



TIKKURILA
2013

FINANCIAL STATEMENTS

TIKKURILA GROUP FINANCIAL STATEMENTS

2013

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REVIEW OF THE BOARD OF DIRECTORS

MARKET REVIEW

Economic growth in Tikkurila's operating area was weak both in the last quarter and throughout the entire year. In Russia, the uncertain outlook and slower economic growth dampened consumption and weakened consumer confidence in the last quarter of the year. Retail grew at the end of the year, although growth was slower than in the previous year. It is forecasted that growth in consumption will start slowing down. The development of construction was also weak. It is estimated that the GDP in Russia grew by approximately 1.5 percent last year. According to Tikkurila's estimates, no major changes took place in the total market for decorative paints in Russia and Tikkurila's market share (Tikkurila's market share in 2012: approx. 17 percent).

In Sweden, consumer confidence strengthened steadily last year. Private consumption grew slightly, and growth is expected to accelerate somewhat next year, boosted by the low interest rate level and increased disposable income. Con-

struction also picked up in the last months of the year, in particular. It is estimated that the GDP in Sweden grew slightly in 2013. According to Tikkurila's estimates, the total market for decorative paints in Sweden and Tikkurila's market share remained at the previous year's level (market share in 2012: approx. 38 percent).

In Finland, increased unemployment and consumer cautiousness weakened retail sales during the year. Construction declined, which together with the reduced number of granted construction permits will decrease construction activity in the near future as well. Consumer confidence strengthened slightly during the last months of the year but is still clearly weaker than average. It is estimated that the GDP in Finland decreased slightly in 2013. According to Tikkurila's estimates, the total market for decorative paints in Finland and Tikkurila's market share remained at the previous year's level (market share in 2012: more than 50 percent).

In Poland, consumer confidence remained at a reasonably good level last year. Nevertheless, retail grew considerably less than in the previous year and construction volumes declined. According to estimates, the GDP in Poland grew by slightly more than one percent in 2013, and growth is expected to strengthen this year. Tikkurila estimates that the total market of decorative paints in Poland remained at the previous year's level or grew slightly. Tikkurila's market share was approximately 15 percent in 2013 (2012: 15 percent). Source: IBP Research 2013).

Among the key currencies, the Russian ruble weakened clearly.

The prices of raw materials were at a slightly lower level than in the comparison period. The development of the raw material prices was stable during the last quarter.

FINANCIAL PERFORMANCE IN 2013

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

January–December (EUR million)	Revenue 1–12/2013	1–12/2012	Operating profit (EBIT) excluding non-recurring items 1–12/2013	1–12/2012
SBU East	231.9	242.8	24.3	32.5
SBU Scandinavia	191.7	194.2	26.0	24.3
SBU Finland	104.0	107.9	14.3	12.6
SBU Central Eastern Europe	125.3	125.5	11.0	7.3
Group common and eliminations	0.0	0.0	-3.0	-3.0
Consolidated Group	653.0	670.4	72.6	73.7

Tikkurila Group's **revenue** decreased by 3 percent from the comparison period. Lower sales volumes declined revenue by 5 percent. Changes in the sales mix and increases in sales prices increased revenue by 5 percent. Unfavorable exchange rate development decreased revenue by 2 percent.

Operating profit (EBIT) excluding non-recurring items totaled EUR 72.6 (73.7) million, which accounts for 11.1 (11.0) percent of revenue. Relative profitability remained at comparison period level despite reduction in revenue and higher marketing investments. Profitability was support-

ed by favorable sales mix development, streamlining of operations and the development of raw material prices.

Operating profit (EBIT) totaled EUR 71.5 (66.3) million, which accounts for 10.9 (9.9) percent of revenue.

Non-recurring items in the review period were mainly associated with the implementation of the streamlining program.

The net financial expenses were EUR 4.3 (7.4) million. Profit before taxes was EUR 67.0 (59.3) million. Taxes totaled EUR 17.0 (18.6) million, equaling

an effective tax rate of 25.3 (31.4) percent. Earnings per share were EUR 1.14 (0.92) in the review period. Diluted earnings per share were EUR 1.13 (0.92).

The Group's key performance indicators and share performance indicators for the financial year 2013 as well as for 2012 and 2011 are presented in the Group's consolidated financial statements on pages 8–9.

FINANCIAL PERFORMANCE BY REPORTING SEGMENTS

SBU EAST

(EUR million)	1–12/2013	1–12/2012	Change %
Revenue	231.9	242.8	-4.5%
Operating profit (EBIT), excluding non-recurring items	24.3	32.5	-25.2%
Operating profit (EBIT) margin, excluding non-recurring items, %	10.5%	13.4%	
Operating profit (EBIT)	24.3	29.9	-18.9%
Operating profit (EBIT) margin, %	10.5%	12.3%	
Capital expenditure excl. acquisitions	6.1	5.6	9.7%

FINANCIAL PERFORMANCE IN 2013

SBU East's full-year revenue decreased by 5 percent. Lower sales volumes declined revenue by 5 percent and the weakening of the exchange rates decreased it by 5 percent. In the SBU East region, the exchange rates of all currencies used by Tikkurila (Russian ruble, Ukrainian hryvnia, Belarusian ruble, Kazakhstani tenge) weakened considerably

as of the latter half of 2013, in particular. This had a negative impact on the euro-denominated revenue and operating profit. Increases in sales prices and changes in the sales mix increased revenue by 6 percent. The favorable development of the sales mix is taking place against the backdrop of growth in the relative share of the Tikkurila brand in sales.

Operating profit, excluding non-recurring items, decreased by 25 percent and relative profitability weakened. Profitability was reduced by the decline in revenue, by the increase in fixed costs caused by higher marketing expenses and salary inflation as well as by the weakening of the ruble.

SBU SCANDINAVIA

(EUR million)	1-12/2013	1-12/2012	Change %
Revenue	191.7	194.2	-1.3%
Operating profit (EBIT), excluding non-recurring items	26.0	24.3	6.9%
Operating profit (EBIT) margin, excluding non-recurring items, %	13.5%	12.5%	
Operating profit (EBIT)	25.2	23.6	6.8%
Operating profit (EBIT) margin, %	13.2%	12.2%	
Capital expenditure excl. acquisitions	2.2	3.4	-33.8%

FINANCIAL PERFORMANCE IN 2013

SBU Scandinavia's full-year revenue decreased by one percent. Lower sales volumes decreased revenue by 5 percent. Increases in sales prices and changes in the sales mix increased revenue by 4 percent.

Operating profit excluding non-recurring items increased by 7 percent and relative profitability improved. Profitability was improved particularly by lower variable cost level and efficiency improvement measures. The specification of the operating model and the organizational restructuring

carried out in 2013 considerably improved the profitability of operations in Denmark. Fixed cost level was higher than in the comparison period particularly due to higher marketing investments.

SBU FINLAND

(EUR million)	1-12/2013	1-12/2012	Change %
Revenue	104.0	107.9	-3.6%
Operating profit (EBIT), excluding non-recurring items	14.3	12.6	13.1%
Operating profit (EBIT) margin, excluding non-recurring items, %	13.7%	11.7%	
Operating profit (EBIT)	14.6	10.6	38.0%
Operating profit (EBIT) margin, %	14.1%	9.8%	
Capital expenditure excl. acquisitions	1.8	5.3	-66.2%

FINANCIAL PERFORMANCE IN 2013

SBU Finland's full-year revenue decreased by 4 percent. Lower sales volumes decreased revenue by 5 percent. Increases in sales prices and changes

in the sales mix increased revenue by one percent.

Operating profit, excluding non-recurring items, increased by 13 percent and relative prof-

itability improved despite the decline in revenue. Profitability improved due to lower cost level, in particular.

SBU CENTRAL EASTERN EUROPE (CEE)

(EUR million)	1-12/2013	1-12/2012	Change %
Revenue	125.3	125.5	-0.2%
Operating profit (EBIT), excluding non-recurring items	11.0	7.3	51.4%
Operating profit (EBIT) margin, excluding non-recurring items, %	8.8%	5.8%	
Operating profit (EBIT)	10.4	5.4	93.3%
Operating profit (EBIT) margin, %	8.3%	4.3%	
Capital expenditure excl. acquisitions	3.0	3.9	-22.1%

FINANCIAL PERFORMANCE IN 2013

SBU Central Eastern Europe's full-year revenue was at the comparison period level. Increases in sales prices and changes in the sales mix increased revenue by 8 percent. Lower sales volumes decreased revenue by 7 percent.

Operating profit, excluding non-recurring items, increased by 51 percent and relative profitability improved clearly. Improved profitability was mainly due to the impacts of streamlining measures and cost savings. Business operations developed particularly well in Poland, the Baltic countries, and China.

CASH FLOW, FINANCING ACTIVITIES, AND FINANCIAL RISK MANAGEMENT

Tikkurila's financial position and liquidity remained at a good level during the review period. Due to strong cash flow, gearing was at a record low level at the end of financial year 2013.

Cash flow from operations in January–December totaled EUR 79.2 (65.8) million. Net working capital totaled EUR 81.1 (90.5) million at the end of the review period. The lower level of net working capital was on one hand caused by the lower sales volumes and revenue, and on the other hand by the effects of efficiency boosting measures carried out by the Group. Furthermore, the

changes in foreign exchange rates had an impact on the euro values of the balance sheet items at the end of the year. The net cash flow from the investing activities was EUR -12.3 (-15.5) million, when taking into account the acquisitions and divestments. Cash flow after capital expenditure totaled EUR 66.9 (50.3) million during the review period. The increase in cash flow was based on lower investments than those of the comparison period, as well as on the timing of the income tax payments.

Interest-bearing debt amounted to EUR 77.8 (96.6) million at the end of the review period, and net debt was EUR 48.6 (80.8) million. At the end

of the review period, cash and cash equivalents amounted to EUR 29.2 (15.7) million, and short-term interest-bearing debt totaled EUR 17.5 (35.9) million, including the company's issued commercial papers for a total nominal amount of EUR 15.0 (35.5) million. Moreover, the Group had long-term interest-bearing debt totaling EUR 60.3 (60.6) million. At the end of December, the Group had a total of EUR 155.9 (156.0) million of unused committed credit facilities or credit limits.

In September, the company utilized the option to extend the loan period related to the revolving credit facility of a total of EUR 120 million, signed in the fall of 2011, and agreed on a one-year extension to the loan period. The change agreement signed with banks extended the maturity of the EUR 120 million revolving credit facility to September 2015.

The Group's net financial expenses were EUR 4.3 (7.4) million, and interest and other financing expenses totaled EUR 2.1 (4.7) million. The net financial expenses were clearly lower than in the comparison period due to lower market interest rates, the change in the structure of short-term debt with commercial papers having a larger role, and also due to the lower average balance of interest-bearing debt. The average capital-weighted interest rate of interest-bearing debt was 1.5 (2.1) percent. The net profit was negatively affected by a total of EUR 2.3 (2.8) million based on the impact of realized and unrealized exchange rate differences recognized. Changes in exchange rates also had an impact on the equity on Group's balance sheet via translation differences, especially due to the depreciation of the Russian ruble.

At the end of December, the equity ratio was 50.1 (45.9) percent, and gearing was 23.4 (40.6) percent.

At the end of the review period, the nominal value of open foreign exchange rate forward agreements was EUR 71.6 (47.9) million and the corresponding market value was EUR 0.1 (-0.2) million. On December 31, 2013, 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 39 percent.

Since the Group has intra-year seasonality in its business, with highest operational activity taking place during the summer months, the year-end situation does not typically represent the average situation during the year.

CAPITAL EXPENDITURE

In 2013, the gross capital expenditure excluding acquisitions amounted to EUR 13.2 (18.1) 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 implementation of IT applications and tinting machines in different locations of the Group, filling automation in Russia, replacement of labeling machines in Sweden, implementation of plastic cans 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 2014 capital expenditure level will be close to the annual depreciation and amortization level.

The Group's depreciation, amortization and impairment losses amounted to EUR 22.3 (25.1) million in 2013. The Group performs impairment tests in accordance with the IAS 36 standard.

SALES AND MARKETING

In 2013, the Tikkurila Group's sales and marketing expenses, including personnel expenses, totaled EUR 90.9 (88.7) million, corresponding to 13.9 (13.2) percent of revenue.

Tikkurila continued to actively market its products and services to consumers and professionals. Tikkurila has four strategic brands – Tikkurila, Alcro, Vivacolor, and Teks – and several local brands. 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 Group's different paint brands have been awarded several official and local eco-labels and product-specific classifications. In 2013, several products of the Group's different brands were granted new eco-labels and asthma and allergy labels.

Other significant events in 2013 included, for example, the following: the first stores aimed at consumers and professionals opened in St. Petersburg in Russia; a quality paint association was established in Russia to promote the quality, safety and environmental standards for paints; implementation of the Tikkurila brand store concept, developed in Finland, in dozens of stores in Finland, Poland and China; development of digital business operations; launching the renewed Teks brand in Russia; launching the renewed Vivacolor brand in the Baltic countries; technical overhaul of product packaging in Finland and the Baltic countries; and developing service concepts in Russia, among others.

In 2013, Tikkurila launched dozens of new products for the needs of consumers and professionals. With the help of the services offered in stores and on websites, Tikkurila inspires people to paint and creates trends for painting. With painting ideas, working instructions and other paints and painting related guidelines, Tikkurila helps its customers to choose the right product and gives advice on the safe use of product, cleaning of tools and disposal and recycling of painting waste.

RESEARCH AND DEVELOPMENT

In 2013, Tikkurila's research and development expenses totaled EUR 10.5 (2012: EUR 10.7 and 2011: EUR 9.9) million or 1.6 (2012: 1.6 and 2011: 1.5) percent of revenue. At the end of 2013, the unit employed 162 (164) 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 2013, R&D function focused on product launches, product safety issues, sustainability of products, harmonization of the raw material portfolio, and cost savings. The year 2013 was the first full year of operation for Tikkurila's innovation team which was established to accelerate the development of products, services and concepts based on consumer needs and wishes. During the year, the team concentrated on promoting a culture of innovations, intensifying cooperation between different functions, anticipating trends more systematically as well as developing functional coatings. Other important events last year included the renewal of Tikkurila brand's decorative paint series for professionals as well as the launch of new functional paints in the Alcro brand in Sweden, new professional products in the Teks brand in Russia, and new tintable interior paints in the Tikkurila Optiva brand with the EU eco-label in Poland. In addition, Tikkurila introduced to the market supplementary products, such as washing tablets for mold removal.

CORPORATE RESPONSIBILITY

Tikkurila provides its customers with sustainable beauty – high-quality, user-friendly and environmentally sustainable products for surface protection and decoration. Tikkurila develops and produces high-quality and eco-efficient solutions, helps its customers make sustainable choices, and takes care of the environment it operates in. Tikkurila is a safe and reliable employer that promotes innovativeness and openness in all of its operations.

Tikkurila's annual Corporate Responsibility report is a part of the Annual Report, and it is published in Finnish and English in the Responsibility section on the company's website. Since 2010, Tikkurila has applied the international G3 guidelines issued by the Global Reporting Initiative (GRI) in its sustainability reporting.

ENVIRONMENT

Customer interest in environmentally sound products has increased due to the increased environmental awareness, positive attitude towards the environment as well as legislative changes concerning the composition and safety of paints.

Tikkurila takes the environment into consideration in all its operations. When developing and producing products, the environmental and other sustainability issues of the entire life-cycle, ranging from raw materials to finished products and product disposal, will be taken into consideration. The goal is to minimize the environmental impact of the operations and to develop products which provide longer maintenance painting intervals, burden the environment as little as possible, and are safe to use. Paints are awarded with various eco-labels and classifications with the aim to increase knowledge of their environmental impacts and product characteristics, to help and guide consumers in their purchasing decisions, as well as to make consumption habits more environmentally sound. The eco-labels and classifications awarded to paints indicate the environmental impacts of products as well as their proven safety characteristics.

A high-quality paint selected correctly can have a crucial effect on prolonging the life of the product or structure and reducing the burden on the environment.

Tikkurila has been investing in developing and promoting the use of water-borne products for decades. An increasing number of paints are water-borne or contain fewer solvents, i.e. are high solids products. In 2013, the share of water-borne products of production was 71.6 (2012: 71.4) percent.

One of the most significant changes in legislation in the EU region is the REACH regulation, which is European Union's directive on the registration, evaluation, authorizations and restriction of chemicals. REACH obligates manufacturers and importers of chemicals to assess the risks related to the use of the product and to provide end-users with the 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 specified in REACH.

The CLP directive (Classification, Labeling and Packaging) harmonizes the classification criteria

of substances and compounds and the rules governing labeling and packaging. The warning texts on paint product labels should be replaced by June 2015. In 2013, Tikkurila started the preparation of new labels and safety data sheets in compliance with the CLP directive.

The VOC directives define the maximum volume of VOC emissions in production and the maximum allowed amount of volatile compounds contained in paints. The purpose of the directives is to prevent or reduce the direct or indirect impact of volatile organic compound (VOC) emissions on the environment or people. The biocide directive governs the use of preservatives in paints. The directive became effective on September 1, 2013.

In 2013, Tikkurila invested EUR 0.3 (0.3) million into environmental protection in its units, and environmental operating costs totaled EUR 1.9 (2.1) million.

Tikkurila's objective is to create independently audited and certified quality, environmental, and safety management systems for each of Tikkurila's production sites. Tikkurila's operations and operational systems are assessed in various reviews. In

addition to external audits carried out by certification institutions, the Group HSE function performs regular internal audits at the units, aiming to promote the development of the environmental, occupational health and safety management operations.

In 2013, the internal audits were performed by the HSE function at Tikkurila sites in Russia, Poland, Estonia, Sweden and Serbia. The audits indicated strong commitment to personnel well-being, development of safety and environmental matters and training as well as improvements related to ventilation and chemical and fire safety, among other things.

PERSONNEL

At the end of 2013, Tikkurila Group employed 3,133 (3,223) people. The average number of employees in 2013 was 3,262 (3,422).

Tikkurila Group's number of employees at the end of each quarter is presented below split by SBU, starting from the first quarter of 2012.

	Q1/2012	Q2/2012	Q3/2012	Q4/2012	Q1/2013	Q2/2013	Q3/2013	Q4/2013
SBU East	1,522	1,534	1,500	1,437	1,420	1,447	1,434	1,366
SBU Scandinavia	410	444	412	404	398	441	401	398
SBU Finland	624	685	562	558	562	643	567	562
SBU CEE	848	853	845	788	820	839	820	776
Group functions	34	36	36	36	31	30	31	31
Total	3,438	3,552	3,355	3,223	3,231	3,400	3,253	3,133

The company's own production has a significant effect on Tikkurila's personnel structure and amount. Approximately half of Tikkurila's personnel work in the supply chain (production, sourcing, logistics and HSEQ) and one-third in sales, marketing and technical support. The share of temporary employments at the end of 2013 was 7.8 (5.6) percent and 38.9 (39.9) percent were blue-collar workers. 62.5 (63.6) percent of the personnel were men and 37.5 (36.4) percent women. The average age of the employees was 39.9 (39.9) years.

Performance-based salaries and compensation paid in 2013 totaled EUR 82.7 (2012: 88.0) million.

Tikkurila's personnel survey, Tikkurila Beat, is an important leadership and development tool that measures personnel's opinions regarding competence, working prerequisites and motivation. In the 2013 personnel survey, 83.9 (86.3) percent of Tikkurila employees gave their feedback on our company, management, their own work, and the operations of their own teams. Tikkurila Group's overall index was 426 (2012: 399), while the comparable average weighed by the number of personnel in Tikkurila's operating countries was 371. The group-level results improved in all areas measured in the survey. During 2013, our management has actively worked for enhancing more open and transparent operations.

Tikkurila monitors the safety of the operations using the LTA1 accident frequency rating which indicates the number of accidents that cause

absences lasting at least one day per one million working hours. The aim is to continuously reduce the number of lost time accidents. In 2013, the number of lost time accidents was 3.9 (2012: 3.9) accidents per one million working hours. The number of lost working days related to accidents was 19.5 (11.5) per accident.

SHARES AND SHAREHOLDERS

At the end of 2013, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of 2013, Tikkurila held no treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had a total of some 21,000 shareholders on December 31, 2013. 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 19.90. In January–December, the volume-weighted average share price was EUR 17.12, the highest price EUR 20.90, and the lowest EUR 14.77. At the end of December, the market value of Tikkurila Oyj's shares was EUR 877.8 million. During January–December, a total of 12.4 million Tikkurila shares, corresponding to approximately 28 percent of the number of registered shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 212.0 million. Tikkurila's shares are traded also

outside of NASDAQ OMX Helsinki, but the company does not have detailed statistics available on this external trading.

Tikkurila Board members and their interest parties held altogether 92,275 shares on December 31, 2013, 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, 2013, 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

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Threadneedle Investments on October 4, 2013. According to the notification, the holding of Ameriprise Financial Inc's holding companies (Columbia Wanger Asset Management LLC, Columbia Management Investment Advisers LLC and Threadneedle Asset Management Holdings Limited) in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due

to trades executed on October 3, 2013. The holding of the above mentioned companies in Tikkurila Oyj has amounted to a total of 2,215,512 shares, which corresponds to 5.02 percent of the total amount of shares and votes in Tikkurila Oyj.

