TIKKURILA

FINANCIAL STATEMENT RELEASE 2018

Tikkurila Oyj
Financial Statement Release
February 12, 2019 at 9:00 a.m. (CET+1)

Tikkurila's Financial Statement Release for January−December 2018
- Profitability and cash flow improved, savings of EUR 30 million offset increased raw material prices and adverse currency effects

Full-year 2018 highlights
- Revenue was EUR 561.5 million (2017: EUR 582.4 million), a decrease of 3.6%. Revenue increased by 3.1 percent when excluding currency effects and divestments.
- Adjusted operating profit was EUR 38.8 (28.8) million, i.e. 6.9 (4.9) percent of revenue.
- Operating profit (EBIT) was EUR 26.5 (19.3) million, i.e. 4.7 (3.3) percent of revenue.
- EPS was EUR 0.33 (0.24).
- Cash flow after capital expenditure was EUR 36.3 (4.4) million

October-December 2018 highlights
- Revenue was EUR 105.5 million (10-12/2017: EUR 102.2 million), an increase of 3.2%. Revenue grew by 9.3 percent when excluding currency effects and divestments.
- Adjusted operating profit was EUR -5.5 (-18.3) million, i.e. -5.2 (-17.9) percent of revenue. Tikkurila received an insurance compensation of which EUR 4.75 million was recognized in the fourth quarter.
- Operating profit (EBIT) was EUR -8.6 (-26.5) million, i.e. -8.2 (-25.9) percent of revenue.
- EPS was EUR -0.19 (-0.53).

Dividend proposal
- The Board proposes a dividend of EUR 0.33 (0.80) per share, which corresponds to 100 (331) percent of the Group's 2018 earnings per share. It is proposed that the dividend will be paid in two equal tranches.

Guidance for 2019
- Tikkurila's revenue is expected to remain at the same level as in 2018 and the adjusted operating profit will continue to improve.

Key figures (EUR million)	**10-12/2018**	10-12/2017	Change,%	**1–12/2018**	1–12/2017	Change,%
Income statement						
Revenue	**105.5**	102.2	3.2%	**561.5**	582.4	-3.6%
Adjusted operating profit	**-5.5**	-18.3	69.9%	**38.8**	28.8	34.9%
Adjusted operating profit margin, %	**-5.2%**	-17.9%		**6.9%**	4.9%	
Operating profit (EBIT)	**-8.6**	-26.5	67.5%	**26.5**	19.3	37.4%
Operating profit margin, (EBIT,%)	**-8.2%**	-25.9 %		**4.7 %**	3.3%	
Profit before taxes	**-9.9**	-27.2	63.5%	**21.0**	16.6	26.6%
Net profit for the period	**-8.4**	-23.4	64.2%	**14.6**	10.7	36.9%
Other key indicators						
EPS, EUR	**-0.19**	-0.53	64.2%	**0.33**	0.24	36.9%
ROCE, %, rolling	**9.3%**	6.3%		**9.3%**	6.3%	
Cash flow after capital expenditure	**26.2**	11.0	137.2%	**36.3**	4.4	720.2%
Net interest-bearing debt at period-end				**85.5**	90.1	-5.1%
Gearing, %				**57.0%**	50.2%	
Equity ratio, %				**37.6 %**	42.0 %	
Personnel at period-end				**2,717**	3,037	-10.5 %

Elisa Markula, CEO:

"Revenue increased by 3.1 percent in 2018, excluding currency effects and divestments, after a quite strong fourth quarter (an increase of 9.3 percent excluding currency effects and divestments). However, the euro-denominated revenue decreased as much as 3.6 percent after being affected by currency fluctuation (a total impact of EUR -27.5 million) and divestments (EUR -11.8 million) in 2018. Sales volumes grew in all of the main markets, especially in Poland, but decreased slightly in Russia. Russian revenue in rubles increased due to the shift from the economy segment into the premium.

The fixed expense savings of EUR 30 million improved our profitability, which was better than in the previous year, even if not at a satisfactory level. Sales price increases did not fully mitigate raw material cost increases.

In order to further improve profitability, Tikkurila continued to execute its efficiency program. We closed down and divested small production sites, implemented personnel deductions, harmonized our product portfolio and initiated a project regarding sourcing efficiency, among other measures. These measures have been necessary in order to enhance our cost competitiveness. The fixed costs savings will be fully visible during 2019.

In 2019 we will continue to focus on improving internal efficiency, cost control and driving profitable growth. Our vision "Surfaces that make a difference" entails building outstanding customer experience and enhancing easy-to-use sustainable solutions. Tikkurila also builds new, digital service channels for a growing segment of paint professionals and also offers surfaces for selected industrial segments. On top of this, we will share our renewed growth strategy in the near future."

Press Conference and webcast

Tikkurila will hold a press conference regarding the Financial Statement Release for January-December 2018 for the media and analysts on Tuesday, **February 12, 2019**, starting at **12:00** noon Finnish time at Tapahtumatalo Bank's cabinet 24-25 (address: Unioninkatu 20, Helsinki). The conference will be held in Finnish. Attendees will be served lunch at the conference premises starting at 11:30 a.m. The Financial Statement Release will be presented by **Elisa Markula**, CEO.

A live webcast, conducted in English, will be organized on February 12, 2019, at 3:00 p.m. The live webcast will be available at www.tikkurilagroup.com/investors. The participants can also join a telephone conference that will be arranged in conjunction with the live webcast. The telephone conference details are set out below:

+358 9 7479 0361 (Finnish callers)
+44 330 336 9105 (UK callers)
+1 323 794 2551 (USA callers)
Participant code: 9710721

An on-demand version of the webcast will be available at www.tikkurilagroup.com/investors later during the same day.

Financial Statement Release and related presentation material will be available before the press conference at www.tikkurilagroup.com/investors.

Tikkurila Oyj
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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 around ten countries and our 2,700 dedicated professionals share the joy of building a vivid future through surfaces that make a difference. In 2018, our revenue totaled EUR 562 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, 2018

This financial report has been prepared in accordance with the IAS 34 standard and other valid regulations. The information disclosed is unaudited with the exception of full year figures for 2017 and 2018. The figures presented in the Financial Statement Release are independently rounded.

Fluctuations in exchange rates in this Financial Statement Release 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 the 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 Financial Statement Release, the Finnish version shall prevail.

As of January 1, 2014, Tikkurila's business operations are organized in two reporting segments, or Strategic Business Units (SBU). Tikkurila's reporting segments are SBU West and SBU East. SBU West consists of Sweden, Denmark, Norway, Finland, Poland, Germany, Estonia, Latvia, and Lithuania. SBU East consists of Russia, Central Asian countries, and China. Furthermore, SBU East is responsible for the exports to more than 20 countries.

