Financial Statement Release

2019

Tikkurila Oyj
Financial Statement Release
February 12, 2020 at 9:00 a.m. (CET+1)

Tikkurila Financial Statement Release for January−December 2019

Tikkurila's adjusted operating result increased by 19.5% from the previous year in 2019

Full year 2019 highlights

- Revenue increased by 0.4 percent to EUR 563.8 (561.5) million. Comparable revenue increased by 1.4 percent, excluding currency effects, divestments and closures.
- Adjusted operating result increased by 19.5 percent to EUR 46.4 (38.8) million and was 8.2 (6.9) percent of revenue. The comparison period (2018) included a EUR 6 million insurance compensation regarding a fire at a supplier's titanium dioxide plant.
- Operating result (EBIT) increased to EUR 43.9 (26.5) million and was 7.8 (4.7) percent of revenue.
- EPS increased by 127.9 percent to EUR 0.75 (0.33).

October−December 2019 highlights

- Revenue increased by 2.4 percent to EUR 107.9 (105.5) million. Comparable revenue increased by 1.3 percent, excluding currency effects, divestments and closures.
- Adjusted operating result decreased by 38.3 percent to EUR -7.6 (-5.5) million and was -7.1 (-5.2) percent of revenue. The comparison period (Q4/18) included a EUR 4.75 million insurance compensation
- Operating result (EBIT) was EUR -7.7 (-8.6) million, and -7.1 (-8.2) percent of revenue.
- EPS was EUR -0.17 (-0.19).

Dividend proposal

- The Board proposes a dividend of EUR 0.50 (0.33) per share, which corresponds to 66 (100) percent of the Group's 2019 earnings per share. It is proposed that the dividend will be paid in two equal tranches.

Guidance for 2020

- Adjusted operating result will continue to improve (2019: EUR 46.4 million)
- Revenue is expected to remain at previous year's level (2019: EUR 563.8 million), excluding currency effects

Elisa Markula, CEO

During the full year 2019, our adjusted operating result increased by 19.5 percent compared to the previous year. Cash flow was strong driven by good development in profitability. ROCE improved to 15.4%. The full impact of the restructuring measures executed in 2018 was now visible in our fixed costs.

Tikkurila focused on profitability, and our revenue remained stable despite a challenging year in the market. Comparable revenue, excluding the impact from currencies, divestments and closures, increased by 1.4 % during 2019. Regionally our performance was mixed. In Russia and Poland, strong performance continued in growing markets. In Finland and Sweden, revenue declined in a soft market driven by lower levels of pre-season sales of exterior paints. In 2020, improving sales performance in these two mature markets remains a key priority for Tikkurila.

Since 2017, Tikkurila has increased its adjusted EBIT by EUR 18 million – tripled our EPS – and decreased fixed costs by EUR 35 million. Our financial turnaround has been driven by the increased sales of our premium brands, continued price increases to offset high raw material costs and the strict cost control. We continue to decisively execute the strategy action plan announced in June to further improve performance in key areas, with special focus on improving operational and commercial excellence further in all markets, as well as generating new growth.

With our premium brands – and close to 160 years of expertise – as the company's strongest asset, Tikkurila is well-positioned to provide its customers with high-quality goods and services. Tikkurila is the market leader for decorative paints in Russia, Sweden, Finland and the Baltics, and we are currently heading determinately towards being the third largest paint producer in Poland, in which four paint producers currently compete for leadership evenly. There is much more potential in this company, and the full impact of all actions will be visible in the longer run.

Key figures

IFRS16 standard has been applied as of January 1, 2019. Historical figures have not been adjusted.

EUR million	**1-12/2019**	1-12/2018	Change %	**10-12/2019**	10-12/2018	Change %
Revenue	563.8	561.5	+0.4%	107.9	105.5	+2.4%
Excl. FX, divestments, and closures			+1.4%			+1.3%
Adjusted operating result	46.4	38.8[1)]	+19.5%	-7.6	-5.5[2)]	-38.3%
Adjusted operating result margin, %	8.2%	6.9%	+1.3%-p	-7.1%	-5.2%	-1.9%-p
Operating result (EBIT)	43.9	26.5	+65.5%	-7.7	-8.6	+11.0%
Operating result (EBIT) margin, %	7.8%	4.7%	+3.1%-p	-7.1%	-8.2%	+1.1%-p
Profit before taxes	44.2	21.0	+109.9%	-8.1	-9.9	+18.2
Net result for the period	33.2	14.6	+127.9%	-7.4	-8.4	+12.1%
Earnings per share (EPS), EUR	0.75	0.33	+127.9%	-0.17	-0.19	+12.1%
Net interest-bearing liabilities (at period-end)	78.4	85.5	-8.4%			
Total equity (at period-end)	171.9	150.1	+14.5%			
Total assets (at period-end)	437.1	400.0	+9.3%			
Equity ratio, %	39.3%	37.6%				
Gearing	45.6%	57.0%				
ROCE, %, rolling	15.4%	9.3%				
Cash flow after capital expenditure	52.7	36.3	+45.4%			

[1)] In the comparison period (2018), adjusted operating result included a EUR 6 million insurance compensation.
[2)] In the comparison period (Q4/18), adjusted operating result included a EUR 4.75 million insurance compensation.

Press conference and live webcast

CEO Elisa Markula and CFO Markus Melkko will present Tikkurila's full year results for 2019 in English for the media, institutional investors and analysts at Hotel Kämp's cabinet Symposion (Pohjoisesplanadi 29, Helsinki) today February 12, 2020 at 1 pm (CET +1). Lunch will be served at the event at 12.30 pm.

The event can also be followed as a live webcast. To participate, please click on the link:

- https://tikkurila.videosync.fi/2019-q4-result

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An on-demand version of the webcast will be available on our webpage later the same day. The report and related presentation material will be available before the press conference at http://www.tikkurilagroup.com/investors.

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Sustainable Nordicness

Tikkurila is a leading Nordic paint company with expertise that spans decades. We develop premium products and services that provide our customers with quality that will stand the test of time and weather. We operate in eleven countries and our 2,600 dedicated professionals share the joy of building a vivid future through surfaces that make a difference. In 2019, our revenue totaled EUR 564 million. The company is listed on Nasdaq Helsinki. Nordic quality from start to finish since 1862.

www.tikkurilagroup.com

Tikkurila Oyj Financial Statement Release for January 1 – December 31, 2019

This report has been prepared in accordance with the IAS 34 standard and other valid regulations. The information disclosed is unaudited except for full year figures for 2018 and 2019. The figures presented in the report are independently rounded. Figures in brackets refer to the corresponding period in the previous year, unless otherwise stated.

Fluctuations in exchange rates in this report refer to the translation effect of the exchange rates.

In this report, all forward-looking statements in relation to the company or its business are based on management judgment, and macroeconomic or general industry data are based on third-party sources.

If there are any discrepancies between the language versions of the report, the Finnish version shall prevail.

Tikkurila's reporting segments are SBU West and SBU East. SBU West consists of Sweden, Denmark, Norway, Finland, Poland, Estonia, Latvia, and Lithuania. SBU East consists of Russia, Central Asia, and China. Furthermore, SBU East is responsible for the exports to more than 30 other countries. For 2018, Germany is presented in SBU West. In 2019, after closing the activities of Tikkurila's German subsidiary, Germany has belonged to export and is presented in SBU East, but items related to German subsidiary are reported in SBU West during 2019.

Financial performance

Full year 2019

	Revenue			Adjusted operating result			Operating result (EBIT)		
EUR million	**1-12/2019**	1-12/2018	Change %	**1-12/2019**	1-12/2018	Change %	**1-12/2019**	1-12/2018	Change %
Consolidated Group	563.8	561.5	+0.4%	46.4	38.8[1)]	+19.5%	43.9	26.5	+65.5%
Excl. FX, divestments and closures			+1.4%						
SBU West	370.0	381.2	-2.9%	30.7	34.5[1)]	-11.1%	30.4	22.7	+33.9%
Excl. FX, divestments and closures			-0.8%						
SBU East	193.8	180.3	+7.5%	22.0	9.9	+122.1%	20.0	9.4	+112.5%
Excl. FX, divestments and closures			+5.9%						
Group common and eliminations	0.0	0.0	-100%	-6.3	-5.6	-12.6%	-6.5	-5.6	-16.2%

[1)] *In the comparison period (2018), adjusted operating result included a EUR 6 million insurance compensation.*

Q4/2019

	Revenue			Adjusted operating result			Operating result (EBIT)		
EUR million	**10-12/2019**	10-12/2018	Change %	**10-12/2019**	10-12/2018	Change %	**10-12/2019**	10-12/2018	Change %
Consolidated Group	107.9	105.5	+2.4%	-7.6	-5.5[2)]	-38.3%	-7.7	-8.6	+11.0%
Excl. FX, divestments and closures			+1.3%						
SBU West	68.0	67.9	+0.2%	-7.5	-3.2[2)]	-131.7%	-7.6	-6.3	-20.7%
Excl. FX, divestments and closures			+1.8%						
SBU East	39.9	37.6	+6.3%	1.7	0.0	+4386.4%	1.8	-0.1	+2233.0%
Excl. FX, divestments and closures			+0.3%						
Group common and eliminations	0.0	-	-	-1.9	-2.3	+18.5%	-1.9	-2.2	+15.9%

[2)] *In the comparison period (Q4/2018), adjusted operating result included a EUR 4.75 million insurance compensation.*

MAIN DRIVERS, FULL YEAR 2019

Tikkurila's total revenue in 2019 was EUR 563.8 (561.5) million, which is an increase of 0.4% on the previous year. In comparable terms, revenue increased by 1.4% in local currencies, excluding the impact of divestments and closures.

During the full year, **revenue** increased slightly driven by strong growth in SBU East. In SBU West, revenue slightly decreased, with continued mixed performance between different countries. The weak Swedish Krona amplified the revenue decline in Sweden (SBU West), whereas the strengthening Russian Ruble had a positive impact on revenue growth in Russia (SBU East).

Adjusted operating result increased, driven by the implementation of price increases, improved sales mix and cost savings. Profitability improved especially in SBU East by continued premiumization.

Operating result increased by 65.5 percent. During the comparison period, operating result was negatively impacted by re-structuring costs mainly related to personnel reductions, as well discontinuation of German operations and re-location of Danish production, which were adjusted for as items affecting comparability. Additionally, EUR 6 million insurance compensation received in 2018 regarding a fire at a supplier's titanium dioxide plant was included in adjusted operating result for SBU West.

Earnings per share (EPS) were EUR 0.75 (0.33) for the review period.

MAIN DRIVERS, Q4/2019

During the last quarter, **revenue** growth was driven by SBU East, supported by the strong Russian Ruble. In SBU West, revenue growth in Poland was strong. In Sweden performance was better than during earlier quarters, but revenue remained in slight decline. In Finland revenue declined in a soft market, and against a tough comparison period.