After the review period on January 8, 2014, Tikkurila Oyj received a notification, based on the Securities Markets Act, from Ilmarinen Mutual Pension Insurance Company. According to the notification, the holding of Ilmarinen Mutual Pension Insurance Company in shares of Tikkurila Oyj fell below the 1/10 (10%) threshold due to trades made on January 8, 2014. After these transactions the holding of Ilmarinen Mutual Pension Insurance Company in Tikkurila Oyj amounts to a total of 4,312,079 shares, which corresponds to 9.78 percent of the total amount of shares and voting rights in Tikkurila Oyj.

After the review period on February 5, 2014, Tikkurila Oyj received a notification, based on the Securities Markets Act, from FMR LLC. The holding of the entities controlled by FMR LLC in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades executed on February 4, 2014. The holding of the above mentioned entities in Tikkurila Oyj has amounted to a total of 3,414,085 shares, which corresponds to 7.74 percent of the total amount of shares, and to a total of 3,365,085 voting rights, which corresponds to 7.63 percent of the total amount of voting rights.

CORPORATE GOVERNANCE STATEMENT

Tikkurila will prepare a separate Corporate Governance Statement which follows the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers some other central areas of corporate governance. The statement will be included in Tikkurila's Annual Report, but it will be published separately from the Review of the Board of Directors. The statement will also be available on week 10 at www.tikkurilagroup.com/investors.

DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of Tikkurila Oyj held on April 10, 2013, approved the Financial Statements for 2012 and decided to discharge the members of the Board of Directors and the President and CEO from liability. The Annual General Meeting approved a EUR 0.76 dividend per share for the financial year 2012. The rest will be retained and carried further in the company's unrestricted equity. The dividend will be paid to a shareholder who is registered in the company's shareholder register maintained by Euroclear Finland Ltd on the dividend record date, April 15, 2013. The dividend was paid on April 24, 2013.

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

The Annual General Meeting decided that the remuneration to the members of the Board of Directors will stay at the previous level. The annual remuneration to the members of the Board of Di-

rectors will be 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. Approximately 40 percent of the annual remuneration will be paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares will be acquired directly on behalf of the Board members within two weeks from the release of the interim report for January 1–March 31, 2013. Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) will be paid to the members of the Board of Directors as follows: EUR 600 for meetings held in the home state of a member and EUR 1,200 for meetings held outside the home state of a member. The remuneration paid for telephone or video meetings shall be EUR 600. Travel expenses will be paid according to the travel policy of the company.

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

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, 2014.

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, 2014.

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. Jari Paasikivi was elected as Chairman and Harri Kerminen and Petteri Walldén as members of the Remuneration Committee.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

Tikkurila Oyj's retained earnings totaled EUR 100.3 million on December 31, 2013. The Board proposes to the Annual General Meeting that a dividend of EUR 0.80 per share will be distributed for the year ended on December 31, 2013, and that the rest be retained in the unrestricted equity. The proposed dividend totals about EUR 35.3 million, which corresponds to approximately 70.5 percent of the Group's net profit for 2013. It is proposed that the record date for the payment of the dividend will be March 28, 2014, and that the dividend will be paid on April 9, 2014.

ANNUAL GENERAL MEETING 2014

The Annual General Meeting of Tikkurila Oyj will be held at 1:00 p.m. on Tuesday, March 25, 2014 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 has risks of various character, such as strategic risks, operational risks, financial risks and hazard risks. Risks are assessed and managed according to the type and characteristics of each risk. In Tikkurila's view the main risks are among strategic and operational risks, but all categories present risks that may have significant impact on Tikkurila's business.

Tikkurila's risk management principles can be viewed on Tikkurila's website at www.tikkurilagroup.com. Additional information on the short- and long-term risks of Tikkurila's business operations will be published in the Corporate Governance Statement. More information on financial risks will be provided in the Notes to the 2013 Consolidated Financial Statements.

NEAR-TERM RISKS AND UNCERTAINTIES

The company anticipates the following to be central risks and uncertainties on the date of publishing this Review of the Board of Directors:

OVERALL MACROECONOMIC SITUATION

Economic growth in the euro region was near zero in 2013. It is estimated that in 2014, the economy in Europe will recover gradually, unemployment will slowly decrease, and private consumption will strengthen slightly. In Russia, private consumption is expected to grow at the same annual rate

of 3–4 percent as in recent years, supported by the increased salary level and low unemployment rate. Because the general economic development will impact factors influencing the demand for Tikkurila's products and services, such as the activity of new construction and renovation, the weaker than forecasted economic development or the weakening of consumer confidence may result in reduced demand for Tikkurila's products. This would have a negative impact on the Group's business operations, financial position, and financial performance.

EXCHANGE RATE DEVELOPMENT

Due to the international nature of Tikkurila's operations, the Group's income statement, balance sheet, and cash flow are subject to currency risks. The most significant currency risks will target the Russian ruble, Swedish krona and Polish zloty, which are the reporting currencies of Tikkurila's largest subsidiaries. In 2013, the Russian ruble weakened considerably compared to euro and the same trend continued at the beginning of 2014. If the strong weakening of the ruble continued further it would hinder the achievement of the estimated revenue and operating profit for 2014. Furthermore, the company's equity will be subject to currency risks when the subsidiaries' foreign currency-denominated equity items are converted to euro. Tikkurila hedges against currency risks with forward exchange agreements, among others.

CHANGES IN LEGISLATION OR OTHER REGULATIONS

Several laws and regulations have a significant impact on Tikkurila's business operations. Increased regulation has been a general trend in recent years. Since Tikkurila operates in several countries both within the European Union and elsewhere, legislation and other regulations vary by area. Increased regulation and related changes often increase Tikkurila's costs, cause changes in business processes, impact the raw materials that the company can use in the manufacturing of its products, or require external audits or inspections. Furthermore, it is also possible that the properties of the company's products change due to changing regulations. Because Tikkurila uses companies specializing in wholesale and retail when selling products to end customers, changes in trade regulations may adversely affect the sales, transportation or storage of the company's products or change how the company's sales is distributed over the financial year.

COMPETITIVE SITUATION AND CHANGES IN THE VALUE CHAIN AND PRODUCT DISTRIBUTION

Competition in the paint industry has intensified in Tikkurila's main markets, and the same trend is likely to continue in the near future. Tikkurila's competitors include both large multinational paint industry companies and smaller local operators. For example, it is expected that competitors will grow their production capacity in Russia in 2014. It is also possible that new operators 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 unfavorable effects on the structure of Tikkurila's sales or profitability. Possible changes in the product distribution of Tikkurila's sales may also have unfavorable effects on profitability or increase warranty risks 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.

OUTLOOK FOR 2014

The economic situation in Europe is expected to improve moderately in 2014. Considerable regional differences are forecasted between Tikkurila's different markets in private consumption and construction volumes in 2014, but overall growth is estimated to remain rather weak. The GDPs in Tikkurila's key markets, i.e. Russia, Sweden, Finland, and Poland, are expected to grow approximately two percent, on average, in 2014. Based on these estimates, no considerable change is expected in the demand for Tikkurila's products compared to last year. Cost inflation is expected to continue, and investments in sales, marketing and innovation activities are forecasted to increase the fixed cost level. Raw material prices are forecasted to remain stable.

In 2014, Tikkurila expects its revenue and EBIT in euro excluding non-recurring items to remain at 2013 level.

GROUP KEY FIGURES

KEY PERFORMANCE INDICATORS (EUR thousand)

STATEMENT OF COMPREHENSIVE INCOME AND PROFITABILITY

	2013	2012	2011
Revenue	652,964	670,439	643,729
Foreign operations	548,955	562,532	534,534
Operating profit	71,468	66,328	61,211
% of revenue	10.9	9.9	9.5
Share of profit or loss of equity-accounted investees	-137	316	294
Financial expenses (net)	4,289	7,380	10,832
% of revenue	0.7	1.1	1.7
Interest cover	21.9	12.4	7.7
Profit before tax	67,042	59,264	50,673
% of revenue	10.3	8.8	7.9
Net profit for the period	50,073	40,665	35,487
Return on investment (ROI), %	26.6	24.9	23.1
Return on equity (ROE), %	24.6	20.8	18.6
Return on capital employed (ROCE), %	23.5	21.0	19.4
Research and development expenses	10,483	10,742	9,926
% of revenue	1.6	1.6	1.5

CASH FLOWS

	2013	2012	2011
Cash flow from operations	79,226	65,777	37,100
Disposals of businesses, PPE* and intangible assets	1,064	710	3,317
Capital expenditure	14,763	16,827	27,530
% of revenue	2.3	2.5	4.3
Cash flow after capital expenditure	66,930	50,257	13,288
Cash flow return on investment (CFROI), %	24.2	19.8	10.5

STATEMENT OF FINANCIAL POSITION AND SOLVENCY

	2013	2012	2011
Non-current assets	210,771	230,460	228,407
Shareholders' equity (attributable to the owners of the parent)	208,083	198,909	191,500
Shareholders' equity including non-controlling interest	208,083	198,909	191,500
Liabilities	207,236	234,439	243,003
Total assets	415,319	433,348	434,503
Interest-bearing financial liabilities	77,792	96,553	109,849
Interest-bearing net liabilities	48,621	80,814	99,423
Equity ratio, %	50.1	45.9	44.1
Gearing %	23.4	40.6	51.9
Interest-bearing financial liabilities (net) / EBITDA	0.5	0.9	1.2

PERSONNEL

	2013	2012	2011
Personnel (average)	3,262	3,422	3,676
of whom in Finland	607	641	780

EXCHANGE RATES

	2013	2012	2011	
Key exchange rates (Dec 31)				
Russian Ruble	EUR/RUB	45.3246	40.3295	41.7650
Swedish Krona	EUR/SEK	8.8591	8.5820	8.9120
Polish Zloty	EUR/PLN	4.1543	4.0740	4.4580

* Property, plant and equipment

SHARE PERFORMANCE INDICATORS	2013	2012	2011
Earnings per share, EUR, basic	1.14	0.92	0.80
Earnings per share, EUR, diluted	1.13	0.92	0.80
Dividend per share, EUR ¹⁾	0.80	0.76	0.73
Dividend payout ratio, % ¹⁾	70.5	82.4	90.7
Dividend yield, % ¹⁾	4.0	5.2	5.7
Equity attributable to owners of the parent per share, EUR	4.72	4.51	4.34
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)	44,212	44,179	44,108
Number of shares at the end of period, adjusted for dilutive effect (1,000)	44,225	44,218	44,108
Equity attributable to owners of the parent, EUR thousand	208,083	198,909	191,500
Price per earnings per share (P/E) ratio	17.5	16.0	16.0
Share price, end of period, EUR	19.90	14.72	12.89
Share price, year high, EUR	20.90	15.45	16.92
Share price, year low, EUR	14.77	12.89	12.13
Share price, volume-weighted year average, EUR	17.12	14.13	15.26
Market capitalization at the end of period, EUR million	877.8	649.3	568.6

¹⁾ The dividend 2013 is the Board of Directors' proposal to Annual General Meeting on March 25, 2014.

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), %

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

* Average of January 1, and end of the year

** Average during the period

RETURN ON CAPITAL EMPLOYED (ROCE), %

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

(EUR thousand)	Note	Jan 1 - Dec 31, 2013	<i>Restated</i> Jan 1 - Dec 31, 2012
Revenue		652,964	670,439
Other operating income	7	2,708	3,266
Change in inventories of finished goods and work in progress		-1,848	-6,324
Materials and services		-323,076	-338,039
Personnel expenses	8	-109,175	-115,535
Depreciation, amortization and impairment losses	9	-22,341	-25,140
Other operating expenses	10	-127,764	-122,339
Operating profit		71,468	66,328
Financial income	12	6,050	7,637
Financial expenses	12	-10,339	-15,017
Share of profit or loss of equity-accounted investees	18	-137	316
Profit before tax		67,042	59,264
Income tax	13	-16,969	-18,599
Net profit for the period		50,073	40,665
Other comprehensive income	26		
Items that will not be reclassified to profit or loss			
Remeasurements on defined benefit plans		827	-130
Income taxes relating to items that will not be reclassified to profit or loss		-177	-173
Total items that will not be reclassified to profit or loss		650	-303
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets		249	237
Foreign currency translation differences for foreign operations		-8,555	6,082
Income taxes relating to items that may be reclassified subsequently to profit or loss		183	-68
Total items that may be reclassified subsequently to profit or loss		-8,123	6,251
Total comprehensive income for the period		42,600	46,613

(EUR thousand)	Note	Jan 1 - Dec 31, 2013	Restated Jan 1 - Dec 31, 2012
Net profit attributable to:			
Owners of the parent		50,073	40,665
Non-controlling interest		-	-
Net profit for the period		50,073	40,665
Total comprehensive income attributable to:			
Owners of the parent		42,600	46,613
Non-controlling interest		-	-
Total comprehensive income for the period		42,600	46,613
Earnings per share of the net profit attributable to owners of the parent			
Basic earnings per share (EUR)	14	1.14	0.92
Diluted earnings per share (EUR)	14	1.13	0.92

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

(EUR thousand)	Note	Dec 31, 2013	Restated Dec 31, 2012	Restated Jan 1, 2012
ASSETS				
Non-current assets				
Goodwill	16, 17	66,388	66,971	68,696
Other intangible assets	16	20,833	26,922	30,155
Property, plant and equipment	15	104,216	112,785	112,570
Equity-accounted investees	18	1,433	1,859	1,646
Available-for-sale financial assets	20	3,590	3,281	3,028
Non-current receivables	21	5,699	9,870	6,846
Deferred tax assets	25	8,612	8,772	7,264
Total non-current assets		210,771	230,460	230,205
Current assets				
Inventories	19	79,732	84,766	94,690
Interest-bearing current assets	22	617	332	63
Trade and other non-interest-bearing receivables	23	92,579	100,155	94,913
Current tax assets		2,406	1,896	957
Cash and cash equivalents	24	29,171	15,739	10,301
Non-current assets held for sale	6	43	-	4,894
Total current assets		204,548	202,888	205,818
Total assets		415,319	433,348	436,023

(EUR thousand)	Note	Dec 31, 2013	Restated Dec 31, 2012	Restated Jan 1, 2012
EQUITY AND LIABILITIES				
Equity				
Share capital	26	35,000	35,000	35,000
Other reserves	26	42	359	359
Fair value reserve	26	2,122	1,815	1,636
Reserve for invested unrestricted equity	26	40,000	40,000	40,000
Translation differences	26	-16,448	-8,018	-16,281
Retained earnings		147,367	129,753	123,992
Equity attributable to owners of the parent		208,083	198,909	184,706
Non-controlling interest		-	-	-
Total equity		208,083	198,909	184,706
Non-current liabilities				
Interest-bearing non-current liabilities	27	60,283	60,628	60,345
Other non-current liabilities	29	949	1,160	2,382
Defined benefit pension and other long-term employee benefit liabilities	30	24,704	26,432	25,153
Provisions	31	720	924	534
Deferred tax liabilities	25	8,596	11,607	10,980
Total non-current liabilities		95,252	100,751	99,394
Current liabilities				
Interest-bearing current liabilities	28	17,509	35,925	49,504
Trade and other non-interest-bearing payables	30	91,597	95,647	94,236
Provisions	31	321	171	222
Current tax liabilities		2,157	1,945	7,343
Liabilities classified as held for sale	6	400	-	618
Total current liabilities		111,984	133,688	151,923
Total equity and liabilities		415,319	433,348	436,023

CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS)

(EUR thousand)	Note	Jan 1 - Dec 31, 2013	<i>Restated</i> Jan 1 - Dec 31, 2012
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		50,073	40,665
Adjustments for:			
Non-cash transactions			
Depreciation, amortization and impairment		22,341	25,140
Employee pension benefits		-901	918
Change in provisions		-54	339
Gain on sale of PPE* and intangible assets		-684	-281
Loss on sale of PPE* and intangible assets		44	1,151
Other items		4,699	4,170
Dividend income		-121	-132
Interest expenses and other financial expenses		3,408	5,936
Interest income and other financial income		-1,258	-1,262
Share of profit or loss of equity-accounted investees		137	-316
Exchange rate differences of financing		2,260	2,839
Income tax for the period		16,969	18,599
Funds from operations before change in net working capital		96,913	97,766
Change in net working capital			
Change in inventories		2,947	5,837
Change in trade and other receivables		5,496	-7,875
Change in trade and other payables		-2,086	2,300
Change in net working capital		6,357	262
Interest and other financial expenses paid		-4,651	-6,636
Interest and other financial income received		732	755
Income tax paid		-20,125	-26,370
Total cash flow from operations		79,226	65,777
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses, net of cash acquired	5	-391	-
Acquisition of other shares		-84	-
Acquisition of property, plant and equipment		-13,018	-13,352
Acquisition of intangible assets		-1,270	-3,475
Disposal of subsidiaries and businesses, net of cash disposed of	5	363	86
Proceeds from sale of available-for-sale financial assets		495	4
Proceeds from sale of property, plant and equipment		701	621
Proceeds from sale of intangible assets		-	3
Change in non-current loan receivables, decrease (+)		533	283
Dividends received		375	310
Net cash used in investing activities		-12,296	-15,520
Cash flow before financing		66,930	50,257

* Property, plant and equipment

(EUR thousand)	Note	Jan 1 - Dec 31, 2013	Restated Jan 1 - Dec 31, 2012
CASH FLOW FROM FINANCING ACTIVITIES			
Change in non-current borrowings, increase (+)		-	-
Change in non-current borrowings, decrease (-)		-	-
Current financing, increase (+)		144,753	325,945
Current financing, decrease (-)		-162,517	-339,333
Finance lease (-)		-623	-601
Profit distribution		-33,522	-32,199
Other		-1,152	1,420
Net cash used in financing activities		-53,061	-44,768
Net change in cash and cash equivalents		13,869	5,489
Cash and cash equivalents at Jan 1	24	15,739	10,301
Effect of exchange rate fluctuations on cash held		437	387
Cash and cash equivalents transferred in assets held for sale		-	-336
Cash and cash equivalents at Dec 31	24	29,171	15,739
Net change in cash and cash equivalents		13,869	5,489

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

(EUR thousand)	Note	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Equity before restatements at Jan 1, 2012		35,000	359	1,636	40,000	-16,281	130,786	191,500	-	191,500
Effect of restatements to equity		-	-	-	-	-	-6,794	-6,794	-	-6,794
Equity at Jan 1, 2012		35,000	359	1,636	40,000	-16,281	123,992	184,706	-	184,706
Total comprehensive income for the period	26	-	-	179	-	8,263	38,171	46,613	-	46,613
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	-8,018	129,753	198,909	-	198,909
Equity at Jan 1, 2013		35,000	359	1,815	40,000	-8,018	129,753	198,909	-	198,909
Total comprehensive income for the period	26	-	-	307	-	-8,430	50,723	42,600	-	42,600
Reclassification		-	-317	-	-	-	317	-	-	-
Adjustment arising from hyperinflation		-	-	-	-	-	-316	-316	-	-316
Share-based compensation		-	-	-	-	-	412	412	-	412
Dividends paid		-	-	-	-	-	-33,522	-33,522	-	-33,522
Equity at Dec 31, 2013		35,000	42	2,122	40,000	-16,448	147,367	208,083	-	208,083

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)

(EUR thousand)

	2013	2012
Reserve for invested unrestricted equity *)	40,000	40,000
Retained earnings	57,611	47,828
Net profit for the period	42,672	43,305
Total	140,283	131,133

*) 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 2013 financial year, Tikkurila Group's revenue amounted to EUR 653.0 million and the average number of personnel was 3,262. 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 7, 2014. 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, in force as at December 31, 2013. 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, 2013, which affect the reported data or data that will be reported in the future:

- IAS 19 (revised 2011) *Employee Benefits* (effective for financial years beginning on or after January 1, 2013). Tikkurila Group applied so called corridor method for recognizing actuarial gains and losses. According to the revised IAS 19 this method approach was eliminated. Therefore the actuarial gains and losses could not be anymore deferred 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. According to the revised IAS 19 all actuarial gains and losses shall be recognized immediately in other comprehensive income in period they arise and shall not be reclassified to profit or loss in a subsequent period. The interest cost and expected return on plan assets are replaced with a net interest amount on the net defined benefit liability (asset). The net interest is recognized in profit or loss in personnel expenses. The net interest is determined by multiplying the net defined benefit liability (asset) by the discount rate. Both discount rate and net defined benefit liability (asset) are determined at the beginning of the reporting pe-

riod, taking into account of any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. The net interest comprises interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling. The item "Actuarial gains and losses" is renamed as "Remeasurements of the net defined benefit liability (asset)". This comprises actuarial gains and losses resulting from the changes in the present value of the defined benefit obligation, the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and changes in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The revised standard is applied retrospectively in accordance with IAS 8. Previously unrecognized actuarial gains and losses were recognized in opening statement of financial position as of January 1, 2012. The comparison year 2012 is restated according to the revised standard. The impact on the Group's financial statements is set out in Note 41 Change in accounting principles.