Market Review

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

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

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

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

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

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

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

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

Financial Performance in October-December

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

October-December (EUR million)

	Revenue		Adjusted operating result	
	10-12/2018	10-12/2017	**10-12/2018**	10-12/2017
SBU West	**67.9**	61.3	**-3.2**	-18.4
SBU East	**37.6**	40.9	**0.0**	1.1
Group common and eliminations	**-**	0.0	**-2.3**	-1.0
Consolidated Group	**105.5**	102.2	**-5.5**	-18.3

Tikkurila Group's euro-denominated **revenue** increased by 3.2% and 9.3% excluding currency effects and divestments. The exchange rate fluctuations of Russian ruble and Swedish krona had an effect on revenue of -4%, lower sales volumes an effect of -1%. In addition, sales price increases and the sales mix had a combined effect of +10%. The divestment of business operations in the Balkans had an effect on revenue of -2%.

Adjusted operating profit totaled EUR -5.5 (-18.3) million, which accounts for -5.2 (-17.9) percent of revenue. Profitability improved because of lower fixed costs than in the previous year, which was mainly due to lower ERP related costs and penalties, exchange rate fluctuations and strict cost control in general. Tikkurila received an insurance compensation of EUR 4.75 million, which was booked in the last quarter of 2018. The compensation is included in the adjusted operating profit.

Operating profit (EBIT) totaled EUR -8.6 (-26.5) million, corresponding to -8.2 (-25.9) percent of revenue.

The net financial expenses in October-December 2018 were EUR -1.3 (-0.7) million. Profit before taxes was EUR -9.9 (-27.2) million. Taxes totaled EUR 1.5 (3.8) million, equaling an effective tax rate of 15.4 (13.9) percent. Earnings per share were EUR -0.19 (-0.53) in the review period.

Financial Performance in 2018

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

January-December (EUR million)	Revenue		Adjusted operating result	
	1-12/2018	1-12/2017	**1-12/2018**	1-12/2017
SBU West	**381.2**	379.8	**34.5**	18.1
SBU East	**180.3**	202.6	**9.9**	15.2
Group common and eliminations	**0.0**	0.0	**-5.6**	-4.5
Consolidated Group	**561.5**	582.4	**38.8**	28.8

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

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

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

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

Financial Performance by Reporting Segments

SBU West

EUR million	**10–12/2018**	10-12/2017	Change %	**1–12/2018**	1–12/2017	Change %
Revenue	**67.9**	61.3	10.7%	**381.2**	379.8	0.4%
Adjusted operating profit	**-3.2**	-18.4	82.5%	**34.5**	18.1	91.1%
Adjusted operating profit margin, %	**-4.7%**	-30.0%		**9.1%**	4.8%	
Operating profit (EBIT)	**-6.3**	-19.8	68.2%	**22.7**	16.2	40.1%
Operating profit (EBIT) margin, %	**-9.3%**	-32.3%		**6.0%**	4.3%	
Capital expenditure excluding acquisitions	**1.6**	4.3	-62.2%	**5.9**	11.0	-45.9%

Financial Performance in October-December 2018

SBU West's euro-denominated revenue increased by 10.7% from the comparison period, while increase was 13.2% in comparable currencies. The effects of various factors on revenue for the quarter:

- Higher sales volumes +3%. Sales volumes continued to develop favorably in Poland and Finland.
- Adverse currency effect -2%.
- The combined effect of sales price increases and the sales mix was +10%.

Fourth quarter revenues of the key countries:

- Sweden EUR 23.3 (18.8) million, Finland EUR 14.0 (11.9) million, Poland EUR 14.9 (15.1) million

Due to the higher revenues and lower fixed expenses, the adjusted operating profit was clearly improved. In addition to this, there was also a significant insurance compensation of a total of EUR 6 million, of which EUR 4.75 million was recognized in the fourth quarter. This improved the adjusted operating profit. In the comparison period in 2017 there were significant costs related to the ERP system, which had an impact on the comparison figures.

Financial Performance in 2018

SBU West's euro-denominated revenue increased by 0.4% from the comparison period while increased by +3.0% in comparable currencies. The effects of various factors on revenue for January-December 2018:

- Higher sales volumes +3%
- Adverse currency effect -3%
- The combined effect of sales price increases and the development of the sales and product mix was 0%. The unfavorable sales mix was due to paint distribution channel changes in Sweden, and a growth in the relative share of professional customers.

January-December revenues of the key countries:

- Sweden EUR 127.6 (132.8) million, Finland EUR 94.4 (92.8) million, Poland EUR 84.6 (76.8) million

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

SBU East

EUR million	**10–12/2018**	10–12/2017	Change %	**1–12/2018**	1–12/2017	Change %
Revenue	**37.6**	40.9	-8.2%	**180.3**	202.6	-11.0%
Adjusted operating profit	**0.0**	1.1	-96.3%	**9.9**	15.2	-34.9%
Adjusted operating profit margin, %	**0.1%**	2.6%		**5.5%**	7.5%	
Operating profit (EBIT)	**-0.1**	-5.9	98.6%	**9.4**	8.2	14.6%
Operating profit (EBIT) margin, %	**-0.2%**	-14.3%		**5.2%**	4.1%	
Capital expenditure excluding acquisitions	**0.9**	1.3	-30.4%	**4.5**	3.6	24.6%

Financial Performance in October-December 2018

SBU East's euro-denominated revenue decreased by 8.2% from the comparison period while the increase was 3.5%, excluding currency effects and divestments. The effects of various factors on revenue for the fourth quarter:

- Lower sales volumes -6%.
- Adverse currency effect -7%
- Sales price increases and favorable sales mix +10%. In Russia, the relative share of premium products of sales increased. During the year, sales prices were increased in all key markets but the increases were not enough to compensate for raw material inflation.
- Divestment of the Balkan business operations -5%

Fourth quarter revenue of the key countries:

- Russia EUR 26.9 (27.2) million

The adjusted operating profit declined due the continued raw material inflation and headwind from currency fluctuations despite fixed expenses savings.

Financial Performance in 2018

SBU East's euro-denominated revenue decreased by 11% from the comparison period. Excluding currency effects and divestments however the revenue increased by 3.2%. The effects of various factors on revenue for January-December:

- Lower sales volumes -2%.
- Adverse currency effect -9%
- Sales price increases and favorable sales mix +6%. Sales mix developed favorably due to the shift to premium products from economy segment products.
- Divestment of the Balkan business operations -6%

January-December revenues of the key countries:

- Russia EUR 134.4 (143.4) million

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

Cash Flow, Financing Activities, and Financial Risk Management

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

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

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

The Group´s net financial expenses were EUR 5.8 (2.9) million, of which interest expenses totaled EUR 0.4 (0.0) million and other financing expenses EUR 0.7 (0.5) million. The average capital-weighted interest rate of interest-bearing debt was 1.2 (0.8) percent. The net profit was negatively affected by a total of EUR -4.8 (-2.4) million based on the impact of realized and unrealized exchange rate differences recognized during the review period. The main negative impact was related to the Russian ruble and Swedish krona denominated items. According to the decision of Tikkurila Board of Directors the company will not carry out forward exchange agreements or apply other financial instruments to hedge risks; instead, exchange rate risk management will involve operative measures such as the coordination of currency allocation of incoming and outgoing cash flows.