Adjusted operating result decreased as the comparison period (Q4/18) included a EUR 4.75 million insurance compensation.

Operating result increased by 11 percent to EUR -7.7 -(8.6) million

Earnings per share (EPS) were EUR -0.17 (-0.19) for the review period.

Effects of various factors on revenue for the Group

	Full year (1-12)		Q4 (10-12)	
	EUR million	%	EUR million	%
Revenue in 2018	561.5		105.5	
Volume	-13.8	-2.5%	-2.1	-2.0%
Price/mix	+21.6	+3.8%	+3.5	+3.3%
Currencies	-3.1	-0.5%	+1.2	+1.2%
Divestments and closures	-2.3	-0.4%	-0.1	-0.1%
Revenue in 2019	563.8	100.4%	107.9	102.4%

MAIN DRIVERS, FULL YEAR 2019

Decreased **volumes** were driven by Tikkurila's continued focus on value over volume. While sales of premium brands increased, sales of private labels and cheaper economy paints (especially in SBU East) declined. This was mainly the result of the company's deliberate strategy to focus on core premium brands.

The positive effect from **price/mix changes** was driven by successful price increases in all countries, as well as the increasing share of premium products, especially in Russia and Poland.

The overall impact of **currencies** on revenue was negative in 2019. The impact was negative in Sweden, slightly negative in Poland, and positive in Russia.

Impact of **divestments and closures** was related to the closing of operations in Germany.

MAIN DRIVERS, Q4/2019

During the last quarter, the overall impact of **currencies** was positive, as the Russian Ruble remains strong, while the Swedish Krona continued to impact revenue negatively.

The impact of other factors was the same as during the full year.

Financial performance by reporting segments

SBU West

EUR million	1-12/2019	1-12/2018	Change %	10-12/2019	10-12/2018	Change %
Revenue	370.0	381.2	-2.9%	68.0	67.9	0.2%
Excl. FX, divestments and closures			-0.8%			+1.8%
Adjusted operating result	30.7	34.5[1)]	-11.1%	-7.5	-3.2[2)]	-131.7%
Adjusted operating result margin, %	8.3%	9.1%	-0.8%-p	-11.0%	-4.7%	-6.3%-p
Operating result(EBIT)	30.4	22.7	+33.9%	-7.6	-6.3	-20.7%
Operating result (EBIT) margin, %	8.2%	6.0%	+2.2%	-11.2%	-9.3%	-1.9%
Capital expenditure, excl. IFRS16	7.8	5.9	+31.3%	2.5	1.6	+52.0%

1) In the comparison period (2018), adjusted operating result included a EUR 6 million insurance compensation.
2) In the comparison period (Q4/2018), adjusted operating result included a EUR 4.75 million insurance compensation.

Revenue in key countries

EUR million	1-12/2019	1-12/2018	Change %	10-12/2019	10-12/2018	Change %
Sweden	118.7	127.6	-7.0%	22.9	23.3	-1.9%
Finland	91.1	94.4	-3.4%	12.8	14.0	-8.6%
Poland	89.4	84.6	+5.6%	17.2	14.9	+15.4%

MAIN DRIVERS, SBU WEST, FULL YEAR 2019

SBU West's total revenue in 2019 was EUR 370.0 (381.2) million, which is a decrease of -2.9 percent on the previous year. In comparable terms, revenue decreased by -0.8 percent in local currencies, excluding the impact of divestments and closures.

In **Sweden**, efforts continued to improve the company's performance by focusing on commercial excellence and actions to improve go-to-market. Distribution with DIY stores was expanded and sales through them ramped up towards the end of the year. Overall, revenue in Sweden declined in a soft market, mainly due to lower levels of pre-season sales and replenishment sales especially in exterior paints. Additionally, revenue was negatively impacted by the weak Swedish Krona, tightening competition and changes in sales management.

In **Finland**, revenue declined in a soft market driven by lower levels of pre-season sales of exterior paints. Also, the continued offshoring impacted the industry metal business negatively. That said, sales to professional customers increased driven by better price/mix. Also, revenue from the industry wood segment increased, driven by continued efforts to push sales to new customers supported by new products (e.g. fire-retardant paints).

In **Poland**, revenue growth was driven by increasing volumes in interior paints, despite softening market demand, especially in industry segment. Growth was also positively impacted by new investments in marketing and sales, and the share of premium brands – Tikkurila and Beckers – continued to increase.

Adjusted operating result decreased in 2019 as the comparison period included a EUR 6 million insurance compensation.

Operating result increased by 33.9 percent to EUR 30.4 (22.7) million.

MAIN DRIVERS, SBU WEST, Q4/2019

While still in decline, the last quarter's performance in **Sweden** was better than during the previous quarters, as sales to traditional specialized paint retail stores picked up in December, and the sales ramp up with DIY stores progressed as planned. The new country sales director started in October.

In **Finland**, the revenue decline reflected a tough comparison period, during which volumes had increased ahead of price increases executed in Q1/2019. Additionally, revenue in Q4/2019 was negatively impacted by delivery delays due to the strike impacting the Finnish chemical industry in December.

In **Poland**, revenue growth accelerated during the fourth quarter in interior paints.

Adjusted operating result decreased as the comparison period included a EUR 4.75 million insurance compensation recognized in the fourth quarter in 2018.

Operating result decreased by 20.7 percent to EUR -7.6 (-6.3) million.

Effects of various factors on revenue in SBU West

	Full year (1-12)		Q4 (10-12)	
	EUR million	%	EUR million	%
Revenue in 2018	381.2		67.9	
Volume	-9.3	-2.4%	+0.3	+0.5%
Price/mix	+6.4	+1.7%	+0.9	+1.3%
Currencies	-6.0	-1.6%	-1.0	-1.5%
Divestments and closures	-2.2	-0.6%	-0.1	-0.1%
Revenue in 2019	370.0	97.1%	68.0	100.2%

MAIN DRIVERS, SBU WEST, FULL YEAR 2019

Decreasing **volumes** were driven by Sweden and Finland, which offset increasing volumes in Poland.

Positive effect from **price/mix changes** was driven by price increases in all countries, as well as increasing share of premium products, especially in Poland.

The overall impact of **currencies** on revenue was negative in 2019, driven by weakening of the Swedish Krona.

Impact of **divestments and closures** was related to the closing of operations in Germany.

MAIN DRIVERS, SBU WEST, Q4/2019

During the last quarter, **volumes** increased slightly driven by Poland, which offset decreased volumes in Finland and Sweden.

The impact of other factors was similar to the full year.

SBU East

EUR million	1-12/2019	1-12/2018	Change %	10-12/2019	10-12/2018	Change %
Revenue	193.8	180.3	+7.5%	39.9	37.6	+6.3%
Excl. FX, divestments and closures			+5.9%			+0.3%
Adjusted operating result	22.0	9.9	+122.1%	1.7	0.0	+4386.4%
Adjusted operating result margin, %	11.4%	5.5%	+5.9%-p	4.4%	0.1%	+4.3%-p
Operating result (EBIT)	20.0	9.4	+112.5%	1.8	-0.1	+2233.0%
Operating result (EBIT) margin, %	10.3%	5.2%	+5.1%-p	4.5%	-0.2%	+4.7%-p
Capital expenditure, excl. IFRS16	3.3	4.5	-25.9%	1.0	0.9	10.3%

Revenue in key countries

EUR million	1-12/2019	1-12/2018	Change %	10-12/2019	10-12/2018	Change %
Russia	143.6	134.4	+6.9%	29.1	26.9	+7.9%

MAIN DRIVERS, SBU EAST, FULL YEAR 2019

SBU East's total revenue in 2019 was EUR 193.8 (180.3) million, which is an increase of 7.5 percent on the previous year. In comparable terms, revenue increased by 5.9 percent in local currencies, excluding the impact of divestments and closures.

In **Russia**, revenue growth was driven by positive changes in our product mix and price increases as well as positive tailwind from development of the Russian Ruble. Especially the company's core Tikkurila brand expanded its share of sales in all channels. The share of private label products decreased. On April 25, 2019, Tikkurila announced that as part of its strategy work, the company would explore alternative options to support its business growth in Russia, instead of the planned new greenfield factory, as the estimated return on the planned investment did not meet the company's target level. The total costs incurred amounted up to approximately EUR 2.0 million, which were recognized as an expense in Q2/2019.

Adjusted operating result increased significantly driven by the increasing share of premium products.

Operating result increased by 112.5 percent to EUR 20.0 (9.4) million.

MAIN DRIVERS, SBU EAST, Q4/2019

During the last quarter, revenue growth in Russia continued to have a positive impact from the strengthening Russian Ruble, while operationally performance was at previous years' level, reflecting a tough comparison period.

Effects of various factors on revenue in SBU East

	Full year (1-12)		Q4 (10-12)	
	EUR million	%	EUR million	%
Revenue in 2018	180.3		37.6	
Volume	-4.5	-2.5%	-2.5	-6.6%
Price/mix	+15.2	+8.5%	+2.6	+6.8%
Currencies	+2.9	+1.6%	+2.2	+6.0%
Divestments and closures	-0.1	0.0%	-	-
Revenue in 2019	193.8	107.5%	39.9	106.3%

MAIN DRIVERS, SBU EAST, FULL YEAR 2019

Volumes were driven by decreasing sales of economy and private label paints in Russia as a result of the company's deliberate strategy to focus on value and our core premium brands in all markets.

Positive effect from **price/mix changes** was driven by the price increases and the increasing share of premium products.

The overall impact of **currencies** on revenue was positive in 2019, driven by strengthening of the Russian Ruble.

MAIN DRIVERS, SBU EAST, Q4/2019

During the last quarter, the increased **volume** decline reflected a challenging comparison period.

The positive impact from the strong Ruble was significant during the fourth quarter.

Progress of the strategy action plan

Tikkurila continued the execution of the strategy action plan to boost profitability and efficiency as planned.

During the year, Tikkurila continued to prioritize value and profitability over volume, focusing on the company's key premium brands and products, as well as the increased sustainability and functionality of the offering. The company decreased complexity and reduced the number of manufacturing formulas, raw materials and sales articles. At the same time, new product solutions were successfully introduced in several markets to support growth. To more efficiently support sales, the consolidation of the marketing organizations of the three core brands (Tikkurila, Beckers, Alcro) was finalized. At the same time, the company continued to apply strict cost discipline.