- 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 had the effect on the presentation on the Group's other comprehensive income.
- IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after January 1, 2013). The concept of control is determined in standard and control is the determining factor for decision whether the entity should be included in consolidated financial statements. According to the standard an investor controls an investee if it has power over an investee, investor is exposed, or has rights, to variable returns from its involvement with the investee and investor has ability to use its power to affect those returns. Standard sets out the additional guidance about the determination of control where it is difficult to assess. Standard replaced partly the IAS 27 *Consolidated and Separate Financial Statements* as well as the SIC

Interpretation 12 *Consolidation - Special Purpose Entities*. The adoption of this standard had not effect on the Group's financial statements.

- 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, earlier included in IAS 27, were moved to IFRS 10. This had not effect on the Group's financial statements.
- IFRS 11 *Joint Arrangements* (effective for financial years beginning on or after January 1, 2013). Standard focuses 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. Regarding the joint operation the joint operator accounts for its share of the assets, liabilities, revenue and expenses. The joint venture has to be accounted for using the equity method. Tikkurila Group is involved in one joint arrangement and has classified this according the IFRS 11 as joint venture. The joint venture, Alcro Parti AB, is accounted for using the equity method instead of proportionate consolidation. The standard is applied retrospectively in accordance with IAS 8. This impact on Group's consolidated statement of financial position, consolidated statement of comprehensive income as well as consolidated statement of cash flow is disclosed in Note 41 to the consolidated 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 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 had effect on disclosed information of equity-accounted investees as well as some minor impact of notes on subsidiaries.
- 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. Standard does not extend the use of fair value accounting but provides the guidance how to measure it when fair value is required or permitted by other IFRSs. The standard affected the Group's notes on financial instruments.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial liabilities* (effective on financial years beginning on or after January 1, 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. Resulting of this amendment the information on master netting arrangements was disclosed in notes.

- *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. These had not any significant effect on the Group's financial statements.

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective on financial years beginning on or after January 1, 2013). Interpretation had not any effect on the Group's financial statements.

IFRS 11 as well as revised IAS 19 had a significant effect on the consolidated financial statements of the Group. This impact is disclosed in Note 41.

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

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

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

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the parent company, Tikkurila Oyj and all subsidiaries which are controlled by the Group. The goodwill of business combinations, that have taken place prior to 2003, corresponds with the book value of the accounting standards previously adopted by the Group. On the closing date, December 31, 2013, the Group consisted of 21 companies including the parent company and the Group had investment in one associate and in one joint venture.

SUBSIDIARIES

The consolidated financial statements include the parent and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The power comprises the rights to direct the relevant activities. Compa-

nies acquired or established during the accounting period are fully consolidated from when the Group has gained control over the company until the date that such control ceases.

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

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

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

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

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

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

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 between 20–50 percent of the voting rights. Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and thereafter adjusted for the post-acquisition change in the Group's share of the company's net assets. The goodwill generated from the acquisition of

associates is included in the carrying amount of the investments. In financial year 2013 and 2012 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 in line "Share of profit or loss of equity-accounted investees", 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 any of these items during the financial years 2013 and 2012. 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 ARRANGEMENTS

The Group has applied standard IFRS 11 as of January 1, 2013. A joint arrangement is an arrangement in which two or more parties have joint control. Joint control is contractually agreed sharing of control according to which the decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each party. The Group is involved in one joint arrangement, which the Group has classified as a joint venture. While assessing the classification, the Group considered the structure of the arrangement, the legal form, the terms agreed by parties and other facts and circumstances.

JOINT VENTURES

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

Previously, the joint venture, Alcro Parti AB, was accounted for using proportionate consolidation method. The comparison information for financial year 2012, is restated and the impact of the change in accounting principles is disclosed in Note 41.

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 Financial Reporting in Hyperinflationary Economies, 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	
2012	1.20
2013	1.14

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 arisen. Non-monetary items are restated. This restated cost or cost less depreciations is determined by adjusting its historical cost and accumulated depreciation with the change in a general price index from the date of acquisition to the end of reporting period.

In 2013 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 2013. 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 recog-

nized in a straight-line method for the leasing period.

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

PENSION OBLIGATIONS

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

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

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

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

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

The impact of applying the revised IAS 19 are disclosed in Note 41 Changes in accounting principles.

OTHER LONG-TERM EMPLOYEE BENEFITS

Group's obligation related to long-service benefit plan is defined annually by applying the same method as used in calculation of defined benefit pension obligations. The service cost, net interest

on net defined benefit liability and remeasurements of the net defined benefit liability are recognized in personnel expenses in profit or loss.

SHARE-BASED PAYMENTS

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

Tikkurila Oyj's Board of Directors decided in February 2012 to establish a share-based commitment and incentive plan, in which had a total of ten participants selected by the Board. This plan includes three performance periods. The Board of Directors of Tikkurila Oyj will decide on the performance criteria of the plan and their targets at the beginning of each performance period. One precondition of the plan is that each participant acquires a certain amount of Tikkurila Oyj shares from the market at his/her own money and own risk.

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

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

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

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 tax charge in separate countries is calculated on the basis of the tax rate 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. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred taxes are neither accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction affects neither accounting result nor taxable profit or loss. Deferred tax assets are only recognized at estimated realizable amounts, i.e. to the extent that it is probable that taxable profit will be available in the future, against which temporary differences can be utilized. The tax 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 (substantively enacted by the end of the reporting date), are used in calculating deferred tax assets and liabilities. Deferred taxes have been recognized for undistributed earnings of foreign subsidiaries only if such distribution is probable within foreseeable future causing tax implications.

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

INTANGIBLE ASSETS

GOODWILL

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

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

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

statements using the exchange rate at the time of the acquisition.

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

RESEARCH AND DEVELOPMENT COSTS

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

The Group's development costs fulfilling the capitalization criteria will be capitalized. There have not been such development costs during the financial year 2013 nor 2012. 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 the asset is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

Borrowing costs are capitalized at the acquisition cost of the intangible asset if the asset meets the conditions of IAS 23 Borrowing Costs. In 2013, 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 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 2013, Tikkurila did not have these types of asset items.

LEASES

THE GROUP AS LESSEE

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

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

THE GROUP AS LESSOR

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

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The carrying amounts of the Group's non-current assets are reviewed at the end of each reporting period to determine whether there is any indication for impairment. If an indication 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 impair-

ment tests are always carried out for goodwill and intangible assets with indefinite useful lives, or intangible assets not yet available for use. Tikkurila has no intangible assets with indefinite useful lives.

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

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

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

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. The cost of ready purchased products consists of the purchase cost including direct transportation, processing and other costs. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct production costs and related appropriate production overheads and fixed general costs based on nor-

mal 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 (granted by the Group) 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.

More information about derivative agreements in Note 33.

LOANS AND OTHER RECEIVABLES

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

The available-for-sale financial assets in Tikkurila Group mainly 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 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 33.

OTHER FINANCIAL LIABILITIES

This category includes e.g. the Group's non-current and current interest-bearing financial liabilities and trade payables. Other financial liabilities are measured fair value based on the considera-

tion 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 2013 and 2012.

PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

RELATED PARTY TRANSACTIONS

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

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

SEGMENT REPORTING

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

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

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

GOVERNMENT GRANTS

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

OPERATING PROFIT

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

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 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective on financial years beginning on or after January 1, 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.
- 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.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (effective for financial years beginning on or after January 1, 2014). Amendment consists of applying the hedge accounting in such situations where a derivative is novated to a central counterparty. As a result of this amendment, the hedge accounting can be continued providing certain criteria are met. This is not expected to have any effect on Group's forthcoming financial statements.
- Amendments to IAS 36 *Impairment of Assets* (effective for financial years beginning on or after January 1, 2014). Amendment clarifies disclosure of information about the recoverable amount of impaired assets if the amount is based on fair value less costs of disposal. This

is not expected to have any significant effect on the Group's forthcoming financial statements.

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

- IFRS 9 Financial Instruments (mandatory effective date is currently not decided). IASB's initially three stage project to replace current standard IAS 39 Financial Instruments: Recognition and Measurement. The first stage, issued in November 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 measurement of financial liabilities remain intact excluding the financial liabilities to which the fair value option is applied. Regarding these, the changes in fair value caused by the credit risk are recognized in the Group's other comprehensive income and they would not be recognized through profit or loss at a later stage either. This is the case unless it causes bookkeeping asymmetry that affects the result. The guidance of hedge accounting included in IFRS 9, was issued in November 2013. The IFRS 9 model continues to distinguish three types of hedge accounting: cash flow hedges, fair value and net investment hedges. Guidance broadens the transactions eligible for hedge accounting especially in relation of risks of non-financial items. The requirement and definition of highly effective in accordance with current IAS 39 is replaced with the requirement of economic relationship between the hedging instrument and the hedged item. According to guidance the hedge ratio should reflect the actual quantity of hedging instrument in line with risk management practices in a company. The second phase of IFRS 9, comprises the impairment of financial assets is still in process. In addition, the macro hedge accounting was

separated as an own project. The impact of the standard on Group's forthcoming financial statements is being assessed.

- IFRIC 21 *Levies* (effective for financial years beginning on or after January 1, 2014). Accounting for an obligation to pay a levy is covered in this interpretation. The interpretation addresses what the obligation event is and when should a liability be recognized. This is not expected to have any significant effect on the Group's forthcoming financial statements.
- Amendments to IAS 19 *Employee benefits - Defined Benefit Plans: Employee Contributions* (effective for financial years beginning on or after July 1, 2014). Amendment permits the contributions from employees or third parties that are independent of the number of years of service, to be recognized as reduction of the service cost in the period in which the service is rendered, instead of allocating the contributions to periods of service. If the amount of contributions depends on the number of years of service, then contributions are required to be attributed to periods of service using the plan's contribution formula or a straight-line basis. This is not expected to have any significant effect on the Group's forthcoming financial statements.
- *Annual Improvements to IFRSs 2010-2012*, December 2013 (effective for financial years beginning on or after July 1, 2014). The annual improvements include amendments to seven standards. This is not expected to have any significant impact on the Group's forthcoming financial statements.
- *Annual Improvements to IFRSs 2011-2013*, December 2013 (effective for financial years beginning on or after July 1, 2014). The annual improvements include amendments to four standards. This is not expected to have any significant impact on the 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 contingent assets and liabilities presented in the notes. Revisions to accounting estimates and assumptions are recognized in the period in which the estimates and assumptions are revised and in all subsequent periods.

The estimates made in context of the preparation of financial statements are based on management's best judgment at the end of the reporting period. These judgments are made on the grounds of prior experiences and the most probable future assumptions at the end of the reporting period. Assumptions have been made for example of the effects that the economical development concerning the Group's line of business has on sale and cost level. The realization of the estimates and assumptions are 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 financial year 2013 impairment losses recognized on intangible assets were related intangible rights acquired in business combination of Tikkurila Zorka. Impairment losses on property, plant and equipment were related to machinery and equipment located in Tikkurila's production facility in Serbia as well as the carrying amount of property, plant and equipment located in Finland was decreased due the changes in range of products.

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. 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. 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.

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

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

A significant part of the employees of the Tikkurila Group have as part of their remuneration package a performance-based variable salary component, which is tied to pre-set financial and operational targets. When recognizing the expenses related to these bonus and other contingent rewards, judgement and estimates have to be partially applied, since the actual data on underlying performance criteria are not fully available at the time of the closing of the accounts. Moreover, the Group has had a share-based commitment and incentive plan since 2012 for select-

ed Group management personnel. The expenses of this plan are recognized according to the IFRS 2 standard. Both the fulfillment of the share-based plan's target criteria and the development of Tikkurila's share price, which are basis for determining the final rewards, if any, will only be known after each performance period has ended; therefore estimates have to be used at the end of the reporting period to recognize expenses and other bookkeeping entries.

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, 2013, the provisions amounted to EUR 1.0 million. The corresponding figure in the 2012 financial statements was EUR 1.1 million. Provisions have been described in Note 31.

INCOME TAXES

For the recognition of deferred tax assets on tax losses and other items, management assesses the probability of a future taxable profit against which tax assets can be utilized. The Group has subsidiaries in several countries with different types of tax regulations. Estimating the total amount of income taxes at Group level requires significant consideration. Actual profits may differ from the forecasts and, in such case, the change will affect the taxes in future periods. The amount of deferred taxes in the 2013 financial statements was EUR 8.6 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 remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income in the period in which they arise.

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 2013 (EUR thousand)	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila common	Elimination	Total
External revenue	231,892	191,721	104,009	125,342	-	-	652,964
Depreciation, amortization and impairment losses	7,444	5,166	3,598	6,133	-	-	22,341
Operating profit (loss)	24,256	25,244	14,619	10,350	-2,240	-761	71,468
Non-allocated items							
Financial income							1,379
Financial expenses							-5,668
Share of profit or loss of equity-accounted investees							-137
Profit before tax							67,042
Segment assets	119,668	158,061	71,977	82,908	44,407	-61,702	415,319
Investments in equity-accounted investees							1,433
Capital expenditure	6,095	2,229	1,789	3,039	-	-	13,151

Operating segments 2012 (EUR thousand)	East**	Scandinavia*	Finland	Central Eastern Europe***	Tikkurila common	Elimination	Total
External revenue	242,840	194,154	107,906	125,539	-	-	670,439
Depreciation, amortization and impairment losses	8,929	5,843	3,737	6,631	-	-	25,140
Operating profit (loss)	29,897	23,646	10,595	5,355	-3,164	-	66,328
Non-allocated items							
Financial income							7,637
Financial expenses							-15,017
Share of profit or loss of equity-accounted investees							316
Profit before tax							59,264
Segment assets	127,062	161,860	74,674	82,231	47,054	-59,532	433,348
Investments in equity-accounted investees							1,859
Capital expenditure	5,558	3,365	5,290	3,903	-	-	18,115

* Sweden, Norway, Denmark

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

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

PERSONNEL BY SEGMENTS DURING THE PERIOD, AVERAGE

	2013	2012
East	1,425	1,517
Scandinavia	411	420
Finland	582	610
Central Eastern Europe	814	839
Tikkurila common	30	36
Total	3,262	3,422

REVENUE BY DESTINATION

(EUR thousand)	2013	2012
Russia	204,346	216,398
Sweden	151,319	153,363
Finland	104,009	107,906
Poland	60,149	60,492
Other countries	133,141	132,280
Total	652,964	670,439

REVENUE BY PRODUCT GROUP

(EUR thousand)	2013	2012
Decorative paints	548,936	562,973
Industrial coatings	104,028	107,466
Total	652,964	670,439

NON-CURRENT ASSETS BY GEOGRAPHICAL LOCATION *)

(EUR thousand)	2013	2012
Russia	52,256	56,751
Sweden	85,337	88,503
Finland	24,182	28,412
Poland	11,304	11,853
Other countries	19,791	23,018
Total	192,870	208,537

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

4. Business combinations and disposals of businesses

ACQUISITIONS 2013

Tikkurila's Scandinavian business segment carried out an acquisition in Sweden on October 14, 2013. In the acquisition, Tikkurila Sverige AB purchased the entire share capital of Färgservice i Malmö AB. The acquired company is a retail paint

shop in Malmö. The purpose of the acquisition is to improve the distribution of Tikkurila's paint products to professional customers. The purchase price was EUR 505 thousands and it was paid in cash. The acquisition does not have a significant impact on the Group's consolidated statement of

financial position, result or financial position. The acquired company was consolidated with the Tikkurila Group starting from the last quarter of 2013.

Preliminary purchase price allocation of Färgservice i Malmö AB is disclosed in the following table.

TOTAL PURCHASE CONSIDERATION

(EUR thousand)	
Consideration paid at closing in October 2013	505
Total consideration	505

RECOGNIZED AMOUNTS OF IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

(EUR thousand)	Fair values recognized on business combination
Property, plant and equipment	18
Intangible assets	
Customer relations	50
Inventory	265
Trade and other receivables	210
Cash and cash equivalents	114
Total assets	657
Deferred tax liabilities	23
Trade and other payables	190
Total liabilities	213
Total identifiable net assets	444
Goodwill	61
Total	505
Acquisition-related costs	4

EUR 4 thousand of acquisition-related expenses were included in consolidated statement of comprehensive income in other operating expenses in year 2013.

Minor amount of goodwill has been recognized, and it is linked to expected synergies to be achieved regarding distribution. Goodwill is not deductible for tax purposes.

If the acquisition of Färgservice i Malmö AB would have been carried out in the beginning of the year 2013, instead of middle of October, 2013, Tikkurila's management estimates that it would have had roughly the following impact on Tikkurila Group's consolidated income statement for January-December 2013:

- Revenue: Increase of round EUR 400 thousand
- Net profit: Increase of EUR 37 thousand

The revenue in the consolidated statement of comprehensive income 2013, included revenue of acquired business since middle of October, 2013 amounting EUR 276 thousand and net loss of EUR 49 thousand.

ACQUISITIONS 2012

There were no acquisitions during the financial period 2012.

DISPOSALS 2013

There were no disposals during the financial period 2013.

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 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.

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

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND BUSINESSES

(EUR thousand)	2013	2012
Acquisition of businesses		
Total purchase consideration	505	-
Cash and cash equivalents at acquisition date	-114	-
Cash outflow on acquisition net of cash acquired	391	-

(EUR thousand)	2013	2012
Proceeds from the disposals of businesses and subsidiaries		
Proceeds from the disposals	-	1,137
Recognized receivable at the date of disposal *)	-	-608
Cash inflow from the previous years' disposals	363	-
Cash and cash equivalents in disposed companies / businesses	-	-443
Cash inflow	363	86

*) 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)	2013	2012
Assets and liabilities disposed of		
PPE* and intangible assets	-	1,085
Goodwill	-	65
Deferred tax assets	-	293
Interest-bearing receivables	-	1
Inventory	-	1,452
Trade receivables and other interest-free receivables	-	2,795
Cash and cash equivalents	-	443
Total assets	-	6,134
Deferred tax liabilities	-	69
Interest-bearing liabilities	-	3,104
Trade and other payables	-	1,012
Total liabilities	-	4,185
Total net assets and liabilities of disposed subsidiaries and businesses	-	1,949
Loss on disposals in equity	-	-812
Total	-	1,137

* Property, plant and equipment

6. Non-current assets held for sale

At year-end 2013, assets held for sale comprised land area and buildings located in Inkoo area in Finland. The carrying amount of assets was compared to the sales price offer derived from the real estate markets. The sales price estimation is high-

er of the carrying amounts and thus assets are measured at their carrying amounts.

There were no assets held for sale at the year-end 2012. During the financial year 2012,

the assets and liabilities of the Polish subsidiary, Kujot Sp.zo.o, were classified as held for sale.

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

(EUR thousand)	2013	2012
Non-current assets held for sale		
Property plant and equipment	43	-
Total	43	-
Liabilities classified as held for sale		
Trade and other payables	400	-
Total	400	-

7. Other operating income

(EUR thousand)	2013	2012
Gains on sale of non-current assets	206	278
Change in fair value of contingent consideration	1,011	1,853
Gains on sale of available-for-sale financial assets	478	3
Insurance compensation	264	125
Rental income	409	540
Other income from operations	340	467
Total	2,708	3,266

Gains on sales of non-current assets in 2013 and 2012 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 years 2013 and 2012.

8. Personnel expenses

(EUR thousand)	2013	2012
Remuneration of the Board of Directors of Tikkurila Oyj and Managing Directors of Tikkurila Group companies	-3,117	-3,438
Wages and salaries	-79,590	-84,603
Share-based payments	-1,103	-520
Pension expenses for defined contribution plans	-11,654	-12,587
Pension expenses for defined benefit plans	-1,547	-1,421
Other personnel expenses	-12,164	-12,966
Total	-109,175	-115,535

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

Personnel, average	2013	2012
Personnel in Finland, average	607	641
Personnel outside Finland, average	2,655	2,781
Total	3,262	3,422
Personnel at year-end	3,133	3,223

The Group's investment in joint arrangement is classified in accordance with IFRS 11 as a joint venture. The joint venture is consolidated by using equity method. Therefore joint venture's number of personnel is not included to the amount of Group's personnel. The change is applied retrospectively for the year 2012. Group's personnel by segments is disclosed in Note 3 Operating segments.

9. Depreciation, amortization and impairment losses

(EUR thousand)	2013	2012
Depreciation and amortization		
Intangible assets	-4,628	-5,081
Property, plant and equipment		
Buildings and constructions	-4,108	-4,011
Machinery and equipment	-10,738	-10,915
Other property, plant and equipment	-1,185	-1,094
Total	-20,659	-21,102

(EUR thousand)	2013	2012
Impairment losses		
Intangible assets		
Goodwill	-	-1,737
Other intangible assets	-1,011	-876
Property, plant and equipment		
Land and water	-296	-79
Machinery and equipment	-375	-
Buildings and constructions	-	-1,346
Total	-1,682	-4,038
Total depreciation, amortization and impairment losses	-22,341	-25,140

In financial year 2013 impairment losses recognized on intangible assets were related intangible rights acquired in business combination of Tikkurila Zorka. Impairment losses on property, plant and equipment were related to machinery and equipment located in Tikkurila's production facility in Serbia as well as the carrying amount of property, plant and equipment located in Fin-

land was decreased due the changes in range of products.