At the end of December, the equity ratio was 37.6 (42.0) percent, and gearing was 57.0 (50.2) percent. Equity ratio was lower due to decreased equity which was negatively affected by the adverse result development during the past couple of years.

Progress of the efficiency program

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

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

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

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

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

Costs and benefits of the efficiency program

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

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

Capital Expenditure

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

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

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

Sales and marketing

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

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

Tikkurila develops high-quality, user-friendly and environmentally sustainable solutions, and trains its stakeholders in the durable use of its products. The target is to offer the best user experience. Tikkurila invests in developing solutions that make the selecting, purchasing and selling of paints easier, and supports its customers through every stage of their painting to ensure successful and durable end results. Through ideas and instructions offered in stores and in digital channels, Tikkurila inspires people to paint, helping them choose the right products, and gives advice on the safe use of the products.

Tikkurila's range of services include color design and tinting services, painting advice, as well as expert consultation and training services. The skilled personnel guide the customers by providing them painting advice and help with product and color selection.

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

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

Research, Development and Innovation

In 2018, Tikkurila's research and development expenses totaled EUR 9.0 (2017: EUR 10.6 and 2016: EUR 10.8) million or 1.6 (2017: 1.8 and 2016: 1.9) percent of revenue. At the end of 2018, the unit employed 175 (193) people. Tikkurila's largest R&D units are located in Finland, Russia, Poland and Sweden.

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

In 2018 product development concentration continued with the decision to close product development units in Germany and Denmark. After the reorganization, product development will be located in Finland, Poland, Russia, Sweden, and Estonia. The focus of R&D was on product launches, the strengthening of the product development organization with new recruitment, product safety and environmental friendliness of products, the harmonization of formulas and our raw material portfolio, cost savings and securing raw material yield. Major projects included optimization of indoor paint formulas and innovative tone management software installation to shops.

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

Human Resources

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

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

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

Wages and salaries in 2018 totaled EUR 81.1 (86.3) million.

Shares and Shareholders

At the end of December 2018, Tikkurila's share capital was EUR 35.0 million, and the total number of registered shares was 44,108,252. At the end of 2018, Tikkurila held 2,461 treasury shares.

According to Euroclear Finland Oy's register, Tikkurila had a total of some 20,000 shareholders on December 31, 2018. A list of the largest shareholders registered in the book-entry account system is regularly updated and is available on Tikkurila's website at www.tikkurilagroup.com/investors/share_information/shareholders.

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

Tikkurila Board members and their interest parties held altogether 120,914 shares on December 31, 2018, which is about 0.3 percent of the share capital and votes in Tikkurila. Furthermore, Jari Paasikivi, the Chairman of the Tikkurila Board, acts as Chairman of the Board in Oras Invest Oy, which is the single largest shareholder in Tikkurila.

Tikkurila's President and CEO did not own Tikkurila's shares. Tikkurila's Interim President and CEO and his interest parties held altogether 14,000 shares on December 31, 2018, which is about 0.03 percent of the share capital and votes. Up-to-date information concerning the holdings of Tikkurila statutory insiders is available at http://www.tikkurilagroup.com/ corporate_governance/insiders.

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

Major shareholder notifications

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

Share-based incentive plans

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

Share plan 2018-2022

The plan includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. The potential rewards from the plan will be paid partly in the Company's shares and partly in cash in 2021, 2022 and 2023. Approximately 10 key employees, including the members of the Management Team, belong to the plan during the performance period 2018-2020. The potential reward of the plan will be based on Tikkurila's average EBITDA- and net debt- based intrinsic values for 2018-2020. The rewards amount to a maximum total of 130,000 Tikkurila Oyj shares on the performance period 2018-2020.

On December 19, 2018, the Board of Directors resolved on performance share plan amendments and details of performance period 2019-2021 in order to convert a proportion of the reward of the performance period 2019-2021 into a time-based reward.

The potential performance-based rewards from the performance period 2019-2021 will be paid partly in the company´s shares and partly in cash in 2022.

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

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

Share plan 2018-2019

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

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

Corporate governance

Tikkurila will prepare a separate Corporate Governance Statement which follows the recommendations of the Finnish Corporate Governance Code for listed companies. It also covers some other central areas of corporate governance. The statement will be included in Tikkurila’s Annual Review, but it will be published separately from the Board of Directors’ Report. The statement will also be available on week 11 at www.tikkurilagroup.com/investors.

Members of the Nomination Board

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

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

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

Tikkurila Management Team

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

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

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

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

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

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

Matters relating to the Annual General Meeting 2018

The Annual General Meeting of Tikkurila Oyj approved the Financial Statements for 2017 and decided to discharge the members of the Board of Directors and the President and CEO from liability. The Annual General Meeting approved a EUR 0.80 dividend per share. The rest was retained and carried further in the company's unrestricted equity. The dividend was paid in two tranches. The first tranche of EUR 0.40 per share was paid to a shareholder who was registered in the company's shareholder register maintained by Euroclear Finland Ltd on the dividend record date, April 16, 2018. The dividend was paid on April 23, 2018. The second tranche EUR 0.40 per share will be paid in November 2018. The second tranche was paid to a shareholder who was recorded at the record date for the payment of dividend at the Company's shareholder register maintained by Euroclear Finland Oy. The Board of Directors decided at the meeting scheduled for

October 25, 2018 the record date and the payment date for the second tranche. According to the current rules of the Finnish book-entry system the record date was October 29, 2018 and the dividend payment date was earliest November 5, 2018.

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

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

The Annual General Meeting decided that the annual remuneration of the members of the Board of Directors will stay at the current level. The annual remuneration to the members of the Board of Directors will be as follows: EUR 64,000 for the Chairman, EUR 40,000 for the Vice Chairman and the Chairman of the Audit Committee, and EUR 32,000 for other members of the Board of Directors. Approximately 40 percent of the annual remuneration will be paid in Tikkurila Oyj's shares acquired from the market and the rest in cash. The shares will be acquired directly on behalf of the Board members within two weeks from the release of the business review for January 1 - March 31, 2018. Furthermore, a meeting fee for each meeting of the Board and its Committees (excluding decisions without a meeting) will be paid to the members of the Board of Directors as follows: EUR 600 for meetings held in the home state of a member and EUR 1,200 for meetings held outside the home state of a member. If a member participates in a meeting via telephone or video connection the remuneration will be EUR 600. Travel expenses will be paid according to the travel policy of the company.

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

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

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

The Annual General Meeting authorized the Board of Directors to decide upon the repurchase of a maximum of 4,400,000 company's own shares. The shares may be repurchased to be used for financing or implementing possible mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares or to be used for the payment of the annual fees payable to the members of the Board of Directors or for implementing the share-based incentive programs of the company. The repurchase authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2019.