In June 2019, Tikkurila further elaborated the company's goals at the Capital Markets Day (CMD, https://www.tikkurilagroup.com/investorsir-calendar/capital-markets-day). At the CMD, Tikkurila management also outlined the company's action plan to improve performance in six focus areas:

- Optimize portfolio
- Grow in decorative paints and selected industry segments
- Improve sales performance management
- Increase efficiency in operations
- Save in fixed costs, centralize indirect sourcing
- Increase efficiency in raw materials

Key improvements in 2019

Optimize portfolio: Tikkurila continued to reduce complexity by decreasing the number of manufacturing formulas, raw materials and sales articles. By the end of 2020, the goal is to reduce the number of sales articles by 50 percent compared to 2016, including the impact of the divestment of business operations. We are well on track to meet our target. By continuing to reduce the number of raw materials we can further improve efficiency in sourcing and production

Grow in decorative paints and selected industry segments: Several new products were launched, especially to support growth in the industry wood business (e.g. fire-retardant systems) and with professional painters. We started the roll-out of our new Tikkurila brand look in Finland, and other countries will follow in 2020. Overall, in 2019 we continued to focus on R&D to accelerate new product development and shorten time-to-market. Tikkurila portfolio focus was on sustainability, functionality and launching digital services like Chatbot customer service, Building Information Modelling for Architects and designers as well as e-learning trainings for B2B customers.

Improve sales performance management: Tikkurila continued to implement price increases to reflect the high raw material prices. The centralization of the marketing organizations for Tikkurila, Beckers and Alcro – started during the previous year – was finalized. Marketing investments are now concentrated on these core premium brands. Overall, increasing demand for premium brands continues to be a key driver for growth, especially in Russia and Poland. By implementing group-wide marketing campaigns we are further improving efficiency. A group-wide claim management process was introduced, and trainings started to ensure a lean customer service process. In Sweden, a new country sales director started in October.

Increase efficiency in operations: On April 25, 2019, Tikkurila announced as part of its strategy work, that instead of the planned new greenfield factory, the company would explore alternative options to support its business growth in Russia, as the estimated return on the planned investment did not meet the company's target level. Tikkurila continued to outline the future Supply Chain footprint and optimize logistics. We also continued to further optimize Sales & Operations

Planning. By involving all relevant functions into the decision making we can best drive performance.

Save in fixed costs, centralize indirect sourcing: Positive development continued with regard to fixed costs. During the year 2019, fixed costs had decreased by some EUR 35.4 million compared to the levels of the year 2017 and were now 32.0 percent of revenue. In total, fixed costs were 180.4 million in 2019, and 32.0 percent of revenue. Excluding the impact of IFRS16, fixed costs were EUR 188.8 million and 33.5 percent of revenue in 2019 (EUR 185.9 million and 33.1%). During 2020, we will continue to focus on strict cost discipline, with special attention put on indirect sourcing.

Increase efficiency in raw materials: A significant number of cost reduction actions were identified and the first part of them were also implemented during the fourth quarter. Commercial negotiations with major suppliers progressed as planned, with full impact expected in 2020.

Tikkurila will continue to systematically implement the action plan of the strategy program, as well as continue strict cost control, active pricing initiatives and further actions to improve cost competitiveness.

Cash flow, financing activities, and financial risk management

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

Cash flow from operations in January–December totaled EUR 61.4 (47.6) million. Cash flow from operations was improved by favorable development in profitability. In addition, the adoption of IFRS 16 standard had a positive effect of EUR 7.3 million to the cash flow from operating activities as the lease liability payments are presented in cash flow from financing activities and only the share of interest payments on lease liability is presented in cash flow from operating activities. In the comparison year, the whole amount of lease payments was presented in the cash flow from operating activities. At the end of the review period, net working capital totaled EUR 83.6 (81.0) million. The net cash flow from investing activities was EUR -8.6 (-11.3) million, when taking into account divestments. Cash flow after capital expenditure totaled EUR 52.7 (36.3) million at the end of the review period.

Interest-bearing debt amounted to EUR 125.4 (121.0) million at the end of the review period, of which EUR 22.6 million was lease liabilities. Due to adoption of IFRS 16 -standard, lease liabilities related to right-of-use assets, increased the Group's interest-bearing debt compared to previous year. In comparison year, the total of future minimum lease payments under non-cancellable operating leases were reported in contingent liabilities (IAS 17). Comparison year figures are not restated.

Net debt was EUR 78.4 (85.5) million, and net debt excluding IFRS 16 -standard impact was EUR 55.7 million. At the end of the review period, cash and cash equivalents amounted to EUR 47.0 (35.5) million. Short-term interest-bearing debt totaled EUR 50.2 (71.0) million, including the company's issued commercial papers for a total nominal amount of EUR 43.0 (51.0) million, and short-term lease liability of EUR 7.3 million. Moreover, the Group had long-term interest-bearing debt totaling EUR 75.1 (50.0) million including lease liability of EUR 15.3 million. At the end of December, the Group had a total of EUR 110.2 (90.3) million of unused committed credit facilities or credit limits.

The Group´s net financial expense was EUR -0.0 (-5.8) million, of which net interest expenses totaled EUR -1.2 (-0.4) million including interest expenses related to lease liabilities EUR -1.1 million, and other financing expenses EUR 0.9 (-0.7) million. The average capital-weighted interest rate of interest-bearing debt was 1.4 (1.2) percent. The net result was positively affected by a total of EUR 1.7 (-4.8) million based on the impact of realized and unrealized exchange rate differences recognized during the review period. The main positive impact was related to the Russian ruble. According to the decision of Tikkurila Board of Directors the company will not carry out forward exchange agreements or apply other financial instruments to hedge risks; instead, exchange rate risk management will involve operative measures such as the coordination of currency allocation of incoming and outgoing cash flows.

At the end of December, the equity ratio was 39.3 (37.6) percent and gearing 45.6 (57.0) percent. Gearing excluding lease liabilities was 32.4 percent. Tikkurila's financing arrangement includes a covenant that is based on Group's gearing.

Capital Expenditure

In 2019, gross capital expenditure amounted to EUR 16.3 (10.4) million, of which EUR 5.1 million are IFRS 16 related investments in right-of-use assets. The Russian factory investment was cancelled in April (Announced on April 25, 2019) and accrued costs were written down during the review period.

The Group's depreciation, amortization and impairment losses amounted to EUR 24.2 (21.6) million in 2019, including EUR 8.2 million depreciation on right-of-use assets. The Group performs impairment tests in accordance with the IAS 36 standard.

Sales and marketing

Tikkurila Group's sales and marketing expenses, including personnel costs, were EUR 79.3 (85.0) million in 2019, which accounts for 14.1 (15.1) percent of revenue.

In 2019, Tikkurila continued to focus on the company's three core premium brands: Tikkurila, Beckers and Alcro. During the year, the consolidation of the marketing organizations for the core brands was finalized, and marketing investments were concentrated on these brands, leading to increased premiumization.

Research, Development and Innovation

Tikkurila's research and development expenses were EUR 9.6 (9.2) million, which accounts for 1.7 (1.6) percent of revenue. At the end of 2019, the R&D unit employed 182 (175) people. Tikkurila's largest R&D units are located in Finland, Poland, Russia, Sweden and Estonia.

Tikkurila's R&D operation is responsible for creating new products, 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 2019 product development concentration continued with the decision to close the product development unit in Denmark. After the reorganization, the product development is located in Finland, Poland, Russia, Sweden, and Estonia. The focus of R&D was on product launches, themes of sustainability and functionality, strengthening the product development organization with new recruitments especially in industry, and on our raw material portfolio as well as cost savings and securing raw material availability. Major projects included optimization of indoor paint formulas, harmonization of all decorative paint formulations and production transfer from Denmark to Finland.

Among the most important launches of the year were the facelift and quality improvements of Harmony, Joker, Remontti-Ässä as part of our Tikkurila brand wall paint series. The company also launched several metal industry products to support the growth of the industry business and continued to expand the portfolio of fire protection on interior and exterior wood. Finally, several sustainable flooring products (e.g. Cozy floor system) were launched.

Human Resources and company management

At the end of December 2019, the Tikkurila Group employed 2,607 (2,717) people. The average number of employees in January–December was 2,713 (2,908). The decrease was driven by divestments, as well as restructuring during 2018.

Tikkurila Group's number of employees at the end of each quarter is presented below split by SBU, starting from the first quarter of 2018.

Wages and salaries in 2019 totaled EUR 76.8 (81.1) million.

	Q1/2018	Q2/2018	Q3/2018	Q4/2018	Q1/2019	Q2/2019	Q3/2019	Q4/2019
SBU West	1,675	1,754	1,624	1,583	1,575	1,701	1,566	1,550
SBU East	1,265	1,261	1,225	1,121	1,133	1,130	1,063	1,041
Group functions	12	15	14	13	15	15	16	16
Total	2,952	3,030	2,863	2,717	2,723	2,846	2,645	2,607

Tikkurila Management Team

At the end of the reporting period the Tikkurila Management Team consisted of the following members:

- Elisa Markula, President and CEO
- Melisa Bärholm, Senior Vice President, Human Resources
- Fredrik Linde, Senior Vice President, Operations
- Markus Melkko, CFO (as of April, 2019)
- Anders Rotkirch, Senior Vice President, Transformation and ICT
- Meri Vainikka, Senior Vice President, Offering
- Oskari Vidman, Senior Vice President, Sales (as of May, 2019)

Shares and Shareholders

At the end of 2019, Tikkurila's share capital was EUR 35.0 million, and a total number of registered shares was 44,108,252. At the end of 2019, Tikkurila held 2,461 treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had 18,449 (19,732) shareholders on December 31, 2019. A list of the largest shareholders registered in the book-entry system is regularly updated on Tikkurila's website at https://www.tikkurilagroup.com/shareholders. Jari

Paasikivi, the Chairman of the Tikkurila Board, acts as the Chairman of the Board in Oras Invest Oy, which is the single largest shareholder in Tikkurila. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at https://www.tikkurilagroup.com/investorsgovernance/insiders.

At the end of December, the closing price of Tikkurila's share was EUR 14.36. In January–December, the volume-weighted average share price was EUR 13.86, the lowest price EUR 12.00, and the highest price EUR 15.58. At the end of December, the market value of Tikkurila Oyj's shares was EUR 633.4 million. During January–December, a total of 5.4 million Tikkurila shares, corresponding to approximately 12.2 percent of the number of shares, were traded on Nasdaq Helsinki Ltd. The value of the traded volume was EUR 74.8 million. Tikkurila's shares are traded also outside of Nasdaq Helsinki, but the company does not have detailed statistics available on this external trading.

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

Major shareholder notifications

On October 3, 2019, Tikkurila received a notification from Marathon Asset Management LLP, that the holding of the funds and accounts managed by portfolio managers under the control of Marathon Asset Management LLP in shares of Tikkurila Oyj **exceed the level of the 1/20 (5%)** threshold due to a change in the breakdown of voting rights held by Marathon on October 1, 2019. The holding of the above-mentioned entities in Tikkurila Oyj has amounted to a total of 2,443,874 shares, which corresponds to 5.54 percent of the total amount of shares and voting rights. Marathon Asset Management LLP also manages 603,130 shares in Tikkurila Oyj for which clients have retained the right to vote, which are included in the total specified below in the breakdown of holdings.