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 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.

10. Other operating expenses

(EUR thousand)	2013	2012
Rents	-12,954	-12,936
Other voluntary personnel expenses	-4,378	-4,761
Sales and marketing	-28,547	-26,203
Repair and maintenance	-9,361	-8,634
IT and communication	-5,386	-3,973
Freights for goods sold	-18,987	-19,045
Professional fees	-3,032	-3,070
Transportation and travel	-10,905	-10,239
Energy, heating and water	-5,859	-5,678
Insurances excl. personnel insurances	-1,028	-1,043
Office expenses	-1,394	-1,422
Representation and membership fees	-2,274	-2,781
External services	-13,850	-11,377
Authority fees and environmental tax	-1,912	-1,824
Credit losses	-1,805	-1,551
Other expenses	-6,092	-7,802
Total	-127,764	-122,339

(EUR thousand)	2013	2012
Audit fees ¹⁾ :		
KPMG	-404	-353
Other audit firms	-92	-132
Tax advisory, KPMG	-38	-33
Tax advisory, other audit firms	-22	-22
Other services, KPMG	-45	-22
Other services, other audit firms	-25	-65
Total	-626	-627

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

NON-RECURRING ITEMS IN FINANCIAL STATEMENTS

(EUR thousand)	2013	2012
Expenses		
Wages and salaries	-561	-2,090
Other personnel expenses	-91	-904
Defined benefit and contribution pension expenses	-260	-708
External services	-	-69
Other	-48	-1,394
Impairment losses:		
Other intangible assets	-1,011	-876
Goodwill	-	-1,737
Property, plant and equipment	-671	-1,425
Total	-2,642	-9,203
Income		
Other operating income	1,509	1,853
Total	1,509	1,853
Total non-recurring items	-1,133	-7,350

In financial year 2013 the non-recurring items were related to implementation of the streamlining program started in Group at the end of 2011. In addition, the impairment loss was recognized on intangible rights acquired in business combination of Zorka Color, the carrying amount of machinery and equipment located in Tikkurila's production facility in Serbia as well as the carrying amount of property, plant and equipment located in Finland were decreased.

The non-recurring items in year 2012 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 mainly include profit originating from sales of available-for-sale financial assets and the change in fair value of contingent consideration in 2013. In year 2012 items comprised the change in fair value of contingent consideration.

11. Research and development expenses

(EUR thousand)	2013	2012
Research and development expenses total	-10,483	-10,742

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

12. Financial income and expenses

(EUR thousand)	2013	2012
Financial income		
Dividend income from available-for-sale financial assets	121	132
Interest income from loans and other receivables	743	679
Interest income from assets at fair value through profit or loss	50	91
Other interest income	24	10
Exchange rate gains		
Exchange rate gains from financial assets at fair value through profit or loss	2,316	2,397
Exchange rate gains from loans and other receivables	980	3,621
Exchange rate gains from financial liabilities measured at amortized cost	1,375	225
Gain on net monetary position	441	482
Total	6,050	7,637

(EUR thousand)	2013	2012
Financial expenses		
Interest expenses from financial liabilities measured at amortized cost	-1,934	-3,374
Interest expenses from financial liabilities at fair value through profit or loss	-504	-1,562
Other interest expenses	-6	-1
Exchange rate losses		
Exchange rate losses from financial liabilities at fair value through profit or loss	-817	-5,034
Exchange rate losses from loans and other receivables	-4,685	-2,453
Exchange rate losses from financial liabilities measured at amortized cost	-1,430	-1,595
Other financial expenses	-963	-999
Total	-10,339	-15,017
Total financial income and expenses	-4,289	-7,380

	2013	2012
Net financial expenses as a percentage of revenue	0.7	1.1
Net interests as a percentage of revenue	0.2	0.6

Exchange rate gains and losses in financing items (EUR thousand)	2013	2012
Realized	-1,297	-995
Unrealized	-964	-1,844
Total	-2,261	-2,839

Exchange rate gains and losses in operating profit (EUR thousand)	2013	2012
Revenue	176	76
Materials and services	-2,695	-345
Total	-2,519	-269

13. Income taxes

(EUR thousand)	2013	2012
Current income tax charge	-19,607	-20,015
Adjustments for prior years	-250	-2
Deferred taxes	2,888	1,418
Total	-16,969	-18,599

(EUR thousand)	2013	2012
Income taxes recognized in other comprehensive income		
Items that will not be reclassified to profit or loss		
Deferred taxes		
Remeasurements on defined benefit plans	-177	-173
Total tax items that will not be reclassified to profit or loss	-177	-173
Items that may be reclassified subsequently to profit or loss		
Deferred taxes		
Available-for-sale financial assets, fair value changes	58	-58
Net investment in foreign operations	87	-25
Current taxes		
Net investment in foreign operations	38	15
Total tax items that may be reclassified subsequently to profit or loss	183	-68
Total income taxes recognized in other comprehensive income	6	-241

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

(EUR thousand)	2013	2012
Tax at parent's tax rate	-16,425	-14,520
Effect of different tax rates in foreign subsidiaries	1,020	75
Tax-exempt income	402	222
Non-deductible expenditure	-1,097	-1,397
Effect of changes in tax rates	-61	393
Used tax losses, previously unrecognized	251	21
Current year losses for which no deferred tax asset was recognized	-751	-811
Taxes from previous financial years	-250	-2
Changes of deferred taxes related to previous years	639	-1,743
Impairment of goodwill	-	-198
Tax reliefs	-	582
Effect of result of equity-accounted investees	-30	83
Non-credited foreign withholding taxes	-556	-408
Other items	-111	-896
Total taxes in the statement of comprehensive income	-16,969	-18,599

The Finnish corporate income tax rate decreased from 24.5% to 20% as of January 2014. In financial statements the Finnish deferred taxes were measured by using the substantially enacted corporate tax rate (20%). The Ukrainian tax rate decreased from 19% to 18% as of January 2014. Deferred taxes were measured by using the tax rate of 18%. During the year 2013 tax rate decreased in Ukraine from 21% to 19% and in comparison year from 23% to 21%.

The Norwegian corporate income tax rate decreased from 28% to 27% as of January 2014 as well as corporate tax rate in Denmark decreased from 25% to 24.5% as of January 2014. In recognizing of deferred taxes regarding these both countries, the substantially enacted corporate tax rates were applied in financial statements 2013.

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 2012 the Swedish deferred taxes were 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 2012 the Serbian deferred taxes were measured by using this substantially enacted corporate tax rate. The corporate tax rate decreased from 24% to 18% in Belarus as of January 2012.

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 periods 2012–2014 and 2013–2015 of the share-based commitment and incentive plan would be paid at the estimated level based on the

terms and conditions of the plan, 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.

	2013	2012
Profit for the period attributable to the owners of the parent, EUR thousand	50,073	40,665
Weighted average number of ordinary shares (1,000)	44,108	44,108
Basic earnings per share (EUR / share)	1.14	0.92
Profit for the period attributable to the owners of the parent, EUR thousand	50,073	40,665
Weighted average number of ordinary shares, adjusted for dilutive effect (1,000)	44,212	44,179
Diluted earnings per share (EUR / share)	1.13	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 2013, at the end of year 2012 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	2013 Total
Acquisition cost at Jan 1, 2013	8,154	125,042	186,576	9,577	5,282	334,630
Acquisition through business combinations	-	-	15	4	-	19
Other increases	379	1,173	5,777	786	3,682	11,797
Other decreases	-322	-13,698	-6,457	-841	-	-21,318
Transfer to held for sale assets	-30	-127	-6	-6	-	-169
Other changes	-	-240	34	1	-334	-539
Reclassifications	32	3,754	1,394	198	-3,165	2,213
Exchange rate differences	-191	-3,758	-4,097	-862	-454	-9,362
Cost at Dec 31, 2013	8,022	112,146	183,236	8,857	5,011	317,271
Accumulated depreciation and impairment losses at Jan 1, 2013	-78	-77,543	-138,629	-5,595	-	-221,845
Accumulated depreciation relating to decreases and transfers	322	13,692	6,348	807	-	21,169
Depreciation during the financial year	-	-4,108	-10,738	-1,185	-	-16,031
Impairment losses	-296	-	-375	-	-	-671
Transfer to held for sale assets	-	114	6	6	-	126
Other changes	-	-	-8	-	-	-8
Reclassifications	-26	26	-92	55	-	-37
Exchange rate differences	9	1,023	2,732	477	-	4,241
Accumulated depreciation and impairment losses at Dec 31, 2013	-69	-66,796	-140,756	-5,435	-	-213,056
Net carrying amount at Jan 1, 2013	8,076	47,499	47,946	3,982	5,282	112,785
Net carrying amount at Dec 31, 2013	7,952	45,350	42,479	3,423	5,011	104,215

(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

(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
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

*Other property, plant and equipment include for example shelters, improvements on leasehold premises and pavements. Contractual commitments for the acquisition of property, plant and equipment is disclosed in Note 36 Commitments and contingent liabilities.

Prepayments and non-current assets under construction comprise as biggest separate projects power capacity increase for a Russian production site. Other projects in process relate to maintenance and upgrading of buildings and production technology.

During the financial year 2013, the Group received a grant for an amount of PLN 1.0 million corresponding about EUR 0.2 million. Grant was received from Polish government for modernization of building used in research and development activities in Poland. The grant is deducted of

an acquisition value of the modernization investment. There were no unfulfilled conditions nor other contingencies attached to the grant.

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, 2013			
Acquisition cost	924	1,665	2,589
Accumulated depreciation	480	946	1,426
Net carrying amount	444	719	1,163
Dec 31, 2012			
Acquisition cost	1,023	1,522	2,545
Accumulated depreciation	447	689	1,136
Net carrying amount	576	833	1,409

16. Intangible assets

(EUR thousand)	Goodwill	Other intangible assets	Prepayments	2013 Total
Acquisition cost at Jan 1, 2013	69,094	61,994	3,642	134,730
Acquisition through business combinations	61	50	-	111
Other increases	-	669	601	1,270
Other decreases	-	-2,003	-	-2,003
Reclassifications	-	3,937	-3,899	38
Exchange rate differences	-660	-1,935	-185	-2,780
Cost at Dec 31, 2013	68,495	62,712	159	131,366

(EUR thousand)	Goodwill	Other intangible assets	Prepayments	2013 Total
Accumulated amortization and impairment losses at Jan 1, 2013	-2,123	-38,714	-	-40,837
Accumulated amortization relating to decreases and transfers	-	2,003	-	2,003
Amortization during the financial year	-	-4,628	-	-4,628
Impairment losses	-	-1,011	-	-1,011
Exchange rate differences	16	312	-	328
Accumulated amortization and impairment losses at Dec 31, 2013	-2,107	-42,039	-	-44,146
Net carrying amount at Jan 1, 2013	66,971	23,280	3,642	93,892
Net carrying amount at Dec 31, 2013	66,388	20,674	159	87,221

(EUR thousand)	Goodwill	Other intangible assets	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

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

The carrying amounts of equity-accounted investees in 2013 or 2012 did not include goodwill. The Group did not have intangible assets with indefinite useful lives in 2013 or earlier financial periods.

Other intangible assets include trademarks and -names acquired in business combinations in total of EUR 14.2 million (2012: EUR 18.2 million), as well as marketing channels and customer con-

nections acquired in business combinations in total of EUR 1.0 million (2012: EUR 1.6 million). Other intangible assets include also carrying amount of software in total of EUR 5.4 million (2012: EUR 3.4 million). The most significant individual items in financial year 2013 comprised Microsoft AX EUR 1.9 million and Cognos EUR 1.0 million.

In financial year 2012, prepayments comprised among other things capitalized expenses of the Russian enterprise resource planning (ERP) system, which was taken into use during year 2013.

There are no capitalized development costs in Tikkurila Group.

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). Operat-

ing 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.

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

Cash-generating units: (EUR thousand)	2013		2012	
	Carrying amount	of which Goodwill	Carrying amount	of which Goodwill
Finland	31,431	-	35,143	-
Scandinavia	96,935	60,998	102,658	60,937
East	92,160	5,391	98,831	6,034
Central Eastern Europe	48,148	-	56,628	-

Annually, close the end of the summer season, during the strategic analysis, Tikkurila Management Board and members of the Board of Directors define the objectives for the next three years. In setting objectives the management's judgment takes a central stage. The strategic analysis takes into account information from external sources that relates to the future and past development of the macroeconomic conditions, demand of paints, clients and competitors in the Geographical areas. 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 8.8% - 18.0% depending on the cash-generating unit in 2013. 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 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 2013 impairment test, the pace of the growth of revenue is expected to stabilize relatively the most during the forecasting period from 2014 to 2016 for SBU Finland and Scandinavia areas. The growth of the revenue is expected to still be the strongest in SBU East and SBU Central Eastern Europe areas. The greatest growth is expected in the SBU East area. The raw material prices are expected to remain on the same level in 2014 as they were in prior year. In year 2013 raw material prices decreased slightly compared the prices in 2012. 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 2012 impairment test, the pace of the growth of revenue was 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 was expected to stay on the same level compared to the previous forecasted development. The greatest growth was expected in the SBU Central Eastern Europe area. The raw material prices were expected to remain on the same level in 2013 as they were in prior year. However the raw material price fluctuations were expected to be strong during the whole forecasted period. As per the latest strategy the measures taken were expected to maintain Group's competitiveness and to improve profitability.

The main assumptions relating to the discount rates are based on the same principles each year, but the values of the key assumptions are defined separately for each SBU and each testing period in order to reflect the corresponding market information. The discount rates have been changed mainly due to the changes in the main assumptions underlying them, which are risk free rate, capital structure and Beta coefficient. The increase in the interest rate in SBU Scandinavia and SBU Central Eastern Europe from 2012 to 2013 is mainly caused by the increase in the risk free interest rate. The average market-based ratio between equity and liabilities of benchmark companies and the branch is considered as capital structure.

The chart below shows the estimated parameters used in testing during the three-year forecasting period and for the terminal period in 2013 and 2012.

	Scandinavia		East		Central Eastern Europe		Finland	
	2013	2012	2013	2012	2013	2012	2013	2012
Estimate parameters used								
Relative operating profit before depreciation, amortization and impairment, average (EBITDA), %	14.6	14.3	13.7	11.8	12.0	8.4	11.7	14.4
Discount rate, pre-tax, %	9.5	8.4	18.0	18.0	12.9	12.2	8.8	8.7
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	191,757	207,191	94,859	23,296	39,930	8,245	72,582	119,563

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

	Scandinavia 2013	2012	East 2013	2012	Central Eastern Europe 2013	2012	Finland 2013	2012
Change in key assumptions								
Change in the relative operating profit before depreciation, amortization and impairment, average (EBITDA %), % -units	-8.2	-7.8	-5.7	-1.4	-3.6	-0.7	-5.8	-8.5
Change in pre-tax discount rate, % -units	15.6	13.8	15.8	3.3	8.4	1.5	16.4	23.9
Change in growth post forecast period, % -units	-41.8	-31.6	-60.8	-5.7	-15.8	-2.1	-41.9	-46.5

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, which amount of

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

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

18. Equity-accounted investees

(EUR thousand)	2013	2012
Carrying amount at Jan 1	1,859	1,646
Share of profit or loss of equity-accounted investees	-137	316
Dividends	-254	-175
Other comprehensive income	20	4
Exchange rate differences and other changes	-55	68
Carrying amount at Dec 31	1,433	1,859

ASSOCIATES

In year 2013 and 2012, there were no changes in ownership of associates. The Group has ownership in only one associate that operates in Sweden. The Group owns 45 percent of the shares of Happy Homes i Sverige AB. The company has

been accounted for using the equity method. Happy Homes i Sverige AB is a private incorporated company and there is no quoted market price available.

Happy Homes i Sverige AB handles in co-operation with contract suppliers and chosen partners

in paint business for chain shops common purchases and marketing as well as arranges business specific training. The strategic goal for the investment in associate is to increase the coverage and sales through over a hundred chain shops.

SUMMARIZED FINANCIAL INFORMATION OF ASSOCIATE:

(EUR thousand)	2013	2012
Non-current assets	1,108	1,339
Current assets	9,765	12,719
Total assets	10,873	14,058
Non-current liabilities	-	62
Current liabilities	9,446	11,619
Total liabilities	9,446	11,681
Net assets	1,427	2,377
Group's share of net assets (45%)	642	1,070
Revenue	54,037	72,687
Profit for the period	-899	138
Other comprehensive income	-	-
Total comprehensive income for the period	-899	138
Group's share of total comprehensive income for the period (45%)	-405	62

(EUR thousand)	2013	2012
Group's share of net assets at Jan 1	1,070	971
Group's share of net profit	-405	62
Translation differences	-23	38
Carrying amount at Dec 31	642	1,070

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

JOINT VENTURES

Alcro Parti AB is the only joint arrangement in which the Group participates. The Group has 50 percent of ownership interest and voting rights in Alcro Parti AB. In year 2013 or 2012, there were no changes in ownership in joint arrangements.

Alcro Parti AB exercises direct sales towards construction, industrial, cleaning and handicrafts companies as well as towards municipals in Sweden in Stockholm, Gothenburg and Malmö cities.

The company has complete sets of merchandise for painting, protecting and cleaning. The strategic goal is to reach those earlier mentioned customer groups.

The Group's joint arrangement is an incorporated company, a separate vehicle, in which the Group has a joint control with another investor. The Group and the other investor have as per the concluded arrangement rights to Alcro Parti AB's net assets. Therefore the company has been clas-

sified as a joint venture and is accounted for using the equity method. The summarized financial information of Alcro Parti AB is presented, as included in its own financial statements, adjusted for differences in accounting policies between the Group and the company.

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

SUMMARIZED FINANCIAL INFORMATION OF JOINT VENTURE:

(EUR thousand)	2013	2012
Non-current assets	1,302	1,554
Current assets excluding cash and cash equivalents	680	637
Cash and cash equivalents	384	375
Total assets	2,366	2,566
Non-current financial liabilities	-	-
Other non-current liabilities	481	563
Current financial liabilities excluding trade payables	-	-
Other current liabilities including trade payables	303	425
Total liabilities	784	988
Net assets	1,582	1,578
Group's share of net assets (50%)	791	789
Revenue	8,064	7,496
Depreciation and amortization	-	-
Interest income	23	30
Interest expenses	-	-15
Income taxes	-154	-180
Profit for the period	535	508
Other comprehensive income	40	8
Total comprehensive income for the period	575	516
Group's share of total comprehensive income for the period (50%)	288	258
Dividends received by Group	254	175
Personnel during the period, average	8	6

(EUR thousand)	2013	2012
Group's share of net assets at Jan 1	789	675
Group share of net profit	268	254
Dividends received	-254	-175
Other comprehensive income	20	4
Translation differences	-32	30
Carrying amount at Dec 31	791	789

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

19. Inventories

(EUR thousand)	2013	2012
Materials and supplies	22,228	24,232
Work in progress	1,020	1,746
Finished goods	56,418	57,540
Prepayments	66	1,248
Total	79,732	84,766

Inventory write-downs amounting to EUR 2.7 million (EUR 4.2 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 2013 reversals of inventory

write-down amounting to EUR 0.3 million were recognized (EUR 0.4 million). The amount of cost recognized as expense was EUR 324.9 million (EUR 344.4 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 2013 was EUR 540 thousand (EUR 735 thousand).

20. Available-for-sale financial assets

(EUR thousand)	2013	2012
Carrying amount at Jan 1	3,281	3,028
Additions	84	-
Disposals	-17	-1
Change in valuation	249	237
Exchange rate differences	-7	17
Carrying amount at Dec 31	3,590	3,281

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 by using any valuation tech-

niques. Therefore, according assessment of Tikkurila's management, the cost of shares is the best available estimate for fair value. 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 32).

No impairment losses were recognized for available-for-sale financial assets during the years 2013 or 2012.

Gains on sale of available-for-sale financial assets amounted to EUR 478 (3) thousand. Losses were recognized neither in year 2013 nor 2012. Gains or losses on the sales of these assets are included in other operating income or expense.

21. Non-current receivables

(EUR thousand)	2013	2012
Loan receivables	4,418	5,879
Prepayments	186	2,763
Accrued income and deferred expenses	-	2
Other receivables	1,089	1,217
Finance lease receivables	6	9
Total non-current assets	5,699	9,870
Prepayments		
Pre-rent of the logistic centre area in Moscow	-	2,492
Pre-rent of the production site in Serbia	42	130
Other prepayments	144	141
Total prepayments	186	2,763

(EUR thousand)	2013	2012
Other receivables		
Trade receivables and hire-purchases	956	888
Other non-current non-interest-bearing receivables	133	329
Total other receivables	1,089	1,217

(EUR thousand)	2013	2012
Finance lease receivables - maturity		
Within one year	3	3
After one year and not later than five years	6	10
Later than five years	-	-
Total	9	13

Finance lease receivables - present value of the minimum lease payments		
Within one year	3	3
After one year and not later than five years	6	9
Later than five years	-	-
Total	9	12

Unearned finance income	0	1
Total finance lease receivables	9	13

22. Current interest-bearing receivables

(EUR thousand)	2013	2012
Finance lease receivables	3	3
Loan receivables	614	329
Total interest-bearing receivables	617	332

Non-current portion and maturities of the finance lease receivables are disclosed in Note 21 Non-current receivables.