The Annual General Meeting authorized the Board of Directors to decide to transfer company's own shares held by the company or to issue new shares limited to a maximum of 4,400,000 shares. The company's own shares held by the company may be transferred and the new shares may be issued either against payment or without payment. The new shares may be issued and the company's own shares held by the company may be transferred to the company's shareholders in proportion to their current shareholdings in the company or in deviation from the shareholders' pre-emptive right through a directed share issue, if the company has a weighty financial reason to do so, such as financing or implementing mergers and acquisitions, developing the company's equity structure, improving the liquidity of the company's shares, settling the payment of the annual fees payable to the members of the Board of Directors or implementing the share-based incentive programs of the company. The authorization will be valid until the end of the next Annual General Meeting, however, no longer than until June 30, 2019.

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

Decisions by the Board of Directors

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

Board of Directors' proposal for the distribution of profit

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

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

The second tranche EUR 0.165 per share will be paid in November 2019. The second tranche will be paid to a shareholder who is recorded at the record date for the payment of dividend at the Company's shareholder register maintained by Euroclear Finland Oy. The Board of Directors will decide at the meeting scheduled for October 28, 2019 the record date and the payment date for the second tranche. According to the current rules of the Finnish book-entry system the record date would then be October 30, 2019 and the dividend payment date earliest November 6, 2019.

Annual General Meeting 2019

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

Events after the reporting period

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

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

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 the more important factor. Some companies in the construction industry or in adjacent sectors have expanded their product range to paints and coatings in order to supplement their total offering to professional customers, whose importance is increasing; therefore this may impact the future structure of Tikkurila's product portfolio and customer base, which in turn can affect profitability. In addition, particularly the large-scale retail customers of Tikkurila have started to decrease the number of their suppliers and have intensified their tender processes, and are also more actively promoting their own brands. These developments may result in lower sales margins or lower sales or total discontinuation of sales to certain customers if Tikkurila will not be able to provide competitive offering.

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

Raw material risks

Tikkurila is dependent on the ability of its suppliers to provide it with the raw materials needed to manufacture paints and coatings. The prices of many raw materials and packaging materials that are vital to Tikkurila's operations have significantly increased from 2017 and the Group has not been able to fully or without delays offset cost inflation by increasing its sales prices, which has deteriorated Tikkurila's profitability. The availability of raw materials has also been tight due to, for example, the destruction of Venator's (formerly Huntsman) titanium dioxide factory in Pori in early 2017. Tikkurila believes that pressure to increase will also continue to be on raw material and packaging material prices in 2019; even though some raw material prices have started to stabilize or trend down, it is still possible that Tikkurila cannot increase its sales prices to sufficient extent or fast enough to offset cost inflation. Furthermore, the availability of many key raw materials is estimated to remain challenging, which may result in the lack of products as well as the loss of sales or additional costs associated with it. Uncertainty relating to raw materials may have an effect on profitability, market share trends, product offering or competition in general.

Operational and restructuring risks

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

Customer credit risks

Even though Tikkurila has not encountered major credit losses, in the future, the importance of customer credit risks will be emphasized, and hence the potential realization of credit risks may hinder Tikkurila's business operations or cause losses even though Tikkurila has a broad customer base in most markets. The strong growth of Tikkurila's business operations in China and, on the other hand, the fairly concentrated customer base in several markets have increased the risk of major credit losses. Moreover, in eastern markets like Russia and Poland the creditworthiness of certain customers has in 2018 started to deteriorate and some single customers have become bankrupt. Tikkurila has in certain cases collateral arrangements, and in Poland also credit insurance coverage, and regardless of the fact that some bad debt has already been recognized, it is possible that additional customer or financial losses can be incurred.

Exchange rate development

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

Outlook for 2019

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

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

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

Guidance for 2019

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

Vantaa, February 11, 2019

TIKKURILA OYJ
BOARD OF DIRECTORS

Summary Financial Statements and Notes

The annual financial statement figures of Tikkurila are audited. Auditors' report was issued on February 11, 2019. 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 2017, with the exception of new or revised or amended standards and interpretations which have been applied from the beginning of 2018. IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and amendments to standard IFRS 2 Share-based payments were applied at the beginning of 2018 and had effect on Tikkurila’s reported figures. These impacts 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
EUR million

ASSETS	**31.12.2017**	**Adjustment**	**1.1.2018**
Non-current assets			
Goodwill	72.0		72.0
Other intangible assets	26.5		26.5
Property, plant and equipment	81.2		81.2
Equity-accounted investees	0.5		0.5
Other investments	0.8		0.8
Non-current receivables	7.5	-0.2	7.3
Defined benefit pension and other long-term employee benefit assets	0.0		0.0
Deferred tax assets	8.2	0.5	8.7
Total non-current assets	**196.6**	**0.3**	**196.9**
Current assets			
Inventories	96.0		96.0
Interest-bearing receivables	0.7	0.0	0.6
Non-interest-bearing receivables	108.2	-1.1	107.1
Cash and cash equivalents	17.0		17.0
Non-current assets held for sale	9.3		9.3
Total current assets	**231.2**	**-1.1**	**230.0**
Total assets	**427.7**	**-0.8**	**426.9**

EQUITY AND LIABILITIES	**31.12.2017**	**Adjustment**	**1.1.2018**
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	-39.3		-39.3
Retained earnings	143.9	-2.1	141.8
Equity attributable to owners of the parent	**179.5**	**-2.1**	**177.4**
Non-controlling interest	-	-	-
Total equity	**179.5**	**-2.1**	**177.4**
Non-current liabilities			
Interest-bearing non-current liabilities	50.1		50.1
Other non-current liabilities	0.1	0.0	0.1
Defined benefit pension and other long-term employee benefit liabilities	27.1		27.1
Provisions	0.5		0.5
Deferred tax liabilities	5.0		5.0
Total non-current liabilities	**82.8**	**0.0**	**82.8**
Current liabilities			
Interest-bearing current liabilities	57.0		57.0
Non-interest-bearing current liabilities	106.8	1.3	108.1
Provisions	0.6		0.6
Liabilities classified as held for sale	1.0		1.0
Total current liabilities	**165.4**	**1.3**	**166.7**
Total equity and liabilities	**427.7**	**-0.8**	**426.9**

Amendments to IFRS 2 Share-based payments (effective for financial years beginning on or after January 1, 2018)

The Group has adopted amendments to IFRS 2 as of January 1, 2018. Amendments clarify that share-based payment transactions with a net settlement feature for withholding tax obligation should be classified as equity-settled in its entirety providing that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Some of Tikkurila's share-based payment plans have net settlement features. Thus, the Group recognized cash-settled payments directly as adjustment to the opening balance of retained earnings 2018. This impacted EUR 0.0 million to Group's retained earnings as of Jan 1, 2018.

Application of standard IFRS 15 Revenue from Contracts with Customers

The standard replaced IAS 11 Construction contracts, IAS 18 Revenue and related interpretations. As per IFRS 15 standard's 5-step model there are the following steps: contracts with customers are identified, separate performance obligations in the contracts are identified, transaction price is determined, the transaction price is allocated to all identified performance obligations in the contract on relative stand-alone prices, and revenue is recognized when the performance obligation is satisfied.
The Group has applied this new standard retrospectively with the cumulative effect of the initial date being adjusted to opening balance of retained earnings and comparison period's information is not adjusted. The impact of IFRS 15 standard was analyzed by going through customer contracts and different contract structures and by documenting impact of sales practices.