Custodian
Bank of New York Mellon 844,974
JP Morgan 101,751
Northern Trust 858,321
State Street Bank & Trust Company, Boston 1,241,958
Total 3,047,004

On July 22, 2019, Tikkurila received a notification from Lannebo Fonder AB, that Lannebo Fonder AB has increased its holdings in Tikkurila Oyj by 151,218 shares on July 19, 2019. Consequently, Lannebo Fonder AB's holdings in Tikkurila Oyj **exceed the 1/20 (5%) threshold**. Following the transaction Lannebo Fonder AB's total holdings in Tikkurila Oyj amount to 2,290,149 shares, which corresponds to 5.19 percent of the total amount of shares and voting rights.

On May 9, 2019, Tikkurila received a notification from Marathon Asset Management LLP, that the holding of the funds and accounts managed by portfolio managers under the control of Marathon Asset Management LLP in shares of Tikkurila Oyj has **decreased below the 1/20 (5%)** threshold due to trades executed on May 3, 2019. The holding of the above-mentioned entities in Tikkurila Oyj has amounted to a total of 2,204,281 shares, which corresponds to 4.997 percent of the total amount of shares and voting rights. Marathon Asset Management LLP also manages 978,757 shares in Tikkurila Oyj for which clients have retained the right to vote, which are included in the total specified below in the Breakdown of holdings.

Custodian
Bank of New York Mellon 854,758
JP Morgan 103,039

Northern Trust 960,779
State Street Bank & Trust Company, Boston 1,264,462
Total 3,183,038

Share-based incentive plans

The Board of Directors of Tikkurila Oyj has previously approved (stock exchange releases published on June 26, 2018; amended on December 19, 2018) two separate share-based incentive plans (2018-2022 and 2018-2019) for the Group key employees. The aim of the plans is to align the objectives of the shareholders and the key employees to execute Company's strategic transformation in the short-term, and increase the value of the Company in the long-term, as well as to retain the key employees at the Company, and to offer them a competitive reward plan based on earning and accumulating the Company's shares.

According to the decision of the Board of Directors in December 2019, the performance period 2020-2022 includes approximately 20 key employees, including Group management team members. The potential reward from the performance period 2020-2022 will be based on Tikkurila Group's average EBITDA and net debt based intrinsic values for 2020-2022. The rewards to be paid on the grounds of the performance period 2020-2022 will amount to an approximate maximum of 160,000 Tikkurila Oyj shares. The potential performance-based rewards will be paid partly in the company´s shares and partly in cash in 2023. As a rule, no reward will be paid, if a participant´s employment or service ends before the reward payment. The reward amounts earned through the plan will be capped if the upper limits set by the Board of Directors for the payable reward are exceeded.

Corporate governance

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

Members of the Nomination Board

On May 31, 2019, the shareholders' Nomination Board of Tikkurila Oyj was appointed. The members of the Nomination Board are:

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

On April 30, 2019, Tikkurila's three largest registered shareholders were Oras Invest Oy, Varma Mutual Pension Insurance Company and Mandatum Life Insurance Company Ltd. Mandatum Life Insurance Company did not wish to use its right to appoint a member to the Nomination Board, and thus the right was passed on to the next largest shareholder which was Ilmarinen Mutual Pension Insurance Company.

Decisions of the Annual General Meeting

The Annual General Meeting of Tikkurila Oyj approved the Financial Statements for 2018 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 0.33 dividend per share for the financial year 2018. The dividend was be paid in two tranches. The first tranche of EUR 0.165 per share was paid to a shareholder who was registered in the company's shareholder register maintained by Euroclear Finland Ltd on the dividend record date, April 15, 2019. The dividend was paid on April 24, 2019. In accordance of the decisions by the Annual General Meeting, the Board of Directors later decided at the meeting on October 28, 2019, that the second dividend tranche of EUR 0.165 per share was paid to a shareholder who was registered in the company’s shareholder register maintained by Euroclear Finland Ltd on the record date of October 30, 2019. The dividend was paid on November 6, 2019.

The Annual General Meeting decided that the Board of Directors consists of six members.

- Jari Paasikivi, Riitta Mynttinen, Catherine Sahlgren, Petteri Walldén and Heikki Westerlund were re-elected and Lars Peter Lindfors was elected as new member of the Board of Directors until the end of the next Annual General Meeting.

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

All members of the Board are independent of the company and, except for Jari Paasikivi, all are independent of major shareholders.

The Annual General Meeting decided that the annual remuneration of the members of the Board of Directors will stay at the current level. The annual remuneration to the members of the Board of Directors will be as follows: EUR 64,000 for the Chairman, EUR 40,000 for the Vice Chairman and the Chairman of the Audit Committee, and EUR 32,000 for other members of the Board of Directors. Approximately 40 percent of the annual remuneration will be paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares will be acquired directly on behalf of the Board members within two weeks from the release of the business review for January 1 - March 31, 2019. Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) will be paid to the members of the Board of Directors as follows: EUR 600 for meetings held in the home state of a member and EUR 1,200 for meetings held outside the home state of a member. If a member participates in a meeting via telephone or video connection the remuneration will be EUR 600. Travel expenses will be paid according to the travel policy of the company.

The Annual General Meeting decided that the Auditor's fees will be paid against an invoice approved by the company. Ernst & Young Oy was elected as the company's auditor until the end of the next Annual General Meeting, with APA Antti Suominen nominated by Ernst & Young as the principal auditor.

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

The Annual General Meeting authorized the Board of Directors to decide upon the repurchase of a maximum of 4,400,000 company's own shares. The shares may be repurchased to be used for financing or implementing possible mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the company. The repurchase authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2020.

The Annual General Meeting authorized the Board of Directors to decide to transfer company's own shares held by the company or to issue new shares limited to a maximum of 4,400,000 shares. The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment. The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or in deviation from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares, settling the payment of the annual fees payable to the members of the Board of Directors or implementing the share-based incentive programs of the company. The authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2020.

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

At the constitutive meeting of the Board of Directors held subsequent to the Annual General Meeting, members of the Audit Committee and the Remuneration Committee were elected from among the Board members.

Heikki Westerlund was elected as the Chair of the Audit Committee and Riitta Mynttinen ja Lars Peter Lindfors were elected as members of the Audit Committee. Jari Paasikivi was elected as the Chair of the Remuneration Committee and Petteri Walldén and Riitta Mynttinen were elected as members of the Remuneration Committee.

The minutes of the Annual General Meeting are available on Tikkurila's website at https://www.tikkurilagroup.com/agm-2019.

Annual General Meeting 2020

The Annual General Meeting of Tikkurila Oyj is planned to be held at 10:00 a.m. on Tuesday, March 24, 2020 at the Finlandia Hall (address: Mannerheimintie 13, 00100 Helsinki). Tikkurila's Board of Directors will convene the meeting. The report of the Board of Directors and Financial Statements will be available on week 10, the latest, at www.tikkurilagroup.com.

Near-term risks and uncertainties

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

Risks related to the industry

In the paint industry, competition has become more intense and consolidation actions are actively implemented. In certain market segments, price has become more important factor. Particularly the large-scale retail customers of Tikkurila have started to decrease the number of their suppliers and have intensified their tender processes and are also more actively promoting their own brands. These developments may result in lower sales margins or lower sales or total discontinuation of sales to certain customers if Tikkurila will not be able to provide competitive offering.

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

Raw material risks

Tikkurila is dependent on the ability of its suppliers to provide the raw materials needed to manufacture paints and coatings. The prices of many raw materials and packaging materials that are vital to Tikkurila's operations have significantly increased during recent years and the Group has not yet been able to fully offset cost inflation by increasing its sales prices. Raw material and packaging material prices have remained at a historically high level; even though some raw material prices have started to stabilize or trend down, it is still possible that Tikkurila cannot increase its sales prices to sufficiently or fast enough to offset cost inflation. Furthermore, the availability of certain key raw materials is estimated to remain challenging, which may result in the lack of products as well as the loss of sales or additional costs associated with it. Uncertainty relating to raw materials may have effect on profitability, market share trends, product offering or competition in general. Additionally, the potential short-term implications of the recent developments in China surrounding the Corona virus on the regional industrial production, raw material sourcing, as well as Tikkurila's local business operations remain unknown.

Operational and restructuring risks

During the past two years Tikkurila has implemented various actions, as a result of which the number of production facilities and headcount have been reduced, and organization and management models have been renewed. These actions might lead to loss of know-how and potentially to bottlenecks in certain operations.

Customer credit risks

Even though Tikkurila has not encountered major credit losses, in the future, the importance of customer credit risks will be emphasized, and hence the potential realization of credit risks may hinder Tikkurila's business operations or cause losses even though Tikkurila has a broad customer base in most markets. The growth of Tikkurila's business operations in China and, on the other hand, quite concentrated customer base in several markets have increased the risk of major credit losses. Moreover, in eastern markets like Russia and Poland the creditworthiness of certain customers has continued to deteriorate, and some single customers have gone bankrupt. Tikkurila has in certain cases collateral arrangements, and in Poland also credit insurance coverage, and, regardless of the fact, that some bad debt has already been recognized, it is possible that additional customer or financial losses can be incurred.

Exchange rate development

Tikkurila's international operations create currency risks for the Group's income statement, balance sheet and cash flow. The most important currency risks are related to the Russian ruble, the Swedish krona and the Polish zloty. Some of the Group's raw material purchases are directly or indirectly priced in U.S. dollars. In certain cases, the relevant currencies to Tikkurila have had an adverse development during the last years. If this trend continues, it will have a negative impact on Tikkurila's euro-denominated revenue and operating result, and it can also negatively affect Tikkurila's competitive position in some markets. Furthermore, the company's equity will be subject to currency risks when the subsidiaries' foreign currency-denominated equity items are converted into euros and the euro-denominated consolidated balance sheets' asset values change with the exchange rates.

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 Board of Directors' review. More information on financial risks is provided in the Notes to the 2019 Consolidated Financial Statements.

Market review

Economic growth has slowed down in Tikkurila's key markets. As the GDP growth has been slowing down or stagnating in all our key markets, also the paint industry growth has been moderate. Going forward, in Finland and Sweden, growth in the paint market is estimated to be moderate, while in Poland and Russia growth is estimated to remain faster. In all Tikkurila's key markets industry segment has grown and is forecast to grow somewhat faster than the decorative market.

Paint volumes and GDP growth have developed quite similarly. In value, growth has been slightly better due to both inflation but also premiumization i.e. consumer preference shifting more towards premium brands, such as Tikkurila, Beckers and Alcro.

Overall, Tikkurila is well-positioned to provide its customers with high-quality goods and services in all subsegments of its business. Tikkurila is the market leader for decorative paints in Russia, Sweden, Finland and the Baltics. In Poland, the leading four players are quite equal, and Tikkurila is currently heading determinately towards being the third largest paint producer there.