23. Trade and other non-interest-bearing receivables

(EUR thousand)	2013	2012
Trade receivables	80,360	85,273
Accrued income and deferred expenses	8,601	10,351
Other receivables	3,618	4,531
Total current non-interest-bearing receivables	92,579	100,155

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 3.0 million (EUR 3.6 million).

(EUR thousand)	2013	2012
Accrued income and deferred expenses		
Items related to net revenue and purchases	2,945	2,793
Employee benefit expenses	740	1,264
Insurances	359	590
Leases	2,247	2,464
Interests	32	42
Derivatives	478	386
Other	1,800	2,812
Total	8,601	10,351

24. Cash and cash equivalents

(EUR thousand)	2013	2012
Cash	28,177	15,739
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	994	-
Total cash and cash equivalents	29,171	15,739
Cash and cash equivalents according to cash flow:		
Cash	28,177	15,739
Cash equivalents (bank deposits and money market investments, maturity less than 3 months)	994	-
Bank overdrafts	-	-
Total cash and cash equivalents	29,171	15,739

25. Deferred tax assets and liabilities

2013 (EUR thousand)	Net balance at Jan 1, 2013	Translation differences	Recognized in profit or loss	Recognized in OCI	Acquisitions / disposals	Transfer to held for sale	Other changes and transfers	Balance at Dec 31, 2013		
								Net	Deferred tax assets	Deferred tax liabilities
Carry forward tax losses	44	2	71	-	-	-	15	132	132	-
Defined benefit pension plans	1,539	-61	-41	-172	-	-	-	1,265	1,265	-
Provisions	149	1	32	-	-	-	-	182	182	-
Inventory profit	816	-61	116	-	-	-	-	871	871	-
Cumulative depreciation difference	-4,314	131	948	-	-	-	-	-3,235	812	-4,048
Available-for-sale financial assets	-589	-	-	58	-	-	-	-531	-	-531
Fair value measurement of PPE* and intangible assets in business combination	-3,864	341	494	-	-23	-	-	-3,052	-	-3,052
Other temporary differences	3,384	-354	1,268	87	-	-	-	4,385	5,350	-965
Net tax liabilities (assets)	-2,836	-1	2,888	-27	-23	-	15	16	8,612	-8,596

2012 (EUR thousand)	Net balance at Jan 1, 2012	Translation differences	Recognized in profit or loss	Recognized in OCI	Acquisitions / disposals	Transfer to held for sale	Other changes and transfers	Balance at Dec 31, 2012		
								Net	Deferred tax assets	Deferred tax liabilities
Carry forward tax losses	59	-	37	-	-	-2	-50	44	44	-
Defined benefit pension plans	1,668	75	-34	-170	-	-	-	1,539	1,539	-
Provisions	70	1	78	-	-	-	-	149	149	-
Inventory profit	948	17	-149	-	-	-	-	816	816	-
Cumulative depreciation difference	-5,568	-184	1,524	-	-	-172	86	-4,314	1,063	-5,377
Available-for-sale financial assets	-531	-	-	-58	-	-	-	-589	-	-589
Fair value measurement of PPE* and intangible asset in business combinations	-3,348	-88	381	-	-	-	-809	-3,864	-	-3,864
Other temporary differences	2,986	134	-419	-25	-	-15	723	3,384	5,161	-1,777
Net tax liabilities (assets)	-3,716	-45	1,418	-253	-	-190	-50	-2,836	8,772	-11,607

* Property, plant and equipment

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

The Group subsidiaries had tax losses carried forward of EUR 7.9 million at December 31, 2013

(EUR 9.4 million) for which no deferred tax asset was recognized. The unlimited right to carry forward the tax losses concerns 13 (37) percent of the tax losses. Tax losses with the limited right expire in 2014–2023. 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.

26. 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, 2013 (EUR 35 million) and it is fully paid. The number of shares was 44,108,252 at the end of year 2013. At the end of year 2012, 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 0.76 per share, totaled EUR 33,522 thousand, was distributed in year 2013. In year 2012, dividend of EUR 0.73 per share, totaled EUR 32,199 thousand was distributed. After the respective reporting date, The Board of Directors proposes that a dividend of EUR 0.80 per share, totaled EUR 35,287 thousand, will be distributed of the year 2013.

(EUR thousand)	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Other comprehensive income 2013, net of tax						
Items that will not be reclassified to profit or loss, net of tax						
Remeasurements on defined benefit plans	-	-	802	802	-	802
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	25	25	-	25
Income taxes relating to items that will not be reclassified to profit or loss	-	-	-172	-172	-	-172
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	-5	-5	-	-5
Total items that will not be reclassified to profit and loss, net of tax	-	-	650	650	-	650
Items that may be reclassified subsequently to profit or loss						
Foreign currency translation differences for foreign operations	-	-8,533	-	-8,533	-	-8,533
Foreign currency translation differences for equity-accounted investees	-	-22	-	-22	-	-22
Income taxes on net investment to foreign subsidiary	-	125	-	125	-	125
Available-for-sale financial assets, fair value changes	650	-	-	650	-	650
Available-for-sale financial assets - fair value change reclassified to profit or loss	-401	-	-	-401	-	-401
Deferred taxes on fair value changes of available-for-sale financial assets	58	-	-	58	-	58
Total items that may be reclassified subsequently to profit or loss, net of tax	307	-8,430	-	-8,123	-	-8,123
Other comprehensive income 2013, net of tax	307	-8,430	650	-7,473	-	-7,473

(EUR thousand)	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Other comprehensive income 2012, net of tax						
Items that will not be reclassified to profit or loss						
Remeasurements on defined benefit plans	-	-	-137	-137	-	-137
Equity-accounted investees' share of remeasurements on defined benefit plans	-	-	7	7	-	7
Income taxes relating to items that will not be reclassified to profit or loss	-	-	-170	-170	-	-170
Income taxes relating to items of equity-accounted investees that will not be reclassified to profit or loss	-	-	-3	-3	-	-3
Total items that will not be reclassified to profit and loss, net of tax	-	-	-303	-303	-	-303
Items that may be reclassified subsequently to profit or loss						
Foreign currency translation differences for foreign operations	-	6,308	-	6,308	-	6,308
Foreign currency translation differences for equity-accounted investees	-	33	-	33	-	33
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	-	-	-

(EUR thousand)	Fair value reserve	Translation differences	Retained earnings	Total	Non-controlling interest	Total
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
Total items that may be reclassified subsequently to profit or loss, net of tax	179	8,263	-2,191	6,251	-	6,251
Other comprehensive income 2012, net of tax	179	8,263	-2,494	5,948	-	5,948

27. Non-current interest-bearing liabilities

(EUR thousand)	2013	2012
Loans from financial institutions	59,656	59,787
Finance lease liabilities	627	841
Total non-current interest-bearing liabilities	60,283	60,628

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

(EUR thousand)	2013	2012
Finance lease liabilities - total minimum lease payments		
Within one year	587	601
After one year and not later than five years	672	906
Later than five years	25	-
Total	1,284	1,507
Finance lease liabilities - present value of the minimum lease payments		
Within one year	535	545
After one year and not later than five years	605	841
Later than five years	22	-
Total	1,161	1,386
Future finance charges	122	121
Total finance lease liabilities	1,284	1,507

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

28. Current interest-bearing liabilities

(EUR thousand)	2013	2012
Loans from financial institutions	2,036	2,076
Commercial paper program	14,936	33,302
Finance lease liabilities	535	545
Other interest-bearing current liabilities	2	2
Total interest-bearing current liabilities	17,509	35,925

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

AVERAGE INTEREST RATE AND CURRENCY DISTRIBUTION OF INTEREST-BEARING LIABILITIES

Average interest rate for current and non-current loans in year 2013 was 1.5% (2.1%). *)

Interest-bearing liabilities by currency (in euro):

(EUR thousand)	2013	2012
EUR	75,467	93,697
RUB	-	2
CNY	2,036	2,068
Other	289	786
Total	77,792	96,553

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

29. Trade and other non-interest-bearing payables

(EUR thousand)	2013	2012
Other non-current liabilities *)	-	902
Non-current accrued expenses and deferred income	949	258
Total other non-current liabilities	949	1,160
Trade payables	42,315	43,491
Other non-interest-bearing payables	5,691	6,978
Prepayments	195	176
Accrued expenses and deferred income	43,396	45,002
Total current non-interest-bearing payables	91,597	95,647

*) Contingent consideration, Note 32

(EUR thousand)	2013	2012
Accrued expenses and deferred income		
Share-based payments	949	258
Employee benefit expenses	14,214	16,989
Items related to revenue and purchases	24,557	23,214
Interests	247	362
Derivatives	398	593
Other	3,980	3,844
Total	44,345	45,260
Net liabilities		
Interest-bearing non-current liabilities	60,283	60,628
Interest-bearing current liabilities	17,509	35,925
Cash and cash equivalents		
Cash	-28,177	-15,739
Cash equivalents (bank deposits, money market investments, maturity less than 3 months)	-994	-
Total	48,621	80,814

30. Pension obligations and other long-term employee benefits

Tikkurila Group applied the revised IAS 19 as of January 1, 2013. The revised standard was applied retrospectively and the impacts and changes of accounting principles are disclosed in Note 41 Changes in Accounting Principles.

PENSION OBLIGATIONS

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

Tikkurila Group has defined benefit pension plans in Sweden, Norway and in Germany. The

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

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

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

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

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

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

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

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

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

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

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

(EUR thousand)	2013	2012
Defined benefit pension obligations	21,308	22,540
Other long-term employee benefits including social costs	3,396	3,892
Pension obligations and other long-term employee benefits	24,704	26,432
Defined benefit pension obligations		
Items recognized in the statement of financial position:		
Present value of funded obligations	2,236	2,222
Present value of unfunded obligations including Swedish payroll tax liability	21,071	22,273
Fair value of plan assets	-1,999	-1,955
Net defined benefit liability	21,308	22,540

(EUR thousand)	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2013	2012	2013	2012	2013	2012
Balance at Jan 1	24,495	23,141	-1,955	-1,806	22,540	21,335
Included in profit or loss: ¹⁾						
Current service cost	688	568	-	-	688	568
Interest expense / (income)	859	893	-74	-64	785	829
Administrative expenses	-	-	5	24	5	24
	1,547	1,461	-69	-40	1,478	1,421

(EUR thousand)	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2013	2012	2013	2012	2013	2012
Included in other comprehensive income: ²⁾						
Remeasurements loss (gain)						
Actuarial loss (gain) arising from:						
Experience adjustment	208	92	-	-	208	92
Demographic assumptions	93	65	-	-	93	65
Financial assumptions	-1,906	-159	-	-	-1,906	-159
Return on plan assets, excluding amounts included in interest expense/(income)	-	-	7	139	7	139
Effect of movements in exchange rates	-954	897	258	-103	-696	795
	-2,559	895	265	37	-2,294	932
Other:						
Contributions paid by						
Employer	-	-	-276	-184	-276	-184
Payments from the plans:						
Benefits payments	-985	-953	36	38	-949	-915
Obligations transfers and other changes	-56	-49	-	-	-56	-49
Balance at Dec 31	22,442	24,495	-1,999	-1,955	20,443	22,540

¹⁾ In addition, the Swedish payroll tax related defined benefit pension is included as expenses of defined benefit pensions EUR 69 thousand in profit or loss.

²⁾ Loss of EUR 796 thousand on Swedish payroll tax is recognized in other comprehensive income.

In addition, actuarial gain of EUR 20 thousand (actuarial gains EUR 4 thousand), net of tax, is recognized in other comprehensive income regarding equity-accounted investees.

(EUR thousand)	2013	2012
Remeasurements on defined benefit plans in other comprehensive income		
Actuarial gains (-) / losses (+) on defined benefit pension obligations, including actuarial gains and losses on Swedish payroll tax	-809	-2
Return on plan assets, excluding amounts included in interest expense/(income)	7	139
Change in income taxes related to remeasurements for defined benefit plans	172	170
Actuarial gains / losses recognized from equity-accounted investees, net of tax	-20	-4
Total	-650	303
Plan assets include		
Assets in insurance companies *	1,999	1,955
Total	1,999	1,955

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

The Group expects to pay EUR 1.2 million of contributions into the defined benefit plans during the year 2014.

The significant actuarial assumptions	2013	2012
Discount rate	2.8–4.0%	2.7–3.8%
Inflation	1.8–2.0%	1.8–2.0%
Forthcoming increases in wages and salaries	3.0–3.8%	3.0–3.5%
Forthcoming increases in pensions	0.6–2.0%	0.2–2.0%

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

The Group's major plan is the defined benefit pension plan in Sweden. The present value of this pension obligation at the end of financial year was

EUR 19,102 thousand (EUR 21,156 thousand). In addition, the value of the payroll tax related to this defined benefit obligation was EUR 865 thousand at year-end 2013. The most significant actuarial assumptions regarding this plan were as following: discount rate 4.0% (3.6%), forthcoming increases in salaries 3.0% (3.0%) as well as life expectancy.

The life expectancy for a 65 year-old woman is 25 years and for a 65 year-old man 23 years.

At December 31, 2013, the weighted-average duration of the defined benefit pension obligation was 23.6 years (2012: 23.6 years).

SENSITIVITY ANALYSIS:

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

Dec 31, 2013	Defined benefit obligation	
	Increase in assumption	Decrease in assumption
Effect in thousands of euro		
Discount rate (0.5% movement)	-1,572	1,709
Sensitivity analyses regarding life expectancy on Group's most significant plan, Swedish defined benefit pension plan		
	Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy	692	-691

OTHER LONG-TERM EMPLOYEE BENEFITS

The parent company of the Group, Tikkurila Oyj, has a long-service benefit plan according to which an employee has a right to a compensated absence or to be paid a certain amount of money or a gift given after certain years of service time. Benefits are determined by using the Projected Unit Credit Method according to the actuarial calculations prepared annually by qualified actuaries. Possibly arising actuarial gains and losses are recognized in profit or loss, in personnel expenses.

(EUR thousand)	2013	2012
Other long-term employee benefits		
Items recognized in the statement of financial position:		
Present value of long-service benefit plan	2,739	3,113
Social costs	657	779
Liability of long-service benefit plan including social costs	3,396	3,892
Balance at Jan 1		
Other long-service benefit obligation at Jan 1	3,113	3,007
Included in profit or loss:		
Current service cost	307	291
Interest cost	80	132
Actuarial gains / losses		
Experience adjustment	-573	-331
Demographic assumptions	-	-
Financial assumptions	-	293
	-187	385
Other:		
Payments from the plans:		
Benefits payments	-188	-279
Long-service benefit obligation at Dec 31	2,739	3,113
Actuarial assumptions		
Discount rate	2.7%	2.7%
Inflation	2.0%	2.0%
Forthcoming increases in wages and salaries	1.9%	1.9%
Employee turnover	3.0%	3.0%

Tikkurila Oyj expects to pay EUR 403 thousand of contributions into the long-service benefit plan during the year 2014.

At December 31, 2013, the weighted-average duration of the long-service benefit obligation was 7 years (2012: 10 years).

SENSITIVITY ANALYSIS:

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

	Impact on long-service plan	
	Increase in assumption	Decrease in assumption
Discount rate (0.5% movement)	-86	90
Salary growth rate (0.5% movement)	91	-87

31. Provisions

(EUR thousand)	Restructuring	Site restoration	Other provisions	2013 Total
2013				
Non-current provisions				
Balance at Jan 1, 2013	446	-	478	924
Exchange rate differences	-	-	-7	-7
Provisions made during the period	-	-	11	11
Reclassifications	-132	-	-76	-208
Non-current provisions at Dec 31, 2013	314	-	406	720
Current provisions				
Balance at Jan 1, 2013	160	-	11	171
Provisions made during the period	-	-	53	53
Provisions used during the period	-	-	-111	-111
Reclassifications	132	-	76	208
Current provisions at Dec 31, 2013	292	-	29	321

(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

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 contingency 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 2014.

Restructuring provision regarding the co-operation negotiations related to Tikkurila's Finnish site was recognized in year 2009. The provision amounted to EUR 106 thousand at the end of year 2013. The majority of this provision is estimated to be used during the year 2014.

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 month salary of the person at the time of retirement. These plans are based on legal requirements in above mentioned countries. Company has no future obligations related to these plans after payment is settled. This provision includes also jubilee provision. The jubilee provision is established by pattern of past practice.

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

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amounts	Fair value level 1	Fair value level 2	Fair value level 3	Total fair values
2013										
Financial assets measured at fair value										
Non-current financial assets										
Available-for-sale financial assets	20	-	-	3,590	-	3,590	-	2,737	853	3,590
Current financial assets										
Derivatives	23, 33	478	-	-	-	478	-	478	-	478
		478	-	3,590	-	4,068				
Financial assets not measured at fair value										
Non-current receivables										
Loan receivables	21	-	4,418	-	-	4,418	-	4,418	-	4,418
Finance lease receivables		-	6	-	-	6	-	6	-	6
Other receivables		-	1,089	-	-	1,089	-	1,089	-	1,089
Current financial assets										
Interest-bearing receivables	22	-	617	-	-	617				
Cash equivalents	24	-	29,171	-	-	29,171				
Trade and other non-interest-bearing receivables	23	-	80,555	-	-	80,555				
		-	115,856	-	-	115,856				

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amounts	Fair value level 1	Fair value level 2	Fair value level 3	Total fair values
2013										
Financial liabilities measured at fair value										
Current financial liabilities										
Derivatives	29, 33	398	-	-	-	398	-	398	-	398
		398	-	-	-	398				
Financial liabilities not measured at fair value										
Non-current financial liabilities										
Finance lease liabilities	27	-	-	-	627	627	-	627	-	627
Loans from financial institutions	27	-	-	-	59,656	59,656	-	59,937	-	59,937
Current financial liabilities										
Current interest-bearing liabilities	28	-	-	-	17,509	17,509				
Trade payables	29	-	-	-	42,315	42,315				
		-	-	-	120,107	120,107				

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amounts	Fair value level 1	Fair value level 2	Fair value level 3	Total fair values
2012										
Financial assets measured at fair value										
Non-current financial assets										
Available-for-sale financial assets	20	-	-	3,281	-	3,281	-	2,505	776	3,281
Current financial assets										
Derivatives	23, 33	386	-	-	-	386	-	386	-	386
		386	-	3,281	-	3,667				
Financial assets not measured at fair value										
Non-current receivables										
Loan receivables	21	-	5,879	-	-	5,879	-	5,879	-	5,879
Finance lease receivables		-	9	-	-	9	-	9	-	9
Other receivables		-	1,217	-	-	1,217	-	1,217	-	1,217
Current financial assets										
Interest-bearing receivables	22	-	332	-	-	332				
Cash equivalents	24	-	15,739	-	-	15,739				
Trade and other non-interest-bearing receivables	23	-	85,581	-	-	85,581				
		-	108,757	-	-	108,757				

(EUR thousand)	Note	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amounts	Fair value level 1	Fair value level 2	Fair value level 3	Total fair values
2012										
Financial liabilities measured at fair value										
Non-current financial liabilities										
Contingent consideration	29	-	-	-	902	902	-	-	902	902
Current financial liabilities										
Derivatives	29, 33	593	-	-	-	593	-	593	-	593
		593	-	-	902	1,495				
Financial liabilities not measured at fair value										
Non-current financial liabilities										
Finance lease liabilities	27	-	-	-	841	841	-	841	-	841
Loans from financial institutions	27	-	-	-	59,787	59,787	-	59,977	-	59,977
Current financial liabilities										
Current interest-bearing liabilities	28	-	-	-	35,925	35,925				
Trade payables	29	-	-	-	43,491	43,491				
		-	-	-	140,044	140,044				

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 1.79%. In year 2012 the discount rate used was 1.74%.

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

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

available estimate for fair value. 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 LEVELS

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

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

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

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

(EUR thousand)	2013	2012
	Available-for-sale financial assets	Available-for-sale financial assets
Carrying amount at Jan 1	776	760
Translation differences in other comprehensive income	-7	17
Acquisitions	84	-
Disposals	-	-1
Carrying amount at Dec 31	853	776

In year 2013, no gain nor loss on sales of available-for-sale financial assets on level 3 were recognized. In financial year 2012 the gain on sale amounted to EUR 3 thousand. Gains on sales of these assets are included in other operating income and loss is recognized in other operating expenses.

