECTORS AND MANAGEMENT BOARD

Tikkurila Board members and their interest parties held altogether 86,020 shares on December 31, 2012, which is about 0.2 percent of the share capital and votes in Tikkurila. Furthermore, Jari Paasikivi, the Chairman of the Tikkurila Board, acts as the President and CEO in Oras Invest Oy, which is the largest single shareholder in Tikkurila.

Tikkurila Management Board members and their interest parties held altogether 30,025 shares on December 31, 2012, which is about 0.1 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at

www.tikkurilagroup.com/fi/corporate_governance/.

INCENTIVE PLANS

In order to commit and motivate key personnel, the Board of Directors of Tikkurila Oyj decided on a new share-based plan in February 2012.

The new share-based plan includes three performance periods: financial years 2012–2014, 2013–2015 and 2014–2016. The Board of Directors of the company will decide on the performance criteria of the plan and their targets at the beginning of each performance period. The prerequisite for the participation in the plan and the receipt of reward provides that a key employee purchases Tikkurila's shares from the market in accordance with the terms and conditions of the plan.

The potential reward from the performance period 2012–2014 is based on the Tikkurila Group's Operative Earnings Before Interest, Taxes, Depre-

ciation and Amortization (EBITDA) and Net Debt. Furthermore, a key employee will have a possibility to earn a reward, which is tied to the validity of employment or service relationship. The amount of rewards depends on the number of purchased shares and the fulfillment of the performance criteria. Rewards will be paid in 2015 partly in the company's shares and partly in cash. No reward will be paid if a key employee's employment or service contract terminates before the reward payment.

The target group of the share-based plan consists of 10 key employees. The rewards to be paid on the basis of the performance period 2012–2014 correspond to the value of a maximum total of approximately 220,000 Tikkurila Oyj shares (including also the proportion to be paid in cash).

DIVIDEND POLICY

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

The Board of Directors proposes to the Annual General Meeting to be held on April 10, 2013, that a dividend of EUR 0.76 per share will be distributed for the year ended on December 31, 2012. The proposed dividend corresponds to approximately 72 percent of operative net income.

SHAREHOLDERS

According to Euroclear Finland Oy's register, Tikkurila had a total of 22,706 shareholders on De-

ember 31, 2012, the largest single shareholder being Oras Invest Oy with 18.1 percent. A list of the largest shareholders is updated regularly on Tikkurila's website at

www.tikkurilagroup.com/investors.

DISCLOSURE OF CHANGES IN HOLDINGS IN 2012

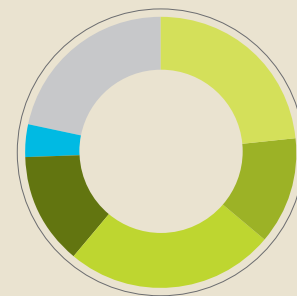
Orkla ASA announced on August 16, 2012, that its holding in shares of Tikkurila had fallen below the 1/20 (5%) threshold. After the transactions, the holding of Orkla in Tikkurila shares was 0 percent. Prior to the triggering transaction, the holding of Orkla amounted to 2,876,937 Tikkurila shares, which corresponded to 6.5 percent of the total amount of shares and votes in Tikkurila.

Prudential plc and its subsidiaries announced on August 20, 2012, that their holdings in shares of Tikkurila Oyj had exceeded the 1/20 (5%) threshold due to trades executed on August 16, 2012. The direct holding of Prudential Group's companies in Tikkurila Oyj amounted to a total of 2,248,853 shares, which corresponded to 5.10 percent of the total amount of shares and votes in Tikkurila Oyj. In addition, the indirect holding of Prudential Group's companies in Tikkurila had amounted to 9,770 shares, which corresponded to 0.02 percent of the total amount of shares and votes in Tikkurila Oyj.