In all markets, a slow transition continues as consumer gradually increase the use of professional painters – from Do-It-Yourself (DIY) to Do-It-For-Me (DIFM). Over time, this is expected to drive the growth of professional and industry sales. Consolidation in the paint market, as well as in the suppliers' and retailers' side is also expected to continue.

Raw material and packaging material prices have remained at a historically high level, following the inflation during recent years. Of the currencies relevant to Tikkurila's business areas, the Swedish krona continued to weaken during 2019 and the Russian ruble recovered towards the end of the year. The Polish zloty was relatively stable. Volatility in the exchange rates is expected to continue.

Sources:

Markets & Markets: Paints & Coating market and forecast 2019-2024, Euromonitor Home Paint data 2018. IMF Word Fact book Oct 2019, Chem Courier quarterly data per Q2 2019, GFK Poland per Q3 2019, SVEFF per Q3 2019, VTY per Q3 2019

Events after the reporting period

No material changes regarding the company's business or financial position have materialized after the end of the quarter.

On January 30, 2020, Tikkurila's Nomination Board decided on the following proposals regarding the members of the Board of Directors and their remuneration

The Nomination Board of Tikkurila proposes to the Annual General Meeting, which is planned to be held on March 24, 2020, that the number of Board members would be seven and that the present members Lars Peter Lindfors, Riitta Mynttinen, Jari Paasikivi, Catherine Sahlgren, Petteri Walldén and Heikki Westerlund would be re-elected and that Andrey Pantyukhov would be elected as a new member. Board members' term lasts until the end of the next Annual General Meeting. All the nominees have given their consent to the position.

Andrey Pantyukhov (b. 1972), MBA, serves as Executive Vice President, Russia and Asia, at Nokian Tyres plc. He has been with the company since 2004 and a member of management team since 2009. Previously, he worked as a consultant for The Boston Consulting Group (BCG) in Finland and in various sales and marketing roles for Finnish companies in Russia. He is a Russian citizen.

In addition, the Nomination Board proposes that Jari Paasikivi would be elected as Chairman and Petteri Walldén as Vice Chairman of the Board of Directors.

The Nomination Board proposes to the Annual General Meeting an increase in the annual remuneration of the Board of Directors as follows: EUR 68,000 (2019: 64 000 eur) for the Chairman, EUR 43,000 (2019: 40 000 eur) for the Vice Chairman and the Chairman of the Audit Committee, and EUR 34,000 (2019: 32 000 eur) for other members of the Board of Directors. Approximately 40 percent of the annual remuneration would be paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares would be acquired directly on behalf of the Board members within two weeks from the release of the business review for January 1 - March 31, 2020.

Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) would be paid to the members of the Board of Directors as follows: EUR 600 for meetings held in the home state of a member and EUR 1,200 for meetings held outside the home state of a member. If a member participates in a meeting via telephone or video connection the remuneration would be EUR 600. Travel expenses would be paid according to the travel policy of the company.

The members of the Tikkurila Nomination Board are:

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

Board of Directors' proposal for the distribution of profit

Tikkurila Oyj's distributable equity totaled 154.2 million on December 31, 2019: reserve for invested unrestricted equity totaled EUR 40.0 million and retained earnings totaled EUR 114.2 million when including the 2019 net result. The Board proposes to the Annual General Meeting that a dividend of EUR0.50 per share will be distributed for the year ended on December 31, 2019, and that the rest be retained in the unrestricted equity. The proposed dividend totals about EUR 22.1 million, which corresponds to approx. 66 percent of the Group's net result for 2019.

Due to the seasonality of the business, Tikkurila will pay the dividend in two tranches. The payment of the dividend for the financial year 2019 will take place as follows: the first tranche of EUR 0.25 per share will be paid to a shareholder which is recorded at the record date for the payment of dividend on March 26, 2020 at the Company's shareholder register maintained by Euroclear Finland Oy. The proposed date of payment is April 6, 2020.

The second tranche EUR 0.25 per share will be paid in November 2020. The second tranche will be paid to a shareholder who is recorded at the record date for the payment of dividend at the Company's shareholder register maintained by Euroclear Finland Oy. The Board of Directors will decide at the meeting scheduled for October 28, 2020 the record date and the payment date for the second tranche. According to the current rules of the Finnish book-entry system the record date would then be October 30, 2020 and the dividend payment date earliest November 6, 2020.

Tikkurila's long-term financial targets

Long-term financial targets

The targets (approved on April 25, 2019) are:

- Revenue: Tikkurila aims to grow faster than the market
- Relative profitability: adjusted operating result margin over 12 percent
- Return on capital employed (ROCE): over 20 percent
- Balance sheet structure: gearing below 70 percent
- Dividend at least 40 percent of annual adjusted net result.

Guidance for 2020

- Adjusted operating result will continue to improve (2019: EUR 46.4 million)
- Revenue is expected to remain at the previous years' level (2019: EUR 563.8 million), excluding currency effects

Vantaa, February 11, 2020

TIKKURILA OYJ

BOARD OF DIRECTORS

Summary Financial Statements and Notes

The annual financial statement figures of Tikkurila are audited. Auditors' report was issued on February 11, 2020. The financial information presented in this financial statement release is prepared in accordance with IAS 34 Interim Financial Reporting standard. As a result of rounding differences, the figures presented in the tables may not add up to the total. Quarterly information is unaudited.

The same accounting policies have been applied in this financial statement release as in the annual financial statements for 2018, with the exception of new or revised or amended standards and interpretations which have been applied from the beginning of 2019. IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatment were applied at the beginning of 2019 and had effect on Tikkurila's reported figures. The impacts of IFRS 16 standard on the Group's opening balances is presented in the table below. The Group's view is that the adoption of the other IFRS and IFRIC changes did not have any material effect on the financial statements of the reporting period.

IFRS 16 Leases (effective for financial years beginning on or after January 1, 2019)

The standard's requirement is that the lessees recognize a right-of-use asset and a lease liability at lease commencement for all leases. Tikkurila applied, at the date of initial application, the simplified approach and comparative information was not restated. In measurement of a right-of-use asset the Group chose the option where the lease liability equals to the right-of-use asset. For some lease agreements, prepaid rent which was already paid at the time of initial application was included in the value of a right-of-use asset and therefore the lease liability recognized on such lease agreement was less than the value of the recognized right-of-use asset.

The IFRS 16 standard includes practical expedients for short-term lease agreements with lease term up to 12 months or less, and for lease contracts related to low value assets. Tikkurila has applied these exemptions and thus has not recognized in its consolidated statement of financial position any right-of-use asset nor lease liability on such lease agreements. Lease expenses of agreements falling into category of exceptions are recognized as expense over the lease term.

According IFRS 16 standard, the lease liability and the right-of-use asset of the leased object are calculated by discounting future minimum lease payments. The discount rate to be primarily used is the internal interest rate of the lease contract if the interest rate can be easily determined. If that is not easily determined the incremental borrowing rate of the lessee will be used. In Tikkurila Group, the remaining lease liability at the time of initial application has been recognized at the present value calculated by using as discount rate Tikkurila's incremental borrowing rate. The Group's external funding has been centralized in parent company's finance department, which is acting as an internal bank for Group companies. The incremental borrowing rate to be used for each subsidiary in their lease contracts has been centrally defined by the Group. Denominated currency of subsidiaries and lease term of the contracts are affecting the defined, used discount rates.

The lease term is a lease's non-cancellable term, lease period. The lease extension options included in the leases are added to the lease term if it is reasonably certain that they will be used. For the time being lease contracts, in which lessor has no termination option without consent of the lessee and in which termination would cause significant costs, the judgment is used in the estimation of the lease term. In such cases, the maximum lease term used is Tikkurila's strategic period, 5 years. Similar judgment is used in the contracts in which lessor has termination option, without significant sanctions, but which contracts are essential to Tikkurila's business, the termination would result in significant costs for Tikkurila, and the contracts have continued for several years. In these cases, the likelihood of one-sided termination is estimated to be low. The Tikkurila Group's most significant leases relate to business premises (offices and shops), cars and right-of-use of land area.

The lease liability is re-measured if the cash flow under the original terms of the lease changes. Tikkurila's contracts, especially for business premises, include variable rents that are mainly tied to the changes of the consumer price index. The lease liability is re-measured when the change in the index in question causes a change in cash flow. The corresponding adjustment is recognized for the right-of-use asset value. Estimates of the length of the lease term of premises, and the possible use of an option to continue lease term, have a significant impact on Tikkurila's consolidated statement of financial position.

At the time of initial application of IFRS 16, lease liability of EUR 24.0 million and right-of-use asset of EUR 24.8 million were recognized in Tikkurila Group consolidated statement of financial position. In addition to that, the Group had committed to a lease that was not yet started at time of initial application of the IFRS 16. From that lease agreement originated lease liability and a right-of-use asset of EUR 1.1 million are not included in the amounts above stated opening balances. At the time of the initial adoption the weighted average incremental borrowing rate for lease liability was 4.2%.

Due to adoption of the IFRS 16 Leases standard, the Group’s interest-bearing net debt at the time of initial application at January 1, 2019 increased from EUR 85.5 million to EUR 109.6 million. The Group’s gearing increased from 57.0% to 73.0% and equity ratio decreased slightly. In comparison year, the total of future minimum lease payments under non-cancellable operating leases were reported in contingent liabilities (IAS 17). Comparison year figures are not restated.

At the time of adoption Tikkurila’s financing arrangement included a covenant that is based on Tikkurila Group’s gearing. However, the adoption of IFRS 16 standard had no effect on financing covenants in force until beginning of November 2019. Tikkurila Oyj signed a new term loan and revolving credit facility agreement on November 2019. This agreement includes one financial covenant based on Tikkurila Group's gearing and it recognizes the effect of IFRS16-standard to key figures.