(EUR thousand)	2013	2012
	Contingent consideration	Contingent consideration
Carrying amount at Jan 1	902	2,382
Fair value change in other operating income, unrealized	-1,011	-1,853
Fair value change due the discounting effect, unrealized, recognized in financial expenses	109	373
Carrying amount at Dec 31	-	902

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include shares of Ekokem Oy Ab, classified in level 2. The measurement of fair value of these shares is based on broker quotes, quoted prices in OTC-list. Markets for these shares are not considered to be so active, that these shares could be included in level 1.

Other available-for-sale financial assets, classified in level 3, are mainly unquoted shares that are measured at amortized cost. These shares are of business supportive nature, related to personnel's recreational activities and are considered as long-term investments that Tikkurila is not intending to sell. These shares have no quoted market price in an active market and their fair values cannot be measured reliably by using any valuation

techniques. Therefore, according assessment of Tikkurila's management, the cost of shares is the best available estimate for fair value.

FORWARD EXCHANGE CONTRACTS

Fair values of forward exchange contracts are based on quoted market data for similar instruments with similar maturity at the end of reporting period.

CONTINGENT CONSIDERATION

Tikkurila Group has a contingent earn-out liability based on the acquisition carried out in 2011. The amount of the earn-out liability is depending on the financial results of the target company in financial year 2014. The fair value of the contingent liability is regularly reassessed using income approach. The estimated amount of the contingent liability is based on: a) the formula defined in transaction documentation, which has been applied as it has been written, and b) the estimated

2014 values of the input parameters of the formula.

When evaluating the future financial performance of the acquired business Tikkurila management applied various future scenarios, of which a probability-weighted average has been calculated. In estimating the future financial performance for example the following are taken into account: general economic situation and outlook, like GDP and consumer confidence development, since they are correlating with sales of paint products; furthermore, competitive situation, foreign exchange rate changes, development of raw material and other expenses, previous performance of the business both in absolute terms and also vis-à-vis pre-set targets, as well as currently ongoing or planned development projects valid for the business.

The estimated nominal earn-out is discounted into net present value by using target company specific weighted average cost of capital.

33. 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.

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

2013 (EUR thousand)	Positive fair value	Negative fair value	Fair value, net	Nominal values
Currency derivatives				
Currency forwards	478	-398	80	71,572

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

Derivative instruments in the comprehensive income (EUR thousand)	2013	2012
Financial income	2,366	2,488
Financial expenses	-1,321	-6,596
Derivative instruments in the statement of financial position (EUR thousand)	2013	2012
Accrued income and deferred expenses	478	386
Accrued expenses and deferred income	398	593

The Group has derivative arrangements that are subject to enforceable master netting arrangements. These arrangements are related to currency forwards agreed with the financial institutions acting as counterparty.

The Group has also derivative arrangements that are under ISDA master netting agreements. The derivative assets and liabilities cannot be offset in the consolidated statement of financial position, as the ISDA agreements do not meet the criteria for offsetting.

The Group does not have any currently legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such a default on financial obligations.

Dec 31, 2013 (EUR thousand)	Gross and net amounts of financial instruments in the statement of financial position	Instruments, subject to enforceable master netting arrangements	Net
Financial assets			
Accrued income and deferred expenses			
Currency derivatives	478	-188	290
Financial liabilities			
Accrued expenses and deferred income			
Currency derivatives	398	-296	102
<hr/>			
Dec 31, 2012 (EUR thousand)	Gross and net amounts of financial instruments in the statement of financial position	Instruments, subject to enforceable master netting arrangements	Net
Financial assets			
Accrued income and deferred expenses			
Currency derivatives	386	-259	127
<hr/>			
Financial liabilities			
Accrued expenses and deferred income			
Currency derivatives	593	-393	199

34. 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 following countries in which the Group operates, have local exchange control regulations that restrict the cash deposit abroad: Belarus, China, Ukraine, Macedonia and Serbia. At the year-end 2013 cash and cash equivalents held by those entities amounted to EUR 3,617 thousand.

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, 2013 were the

various components of net working capital, cash and interest-bearing liabilities. Counterparty risks related to trade receivables and cash are central, and the creditworthiness and diversification of counterparties are key elements for managing the risk. 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 2013 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 2013 and 2012 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 period because the reliability of longer forecasts is weak. Group companies report their 12-month currency exposures monthly, and the parent company's treasury consolidates Group's net currency exposure.

Transaction risks are hedged by matching currency denominated income and expenses (they also include flows resulting from currency clauses present in commercial agreements). 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 2013, the hedge ratio, based on the estimated future 12 months net flows, was about 39% (50%).

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, 2013										
Bank accounts	-	-15,658	239	-	-	-	-	-	-	-151
Loans and deposits	-	-	-2,054	2,815	-1,265	18,100	13,679	4,460	8,919	712
Trade receivables and payables	-787	1,803	1,140	1,145	2,965	-3,005	11,986	1,270	5,774	1,404
Estimated currency flow	-10,118	17,206	22,463	9,577	28,103	1,314	98,742	2,154	8,818	12,341
Currency forwards	5,003	-8,794	-11,311	-	-13,994	-	-32,043	-	-	-
Open position	-5,902	-5,443	10,477	13,537	15,809	16,409	92,364	7,884	23,511	14,306

(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	1,131	4,290	3,749	10,810
Currency forwards	7,958	-13,983	-10,887	-	-6,136	-	-	-	-	-
Open position	-8,940	887	11,095	13,498	7,072	11,569	17,800	9,727	18,879	12,443

During 2013 the Company did re-evaluate certain factors in its sales agreements and in the agreement logic with its customers in situations where rouble denominated sales prices in Russia can de facto be increased when rouble depreciates. Company applies from 2013 more conservative model, and based on that the nominal amount of rouble risk has notionally been increased, even though the Company still has at least partially ability to eliminate the effect of changes in rou-

ble exchange rate via commercial actions, and although the underlying business has not significantly changed. During 2013 company somewhat revised its approach and has since applied more prudent method in evaluating of currency clauses present in the commercial agreements which resulted in changes in estimated currency flows of some currencies (zloty, hryvna, us dollar).

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, 2013:

(EUR thousand)	2013					2012				
	RUB	SEK	RSD	UAH	NOK	RUB	SEK	RSD	UAH	NOK
Impact of 10% weakening of currency	579	2,059	-1,372	-1,336	1,090	-1,515	2,342	-1,264	-1,375	1,005
Impact of 10% strengthening of currency	-709	-2,516	1,677	1,633	-1,332	1,852	-2,863	1,544	1,681	-1,228

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, 2013				
Equity	45,789	34,273	27,011	4,935
Impact of 10% strengthening of currencies on equity	5,088	3,808	3,001	548
Impact of 10% weakening of currencies on equity	-4,163	-3,116	-2,456	-449
	RUB	SEK	PLN	Other
Dec 31, 2012				
Equity	55,281	37,115	23,611	10,282
Impact of 10% strengthening of currencies on equity	6,142	4,124	2,623	1,142
Impact of 10% weakening of currencies on equity	-5,026	-3,374	-2,146	-935

INTEREST RATE RISKS

Tikkurila Group had following interest-bearing assets and liabilities during 2013 and/or 2012:

Interest-bearing assets:

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

Interest-bearing debt:

- leasing and installment funding

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

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

rates are lower, the cash flow is also weaker. Therefore, the duration of interest-bearing liabilities is kept short so that the cash flow and interest rate change follow the same cycle. According the financial 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 following table. The financial instrument has been defined as a fixed when the interest rate is fixed for whole duration of the instrument regardless of whether the instrument is short- or long-term.

(EUR thousand)	Dec 31, 2013	Dec 31, 2012
Fixed rate		
Financial assets *	1,415	1,581
Financial liabilities	-18,136	-36,766
Net	-16,721	-35,185
Floating rate		
Financial assets	3,626	4,639
Financial liabilities	-59,656	-59,787
Net	-56,030	-55,148

* Excluding cash

IMPACT OF CHANGE OF INTEREST RATES ON TIKKURILA'S RESULT

Based on EUR 48.6 (80.8) million net debt position on December 31, 2013, the impact of each one percentage point increase in interest rates to next financial year's profit before tax would be EUR -0.6 (-0.7) million. Decline of interest rates by one percentage point would have a positive impact of similar magnitude on profit before tax. The sensi-

tivity 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 2014 would be at the average level of

2013, calculated as the average of actual month-end balances, and consequently equal about EUR 88 million, then applying the abovementioned assumptions and principles one percentage point increase in interest rates would increase Group's interest expense in 2014 by about EUR 0.9 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 significant 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 receiv-

ables 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 17% (12%) of revenue in 2013 took place using advance payments.

Credit insurance is used in Poland where about 76% (78%) of trade receivable as of December 31, 2013 was insured. According to terms of the insurance Tikkurila is entitled to get 90% of the nomi-

nal 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, 2013	Dec 31, 2012
Available-for-sale financial assets	20	3,590	3,281
Financial assets at fair value through profit or loss	23, 33	478	386
Loans and other receivables	21, 22, 23, 24	115,856	108,757
Total		119,924	112,424

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

(EUR thousand)	Dec 31, 2013	Dec 31, 2012
EUR	24,420	22,691
SEK	24,741	26,606
RUB	24,931	23,501
PLN	19,493	13,764
DKK	3,945	3,875
RSD	5,327	3,951
UAH	2,902	3,861
Other	10,097	10,508
Total	115,856	108,757

Movement of allowance for impairment of trade receivables

(EUR thousand)	Dec 31, 2013	Dec 31, 2012
Balance at beginning of year	9,864	9,220
Exchange rate differences	-351	104
Additions	2,370	2,533
Realized	-1,029	-479
Acquisition / disposal of business	0	-12
Decreases	-992	-1,502
Total	9,862	9,864

The ageing of loans and other receivables at December 31:

(EUR thousand)	Carrying amount Dec 31, 2013	Carrying amount Dec 31, 2012
Not past due	106,089	95,696
Past due 0–90 days	5,577	10,075
Past due 91–180 days	2,239	1,795
Past due 181–365 days	1,422	752
Past due over 365 days	529	439
Total	115,856	108,757

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 1.8 (1.6) million on past due loans and other receivables during the financial year 2013.

The impairment loss on receivables from the associate amounted to EUR 0.2 (0.0) million in financial year 2013. There was no impairment loss on receivables from joint ventures during the financial year 2013 or 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.

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 included an option to extend the maturity for additional two years at banks' discretion. In September 2013, the Company utilized the option and agreed on a one-year extension to the loan period. 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 lend-

ers 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 2013, Tikkurila had unused a EUR 145 (145) million revolving credit facility and EUR 10 (10) million committed credit facilities. A total of EUR 15 (33.5) 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 29 (16) 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, 2013:

(EUR thousand)	Carrying amount	Contractual cash flows	2014	2015	2016	2017	>2017
Dec 31, 2013							
Loans from financial institutions	61,692	64,628	2,902	863	60,863	-	-
Commercial papers	14,936	15,000	15,000	-	-	-	-
Other interest-bearing liabilities	2	2	2	-	-	-	-
Finance lease liabilities	1,161	1,284	587	364	147	122	65
Trade payables	42,315	42,315	42,315	-	-	-	-
Guarantees	3,024	3,024	3,024	-	-	-	-
Total	123,130	126,252	63,829	1,227	61,010	122	65
Maturity of derivative financial assets / liabilities							
Currency forwards							
inflow	61,219	61,219	61,219	-	-	-	-
outflow	-61,139	-61,139	-61,139	-	-	-	-
Total	80	80	80	-	-	-	-

(EUR thousand)

Dec 31, 2012	Carrying amount	Contractual cash flows	2013	2014	2015	2016	>2016
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	43,491	43,491	43,491	-	-	-	-
Contingent consideration	902	1,222	-	-	1,222	-	-
Guarantees	2,666	2,666	2,666	-	-	-	-
Total	143,612	148,047	83,273	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	-	-	-	-

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 March 25, 2014, that Tikkurila would pay EUR 0.80 per share dividend, which is about 69% of Group's 2013 net profit, excluding non-recurring items, net of tax.

(EUR thousand)

	Dec 31, 2013	Dec 31, 2012
Equity	208,083	198,909
Non-controlling interest	-	-
Total	208,083	198,909
Non-current interest-bearing liabilities	60,283	60,628
Current interest-bearing liabilities	17,509	35,925
Cash and cash equivalents	29,171	15,739
Net debt	48,621	80,814

(EUR thousand)	Dec 31, 2013	Dec 31, 2012
Gearing, %	23.4%	40.6%
Equity ratio, %	50.1%	45.9%
EBITDA	93,809	91,468
Net debt/EBITDA	0.52	0.88
Capital employed		
Goodwill	66,388	66,971
Investments in associates and joint ventures	1,433	1,859
Property, plant and equipment and intangible assets	125,049	139,707
Net working capital	81,093	90,480
Total capital employed	273,963	299,017

35. Operating leases

GROUP AS LESSEE

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

Non-cancellable operating lease rentals are payable as follows:

(EUR thousand)	2013	2012
Within one year	10,454	10,132
After one year and not later than five years	14,152	18,499
Later than five years	9,473	12,521
Total	34,079	41,152

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)	2013	2012
Within one year	947	459
After one year and not later than five years	1,161	469
Later than five years	899	995
Total	3,007	1,923

36. Commitments and contingent liabilities

(EUR thousand)	2013	2012
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	204	230
On behalf of others	2,652	2,436
Other obligations on own behalf	168	-
Rent obligations	34,079	41,152
Total contingent liabilities	37,103	43,818

CONTRACTUAL COMMITMENTS:

Tikkurila Group had contractual commitments in relation to the purchase of property, plant and equipment total of EUR 1.1 million (EUR 1.4 million in 2012) at the end of financial year 2013.

Contractual commitments for purchase of intangible assets totaled EUR 0.0 million (EUR 0.0 million) at the end of year 2013.

OTHER COMMITMENTS AND PENDING LITIGATIONS

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

If there would be changes in the 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 rehabilitate 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.

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

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

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

The products and services of Tikkurila Group are sold to external companies specializing in wholesale or retail trade and also, especially in industrial and professional products, in certain markets direct to end-users of Tikkurila's products. Group companies have various frame, delivery and other agreements with its customers. At the end of financial year 2013, Tikkurila Group companies had customer agreements, which are valid beyond December 31, 2013, and which have terms and conditions creating binding commitments to Tikkurila. To major extent the commitments granted for discounts, costs or guarantees are contingent. The agreements require customers to buy Tikkurila's products and are based on the amount or value of orders made by the customers in the future. In certain cases, however, there are commitments for Tikkurila Group companies to provide certain services or to participate in customers' sales promotion activities without direct link to deliveries of Tikkurila products.

In year 2006 Tikkurila divested its subsidiary Lövhölmstrådet 12 AB to Skanska Nya Hem AB. The divested entity owned a land plot and buildings on Lövhölm in Stockholm. The final sales price was tied to the amount of square meters

(so-called BTA) for which the buyer will get permit to build on the property. In 2006 a preliminary purchase price was received and related capital gain was recognized as income. According to the original terms of the transaction, if the actual amount of BTAs will be in excess of or below the pre-agreed range, there will be an adjustment of the purchase price, either upwards or downwards. The lower limit of BTAs in the pre-agreed range was set so that currently the risk of any downward adjustment is considered to be small.

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

Tikkurila Oyj is defendant on a claim, raised at the Court of Appeal of Helsinki, 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.

Tikkurila Oyj is defendant on a claim relating outsourcing of services which is uncompleted on the date of financial statements December 31, 2013 and which financial interest is not significant. From Tikkurila point of view the claim has no grounds.

37. 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.

In the share-based plan decided in 2012 there are three performance periods: financial years 2012–2014, 2013–2015 and 2014–2016. The Board of Directors of the company 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 has purchased from the market and owns Tikkurila's shares in accordance with the terms and conditions of the plan. The potential performance-based share rewards from the performance periods 2012–2014 and 2013–2015 are 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 from the performance period 2012–2014 a restricted share 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, 2013, ten key employees selected by the Board belong to 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 has purchased 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 in December 2014 the value of one share for one purchased share purchased before January 1, 2013. The reward shall be paid so that one half is paid in shares and one half in cash.

PERFORMANCE-BASED SHARE REWARD

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 be-

fore 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.

KEY TERMS AND FINANCIAL TARGETS OF THE PERFORMANCE PERIOD 2013–2015

Key terms and conditions for the performance period 2013–2015 are identical with the terms and conditions of the performance period 2012–2014 except for the following deviations: it is not possible to earn any restricted share reward for performance period 2013–2015, and moreover the scale of financial targets, which are the basis for

the performance-based share rewards, set for the performance period 2013–2015 differ from that of 2012–2014, even though the financials are still the same: Group operative EBITDA and net debt. Potential share rewards will be paid in spring 2016.

SHARES PURCHASED BY PARTICIPANTS, VALID FOR PLAN'S 2012–2014 AND 2013–2015 PERFORMANCE PERIODS

PURCHASED SHARES BY PARTICIPANTS, HOLDINGS AS OF DECEMBER 31, 2013

At the end of financial year 2013, on December 31, the purchased shares in relation to and as the basis for the plan's performance periods 2012–2014 and 2013–2015 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%

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

Based on the abovementioned shareholdings and on the terms of the share-based commitment and incentive plan, the maximum total value of rewards, when taking into account both restricted share rewards and performance-based share rewards but while not taking into account the cap set by each participants' gross salary levels, corresponds to the value of 220,000 Tikkurila shares, of which half will be paid in cash and half in shares.

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, 2013, 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 2.6 million on December 31, 2013 (EUR 2.4 million on December 31, 2012). For this tranche a total of EUR 1.0 million (2012: 0.5 million) was booked during 2013 as personnel expenses and EUR -0.1 (-0.1) million as deferred taxes into the consolidated income statement, which resulted in EUR 0.9 (0.5) million negative impact on 2013 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, 2013, closing price, then the estimated impact of this tranche on full-year 2014 personnel expenses would be about EUR 0.9 million, and post-tax impact on Group's

net profit would be about EUR -0.7 million. There were about EUR 0.9 (0.3) million non-interest bearing liability and EUR 0.2 (0.1) million deferred tax asset on the December 31, 2013 Group consolidated statement of financial position related to this share-based plan's this tranche.

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 rewards changes affecting the corresponding liability and expense bookings, and moreover, the value of the performance-based share rewards changes when the future financial forecasts are updated. The final value is determined only at the end of the performance period.

BOOKKEEPING VALUE OF THE PLAN'S 2013–2015 PERFORMANCE PERIOD

Based on the abovementioned shareholdings and on the terms of the share-based commitment and incentive plan, the maximum total value of rewards, when taking into account the performance-based share rewards but while not taking into account the cap set by each participants' gross salary levels, corresponds to the value of 176,000 Tikkurila shares, of which half will be paid in cash and half in shares.

Based on the terms of the share-based commitment and incentive plan and of its performance period 2013–2015, and on expected future financial performance, on Tikkurila Oyj share price on December 31, 2013, 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 2013–2015 was EUR 0.5 million on December 31, 2013. For this tranche a total of EUR 0.1 million was booked during 2013 as personnel expenses and EUR -0.0 million as deferred taxes into the consolidated income statement, which resulted in EUR 0.1 million negative impact on 2013 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, 2013, closing price, then the estimated impact of this tranche on full-year 2014 personnel expenses would be slightly below EUR 0.2 million, and post-tax impact on Group's net profit would be about EUR 0.1 million negative. There were about EUR 0.1 million non-interest bearing liability and EUR 0.0 million deferred tax asset on the December 31, 2013 Group consolidated statement of financial position related to this share-based plan's this tranche.

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 rewards changes affecting the corresponding liability and expense bookings, and moreover, the value of the performance-based share rewards changes when the future financial forecasts are updated. The final value is determined only at the end of the performance period.

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

(EUR million)	Dec 31, 2013	Dec 31, 2012
Aggregate bookkeeping value		
Performance period 2012–2014	2.6	2.4
Performance period 2013–2015	0.5	-
Performance period 2014–2016	-	-
Total	3.0	2.4

(EUR million)	2012–2013	2013	2012
Personnel expenses recognized, (excluding the impact of deferred taxes)			
Performance period 2012–2014	1.5	1.0	0.5
Performance period 2013–2015	0.1	0.1	-
Performance period 2014–2016	-	-	-
Total	1.6	1.1	0.5

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 10, 2014, at the time of publishing the 2013 Financial Statements Release, the Board of Directors of Tikkurila Oyj had not made a decision for the share-based remuneration for future performance period 2014–2016.

38. Related parties

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

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

Related parties include members of the 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 39 Group's ownership in shares and participations.

Related party transactions are presented below:

(EUR thousand)	Sales	Purchases	Receivables	Liabilities
2013				
Associates	14,529	690	2,092	-
Joint ventures	4,917	-	143	33
2012				
Associates	20,724	1,261	3,151	-
Joint ventures	4,702	-	238	26

The dividends received from joint ventures amounted to EUR 254 thousand (EUR 175 thousand) during the financial year.

LOANS, GUARANTEES AND OTHER COLLATERALS GRANTED TO RELATED PARTIES

No loans, guarantees or other collaterals have been granted to the management in 2013 nor 2012.

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.)