Prudential plc announced on August 29, 2012, that its and its subsidiaries' (M&G Investment Management Limited, M&G Group Limited, M&G Limited) holdings in shares of Tikkurila Oyj had fallen below the 1/20 (5%) threshold due to

trades executed on August 24, 2012. After these transactions the holding of Prudential plc and its subsidiaries in Tikkurila Oyj amounted to a total of 2,168,414 shares, which corresponded to 4.92 percent of the total amount of shares in Tikkurila Oyj. According to the announcement, the voting rights of Prudential plc and its subsidiaries totaled 1,995,280 votes, which corresponded to 4.52 percent of the total amount of votes in Tikkurila Oyj.

Breakdown by shareholder category on December 31, 2012



23.6%	Private companies
12.6%	Financial and insurance institutions
25.1%	Public sector organizations
13.4%	Households
3.9%	Non-profit organizations
21.5%	Foreigners and Nominee registered

Tikkurila's largest shareholders on December 31, 2012

	Number of shares	% of share capital
1 Oras Invest Oy	7,969,552	18.1
2 Ilmarinen Mutual Pension Insurance Company	4,619,940	10.5
3 Varma Mutual Pension Insurance Company	3,796,459	8.6
4 Mandatum Life Insurance Company Ltd.	2,100,000	4.8
5 Tapiola Mutual Pension Insurance Company	1,798,906	4.1
6 Kaleva Mutual Insurance Company	700,000	1.6
7 The State Pension Fund	557,000	1.3
8 Fondita Nordic Mid Cap	530,000	1.2
9 Mariatorp Oy	400,000	0.9
10 Nordea Fennia Fund	372,977	0.9
10 largest registered shareholders total	22,471,857	50.9
Nominee registered shares	9,062,446	20.5
Other shares	12,573,949	28.5
Total	44,108,252	100.0

Breakdown of share ownership on December 31, 2012

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	11,462	50.5	532,617	1.2
101–1,000	10,001	44.1	3,140,013	7.1
1,001–10,000	1,103	4.9	2,870,448	6.5
10,001–100,000	114	0.5	3,651,605	8.3
100,001–1,000,000	19	0.1	4,755,580	10.8
over 1,000,000	7	0.0	29,157,989	66.1
Total	22,706	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 131,133,289.51 of which EUR 43,305,592.30 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.76 per share be dis-

tributed as dividend from the net profit for the year and from retained earnings. The total dividend would amount to EUR 33,522,271.52. EUR 97,611,017.99 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 14, 2013

Jari Paasikivi
Chairman of the Board

Petteri Walldén
Vice Chairman of the Board

Pia Rudengren
Member of the Board

Eeva Ahdekivi
Member of the Board

Riitta Mynttinen
Member of the Board

Aleksey Vlasov
Member of the Board

Harri Kerminen
Member of the Board

Erkki Järvinen
CEO

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF TIKKURILA OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Tikkurila Oyj for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Di-

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Vantaa, 14 February 2013

KPMG OY AB

Toni Aaltonen
Authorized Public Accountant

Contact information

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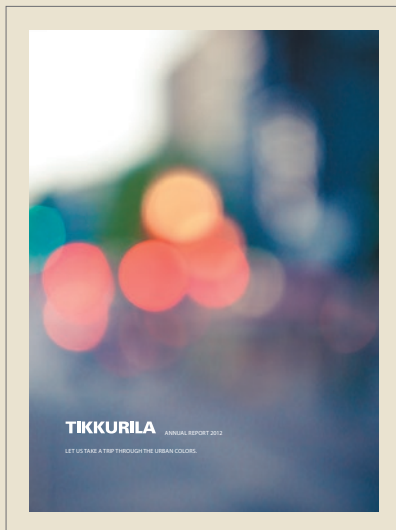
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Disclaimer: All forward looking statements on this Annual Report are based on the management's current expectations and beliefs about future events and actual results may differ from the expectations and beliefs such statements contain.



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Annual Report



Financial Statements



Web pages



Tikkurila's reporting for 2012 consists of three elements: annual report, financial statements and assured corporate responsibility report. Printed copies of the annual report and financial statements can be ordered via Tikkurila's website. The corporate responsibility report can be read online at www.tikkurilagroup.com/responsibility/