In the following table is presented the adjustments and reclassifications to Tikkurila Group opening balances at January 1, 2019 originated from application of IFRS 16 standard.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR million

ASSETS	Dec 31, 2018	Adjustment	Jan 1, 2019
Non-current assets			
Goodwill	69.8		69.8
Other intangible assets	21.0		21.0
Property, plant and equipment	70.9	-0.2	70.7
Right-of-use assets	-	24.8	24.8
Equity-accounted investees	0.4		0.4
Other investments	0.7		0.7
Non-current receivables	8.9		8.9
Defined benefit pension and other long-term employee benefit assets	-		-
Deferred tax assets	8.1		8.1
Total non-current assets	**179.8**	**24.6**	**204.4**
Current assets			
Inventories	78.8		78.8
Interest-bearing receivables	1.0		1.0
Non-interest-bearing receivables	103.3	-0.6	102.7
Cash and cash equivalents	35.5		35.5
Non-current assets held for sale	1.6		1.6
Total current assets	**220.2**	**-0.6**	**219.6**
Total assets	**400.0**	**24.0**	**424.0**

EQUITY AND LIABILITIES	Dec 31, 2018	Adjustment	Jan 1, 2019
Share capital	35.0		35.0
Other reserves	0.0		0.0
Fair value reserve	0.0		0.0
Reserve for invested unrestricted equity	40.0		40.0
Treasury shares	0.0		0.0
Translation differences	-46.0		-46.0
Retained earnings	121.1	0.0	121.1
Equity attributable to owners of the parent	**150.1**	**0.0**	**150.1**
Non-controlling interest	-	-	-
Total equity	**150.1**	**0.0**	**150.1**
Non-current liabilities			
Interest-bearing non-current liabilities	50.0	17.8	67.8
Other non-current liabilities	0.1		0.1
Defined benefit pension and other long-term employee benefit liabilities	26.1		26.1
Provisions	0.6		0.6
Deferred tax liabilities	3.9		3.9
Total non-current liabilities	**80.7**	**17.8**	**98.5**
Current liabilities			
Interest-bearing current liabilities	71.0	6.3	77.3
Non-interest-bearing current liabilities	96.0		96.0
Provisions	2.2		2.2
Liabilities classified as held for sale	-		-
Total current liabilities	**169.1**	**6.3**	**175.4**
Total equity and liabilities	**400.0**	**24.0**	**424.0**
Interest-bearing financial liabilities (net), EUR million	85.5	24.0	109.6
Gearing, %	57.0%		73.0%
Equity ratio, %	37.6%		35.4%

Effects of IFRS 16 in financial year 2019

Due to IFRS 16 other operating expenses decreased in January-December period by EUR 8.3 million. Depreciations in financial year amounted to a total of EUR 24.2 million including depreciations from right-of-use assets EUR 8.2 million. The standard had a positive effect of EUR 0.1 million on operating result. Interest expenses January-December amounted to a total of EUR 2.0 million and included EUR 1.1 million interest expenses of lease liabilities. The adoption of IFRS 16 standard had a positive effect of EUR 7.3 million to the cash flow from operating activities.

The Group's interest-bearing financial liabilities (net) amounted to EUR 78.4 million including lease liabilities a total of EUR 22.6 million. Lease liabilities are included in interest-bearing non-current liabilities and interest-bearing current liabilities in consolidated statement of financial position. Gearing percentage without effect from lease liabilities is 32.4%.

Effects of IFRS 16 in Quarter 4

Q4 other operating expenses decreased by EUR 2.1 million. Depreciations in review period amounted to a total of EUR 6.1 million including depreciations from right-of-use assets EUR 2.0 million. The standard had a positive effect of EUR 0.1 million on operating result October - December. Interest expenses October-December amounted to a total of EUR 0.5 million and included EUR 0.3 million interest expenses of lease liabilities. The adoption of IFRS 16 standard had a positive effect of EUR 1.3 million to the cash flow from operating activities in review period.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
Revenue	**107.9**	105.5	**563.8**	561.5
Other operating income	**1.5**	5.6	**3.3**	10.0
Expenses	**-111.0**	-113.3	**-499.0**	-523.4
Depreciation, amortization and impairment losses	**-6.1**	-6.4	**-24.2**	-21.6
Operating result	**-7.7**	-8.6	**43.9**	26.5
Total financial income and expenses	**-0.5**	-1.3	**0.0**	-5.8
Share of profit or loss of equity-accounted investees	**0.0**	0.0	**0.3**	0.3
Result before taxes	**-8.1**	-9.9	**44.2**	21.0
Income taxes	**0.7**	1.5	**-10.9**	-6.5
Net result for the period	**-7.4**	-8.4	**33.2**	14.6
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Changes of equity investments at fair value through other comprehensive income	**-**	0.1	**0.0**	0.1
Remeasurements on defined benefit plans	**0.8**	0.7	**-3.9**	-0.2
Income taxes relating to items that will not be reclassified to profit or loss	**-0.2**	-0.2	**0.8**	0.0
Total items that will not be reclassified to profit or loss	**0.6**	0.6	**-3.1**	-0.1

Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences for foreign operations	**1.5**	-1.7	**5.5**	-6.6
Income taxes relating to items that may be reclassified subsequently to profit or loss	**-**	-	**-**	-
Total items that may be reclassified subsequently to profit or loss	**1.5**	-1.7	**5.5**	-6.6
Total comprehensive income for the period	**-5.2**	-9.5	**35.6**	7.8
Net result attributable to:				
Owners of the parent	**-7.4**	-8.4	**33.2**	14.6
Non-controlling interest	**-**	-	**-**	-
Net result for the period	**-7.4**	-8.4	**33.2**	14.6
Total comprehensive income attributable to:				
Owners of the parent	**-5.2**	-9.5	**35.6**	7.8
Non-controlling interest	**-**	-	**-**	-
Total comprehensive income for the period	**-5.2**	-9.5	**35.6**	7.8
Earnings per share of the net result attributable to owners of the parent				
Basic earnings per share (EUR)	**-0.17**	-0.19	**0.75**	0.33
Diluted earnings per share (EUR)	**-0.17**	-0.19	**0.75**	0.33

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR million

ASSETS	**Dec 31, 2019**	Dec 31, 2018
Non-current assets		
Goodwill	**70.2**	69.8
Other intangible assets	**18.2**	21.0
Property, plant and equipment	**69.3**	70.9
Right-of -use assets	**22.2**	-
Equity-accounted investees	**0.3**	0.4
Other investments	**0.7**	0.7
Non-current receivables	**7.0**	8.9
Defined benefit pension and other long-term employee benefit assets	**0.1**	-
Deferred tax assets	**10.3**	8.1
Total non-current assets	**198.4**	179.8
Current assets		
Inventories	**85.5**	78.8
Interest-bearing receivables	**0.7**	1.0
Non-interest-bearing receivables	**104.0**	103.3
Cash and cash equivalents	**47.0**	35.5
Non-current assets held for sale	**1.4**	1.6
Total current assets	**238.7**	220.2

Total assets	**437.1**	400.0

EQUITY AND LIABILITIES	**Dec 31, 2019**	Dec 31, 2018
Share capital	**35.0**	35.0
Other reserves	**0.0**	0.0
Fair value reserve	**0.0**	0.0
Reserve for invested unrestricted equity	**40.0**	40.0
Treasury shares	**0.0**	0.0
Translation differences	**-40.5**	-46.0
Retained earnings	**137.4**	121.1
Equity attributable to owners of the parent	**171.9**	150.1
Non-controlling interest	**-**	-
Total equity	**171.9**	150.1
Non-current liabilities		
Interest-bearing non-current liabilities	**75.1**	50.0
Other non-current liabilities	**0.0**	0.1
Defined benefit pension and other long-term employee benefit liabilities	**28.7**	26.1
Provisions	**1.6**	0.6
Deferred tax liabilities	**3.6**	3.9
Total non-current liabilities	**109.1**	80.7
Current liabilities		
Interest-bearing current liabilities	**50.2**	71.0
Non-interest-bearing current liabilities	**104.2**	96.0
Provisions	**1.5**	2.2
Liabilities classified as held for sale	**-**	-
Total current liabilities	**156.0**	169.1
Total equity and liabilities	**437.1**	400.0

CONSOLIDATED FINANCIAL STATEMENT OF CASH FLOWS	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
CASH FLOW FROM OPERATING ACTIVITIES				
Net result for the period	**-7.4**	-8.4	**33.2**	14.6
Adjustments for:				
Non-cash transactions	**6.5**	8.7	**29.0**	30.3
Interest and other financial expenses	**0.7**	1.6	**2.6**	6.8
Interest income and other financial income	**-0.3**	-0.3	**-2.5**	-1.0
Income taxes	**-0.7**	-1.5	**10.9**	6.5
Funds from operations before change in net working capital	**-1.1**	0.2	**73.2**	57.1

Change in net working capital	**11.1**	23.3	**-2.5**	1.5
Interest and other financial expenses paid	**-1.2**	-1.7	**-2.7**	-6.0
Interest and other financial income received	**0.3**	0.2	**1.8**	0.6
Income taxes paid	**1.8**	5.8	**-8.4**	-5.6
Total cash flow from operations	**10.9**	27.7	**61.4**	47.6
CASH FLOW FROM INVESTING ACTIVITIES				
Business combinations	**-**	-	**-**	-
Other capital expenditure	**-3.5**	-2.2	**-11.1**	-12.2
Proceeds from sale of assets	**0.6**	0.3	**1.6**	0.6
Loan receivables decrease (+), increase (-)	**0.4**	-	**0.4**	-0.1
Dividends received	**0.4**	0.4	**0.4**	0.4
Net cash used in investing activities	**-2.1**	-1.6	**-8.6**	-11.3
Cash flow before financing	**8.8**	26.2	**52.7**	36.3
CASH FLOW FROM FINANCING ACTIVITIES				
Non-current borrowings, increase (+), decrease (-)	**10.0**	-	**10.0**	-
Current financing, increase (+), decrease (-)	**-5.0**	1.4	**-28.0**	14.0
Payments of lease liabilities	**-1.3**	-	**-7.3**	-
Dividends paid	**-7.3**	-17.6	**-14.6**	-35.3
Acquisition of own shares	**-**	-	**-**	-
Other	**-**	-	**-**	-
Net cash used in financing activities	**-3.6**	-16.2	**-39.8**	-21.3
Net change in cash and cash equivalents	**5.2**	9.9	**13.0**	15.0
Cash and cash equivalents at the beginning of period	**41.8**	24.9	**35.5**	16.9
Effect of exchange rate fluctuations on cash held	**0.1**	-0.6	**1.4**	-2.3
Cash and cash equivalents transferred in assets held for sale	**-**	-	**-**	-1.3
Cash and cash equivalents at the end of period	**47.0**	35.5	**47.0**	35.5
Net change in cash and cash equivalents	**5.2**	9.9	**13.0**	15.0

Cash flows on leases, IFRS 16	**10-12/2019**	**1-12/2019**
Interest on lease liabilities, in cash flow from operating activities	-0.3	-1.0
Payments on lease liabilities, in cash flow from financing activities	-1.3	-7.3
Total cash flows on leases	**-1.6**	**-8.3**
Cash flow from operating activities	**10.9**	**61.4**
Interest on lease liabilities	0.3	1.0
Cash outflow on lease expenses	-1.6	-8.3
Cash flow from operating activities excluding impact of IFRS 16	**9.5**	**54.1**
Cash flow from financing activities	**-3.6**	**-39.8**
Payments on lease liabilities	1.3	7.3
Cash flow from financing activities excluding impact of IFRS 16	**-2.2**	**-32.5**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
EUR million