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

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

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

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

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

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

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

IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2018)

The new standard replaced standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments. The standard comprises three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification depends on the company's business model and on the characteristics of cash flows based on agreement. The standard includes also an expected credit loss model for calculating impairment on financial assets. According to the IFRS 9 standard, the requirements for recognition and measurement of financial liabilities remain almost intact except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. In the guidance for hedge accounting, included in IFRS 9, the types of hedge accounting are cash flow hedges, fair value hedges and net investment hedges. The requirement and strict definition of highly effective in accordance with IAS 39 is replaced with the requirement of economic relationship between the hedging instrument and the hedged item. According to guidance the hedge ratio should reflect the actual quantity of hedging instrument in line with risk management practices in a company.

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

The Group's trade receivables, classified and measured at amortized cost in accordance IFRS 9, consist the most of the Group's financial assets. The whole lifetime expected credit loss is recognized of trade receivables. The Group has followed group wide guidelines to calculate credit loss. The guidelines are based on time categories when the trade receivables have fallen due. As applying IFRS 9 the guidelines have been changed as following: the loss allowance is recognized for all trade receivables also in time categories not due, overdue 1-90 days as well as 90-180 days in accordance with the percentages defined to separate geographical areas in which Group operates. For instance, historical losses and customers' payment behavior in geographical area in question are impacting to the percentages defined. As per the new expected credit loss model, Group recognized an adjustment of EUR -1.1 million in retained earnings and trade receivables as of January 1, 2018.

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

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

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

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

EUR million	Measurement category		Carrying amount		
Non-current financial assets	**Original (IAS 39)**	**New (IFRS 9)**	**IAS 39**	**IFRS 9**	**Change**
Available-for-sale-financial assets - unquoted shares	Available-for-sale-financial assets	Fair value through other comprehensive income	0.8	0.8	-
Loan receivables	Loans and other receivables (amortized cost)	Amortized cost	5.7	5.5	-0.2
Other receivables	Loans and other receivables (amortized cost)	Amortized cost	1.4	1.4	-
Current financial assets					
Interest-bearing receivables	Loans and other receivables (amortized cost)	Amortized cost	0.7	0.6	0.0
Cash equivalents	Loans and other receivables (amortized cost)	Amortized cost	17.0	17.0	-
Trade and other non-interest-bearing receivables	Loans and other receivables (amortized cost)	Amortized cost	88.1	87.0	-1.1
Total financial assets			**113.6**	**112.2**	**-1.3**
Non-current financial liabilities					
Finance lease liabilities	Other financial liabilities (amortized cost)	Amortized cost	0.2	0.2	-
Loans from financial institutions	Other financial liabilities (amortized cost)	Amortized cost	49.9	49.9	-
Current financial liabilities					
Current interest-bearing liabilities	Other financial liabilities (amortized cost)	Amortized cost	57.0	57.0	-
Trade payables	Other financial liabilities (amortized cost)	Amortized cost	51.5	51.5	-
Total financial liabilities			**158.5**	**158.5**	**-**

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

The new standard requires the lessees to recognize a right-of-use asset and a lease liability at lease commencement for all leases. There are two exceptions available, for short-term or low value items e.g. lease term is 12 months or less, or asset value is USD 5,000 or less. In these exceptions accounting treatment is similar to the current accounting for operating leases. The lessor accounting remains mostly similar to current IAS 17 accounting. A lessee can apply IFRS 16 either by a full retrospectively or a modified retrospectively approach. In latter approach it is not required to restate the comparative information, the cumulative effect of applying IFRS 16 is presented as an adjustment to opening retained earnings. In the context of in 2017 started and during year 2018 continued analysis of lease agreements, the Group's most significant lease agreements, that in accordance with IFRS 16 are to be recognized in consolidated statement of financial position, relate to office and business premises (offices and shops), cars as well as right of use of land area.

The Group will apply, at the date of initial application, the simplified approach and comparative information will not be restated. In measurement of a right-of-use asset the Group chose the option where the lease liability equals to the right-of-use asset. Mostly in the lease contracts, the discount rates used is 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. Therefore, the incremental borrowing rate to be used for each subsidiary in their lease contracts has been centrally defined. Denominated currency of subsidiaries and lease term of the contracts are affecting the defined, used discount rates. For the time being lease contracts, in which lessor has no termination option without consent of the lessee and in which termination would cause significant costs, the judgement is used in the estimation of the lease term. In such cases the maximum lease term used is Tikkurila's strategic period, 5 years, Similar judgement is used in the contracts in which lessor has termination option, without sanctions, but which have been continued for several years, are crucial to Tikkurila's business and would cause significant costs to Tikkurila. These contracts have been in force several years and thus the likelihood of termination without both parties' consent is considered low.

Due to application of this standard around EUR 24.9 million lease liabilities and EUR 25.5 million of right-of-use assets are estimated to be recognized on the consolidated statement of financial positions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Revenue	**105.5**	102.2	**561.5**	582.4
Other operating income	**5.6**	1.5	**10.0**	3.6
Expenses	**-113.3**	-124.4	**-523.4**	-546.3
Depreciation, amortization and impairment losses	**-6.4**	-5.8	**-21.6**	-20.4
Operating profit	**-8.6**	-26.5	**26.5**	19.3
Total financial income and expenses	**-1.3**	-0.7	**-5.8**	-2.9
Share of profit or loss of equity-accounted investees	**0.0**	0.0	**0.3**	0.2
Profit before taxes	**-9.9**	-27.2	**21.0**	16.6
Income taxes	**1.5**	3.8	**-6.5**	-6.0
Net result for the period	**-8.4**	-23.4	**14.6**	10.7
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**	-	**0.1**	-
Remeasurements on defined benefit plans	**0.7**	-0.9	**-0.2**	-2.4
Income taxes relating to items that will not be reclassified to profit or loss	**-0.2**	0.2	**0.0**	0.5
Total items that will not be **reclassified to profit or loss**	**0.6**	-0.7	**-0.1**	-1.9
Items that may be reclassified subsequently to profit or loss				
Available-for-sale financial assets	**-**	-	**-**	0.0
Foreign currency translation differences for foreign operations	**-1.7**	0.1	**-6.6**	-2.6
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**	**-1.7**	0.1	**-6.6**	-2.6
Total comprehensive income for the period	**-9.5**	-24.0	**7.8**	6.2
Net result attributable to:				
Owners of the parent	**-8.4**	-23.4	**14.6**	10.7
Non-controlling interest	**-**	-	**-**	-
Net result for the period	**-8.4**	-23.4	**14.6**	10.7
Total comprehensive income attributable to:				
Owners of the parent	**-9.5**	-24.0	**7.8**	6.2
Non-controlling interest	**-**	-	**-**	-
Total comprehensive income for the period	**-9.5**	-24.0	**7.8**	6.2
Earnings per share of the net profit attributable to owners of the parent				
Basic earnings per share (EUR)	**-0.19**	-0.53	**0.33**	0.24
Diluted earnings per share (EUR)	**-0.19**	-0.53	**0.33**	0.24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
EUR million