(EUR thousand)	2013	2012
Management employee benefits ¹⁾		
Wages, salaries and other short-term employee benefits	1,543	1,813
Post-employment benefits	240	297
Share-based incentive plan	639	345
Total	2,422	2,455

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

Remunerations presented in this note are on accrual basis. Share-based incentive plan is disclosed in Note 37.

(EUR thousand)	2013	2012
Executive remuneration		
CEO		
Erkki Järvinen		
Fixed salary (fringe benefits included)	441	430
Bonuses	53	221
Share-based incentive plan	236	159
Total	730	810
Voluntary, supplementary pension payments	61	58
Statutory pension expenses	84	121
Other Management Board members		
Fixed salary (fringe benefits included)	666	621
Bonuses	67	225
Share-based incentive plan	402	186
Total	1,135	1,033
Statutory pension expenses	95	119
Board compensation		
Board members *)		
Jari Paasikivi, Chairman of the Board	65	65
Petteri Walldén, Vice Chairman of the Board	44	45
Eeva Ahdekivi, member of the Board	40	42
Pia Rudengren, member of the Board	45	45
Riitta Mynttinen, member of the Board	44	46
Harri Kerminen, member of the Board from March 28, 2012	39	36
Aleksey Vlasov, member of the Board from March 28, 2012	39	36
Total	316	315

*) 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 100 (100) thousand in year 2013. This is included in figures presented above.

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

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

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

Tikkurila Group has a management bonus scheme for 2013, approved on December 3, 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 107 persons in year 2013. Bonus criteria consist of the 2013 Tikkurila Group revenue growth, business cash flow and operative EBIT as well as function, region, company or team specific targets or individual targets. The bonuses to CEO and other Management board members, on accrual basis, amounted to EUR 120 thousand in 2013. These bonuses shall be paid in March 2014.

Tikkurila Group had a management bonus scheme for 2012, approved on February 15, 2012 by Board of Directors of Tikkurila Oyj. Participants were 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. The 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 were paid in March 2013.

Share holdings of Tikkurila Board of Directors and Management Board are stated in page 85, Shares and shareholders.

39. Group's ownership in shares and participations

Subsidiaries	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2013				
AS Tikkurila	Tallinn	Estonia	100	100
UAB Tikkurila	Vilnius	Lithuania	100	100
OOO Tikkurila	St. Petersburg	Russia	100	100
SIA Tikkurila	Riga	Latvia	100	100
Färdigfärgat AB ¹⁾	Stockholm	Sweden	100	100
Tikkurila (China) Paints Co., Ltd	Beijing	Republic of China	100	100
Dickursby Holding AB	Stockholm	Sweden	100	100
OOO Gamma Industrial Coatings	St. Petersburg	Russia	100	-
IP Tikkurila	Minsk	Belarus	100	100
TOO Tikkurila	Almaty	Kazakhstan	100	100
TOV Tikkurila	Kiev	Ukraine	100	99
Isanta LLC	Kiev	Ukraine	100	-
Tikkurila Polska S.A.	Debica	Poland	100	100
Tikkurila Zorka d.o.o.	Sabac	Serbia	100	100
Tikkurila dooel	Skopje	Macedonia	100	-
Tikkurila Sverige AB	Stockholm	Sweden	100	100
Färgservice i Malmö AB	Malmö	Sweden	100	-
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Tikkurila GmbH ²⁾	Ansbach	Germany	100	-

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
Färdigfärgat AB ¹⁾	Stockholm	Sweden	100	100
Tikkurila Coatings B.V. ³⁾	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	Stockholm	Sweden	100	100
Tikkurila Norge A/S	Oslo	Norway	100	-
Tikkurila Danmark A/S	Brönby	Denmark	100	-
Tikkurila GmbH ²⁾	Ansbach	Germany	100	-

¹⁾ Former Tikkurila AB.

²⁾ Former Pigrol Farben GmbH.

³⁾ The liquidation process was completed during financial year 2013.

Joint ventures	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2013				
Alcro Parti AB	Stockholm	Sweden	50	-

2012				
Alcro Parti AB	Stockholm	Sweden	50	-

Associates	City of domicile	Country of domicile	Tikkurila Group's ownership and voting shares %	Parent company's ownership and voting shares %
2013				
Happy Homes i Sverige AB	Stockholm	Sweden	45	-

2012				
Happy Homes i Sverige AB	Stockholm	Sweden	45	-

40. Changes in Group structure

CHANGES IN THE GROUP STRUCTURE DURING 2013

Tikkurila completed a liquidation of its Dutch subsidiary, Tikkurila Coatings B.V., in February 2013.

Tikkurila Sverige AB, a subsidiary to Tikkurila Oyj, completed an acquisition of a store for consumers on October 14, 2013.

CHANGES IN COMPANY NAMES:

Former name:	New name:
Tikkurila AB	Färdigfärgat AB
Pigrol Farben GmbH	Tikkurila GmbH

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 Dejmek 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.

41. Changes in accounting principles

Tikkurila Group has applied retrospectively the standards IAS 19 (revised 2011) and IFRS 11 Joint arrangements, which have had the significant impact on Group's figures. The following tables describe the impact of the changes in accounting principles on Group's comparison figures.

IFRS 11

Group has changed its accounting principle for its interests in joint arrangements as a result of the IFRS 11 Joint Arrangements. Standard focuses 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. Regarding the joint operation the joint operator accounts for its share of the assets, liabilities, revenue and expenses. The joint venture has to be accounted for using the equity method. Tikkurila Group is involved in one joint arrangement and has classified this according to the IFRS 11 as joint venture after considered the structure of the arrangement, the legal form of it, the contractual terms of the arrangement and other facts and circumstances. The joint venture, Alcro Parti AB, is accounted for using the equity method instead of previously used proportionate consolidation. The Group's share of profit or loss of joint venture is recognized in statement of consolidated comprehensive income line "Share of profit or loss of equity-accounted investees". The carrying amount of investment in joint venture is also adjusted with the Group's share of changes in joint venture's other comprehensive

income. These items comprise remeasurements on defined benefit plans. No goodwill is included in this investment of joint venture.

IAS 19 (REVISED 2011)

The Group has changed its accounting principles as per revised IAS 19 (revised 2011) Employee Benefits. According to the revised IAS 19 all actuarial gains and losses shall be recognized immediately in other comprehensive income in period they arise and shall not be reclassified to profit or loss in a subsequent period. The interest cost and expected return on plan assets are replaced with a net interest amount on the net defined benefit liability (asset). The net interest is recognized in profit or loss in personnel expenses. The net interest is determined by multiplying the net defined benefit liability (asset) by the discount rate. Both discount rate and net defined benefit liability (as-

set) are determined at the beginning of the reporting period, taking into account of any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. The net interest comprises interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the

asset ceiling. The revised standard is applied retrospectively in accordance with IAS 8. Previously unrecognized actuarial gains and losses were recognized in opening statement of financial position as of January 1, 2012.

In this context, the Group reviewed more closely other long-term employee benefits and

as following to this, the liability related to long-service benefits, EUR 3.9 million was recognized at year-end 2012. This decreased equity attributable to owners of the parent EUR 2.9 million, net of tax. The impact of long-service benefits on the Group's figures is included as adjustments of IAS 19 in the following tables.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	before restatement 1-12/2012	IAS 19	IFRS 11	restated 1-12/2012
Revenue	671,836	-	-1,397	670,439
Other operating income	3,266	-	-	3,266
Change in inventories of finished goods and work in progress	-6,324	-	-	-6,324
Materials and services	-338,075	-	36	-338,039
Personnel expenses	-115,905	112	258	-115,535
Depreciation, amortization and impairment losses	-25,140	-	-	-25,140
Other operating expenses	-123,105	-	766	-122,339
Operating profit	66,553	112	-337	66,328
Financial income	7,652	-	-15	7,637
Financial expenses	-15,025	-	8	-15,017
Share of profit or loss of equity-accounted investees	62	-	254	316
Result before taxes	59,242	112	-90	59,264
Income taxes	-18,664	-25	90	-18,599
Net result for the period	40,578	87	-	40,665
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements on defined benefit plans	-	-130	-	-130
Income taxes relating to items that will not be reclassified to profit or loss	-	-173	-	-173
Total items that will not be reclassified to profit or loss	-	-303	-	-303
Items that may be reclassified subsequently to profit or loss				
Available-for-sale financial assets	237	-	-	237
Foreign currency translation differences for foreign operations	6,248	-166	-	6,082
Income taxes relating to items that may be reclassified subsequently to profit or loss	-68	-	-	-68
Total items that may be reclassified subsequently to profit or loss	6,417	-166	-	6,251
Total comprehensive income for the period	46,995	-382	-	46,613
Net profit attributable to:				
Owners of the parent	40,578	87	-	40,665
Non-controlling interest	-	-	-	-
Net result for the period	40,578	87	-	40,665
Total comprehensive income attributable to:				
Owners of the parent	46,995	-382	-	46,613
Non-controlling interest	-	-	-	-
Total comprehensive income for the period	46,995	-382	-	46,613
Earnings per share of the net profit attributable to owners of the parent				
Basic earnings per share (EUR)	0.92	0.00	0.00	0.92
Diluted earnings per share (EUR)	0.92	0.00	0.00	0.92

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	before restatement	IAS 19	IFRS 11	restated
(EUR thousand)	Dec 31, 2012			Dec 31, 2012
ASSETS				
Non-current assets				
Goodwill	66,971	-	-	66,971
Other intangible assets	26,922	-	-	26,922
Property, plant and equipment	112,785	-	-	112,785
Equity-accounted investees	1,070	-15	804	1,859
Available-for-sale financial assets	3,281	-	-	3,281
Non-current receivables	10,631	-	-761	9,870
Defined benefit pension assets	467	-467	-	-
Deferred tax assets	6,627	2,158	-13	8,772
Total non-current assets	228,754	1,676	30	230,460
Current assets				
Inventories	84,766	-	-	84,766
Interest-bearing receivables	332	-	-	332
Non-interest-bearing receivables	102,236	-	-185	102,051
Cash and cash equivalents	15,927	-	-188	15,739
Non-current assets held for sale	-	-	-	-
Total current assets	203,261	-	-373	202,888
Total assets	432,015	1,676	-343	433,348
EQUITY AND LIABILITIES				
Share capital	35,000	-	-	35,000
Other reserves	359	-	-	359
Fair value reserve	1,815	-	-	1,815
Reserve for invested unrestricted equity	40,000	-	-	40,000
Translation differences	-7,852	-166	-	-8,018
Retained earnings	136,763	-7,010	-	129,753
Equity attributable to owners of the parent	206,085	-7,176	-	198,909
Non-controlling interest	-	-	-	-
Total equity	206,085	-7,176	-	198,909
Non-current liabilities				
Interest-bearing non-current liabilities	60,628	-	-	60,628
Other non-current liabilities	1,160	-	-	1,160
Defined benefit pension and other long-term employee benefit liabilities	17,772	8,903	-243	26,432
Provisions	924	-	-	924
Deferred tax liabilities	11,678	-51	-20	11,607
Total non-current liabilities	92,162	8,852	-263	100,751
Current liabilities				
Interest-bearing current liabilities	35,925	-	-	35,925
Non-interest-bearing current liabilities	97,672	-	-80	97,592
Provisions	171	-	-	171
Liabilities classified as held for sale	-	-	-	-
Total current liabilities	133,768	-	-80	133,688
Total equity and liabilities	432,015	1,676	-343	433,348

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR thousand)	before restatement Jan 1, 2012	IAS 19	IFRS 11	restated Jan 1, 2012
ASSETS				
Non-current assets				
Goodwill	68,696	-	-	68,696
Other intangible assets	30,155	-	-	30,155
Property, plant and equipment	112,570	-	-	112,570
Equity-accounted investees	971	-18	693	1,646
Available-for-sale financial assets	3,028	-	-	3,028
Non-current receivables	7,564	-	-718	6,846
Defined benefit pension assets	491	-491	-	-
Deferred tax assets	4,932	2,346	-14	7,264
Total non-current assets	228,407	1,837	-39	230,205
Current assets				
Inventories	94,690	-	-	94,690
Interest-bearing receivables	63	-	-	63
Non-interest-bearing receivables	96,023	-	-153	95,870
Cash and cash equivalents	10,426	-	-125	10,301
Non-current assets held for sale	4,894	-	-	4,894
Total current assets	206,096	-	-278	205,818
Total assets	434,503	1,837	-317	436,023
EQUITY AND LIABILITIES				
Share capital	35,000	-	-	35,000
Other reserves	359	-	-	359
Fair value reserve	1,636	-	-	1,636
Reserve for invested unrestricted equity	40,000	-	-	40,000
Translation differences	-16,281	-	-	-16,281
Retained earnings	130,786	-6,794	-	123,992
Equity attributable to owners of the parent	191,500	-6,794	-	184,706
Non-controlling interest	-	-	-	-
Total equity	191,500	-6,794	-	184,706
Non-current liabilities				
Interest-bearing non-current liabilities	60,345	-	-	60,345
Other non-current liabilities	2,382	-	-	2,382
Defined benefit pension and other long-term employee benefit liabilities	16,743	8,631	-221	25,153
Provisions	534	-	-	534
Deferred tax liabilities	10,980	-	-	10,980
Total non-current liabilities	90,984	8,631	-221	99,394
Current liabilities				
Interest-bearing current liabilities	49,504	-	-	49,504
Non-interest-bearing current liabilities	101,675	-	-96	101,579
Provisions	222	-	-	222
Liabilities classified as held for sale	618	-	-	618
Total current liabilities	152,019	-	-96	151,923
Total equity and liabilities	434,503	1,837	-317	436,023

CONSOLIDATED FINANCIAL STATEMENT OF CASH FLOWS	before restatement	effect of restatement	restated
(EUR thousand)	1-12/2012		1-12/2012
CASH FLOW FROM OPERATING ACTIVITIES			
Net result for the period	40,578	87	40,665
Adjustments for:			
Non-cash transactions	31,509	-389	31,120
Interest and other financial expenses	8,782	-7	8,775
Interest income and other financial income	-1,409	15	-1,394
Income taxes	18,664	-64	18,600
Funds from operations before change in net working capital	98,124	-358	97,766
Change in net working capital	240	22	262
Interest and other financial expenses paid	-6,645	9	-6,636
Interest and other financial income received	770	-15	755
Income taxes paid	-26,465	95	-26,370
Total cash flow from operations	66,024	-247	65,777
CASH FLOW FROM INVESTING ACTIVITIES			
Business combinations	-	-	-
Other capital expenditure	-16,827	-	-16,827
Proceeds from sale of assets	714	-	714
Non-current loan receivables decrease (+), increase (-)	283	-	283
Dividends received	132	178	310
Net cash used in investing activities	-15,698	178	-15,520
Cash flow before financing	50,326	-69	50,257
CASH FLOW FROM FINANCING ACTIVITIES			
Non-current borrowings, increase (+), decrease (-)	-	-	-
Current financing, increase (+), decrease (-)	-14,032	43	-13,989
Dividends paid	-32,199	-	-32,199
Other	1,457	-37	1,420
Net cash used in financing activities	-44,774	6	-44,768
Net change in cash and cash equivalents	5,552	-63	5,489
Cash and cash equivalents at the beginning of period	10,426	-125	10,301
Effect of exchange rate fluctuations on cash held	387	0	387
Cash and cash equivalents transferred in assets held for sale	-336	-	-336
Cash and cash equivalents at the end of period	15,927	-188	15,739
Net change in cash and cash equivalents	5,552	-63	5,489
KEY PERFORMANCE INDICATORS			
	before restatement	effect of restatement	restated
	1-12/2012/ 31.12.2012		1-12/2012/ 31.12.2012
Earnings per share / basic, EUR	0.92	0.00	0.92
Earnings per share / diluted, EUR	0.92	0.00	0.92
Cash flow from operations, EUR thousand	66,024	-247	65,777
Cash flow from operations / per share, EUR	1.50	-0.01	1.49
Capital expenditure, EUR thousand	16,827	-	16,827
of revenue %	2.5%	0.0%	2.5%

KEY PERFORMANCE INDICATORS	before	effect of	
	restatement	restatement	restated
	1-12/2012/ 31.12.2012		1-12/2012/ 31.12.2012
Shares (1,000), average	44,108	-	44,108
Shares (1,000), at the end of the reporting period	44,108	-	44,108
Weighted average number of shares, adjusted for dilutive effect (1,000)	44,179	-	44,179
Number of shares at the end of period, adjusted for dilutive effect (1,000)	44,218	-	44,218
Equity attributable to the owners of the parent / per share, EUR	4,67	-0.16	4,51
Equity ratio, %	47.7%	-1.8%	45.9%
Gearing, %	39.1%	1.5%	40.6%
Interest-bearing financial liabilities (net), EUR thousand	80,626	188	80,814
Return on capital employed (ROCE), % p.a.	21.0%	0.0%	21.0%
Personnel (average)	3,425	-3	3,422

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, 2013	Jan 1 - Dec 31, 2012
Revenue	2	214,036	220,390
Change in inventories of finished goods and work in progress	4	471	-5,874
Other operating income	3	819	1,652
Materials and services	4	-109,904	-108,481
Personnel expenses	5	-36,835	-42,321
Depreciation, amortization and impairment losses	7	-5,677	-6,255
Other operating expenses	4, 6	-32,023	-33,394
Operating profit		30,887	25,717
Financial income and expenses	8	19,167	22,979
Profit before extraordinary items, appropriations and taxes		50,053	48,696
Profit before appropriations and taxes		50,053	48,696
Appropriations	7, 9	694	1,718
Income tax	10	-8,075	-7,108
Net profit for the period		42,672	43,306

TIKKURILA OYJ BALANCE SHEET (FAS)

(EUR thousand)	Note	Dec 31, 2013	Dec 31, 2012
ASSETS			
Non-current assets	11		
Intangible assets		2,813	4,271
Tangible assets		20,968	23,565
Investments			
Holdings in Group companies		170,025	175,834
Other shares and holdings		634	651
Total investments		170,659	176,484
Total non-current assets		194,439	204,320
Current assets			
Inventories	12	24,901	24,776
Non-current receivables	13	29,064	32,644
Current receivables	13	53,324	51,869
Cash and cash equivalents		13,584	8,703
Total current assets		120,873	117,993
Total assets		315,312	322,313
EQUITY AND LIABILITIES			
Equity	14		
Share capital		35,000	35,000
Reserve for invested unrestricted equity		40,000	40,000
Retained earnings		57,611	47,828
Net profit for the period		42,672	43,306
Total equity		175,283	166,133
Appropriations	15	4,974	5,667
Provisions	16	607	607
Liabilities	17		
Non-current liabilities		60,000	60,000
Current liabilities		74,448	89,906
Total liabilities		134,448	149,906
Total equity and liabilities		315,312	322,313

TIKKURILA OYJ CASH FLOW (FAS)

(EUR thousand)	Jan 1 - Dec 31, 2013	Jan 1 - Dec 31, 2012
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before extraordinary items	50,053	48,696
Adjustments:		
Unrealized exchange gains and losses	692	449
Depreciation, amortization and impairment losses	5,677	6,255
Interest income	-3,904	-4,862
Interest expenses	2,356	4,658
Dividend income	-34,191	-28,362
Other adjustments	-478	790
Write-down of non-current assets	4,461	3,700
Write-down of loan receivables	9,500	-
Other financial items	1,919	1,438
Total funds from operating activities before change in net working capital	36,085	32,761
Change in net working capital		
Change in inventories	-124	6,889
Change in current receivables	-8,293	-1,900
Change in interest-free current liabilities	-1,244	-1,415
Change in net working capital, total	-9,662	3,574
Interest and other financial expenses paid	-5,030	-6,798
Interest and other financial income received	3,861	5,432
Income taxes paid	-6,859	-7,740
Dividends received	30,729	25,935
Total cash flow from operating activities	49,125	53,165
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of tangible and intangible assets	-1,622	-4,789
Proceeds from sales of other shares	895	1
Proceeds from sales of Group companies	1,348	1,765
Change in non-current loan receivables increase (-), decrease (+)	3,637	733
Proceeds from sales of tangible and intangible assets	-	167
Dividends received	120	132
Net cash used in investing activities	4,379	-1,991
Cash flow before financing	53,504	51,175
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in non-current loans	-	-
Decrease in non-current loans	-	-
Change in current financing increase (+), decrease (-)	-15,101	-13,660
Dividends paid	-33,522	-32,199
Net cash used in financing activities	-48,623	-45,859
Net change in cash and cash equivalents	4,881	5,316
Cash and cash equivalents at Dec 31	13,584	8,703
Cash and cash equivalents at Jan 1	8,703	3,387
Change in cash and cash equivalents	4,881	5,316

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.