	Equity attributable to the owners of the parent								Non-controlling interest	Total equity
	Share capital	Other reserves	Fair value reserve	Reserve for invested unrestricted equity	Treasury shares	Translation differences	Retained earnings	Total		
Equity at Dec 31, 2017	35.0	0.0	0.0	40.0	0.0	-39.3	143.9	179.5	-	179.5
Change in accounting principles, IFRS 9, IFRS 15 and IFRS 2	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
Equity at Jan 1, 2018	35.0	0.0	0.0	40.0	0.0	-39.3	141.8	177.4	-	177.4
Total comprehensive income for the period	-	-	-	-	-	-6.6	14.5	7.8	-	7.8
Share-based compensation	-	-	-	-	-	-	0.1	0.1	-	0.1
Dividends paid	-	-	-	-	-	-	-35.3	-35.3	-	-35.3
Equity at Dec 31, 2018	35.0	0.0	0.0	40.0	0.0	-46.0	121.1	150.1	-	150.1
Equity at Dec 31, 2018	**35.0**	**0.0**	**0.0**	**40.0**	**0.0**	**-46.0**	**121.1**	**150.1**	**-**	**150.1**
Change in accounting principles, IFRS 16	-	-	-	-	-	-	0.0	0.0	-	0.0
Equity at Jan 1, 2019	**35.0**	**0.0**	**0.0**	**40.0**	**0.0**	**-46.0**	**121.1**	**150.1**	**-**	**150.1**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**5.5**	**30.2**	**35.6**	**-**	**35.6**
Share-based compensation	**-**	**-**	**-**	**-**	**-**	**-**	**0.7**	**0.7**	**-**	**0.7**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-14.6**	**-14.6**	**-**	**-14.6**
Equity at Dec 31, 2019	**35.0**	**0.0**	**0.0**	**40.0**	**0.0**	**-40.5**	**137.4**	**171.9**	**-**	**171.9**

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)
EUR million

	2019	2018
Reserve for invested unrestricted equity	**40.0**	40.0
Retained earnings	**85.8**	85.2
Net result for the period	**28.4**	15.1
Total	**154.2**	140.3

REPORTABLE SEGMENTS

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

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

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

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

Revenue by segment	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
SBU West	**68.0**	67.9	**370.0**	381.2
SBU East	**39.9**	37.6	**193.8**	180.3
Eliminations	**0.0**	-	**0.0**	0.0
Total	**107.9**	105.5	**563.8**	561.5

EBIT by segment	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
SBU West	**-7.6**	-6.3	**30.4**	22.7
SBU East	**1.8**	-0.1	**20.0**	9.4
Tikkurila common	**-1.9**	-2.2	**-6.5**	-5.6
Eliminations	**-**	-	**-**	-
Total	**-7.7**	-8.6	**43.9**	26.5

Items affecting comparable EBIT by segment	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
SBU West	**-0.1**	-3.1	**-0.3**	-11.8
SBU East	**0.1**	-0.1	**-2.0**	-0.5
Tikkurila common	**0.0**	0.1	**-0.2**	-
Eliminations	**-**	-	**-**	-
Total	**-0.1**	-3.1	**-2.5**	-12.3

Adjusted operating result by segment	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				

SBU West	**-7.5**	-3.2	**30.7**	34.5
SBU East	**1.7**	0.0	**22.0**	9.9
Tikkurila common	**-1.9**	-2.3	**-6.3**	-5.6
Eliminations	**-**	-	**-**	-
Total	**-7.6**	-5.5	**46.4**	38.8

Non-allocated items:				
Total financial income and expenses	**-0.5**	-1.3	**0.0**	-5.8
Share of profit or loss of equity-accounted investees	**0.0**	0.0	**0.3**	0.3
Result before taxes	**-8.1**	-9.9	**44.2**	21.0

Revenue by product group and by segment	**1-12/2019**		1-12/2018	
EUR million	**Decorative paints**	**Industrial coatings**	Decorative paints	Industrial coatings
SBU West	**304.8**	**65.3**	309.6	71.5
SBU East	**162.6**	**31.2**	153.0	27.3
Eliminations	**0.0**	**-**	0.0	-
Total	**467.4**	**96.4**	462.7	98.8

Assets by segment	**Dec 31, 2019**	Dec 31, 2018
EUR million		
SBU West	**343.1**	298.3
SBU East	**98.0**	67.6
Assets, non-allocated to segments	**31.4**	50.0
Eliminations	**-35.4**	-15.9
Total assets	**437.1**	400.0

CHANGES IN PROPERTY, PLANT AND EQUIPMENT	**1-12/2019**	1-12/2018
EUR million		
Carrying amount at the beginning of period	**70.9**	81.2
Additions	**9.4**	10.2
Business combinations	**-**	-
Disposals	**-0.2**	-0.1
Depreciation, amortization and impairment losses	**-11.8**	-15.1
Exchange rate differences and other changes	**1.0**	-5.3
Carrying amount at the end of period	**69.3**	70.9

Tikkurila Group had contractual commitments for purchase of property, plant and equipment EUR 1.4 (3.9) million at the end of review period.

CHANGES IN INTANGIBLE ASSETS **EUR million**	**1-12/2019**	1-12/2018
Carrying amount at the beginning of period	**90.8**	98.4
Additions	**1.7**	0.2
Business combinations	**-**	-
Disposals	**0.0**	-0.1
Depreciation, amortization and impairment losses	**-4.2**	-6.5
Exchange rate differences and other changes	**0.1**	-1.3
Carrying amount at the end of period	**88.4**	90.8

Tikkurila Group had contractual commitments for intangible assets EUR 0.0 (0.0) million at the end of review period.

CHANGES IN RIGHT-OF-USE ASSETS **EUR million**	**1-12/2019**	1-12/2018
Adoption of IFRS 16	**24.8**	-
Carrying amount at the beginning of period	**-**	-
Additions	**5.4**	-
Disposals	**-0.3**	-
Depreciation, amortization and impairment losses	**-8.2**	-
Exchange rate differences and other changes	**0.5**	-
Carrying amount at the end of period	**22.2**	-

INVENTORIES

Write-down of inventory for a total amount of EUR 5.4 (9.4) million was recognized until end of review period.

RELATED PARTY TRANSACTIONS

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

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

Related party transactions:
EUR million

Joint ventures	**1-12/2019**	1-12/2018
Sales	**5.1**	5.0
Other operating income	**1.0**	1.0
Receivables	**0.5**	0.4
Liabilities	**0.0**	0.0

Share-based Commitment and Incentive Plans

In April 2016, the Board of Directors of Tikkurila Oyj decided on a share-based incentive plan for the Group key employees. This plan consists of a performance share plan 2015–2019 and a matching share plan 2016–2018. In May 2017, the Board of Directors resolved on details of the performance period 2017-2019 and in addition decided on a matching share plan 2017-2019 for the selected Group key employees.

The performance share plan has three performance periods, 2015–2017, 2016–2018 and 2017–2019. The potential reward from the plan will be paid partly in cash and partly in shares of Tikkurila Oyj.

The rewards to be paid on the basis of the performance periods 2015-2017 and 2016-2018 will amount to an approximate maximum total of 250,000 Tikkurila Oyj shares. The reward is based on the Tikkurila Group's average EBITDA and net debt -based intrinsic values 2015-2017 and 2016-2018. No payments were made from performance periods 2015-2017 or 2016-2018, as the criteria defined for the period were not reached.

The rewards to be paid on the basis of the performance period 2017-2019 will amount to an approximate maximum total of 120,000 Tikkurila Oyj shares and the rewards will be based on the Tikkurila Group's average EBITDA and net debt based intrinsic value 2017-2019. As per the performance period 2017-2019 of share plan, no reward will be paid since the criteria defined for the periods were not reached.

In each Matching Share Plan there is one vesting period, calendar years 2016-2018 and 2017-2019. The rewards from the plans will be paid partly in shares and partly in cash. The rewards to be paid on the basis of the vesting period 2017-2019 will amount to a maximum of 8,000 Tikkurila Oyj shares. The reward to be paid on the basis of vesting period 2016-2018 amounted to a maximum of 4,000 Tikkurila Oyj shares but the criteria for reward payment were not fulfilled.

In June 2018, the Board of Directors of Tikkurila Oyj decided on two new share-based incentive plans for Group key employees; share plan 2018-2022 and share plan 2018-2019. Share plan 2018-2022 includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. The potential rewards from the plan will be paid partly in cash and partly in shares of Tikkurila Oyj. Payment of the reward is conditional to that a participant is employed at the time of the payment. In December 2018, the Board of Directors of Tikkurila Oyj decided to change the terms of performance share plan 2018-2022 so that part of the reward for the performance period 2019-2021 will be a time-based reward and the number of the participants of the plan will be increased. In December 2019, the Board of Directors of Tikkurila Oyj decided on the details of the performance period 2020-2022. There is no time-based reward.

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

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

The rewards to be paid on the basis of the performance period 2020-2022 will amount to an approximate maximum total of 160,000 Tikkurila Oyj shares. The potential reward of the plan will be based on the Tikkurila Group´s average EBITDA-based intrinsic values for 2020-2022. Approximately 20 key employees, including the members of the Management Team, belong to the target group of the plan during the performance period 2020-2022.

Share plan 2018-2019 includes one performance period, calendar years 2018-2019 and the potential reward will be paid partly in cash and partly in shares of Tikkurila Oyj. In December 2019, the Board of Directors decided to pay the potential rewards in cash. Payment of the rewards is conditional to, that a participant is employed at the time of the payment. Approximately 30 key employees, including the members of the Management Team, originally belonged to the target group of the plan. At the end of year 2019, the target group consists of less than 20 employees. The potential reward of the plan will be based to the cumulative revenue and adjusted EBIT from the performance period 2018-2019. The calculated aggregate value of the plan will amount to an approximate maximum of EUR 3.2 million.

Based on these share-based incentive plans EUR 0.8 (0.2) million was recognized during the financial year 2019 in personnel expenses.