ASSETS	Dec 31, 2018	Dec 31, 2017
Non-current assets		
Goodwill	**69.8**	72.0
Other intangible assets	**21.0**	26.5
Property, plant and equipment	**70.9**	81.2
Equity-accounted investees	**0.4**	0.5
Other investments	**0.7**	0.8
Non-current receivables	**8.9**	7.5
Defined benefit pension and other long-term employee benefit assets	**-**	0.0
Deferred tax assets	**8.1**	8.2
Total non-current assets	**179.8**	196.6
Current assets		
Inventories	**78.8**	96.0
Interest-bearing receivables	**1.0**	0.7
Non-interest-bearing receivables	**103.3**	108.2
Cash and cash equivalents	**35.5**	17.0
Non-current assets held for sale	**1.6**	9.3
Total current assets	**220.2**	231.2
Total assets	**400.0**	427.7

EQUITY AND LIABILITIES	Dec 31, 2018	Dec 31, 2017
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**	-39.3
Retained earnings	**121.1**	143.9
Equity attributable to owners of the parent	**150.1**	179.5
Non-controlling interest	**-**	-
Total equity	**150.1**	179.5
Non-current liabilities		
Interest-bearing non-current liabilities	**50.0**	50.1
Other non-current liabilities	**0.1**	0.1
Defined benefit pension and other long-term employee benefit liabilities	**26.1**	27.1
Provisions	**0.6**	0.5
Deferred tax liabilities	**3.9**	5.0
Total non-current liabilities	**80.7**	82.8
Current liabilities		
Interest-bearing current liabilities	**71.0**	57.0
Non-interest-bearing current liabilities	**96.0**	106.8
Provisions	**2.2**	0.6
Liabilities classified as held for sale	**-**	1.0
Total current liabilities	**169.1**	165.4
Total equity and liabilities	**400.0**	427.7

CONSOLIDATED FINANCIAL STATEMENT OF CASH FLOWS EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
CASH FLOW FROM OPERATING ACTIVITIES				
Net result for the period	**-8.4**	-23.4	**14.6**	10.7
Adjustments for:				
Non-cash transactions	**8.7**	8.7	**30.3**	28.1
Interest and other financial expenses	**1.6**	0.9	**6.8**	3.9
Interest income and other financial income	**-0.3**	-0.2	**-1.0**	-1.0
Income taxes	**-1.5**	-3.8	**6.5**	6.0
Funds from operations before change in net working capital	**0.2**	-17.8	**57.1**	47.6
Change in net working capital	**23.3**	32.6	**1.5**	-13.9
Interest and other financial expenses paid	**-1.7**	-0.7	**-6.0**	-3.5
Interest and other financial income received	**0.2**	0.1	**0.6**	0.7
Income taxes paid	**5.8**	0.3	**-5.6**	-12.8
Total cash flow from operations	**27.7**	14.5	**47.6**	18.1
CASH FLOW FROM INVESTING ACTIVITIES				
Business combinations	**-**	-	**-**	-
Other capital expenditure	**-2.2**	-3.9	**-12.2**	-15.2
Proceeds from sale of assets	**0.3**	0.0	**0.6**	1.4
Loan receivables decrease (+), increase (-)	**-**	0.0	**-0.1**	-0.2
Dividends received	**0.4**	0.4	**0.4**	0.4
Net cash used in investing activities	**-1.6**	-3.5	**-11.3**	-13.7
Cash flow before financing	**26.2**	11.0	**36.3**	4.4
CASH FLOW FROM FINANCING ACTIVITIES				
Non-current borrowings, increase (+), decrease (-)	**-**	-	**-**	-
Current financing, increase (+), decrease (-)	**1.4**	-15.9	**14.0**	29.7
Dividends paid	**-17.6**	-	**-35.3**	-35.3
Acquisition of own shares	**-**	-	**-**	-
Other	**-**	-	**-**	-
Net cash used in financing activities	**-16.2**	-15.9	**-21.3**	-5.6
Net change in cash and cash equivalents	**9.9**	-4.9	**15.0**	-1.2
Cash and cash equivalents at the beginning of period	**24.9**	23.1	**16.9**	18.5
Effect of exchange rate fluctuations on cash held	**-0.6**	0.0	**-2.3**	-0.8
Cash and cash equivalents transferred in assets held for sale	**-**	1.3	**-1.3**	1.3
Cash and cash equivalents at the end of period	**35.5**	16.9	**35.5**	16.9
Net change in cash and cash equivalents	**9.9**	-4.9	**15.0**	-1.2

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 un-restricted equity	Treasury shares	Translation differences	Retained earnings	Total		
Equity at Jan 1, 2017	35.0	0.0	-	40.0	0.0	-36.8	170.3	208.6	-	208.6
Total comprehensive income for the period	-	-	0.0	-	-	-2.6	8.8	6.2	-	6.2
Share-based compensation	-	-	-	-	-	-	0.0	0.0	-	0.0
Dividends paid	-	-	-	-	-	-	-35.3	-35.3	-	-35.3
Equity at Dec 31, 2017	35.0	0.0	0.0	40.0	0.0	-39.3	143.9	179.5	-	179.5
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**

DISTRIBUTABLE EQUITY OF THE PARENT (FAS)
EUR million

	2018	2017
Reserve for invested unrestricted equity	**40.0**	40.0
Retained earnings	**85.2**	86.2
Net profit for the period	**15.1**	35.0
Total	**140.3**	161.3

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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 profit of each segment. Segment assets are items on the statement of financial position that the segment employs in its business activities or which can reasonably be allocated to the segments.

Segments' revenue arises from the sales of various paints and related products that are sold to retailers, industrial customers and for professional use. Insignificant revenue is received from the sales of auxiliary services related to paints. Segments' revenue is presented based on the location of the customers, whereas 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	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
EUR million				
SBU West	**67.9**	61.3	**381.2**	379.8
SBU East	**37.6**	40.9	**180.3**	202.6
Eliminations	**-**	0.0	**0.0**	0.0
Total	**105.5**	102.2	**561.5**	582.4

EBIT by segment	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
EUR million				
SBU West	**-6.3**	-19.8	**22.7**	16.2
SBU East	**-0.1**	-5.9	**9.4**	8.2
Tikkurila common	**-2.2**	-0.8	**-5.6**	-5.1
Eliminations	**-**	0.0	**-**	0.0
Total	**-8.6**	-26.5	**26.5**	19.3

Items affecting comparable EBIT by segment	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
EUR million				
SBU West	**-3.1**	-1.4	**-11.8**	-1.8
SBU East	**-0.1**	-6.9	**-0.5**	-7.0
Tikkurila common	**0.1**	0.1	**-**	-0.6
Eliminations	**-**	-	**-**	-
Total	**-3.1**	-8.2	**-12.3**	-9.5