DEFERRED TAXES

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

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTIZATION

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

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

buildings and constructions	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

	2013	2012
Revenue by geographical segment, % of total revenue	%	%
Finland	49	49
Other EU countries	22	22
Other Europe	25	24
Other countries	5	5
Revenue by geographical segment, total	100	100

3. Other operating income

(EUR thousand)	2013	2012
Gains on sale of non-current assets	19	52
Gains on sale of shares	478	670
Liquidation of a Group company	-	815
Other income from operations	321	115
Other operating income, total	819	1,652

4. Other operating expenses

(EUR thousand)	2013	2012
Change in inventories of finished goods and work in progress	471	-5,874
Materials and services		
Materials and supplies		
Purchases during the financial year	-108,834	-106,777
Change in inventories of materials and supplies	-347	-1,014
External services	-724	-690
Total materials and services	-109,904	-108,481
Personnel expenses	-36,835	-42,321
Rents	-1,513	-1,699
Loss on sales of non-current assets	-	-1,087
Other expenses and expense reimbursement	-30,511	-30,608
Total other operating expenses	-178,291	-190,071

5. Personnel expenses and number of personnel

(EUR thousand)	2013	2012
Wages and salaries	-29,530	-33,238
Pension expenses	-5,587	-6,589
Other personnel expenses	-1,718	-2,494
Total personnel expenses	-36,835	-42,321
Management remunerations		
Members of the Board of Directors, CEO and other Management Board members	-1,946	-1,984

ACCRUAL BASED REMUNERATION OF CEO AND MANAGEMENT BOARD

In the following table remuneration of CEO is presented on accrual basis in year 2012 and 2013. Previously these were presented cash - based.

(EUR thousand)	2013	2012
CEO		
Fixed salary, fringe benefits included	-441	-430
Bonuses	-53	-221
Share-based incentive plan	-152	-79
Total	-646	-730
Voluntary, supplementary pension payments	-61	-58
Statutory pension expenses	-84	-121

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

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

mentary pension is held by insurance company. Statutory pension plan is a defined contribution plan.

(EUR thousand)	2013	2012
Other Management Board members ¹⁾		
Fixed salary, fringe benefits included	-666	-621
Bonuses	-67	-225
Share-based incentive plan	-251	-92
Total	-984	-939
Statutory pension expenses	-95	-119
Statutory pension is a defined contribution plan.		

¹⁾ EUR 174 thousand is not included in income statement line wages and salaries in year 2013. The comparison year EUR 205 thousand was not included in wages and salaries.

REMUNERATION OF MEMBERS OF BOARD OF DIRECTORS ^{*)}

(EUR thousand)	2013	2012
Jari Paasikivi	-65	-65
Petteri Walldén	-44	-45
Harri Kerminen as from March 28, 2012	-39	-36
Pia Rudengren	-45	-45
Eeva Ahdekivi	-40	-42
Aleksey Vlasov as from March 28, 2012	-39	-36
Riitta Mynttinen	-44	-46
Total	-316	-315

^{*)} 40 percent of the annual fee of the Board members was paid in Tikkurila Oyj's shares. This was total of EUR 100 (100) thousand in year 2013. This is included in figures presented above.

LOANS TO RELATED PARTIES

No related parties held loans from the Company in 2013 or in 2012.

Number of personnel	2013	2012
Average number of white-collar employees	355	371
Average number of blue-collar employees	252	270
Personnel (average)	607	641

6. Auditor's fees

(EUR thousand)	2013	2012
KPMG Oy Ab, Authorized Public Accountants		
Audit fees	-159	-142
Tax consultancy	-9	-6
Other auditings	-40	-
Other fees	-12	-14
Other audit firms		
Other fees	-31	-46
Auditing fees, total	-251	-207

7. Depreciation, amortization and impairment losses

(EUR thousand)	2013	2012
Depreciation according to plan and impairment losses		
Intangible asset		
Goodwill	-	-943
Other capitalized expenditure	-1,377	-1,083
Impairment losses of intangible assets	-57	-
Tangible assets		
Impairment loss of land and water	-323	-
Buildings and constructions	-1,406	-1,637
Impairment losses of buildings and constructions	-49	-
Machinery and equipment	-2,238	-2,567
Impairment losses of machinery and equipment	-200	-
Other tangible assets	-27	-24
Total depreciation, amortization and impairment losses	-5,677	-6,255
Change in depreciation difference		
Intangible assets	0	0
Other capitalized expenditure	600	639
Buildings and constructions	-483	876
Machinery and equipment	555	178
Other tangible assets	22	24
Total	694	1,718

8. Financial income and expenses

(EUR thousand)	2013	2012
Financial income		
Dividend income		
Dividend income from Group companies	34,071	28,230
Dividend income from others	120	132
Total dividend income	34,191	28,362
Interest income		
Interest income from non-current investments from others	0	3
Interest income from current investments from Group companies	3,678	4,568
Interest income from current investments from others	226	291
Total interest income	3,904	4,862
Other financial income		
Other financial income from Group companies	106	219
Total other financial income	106	219
Exchange gains		
Exchange gains from Group companies	109	3,016
Exchange gains from others	3,164	1,408
Total exchange gains	3,272	4,424
Total financial income	41,473	37,868
Write-down of non-current investments		
From holdings in subsidiaries	-4,461	-3,700
Total write-down of non-current investments	-4,461	-3,700

(EUR thousand)	2013	2012
Financial expenses		
Interest expenses		
Interest expenses to Group companies	-397	-436
Interest expenses to others	-1,959	-4,222
Total interest expenses	-2,356	-4,658
Other financial expenses		
Other financial expenses to Group companies	-9,500	
Other financial expenses to others	-860	-758
Total other financial expenses	-10,360	-758
Exchange losses		
Exchange losses to Group companies	-3,285	-1,580
Exchange losses to others	-1,845	-4,194
Total exchange losses	-5,130	-5,773
Total financial expenses	-17,845	-11,189
Total financial income and expenses	19,167	22,979
Exchange gains and losses		
Realized	-1,165	-900
Unrealized	-692	-449
Total exchange gains and losses	-1,857	-1,349

9. Change in appropriations

(EUR thousand)	2013	2012
Change in depreciation difference	694	1,718
Total change in appropriations	694	1,718

10. Income taxes

(EUR thousand)	2013	2012
Income tax for current year	-8,182	-7,275
Income tax for previous years	23	0
Change in deferred taxes	84	167
Total income taxes	-8,075	-7,108

11. Non-current assets

INTANGIBLE ASSETS

(EUR thousand)	2013	2012
Goodwill		
Acquisition cost at beginning of year	10,291	10,291
Acquisition cost at year end	10,291	10,291
Accumulated amortization at beginning of year	-10,291	-9,347
Amortization during the financial year	-	-943
Accumulated amortization at year end	-10,291	-10,291
Carrying amount at year end	-	-

(EUR thousand)	2013	2012
Other capitalized expenditure		
Acquisition cost at beginning of year	9,650	9,040
Increase	2,087	610
Decrease	-905	-
Acquisition cost at year end	10,831	9,650
Accumulated amortization at beginning of year	-7,531	-6,448
Accumulated amortization related to decrease	905	-
Impairment loss	-57	-
Amortization during the financial year	-1,377	-1,083
Accumulated amortization and impairment losses at year end	-8,060	-7,531
Carrying amount at year end	2,772	2,119
Advance payments and assets under construction		
Acquisition cost at beginning of year	2,153	1,029
Change during the year	-2,111	1,123
Carrying amount at year end	41	2,153
Total intangible assets	2,813	4,271

TANGIBLE ASSETS

(EUR thousand)	2013	2012
Land and water		
Acquisition cost at beginning of year	1,990	2,020
Impairment loss	-323	-
Transfers	-	-31
Carrying amount at year end	1,667	1,990
Buildings and constructions		
Acquisition cost at beginning of year	35,081	34,492
Increase	1,117	637
Decrease	-13,572	-48
Acquisition cost at year end	22,625	35,081
Accumulated depreciation at beginning of year	-28,314	-26,713
Accumulated depreciation related to decrease	13,572	36
Depreciation during the financial year	-1,406	-1,637
Impairment loss	-49	-
Accumulated depreciation and impairment losses at year end	-16,197	-28,314
Carrying amount at year end	6,427	6,766

(EUR thousand)	2013	2012
Machinery and equipment		
Acquisition cost at beginning of year	55,918	53,466
Increase	510	3,879
Decrease	-15,043	-1,458
Transfers	1	31
Acquisition cost at year end	41,386	55,918
Accumulated depreciation at beginning of year	-41,547	-40,324
Accumulated depreciation related to decrease	15,041	1,344
Depreciation during the financial year	-2,238	-2,567
Impairment loss	-200	-
Accumulated depreciation and impairment losses at year end	-28,944	-41,547
Carrying amount at year end	12,442	14,371

The carrying amount of production machinery and equipment was EUR 11,548 thousand (EUR 13,262 thousand).

(EUR thousand)	2013	2012
Other tangible assets		
Acquisition cost at beginning of year	1,094	1,094
Decrease	-156	-
Acquisition cost at year end	938	1,094
Accumulated depreciation at beginning of year	-909	-884
Accumulated depreciation related to decrease	156	-
Depreciation during the financial year	-27	-24
Accumulated depreciation at year end	-779	-909
Carrying amount at year end	159	185
Advance payments and assets under construction		
Acquisition cost at beginning of year	253	1,720
Change during the year	21	-1,467
Carrying amount at year end	273	253
Total tangible assets	20,968	23,565

INVESTMENTS

(EUR thousand)	2013	2012
Holdings in Group companies		
Acquisition cost at beginning of year	175,834	181,698
Write-down	-4,461	-3,700
Decrease	-1,348	-2,164
Carrying amount at year end	170,025	175,834
Other shares and holdings		
Acquisition cost at beginning of year	651	652
Decrease	-17	-1
Carrying amount at year end	634	651
Total investments	170,659	176,484

12. Inventories

(EUR thousand)	2013	2012
Materials and supplies	8,994	9,196
Work in progress	190	334
Finished goods	15,717	15,246
Total inventories	24,901	24,776

13. Receivables

(EUR thousand)	2013	2012
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables from Group companies	26,081	29,072
Loan receivables from others	2,669	3,341
Total non-current interest-bearing receivables	28,750	32,413
Deferred tax assets	315	231
Total non-current receivables	29,064	32,644
Current receivables		
Current interest-bearing receivables		
Current interest-bearing receivables from others	1,357	2,155
Current interest-bearing receivables from Group companies	16,893	22,888
Total current interest-bearing receivables	18,250	25,043
Current interest-free receivables		
Loan receivables from others	255	615
Other current receivables from others	22	24
Trade receivables		
Trade receivables from Group companies	20,832	11,784
Trade receivables from others	7,911	8,439
Total trade receivables	28,743	20,223
Deferred expenses and accrued income		
Deferred expenses and accrued income from Group companies	3,020	1,759
Deferred expenses and accrued income from others	3,034	4,206
Total deferred expenses and accrued income	6,054	5,965
Total current interest-free receivables	35,074	26,827
Total current receivables	53,324	51,870
Total receivables	82,388	84,514
Deferred expenses and accrued income		
Interest income	458	485
Derivatives	498	428
Insurances	49	52
Personnel related	585	1,089
Purchases	994	2,089
IT services	3,217	1,032
Others	254	789
Total deferred expenses and accrued income	6,054	5,965

14. Equity

(EUR thousand)	2013	2012
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	91,133	80,027
Dividends	-33,522	-32,199
Retained earnings at December 31	57,611	47,828
Net profit for the period	42,672	43,306
Retained earnings and net profit for the period at December 31	100,283	91,133
Total unrestricted equity	140,283	131,133
Total equity at December 31	175,283	166,133
Distributable funds at December 31		
Reserve for invested unrestricted equity	40,000	40,000
Retained earnings	57,611	47,828
Net profit for the financial year	42,672	43,306
Distributable funds	140,283	131,133

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

15. Appropriations

(EUR thousand)	2013	2012
Depreciation difference		
Accumulated depreciation difference per asset		
Buildings and constructions	-2,274	-2,734
Machinery and equipment	6,830	7,361
Other tangible assets	46	68
Other capitalized expenditure	367	967
Intangible rights	5	5
Total accumulated depreciation difference	4,974	5,667
Change in depreciation difference		
Depreciation difference at January 1	5,667	7,385
Change in depreciation difference in income statement	-694	-1,718
Depreciation difference at December 31	4,974	5,667

16. Provisions

(EUR thousand)	2013	2012
Other provisions	607	607

17. Liabilities

(EUR thousand)	2013	2012
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		
2015 (2014)	-	-
2016 (2015)	60,000	-
2017 (2016)	-	60,000
2018 (2017)	-	-
2019 (2018)	-	-
Total non-current liabilities	60,000	60,000
Current liabilities		
Current interest-bearing liabilities		
Other interest-bearing liabilities		
Other interest-bearing liabilities to Group companies	26,015	22,751
Other interest-bearing liabilities to others	14,936	33,301
Total other interest-bearing liabilities	40,951	56,052
Total current interest-bearing liabilities	40,951	56,052
Current interest-free liabilities		
Trade payables		
Trade payables to Group companies	595	734
Trade payables to others	12,980	13,248
Total trade payables	13,575	13,982
Accrued expenses and deferred income		
Accrued expenses and deferred income to Group companies	4	8
Accrued expenses and deferred income to others	18,509	18,925
Total accrued expenses and deferred income	18,514	18,933
Other interest-free liabilities to others	1,408	939
Total current interest-free liabilities	33,497	33,854
Total current liabilities	74,448	89,906
Accrued expenses and deferred income		
Personnel expenses	7,176	8,627
Related to sales	8,438	7,536
Interest	251	369
Income taxes	1,659	859
Derivatives	398	592
Other	592	950
Total accrued expenses and deferred income	18,514	18,933

18. Contingent liabilities

(EUR thousand)	2013	2012
Lease liabilities		
Maturity within one year	1,092	1,180
Maturity later than one year	1,110	1,520
Total lease liabilities	2,202	2,699
Other contingent liabilities		
Material contractual commitment for acquisition of tangible assets	270	570
Guarantees		
On own behalf	38	107
On behalf of Group companies	21,818	23,851
Total guarantees	21,856	23,958

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 4.1 million.

In year 2006, the subsidiary of Tikkurila Oyj, Tikkurila Sverige AB, sold its subsidiary to Skanska Nya Hem AB. The divested entity owned a land plot and buildings in Stockholm. According to the revised terms, if at the end of 2019 there will be no final town plan regarding BTAs for the land

area in question, Skanska has the option either to finalize the transaction with the preliminary purchase price without any right to adjustment or to cancel the transaction and let Tikkurila Sverige AB buy the property back at the preliminary transaction price. If the transaction would be reversed, Tikkurila Sverige AB has also committed, subject to certain limitations, to compensate Skanska for costs related to preparing the property for further development. Tikkurila Oyj has given guarantee on behalf of Tikkurila Sverige AB.

Tikkurila Oyj is defendant on a claim, raised at the Court of Appeal of Helsinki, 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.

Tikkurila Oyj is defendant on a claim relating outsourcing of services which is uncompleted on the date of financial statements December 31, 2013 and which financial interest is not significant. From Tikkurila point of view the claim has no grounds.

19. Derivative instruments

(EUR thousand)	2013		2012	
	Nominal value	Fair value	Nominal value	Fair value
Currency derivatives				
Currency forwards	71,572	80	47,919	-206

SHARES AND SHAREHOLDERS

SHARES AND SHARE CAPITAL

At the end of 2013, 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 2013, Tikkurila held no treasury shares.

BOARD AUTHORIZATIONS

On April 10, 2013, 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 would decide upon other terms related to repurchase of shares.

The repurchase authorization would be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2014. As of December 31, 2013, the Board of Directors had not exercised this authorization.

AUTHORIZATION TO ISSUE SHARES

The Annual General Meeting authorized the Board of Directors to decide to transfer 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 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 would be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2014. As of December 31, 2013, 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 December, the closing price of Tikkurila's share was EUR 19.90. In January–December, the volume-weighted average share price was EUR 17.12, the highest price EUR 20.90, and the lowest EUR 14.77. At the end of December, the market value of Tikkurila Oyj's shares was EUR 877.8 million. During January–December, a total of 12.4 million Tikkurila shares, corresponding to approximately 28 percent of the number of registered shares, were traded on NASDAQ OMX Helsinki Ltd. The value of the traded volume was EUR 212.0 million. Tikkurila's shares are traded also outside of NASDAQ OMX Helsinki, but the company does not have detailed statistics available on this external trading.

HOLDINGS OF TIKKURILA'S BOARD OF DIRECTORS AND MANAGEMENT BOARD

Tikkurila Board members and their interest parties held altogether 92,275 shares on December 31, 2013, which is about 0.2 percent of the share capi-

tal 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, 2013, 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, 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 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 March 25, 2014, that a dividend of EUR 0.80 per share will be distributed for the year ended on December 31, 2013. The proposed dividend corresponds to approximately 69 percent of operative net income.

SHAREHOLDERS

According to Euroclear Finland Oy's register, Tikkurila had approximately 21,000 shareholders on December 31, 2013, the largest single shareholder

being Oras Invest Oy with 18.1 percent. A list of the largest shareholders is updated regularly on Tikkurila's website at www.tikkurilagroup.com/investors/share_information/shareholders.

DISCLOSURE OF CHANGES IN HOLDINGS IN 2013

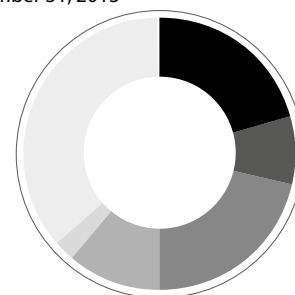
Tikkurila Oyj received a notification, based on the Securities Markets Act, from Threadneedle Investments on October 4, 2013. According to the notification, the holding of Ameriprise Financial Inc's holding companies (Columbia Wanger Asset Management LLC, Columbia Management Investment Advisers LLC and Threadneedle Asset Management Holdings Limited) in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades executed on October 3, 2013. The holding of the above mentioned companies in Tikkurila Oyj has amounted to a total of 2,215,512 shares, which corresponds to 5.02 percent of the total amount of shares and votes in Tikkurila Oyj.

Tikkurila Oyj received a notification, based on the Securities Markets Act, from Ilmarinen Mutual

Pension Insurance Company on January 8, 2014. According to the notification, the holding of Ilmarinen Mutual Pension Insurance Company in shares of Tikkurila Oyj fell below the 1/10 (10%) threshold due to trades made on January 8, 2014. After these transactions the holding of Ilmarinen Mutual Pension Insurance Company in Tikkurila Oyj amounts to a total of 4,312,079 shares, which corresponds to 9.78 percent of the total amount of shares and voting rights in Tikkurila Oyj.

After the review period on February 5, 2014, Tikkurila Oyj received a notification, based on the Securities Markets Act, from FMR LLC. The holding of the entities controlled by FMR LLC in shares of Tikkurila Oyj exceeded the 1/20 (5%) threshold due to trades executed on February 4, 2014. The holding of the above mentioned entities in Tikkurila Oyj has amounted to a total of 3,414,085 shares, which corresponds to 7.74 percent of the total amount of shares, and to a total of 3,365,085 voting rights, which corresponds to 7.63 percent of the total amount of voting rights.

Breakdown by shareholder category on December 31, 2013



20.8%	Private companies
7.9%	Financial and insurance institutions
21.5%	Public sector organizations
11.1%	Households
2.6%	Non-profit organizations
36.2%	Foreigners and Nominee registered

Tikkurila's largest shareholders on December 31, 2013

		Number of shares	% of share capital
1	Oras Invest Oy	7,969,552	18.1
2	Ilmarinen Mutual Pension Insurance Company	4,519,940	10.3
3	Varma Mutual Pension Insurance Company	2,493,525	5.7
4	Tapiola Mutual Pension Insurance Company	1,798,906	4.1
5	Mandatum Life Insurance Company Ltd.	2,100,000	3.6
6	Kaleva Mutual Insurance Company	650,000	1.5
7	The State Pension Fund	507,000	1.2
8	Fondita Nordic Mid Cap	475,000	1.1
9	Sijoitusrahasto Evli Suomi Pienyhtiöt	200,197	0.5
10	ODIN Finland	172,609	0.4
	10 largest registered shareholders total	15,843,868	35.9
	Nominee registered shares	15,622,706	35.4
	Other shares	12,641,678	28.7
	Total	44,108,252	100.0

Breakdown of share ownership on December 31, 2013

Number of shares	Shareholders	% of shareholders	Total number of shares and votes	% of share capital and voting rights
1–100	10,795	52.0	499,339	1.1
101–1,000	8,993	43.4	2,755,178	6.3
1,001–10,000	871	4.2	2,115,255	4.8
10,001–100,000	70	0.3	2,216,734	5.0
100,001–1,000,000	11	0.1	2,685,752	6.1
over 1,000,000	7	0.0	33,835,994	76.7
Total	20,747	100.0	44,108,252	100.0

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The distributable funds of Tikkurila Oyj, the parent of Tikkurila Group, are EUR 140,283,413.87 of which EUR 42,672,395.88 represents the net profit for the financial year.

The Board of Directors proposes to the Annual General Meeting that EUR 0.80 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 35,286,601.60. EUR 104,996,812.27 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 7, 2014

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 2013. 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, 7 February 2014

KPMG OY AB

Toni Aaltonen
Authorized Public Accountant

Contact information

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Tikkurila's Annual Report and Corporate Responsibility Report for 2013 can be found at

🖥 www.tikkurilagroup.com/annualreport_2013

TIKKURILA

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