COMMITMENTS AND CONTINGENT LIABILITIES EUR million	Dec 31, 2019	Dec 31, 2018
Mortgages given as collateral for liabilities in the statement of financial position		
Other loans	**-**	-
Mortgages given	**-**	0.1
Total loans	**-**	-
Total mortgages given	**-**	0.1
Contingent liabilities		
Guarantees		
On behalf of own commitments	**0.3**	0.4
On behalf of others	**1.3**	1.3
Other obligations of own behalf	**-**	0.1
Lease obligations	**0.1**	31.0
Total contingent liabilities	**1.8**	32.8

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

EUR million

Dec 31, 2019	Fair value through profit or loss items	Amortized cost items	Fair value through other comprehensive income items	Carrying amounts	Fair values
Non-current financial assets					
Other investments	-	-	0.7	0.7	0.7
Non-current receivables	-	6.6	-	6.6	6.6
Current financial assets					
Interest-bearing receivables	-	0.7	-	0.7	0.7
Cash equivalents	-	47.0	-	47.0	47.0
Trade and other non-interest-bearing receivables	-	88.4	-	88.4	88.4
Total	**-**	**142.7**	**0.7**	**143.4**	**143.4**
Non-current financial liabilities					
Non-current interest-bearing liabilities	-	75.1	-	75.1	75.3
Current financial liabilities					
Current interest-bearing liabilities	-	50.2	-	50.2	50.2
Trade payables	-	43.0	-	43.0	43.0
Total	**-**	**168.4**	**-**	**168.4**	**168.6**

Dec 31, 2018	Fair value through profit or loss items	Amortized cost items	Fair value through other comprehensive income items	Carrying amounts	Fair values
Non-current financial assets					
Other investments	-	-	0.7	0.7	0.7
Non-current receivables	-	8.5	-	8.5	8.5
Current financial assets					
Interest-bearing receivables	-	1.0	-	1.0	1.0
Cash equivalents	-	35.5	-	35.5	35.5
Trade and other non-interest-bearing receivables	-	84.7	-	84.7	84.7
Total	**-**	**129.7**	**0.7**	**130.4**	**130.4**
Non-current financial liabilities					
Non-current interest-bearing liabilities	-	50.0	-	50.0	50.0
Current financial liabilities					
Current interest-bearing liabilities	-	71.0	-	71.0	71.0
Trade payables	-	46.3	-	46.3	46.3
Total	**-**	**167.3**	**-**	**167.3**	**167.4**

FAIR VALUE HIERARCHY
EUR million

Dec 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Other investments	**-**	**-**	**0.7**	**0.7**
Dec 31, 2018				
Recurring fair value measurements				
Other investments	-	-	0.7	0.7

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 fair value measured financial assets and liabilities

Other investments	**Dec 31, 2019**	Dec 31, 2018
Carrying amount at Jan 1	**0.7**	0.8
Translation differences in other comprehensive income	**0.0**	0.0
Change in valuation	**-**	-
Disposals	**0.0**	0.0
Other changes / transfers	**-**	-
Carrying amount at end of review period	**0.7**	0.7

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

Tikkurila has classified these equity instruments as fair value through other comprehensive income. Dividends on these investments are recognized in profit or loss but possible impairment losses will not be recognized in profit or loss nor the gains or losses on disposal.

KEY PERFORMANCE INDICATORS	**10-12/2019/ Dec 31, 2019**	10-12/2018/ Dec 31, 2018	**1-12/2019/ Dec 31, 2019**	1-12/2018/ Dec 31, 2018
Earnings per share / basic, EUR	**-0.17**	-0.19	**0.75**	0.33
Earnings per share / diluted, EUR	**-0.17**	-0.19	**0.75**	0.33
Operating result (EBIT), EUR million	**-7.7**	-8.6	**43.9**	26.5
of revenue %	**-7.1%**	-8.2%	**7.8%**	4.7%
Adjusted operating result, EUR million	**-7.6**	-5.5	**46.4**	38.8
of revenue %	**-7.1%**	-5.2%	**8.2%**	6.9%
Cash flow from operations, EUR million	**10.9**	27.7	**61.4**	47.6
Cash flow from operations / per share, EUR	**0.25**	0.63	**1.39**	1.08
Capital expenditure, EUR million	**3.5**	2.2	**11.1**	12.2
of revenue %	**3.2%**	2.1%	**2.0%**	2.2%
Shares (1,000), average *)	**44,106**	44,106	**44,106**	44,106
Shares (1,000), at the end of the reporting period *)	**44,106**	44,106	**44,106**	44,106
Weighted average number of shares, adjusted for dilutive effect (1,000) 1) *)	**44,202**	44,131	**44,186**	44,121
Number of shares at the end of period, adjusted for dilutive effect (1,000) 1) *)	**44,202**	44,131	**44,202**	44,131
Equity attributable to the owners of the parent / per share, EUR	**3.90**	3.40	**3.90**	3.40
Equity ratio, %	**39.3%**	37.6%	**39.3%**	37.6%
Gearing, %	**45.6%**	57.0%	**45.6%**	57.0%
Interest-bearing financial liabilities (net), EUR million	**78.4**	85.5	**78.4**	85.5
Return on capital employed (ROCE), % p.a.	**15.4%**	9.3%	**15.4%**	9.3%
Personnel (average)	**2,612**	2,748	**2,713**	2,908

1) When calculating the dilution effect for the number of shares, it has been assumed that all the remuneration to be paid in shares would be issued as new shares, even though it is also possible that those shares might be acquired from the markets. Moreover, the number of shares adjusted for dilutive effect is based on estimates for Tikkurila Group’s future financial performance, and its impact on the outcome of the share-based commitment and incentive plan.

*) Number of shares outstanding, treasury shares excluded

COMPONENTS FOR ALTERNATIVE KEY FIGURES

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

Items affecting comparable EBIT

Group total	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
Divestments, changes in Group structure	**0.0**	-0.9	**-0.1**	-2.0
Personnel related	**0.0**	-0.9	**-0.5**	-6.9
Costs on withdrawn Russian factory investment	**0.1**	-	**-1.8**	-
Impairment losses	**-0.1**	-1.3	**-0.1**	-3.4
Total	**-0.1**	-3.1	**-2.5**	-12.3

SBU West	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
Divestments, changes in Group structure	**0.0**	-0.8	**-0.1**	-2.3
Personnel related	**0.0**	-0.9	**-0.1**	-6.1
Impairment losses	**-0.1**	-1.3	**-0.1**	-3.4
Total	**-0.1**	-3.1	**-0.3**	-11.8

SBU East	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
Divestments, changes in Group structure	**-**	-0.1	**-**	0.3
Personnel related	**0.0**	-0.1	**-0.3**	-0.8
Costs on withdrawn Russian factory investment	**0.1**	-	**-1.8**	-
Impairment losses	**-**	-	**-**	-
Total	**0.1**	-0.1	**-2.0**	-0.5

Tikkurila common	**10-12/2019**	10-12/2018	**1-12/2019**	1-12/2018
EUR million				
Divestments, changes in Group structure	**-**	-	**-**	-
Personnel related	**0.0**	0.1	**-0.2**	-
Impairment losses	**-**	-	**-**	-
Total	**0.0**	0.1	**-0.2**	-

Net debt	**Dec 31, 2019**	Dec 31, 2018
EUR million		
Interest-bearing non-current liabilities	**75.1**	50.0
Interest-bearing current liabilities	**50.2**	71.0
Interest-bearing liabilities, total	**125.4**	121.0
Cash and cash equivalents	**47.0**	35.5
Interest-bearing financial liabilities (net)	**78.4**	85.5

Return on capital employed (ROCE), %		
Operating result + share of profit or loss of equity-accounted investees 1)	**44.2**	26.8
Capital employed 2)	**287.3**	289.8
Return on capital employed (ROCE), %	**15.4%**	9.3%

1) from a rolling 12-month period

2) 12 months, in average

DEFINITIONS OF KEY FIGURES

Earnings per share (EPS), basic

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

Earnings per share (EPS), diluted

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

Equity per share

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

Cash flow from operations / per share

$$\frac{\text{Cash flow from operations}}{\text{Shares on average}}$$

Equity ratio, %

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

Gearing, %

$$\frac{\text{Net interest-bearing financial liabilities x 100}}{\text{Total equity}}$$

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

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

Adjusted operating result
Operating result (EBIT) - items affecting comparability

Interest-bearing financial liabilities (net)
Interest-bearing liabilities - money market investments - cash and cash equivalents

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

Capital employed
Net working capital + intangible assets ready for use + property, plant and equipment ready for use+ right-of-use assets + equity-accounted investees

Return on capital employed (ROCE), % p.a. *

$$\frac{\text{Operating result + share of profit or loss of equity-accounted investees x 100}}{\text{Capital employed **}}$$

* actual operating result and share of profit or loss of equity-accounted investees taken into account for a rolling twelve-month period ending at the end of the review period

** 12 months, in average

SEGMENT INFORMATION BY QUARTER

Revenue by segment	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
EUR million								
SBU West	100.5	115.1	97.7	67.9	97.2	107.5	97.3	68.0
SBU East	29.6	58.7	54.4	37.6	32.0	62.2	59.7	39.9
Eliminations	-	0.0	-	-	-	0.0	0.0	0.0
Total	130.1	173.7	152.2	105.5	129.1	169.7	157.1	107.9

EBIT by segment	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
EUR million								
SBU West	3.4	16.1	9.6	-6.3	10.5	14.8	12.7	-7.6
SBU East	-2.4	6.7	5.2	-0.1	-0.7	7.7	11.1	1.8
Tikkurila common	-1.0	-1.6	-0.8	-2.2	-2.0	-1.3	-1.3	-1.9
Eliminations	-	-	-	-	-	0.0	-	-
Total	0.0	21.2	14.0	-8.6	7.9	21.2	22.5	-7.7

Items affecting comparable EBIT by segment	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
EUR million								
SBU West	-3.9	-0.2	-4.6	-3.1	-0.1	0.0	-0.1	-0.1
SBU East	0.3	-0.2	-0.5	-0.1	0.0	-2.1	0.0	0.1
Tikkurila common	-	-	-0.1	0.1	-0.2	0.0	-	0.0
Eliminations	-	-	-	-	-	-	-	-
Total	-3.6	-0.4	-5.2	-3.1	-0.3	-2.0	-0.1	-0.1

Adjusted operating result by segment	1-3/2018	4-6/2018	7-9/2018	10-12/2018	1-3/2019	4-6/2019	7-9/2019	10-12/2019
EUR million								
SBU West	7.3	16.2	14.2	-3.2	10.6	14.8	12.8	-7.5
SBU East	-2.7	6.8	5.7	0.0	-0.7	9.8	11.2	1.7
Tikkurila common	-1.0	-1.6	-0.8	-2.3	-1.8	-1.3	-1.3	-1.9
Eliminations	-	-	-	-	-	-	-	-
Total	3.6	21.5	19.2	-5.5	8.2	23.2	22.6	-7.6

Non-allocated items:								
Total financial income and expenses	-1.3	-1.8	-1.3	-1.3	1.8	-0.4	-0.9	-0.5
Share of profit or loss of equity-accounted investees	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.0
Profit / loss before taxes	-1.3	19.5	12.8	-9.9	9.7	20.9	21.7	-8.1

Assets by segment EUR million	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019
SBU West	342.6	355.7	329.1	298.3	350.5	363.2	362.1	343.1
SBU East	74.9	98.5	84.0	67.6	80.6	91.4	112.4	98.0
Assets, non-allocated to segments	79.2	107.4	53.4	50.0	52.7	96.5	37.2	31.4
Eliminations	-25.0	-24.8	-15.1	-15.9	-13.4	-20.8	-39.4	-35.4
Total assets	471.7	536.7	451.4	400.0	470.3	530.3	472.3	437.1