Adjusted operating profit by segment	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
EUR million				
SBU West	**-3.2**	-18.4	**34.5**	18.1
SBU East	**0.0**	1.1	**9.9**	15.2
Tikkurila common	**-2.3**	-1.0	**-5.6**	-4.5
Eliminations	**-**	0.0	**-**	0.0
Total	**-5.5**	-18.3	**38.8**	28.8

Non-allocated items:				
Total financial income and expenses	**-1.3**	-0.7	**-5.8**	-2.9
Share of profit or loss of equity-accounted investees	**0.0**	0.0	**0.3**	0.2
Profit before taxes	**-9.9**	-27.2	**21.0**	16.6

Assets by segment EUR million	Dec 31, 2018	Dec 31, 2017
SBU West	**298.3**	321.4
SBU East	**67.6**	81.8
Assets, non-allocated to segments	**50.0**	54.8
Eliminations	**-15.9**	-30.2
Total assets	**400.0**	427.7

CHANGES IN PROPERTY, PLANT AND EQUIPMENT EUR million	1-12/2018	1-12/2017
Carrying amount at the beginning of period	**81.2**	87.5
Additions	**10.2**	12.1
Business combinations	**-**	-
Disposals	**-0.1**	-0.1
Depreciation, amortization and impairment losses	**-15.1**	-14.2
Exchange rate differences and other changes	**-5.3**	-4.2
Carrying amount at the end of period	**70.9**	81.2

Tikkurila Group had contractual commitments for purchase of property, plant and equipment EUR 3.9 (0.9) million at the end of review period.

CHANGES IN INTANGIBLE ASSETS EUR million	1-12/2018	1-12/2017
Carrying amount at the beginning of period	**98.4**	103.0
Additions	**0.2**	2.5
Business combinations	**-**	-
Disposals	**-0.1**	0.0
Depreciation, amortization and impairment losses	**-6.5**	-6.2
Exchange rate differences and other changes	**-1.3**	-0.8
Carrying amount at the end of period	**90.8**	98.4

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

INVENTORIES

Write-down of inventory for a total amount of EUR 9.4 (6.7) million was recognized until end of review period.

DISPOSAL OF GROUP COMPANIES

On January 31, 2018 Tikkurila has concluded the divestment of its subsidiaries in Serbia and Macedonia to Tikkurila's local management. The disposed companies continue business in names Gudmark Group d.o.o. Sabac (Serbia) and Gudmark Group DOOEL Skopje (Macedonia). Gudmark Group continues as a distributor of Tikkurila branded products in the Balkan area. Both of these companies were consolidated to Group until the end of January 2018.

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

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

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

Proceeds from the disposal	
Total proceeds	0.1
Proceeds at receivables	-
Cash and cash equivalents in disposed companies	-1.0
Net cash effect	**-0.9**

Assets and liabilities disposed of	
PPE** and intangible assets	2.7
Deferred tax assets	0.0
Interest-bearing receivables	-
Inventory	2.1
Trade receivables and other interest-free receivables	3.0
Non-current assets held for sale	0.0
Cash and cash equivalents	1.0
Total assets	**8.7**
Deferred tax liabilities	-
Interest-bearing liabilities	2.1
Trade and other payables	1.1
Total liabilities	**3.2**
Total net assets and liabilities of disposal	**5.5**
Loss on disposal before accumulated exchange rate differences	-5.5
Total	**0.0**

** Property, plant and equipment

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	**1-12/2018**	1-12/2017
Sales	**5.0**	5.3
Other operating income	**1.0**	1.0
Receivables	**0.4**	2.0
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 period 2015-2017, as the intrinsic value for the period of plan did not reach in advance set level. As per the performance period 2016-2018 of the plan no reward will be paid since the criteria defined for the period were not reached.

The rewards to be paid on 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.

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 2016-2018 will amount to a maximum of 4,000 Tikkurila Oyj shares and on the basis of vesting period 2017-2019 a maximum of 8,000 Tikkurila Oyj shares.

In June 2018, the Board of Directors of Tikkurila Oyj decided two new share-based incentive plans for Group key employees; share plan 2018-2022 and share plan 2018-2019. Share plan 2018-2022 includes three performance periods, calendar years 2018-2020, 2019-2021 and 2020-2022. 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.

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.

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

Based on these share-based incentive plans EUR 0.1 (0.0) million was recognized during the financial year 2018 in personnel expenses.

COMMITMENTS AND CONTINGENT LIABILITIES EUR million	Dec 31, 2018	Dec 31, 2017
Mortgages given as collateral for liabilities in the statement of financial position		
Other loans	**-**	-
Mortgages given	**0.1**	0.1
Total loans	**-**	-
Total mortgages given	**0.1**	0.1
Contingent liabilities		
Guarantees		
On behalf of own commitments	**0.4**	0.6
On behalf of others	**1.3**	1.3
Other obligations of own behalf	**0.1**	0.1
Lease obligations	**31.0**	35.2
Total contingent liabilities	**32.8**	37.2

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

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**

Dec 31, 2017	Financial assets and liabilities at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Other financial liabilities	Carrying amounts	Fair values
Non-current financial assets						
Available-for-sale financial assets	-	-	0.8	-	0.8	0.8
Non-current receivables	-	7.1	-	-	7.1	7.1
Current financial assets						
Interest-bearing receivables	-	0.7	-	-	0.7	0.7
Cash equivalents	-	17.0	-	-	17.0	17.0
Trade and other non-interest-bearing receivables	-	88.1	-	-	88.1	88.1
Total	**-**	**112.8**	**0.8**	**-**	**113.6**	**113.6**
Non-current financial liabilities						
Non-current interest-bearing liabilities	-	-	-	50.1	50.1	50.2
Current financial liabilities						
Current interest-bearing liabilities	-	-	-	57.0	57.0	57.0
Trade payables	-	-	-	51.5	51.5	51.5
Total	**-**	**-**	**-**	**158.5**	**158.5**	**158.6**

FAIR VALUE HIERARCHY
EUR million

Dec 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Other investments	**-**	**-**	**0.7**	**0.7**
Dec 31, 2017				
Recurring fair value measurements				
Available-for-sale financial assets	-	-	0.8	0.8

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, 2018**	Dec 31, 2017
Carrying amount at Jan 1	**0.8**	0.8
Translation differences in other comprehensive income	**0.0**	0.0
Change in valuation	**0.0**	0.0
Disposals	**0.0**	-0.1
Other changes / transfers	**-**	0.0
Carrying amount at end of review period	**0.7**	0.8

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

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

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

KEY PERFORMANCE INDICATORS	**10-12/2018/ Dec 31,2018**	10-12/2017 Dec 31,2017	**1-12/2018/ Dec 31,2018**	1-12/2017 Dec 31, 2017
Earnings per share / basic, EUR	**-0.19**	-0.53	**0.33**	0.24
Earnings per share / diluted, EUR	**-0.19**	-0.53	**0.33**	0.24
Operating profit (EBIT), EUR million	**-8.6**	-26.5	**26.5**	19.3
of revenue %	**-8.2%**	-25.9%	**4.7%**	3.3%
Adjusted operating profit, EUR million	**-5.5**	-18.3	**38.8**	28.8
of revenue %	**-5.2%**	-17.9%	**6.9%**	4.9%
Cash flow from operations, EUR million	**27.7**	14.5	**47.6**	18.1
Cash flow from operations / per share, EUR	**0.63**	0.33	**1.08**	0.41
Capital expenditure, EUR million	**2.2**	3.9	**12.2**	15.2
of revenue %	**2.1%**	3.8%	**2.2%**	2.6%
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) *)	**44,131**	44,112	**44,121**	44,111
Number of shares at the end of period, adjusted for dilutive effect (1,000) 1) *)	**44,131**	44,112	**44,131**	44,112
Equity attributable to the owners of the parent / per share, EUR	**3.40**	4.07	**3.40**	4.07
Equity ratio, %	**37.6%**	42.0%	**37.6%**	42.0%
Gearing, %	**57.0%**	50.2%	**57.0%**	50.2%
Interest-bearing financial liabilities (net), EUR million	**85.5**	90.1	**85.5**	90.1
Return on capital employed (ROCE), % p.a.	**9.3%**	6.3%	**9.3%**	6.3%
Personnel (average)	**2,748**	3,046	**2,908**	3,107

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

Items affecting comparable EBIT

Group total EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Divestments, changes in Group structure	**-0.9**	-5.6	**-2.0**	-5.6
Personnel related	**-0.9**	-1.2	**-6.9**	-2.5
Insurance compensation for personal injury	**-**	-0.2	**-**	-0.2
Impairment losses	**-1.3**	-1.2	**-3.4**	-1.2
Total	**-3.1**	-8.2	**-12.3**	-9.5

SBU West EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Divestments, changes in Group structure	**-0.8**	-	**-2.3**	-
Personnel related	**-0.9**	-1.2	**-6.1**	-1.6
Insurance compensation for personal injury	**-**	-0.2	**-**	-0.2
Impairment losses	**-1.3**	-	**-3.4**	-
Total	**-3.1**	-1.4	**-11.8**	-1.8

SBU East EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Divestments, changes in Group structure	**-0.1**	-5.6	**0.3**	-5.6
Personnel related	**-0.1**	-0.1	**-0.8**	-0.2
Insurance compensation for personal injury	**-**	-	**-**	-
Impairment losses	**-**	-1.2	**-**	-1.2
Total	**-0.1**	-6.9	**-0.5**	-7.0

Tikkurila common EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Divestments, changes in Group structure	**-**	-	**-**	-
Personnel related	**0.1**	0.1	**-**	-0.6
Insurance compensation for personal injury	**-**	-	**-**	-
Impairment losses	**-**	-	**-**	-
Total	**0.1**	0.1	**-**	-0.6

Net debt EUR million	Dec 31,2018	Dec 31, 2017
Interest-bearing non-current liabilities	**50.0**	50.1
Interest-bearing current liabilities	**71.0**	57.0
Interest-bearing liabilities, total	**121.0**	107.0
Cash and cash equivalents	**35.5**	17.0
Interest-bearing financial liabilities (net)	**85.5**	90.1

Return on capital employed (ROCE), %		
Operating result + share of profit or loss of equity-accounted investees [1)]	**26.8**	19.5
Capital employed [2)]	**289.8**	311.4
Return on capital employed (ROCE), %	**9.3 %**	6.3 %

[1)] from a rolling 12-month period
[2)] 12 months, in average

DEFINITIONS OF KEY FIGURES

Earnings per share (EPS), basic

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

Earnings per share (EPS), diluted

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

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

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

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

* 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
** average during the period

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SEGMENT INFORMATION BY QUARTER

Revenue by segment EUR million	1-3/2017	4-6/2017	7-9/2017	10-12/2017	1-3/2018	4-6/2018	7-9/2018	10-12/2018
SBU West	99.0	118.0	101.6	61.3	100.5	115.1	97.7	67.9
SBU East	38.1	65.2	58.4	40.9	29.6	58.7	54.4	37.6
Eliminations	-	-	0.0	0.0	-	0.0	-	-
Total	137.1	183.2	159.9	102.2	130.1	173.7	152.2	105.5

EBIT by segment EUR million	1-3/2017	4-6/2017	7-9/2017	10-12/2017	1-3/2018	4-6/2018	7-9/2018	10-12/2018
SBU West	7.1	15.5	13.4	-19.8	3.4	16.1	9.6	-6.3
SBU East	-1.0	6.4	8.7	-5.9	-2.4	6.7	5.2	-0.1
Tikkurila common	-0.8	-2.0	-1.4	-0.8	-1.0	-1.6	-0.8	-2.2
Eliminations	-	-	0.0	0.0	-	-	-	-
Total	5.2	20.0	20.6	-26.5	0.0	21.2	14.0	-8.6

Items affecting comparable EBIT by segment **EUR million**	1-3/2017	4-6/2017	7-9/2017	10-12/2017	1-3/2018	4-6/2018	7-9/2018	10-12/2018
SBU West	-	-	-0.5	-1.4	-3.9	-0.2	-4.6	-3.1
SBU East	-	-	-0.1	-6.9	0.3	-0.2	-0.5	-0.1
Tikkurila common	-	-	-0.7	0.1	-	-	-0.1	0.1
Eliminations	-	-	-	-	-	-	-	-
Total	-	-	-1.3	-8.2	-3.6	-0.4	-5.2	-3.1

Adjusted operating result by segment EUR million	1-3/2017	4-6/2017	7-9/2017	10-12/2017	1-3/2018	4-6/2018	7-9/2018	10-12/2018
SBU West	7.1	15.5	13.8	-18.4	7.3	16.2	14.2	-3.2
SBU East	-1.0	6.4	8.7	1.1	-2.7	6.8	5.7	0.0
Tikkurila common	-0.8	-2.0	-0.7	-1.0	-1.0	-1.6	-0.8	-2.3
Eliminations	-	-	0.0	0.0	-	-	-	-
Total	5.2	20.0	21.9	-18.3	3.6	21.5	19.2	-5.5

Non-allocated items:								
Total financial income and expenses	2.1	-3.7	-0.6	-0.7	-1.3	-1.8	-1.3	-1.3
Share of profit or loss of equity-accounted investees	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.0
Profit / loss before taxes	7.3	16.4	20.1	-27.2	-1.3	19.5	12.8	-9.9

Assets by segment EUR million	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018
SBU West	346.7	359.9	355.5	321.4	342.6	355.7	329.1	298.3
SBU East	112.1	112.6	96.6	81.8	74.9	98.5	84.0	67.6
Assets, non-allocated to segments	76.7	129.3	69.8	54.8	79.2	107.4	53.4	50.0
Eliminations	-49.3	-59.0	-48.8	-30.2	-25.0	-24.8	-15.1	-15.9
Total assets	486.1	542.8	473.1	427.7	471.7	536.7	451.4	400.0